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TESTIMONY OF

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BEFORE THE HOUSE DEMOCRATIC POLICY COMMITTEE

Chairman Sturla and members of the House Democratic Policy Committee, on behalf of the Associated Petroleum Industries of Pennsylvania (API-PA), a division of the American Petroleum Institute (API), thank you for the opportunity to submit comments for the record regarding the proposals to enact an additional energy tax, also referred to as the severance tax.

API is the only national trade association representing all facets of the oil and natural gas industry, which supports 9.8 million U.S. jobs and 8 percent of the U.S. economy. API's more than 625 members include large integrated companies, as well as exploration and production, refining, marketing, pipeline, and marine businesses, and service and supply firms. They provide most of the nation's energy and are backed by a growing grassroots movement of more than 40 million Americans.

API is also a standard setting organization. For 90 years, API has led the development of petroleum and petrochemical equipment and operating standards. These standards represent the industry's collective wisdom on everything from drill bits to environmental protection and embrace proven, sound, engineering and operating practices and safe, interchangeable equipment and materials for delivery of this important resource to our nation. API maintains more than 650 standards and recommended practices (RPs). Many of these are incorporated into state and federal regulations.

Today, the U.S. leads the world in the production and refining of oil and natural gas. This has resulted in positive benefits for American consumers by driving energy costs down and has also benefited our environment. In fact, clean-burning natural gas has driven carbon emissions from power generation to their lowest levels in nearly 30 years.

API-PA members oppose additional energy taxes on the industry, not just the governor's severance tax proposal. Increasing energy taxes is simply bad public policy. This is the third attempt by the Wolf Administration to implement an additional severance tax on Pennsylvania's natural gas industry.

The Administration should look at ways to promote public policies that expand Pennsylvania energy leadership rather than place a punitive tax on the industry that would harm consumers and tens of thousands of jobs in Pennsylvania. Rather than calling for another severance tax, we can work together to help provide affordable and reliable energy needed to run households and businesses all over the commonwealth.

It is high time to call the impact fee what it really is- a severance tax. It was called a local impact fee for a variety of reasons; but, regardless of what it's called the effect is the same- helping communities, counties and local governments. Not only does the local impact tax help local communities, it also helps support government programs, including Conservation Districts, the Department of Environmental Protection, the Environmental Stewardship Fund, housing programs, and environmental grant programs.

Pennsylvania is the only state that requires an additional impact tax that is collected from every shale well drilled in the state. Since the enactment of Act 13 of 2012, the impact tax has distributed more than $1 billion, the bulk of which goes directly to local communities. Pennsylvania's Independent Fiscal Office projects that market conditions will result in lower revenues this year; however, recent history has shown that even in a down year for the industry, revenue to the commonwealth is expected to be over $187 million.

Investing in pipeline projects throughout Pennsylvania would bolster the impact tax, allowing currently shut-in gas to get to market, thereby increasing tax collections, this way, all Pennsylvanians benefit by increased impact tax investments and the environmental benefits of increased natural gas usage.

This debate isn't about paying one's fair share or doing one's part; it's about targeting a single industry to pay more. The short-sighted goal of instituting additional energy taxes misses the point of what's at stake. It ignores economic reality, puts good family sustaining jobs in peril, and jeopardizes the future prosperity of Pennsylvania. There is often failure to understand fundamental-yet crucial- economic facts. Capital is movable and will go where the return on investment has the greatest potential. Economic facts remain consistent: capital is movable and seeks a return on investment. It is a complete fallacy to say that "the gas is here and companies are not going to leave." The fact is that some companies have had to decrease their workforce and reduce their capital expenditures in Pennsylvania.

Resources are not unlimited. The fact is that within any given company, there is a finite amount of capital for investment. And, each project that requires a capital expenditure has to compete for those investment resources against other opportunities that a company might have. In this case, capital investment in Pennsylvania is competing against other shale plays and other states with highly developed infrastructure and favorable fiscal policies.

The cost to drill a shale-gas well in Pennsylvania is the highest in the nation, averaging $582 per foot of well drilled, compared to just $279 in Utah[1]. This cost varies across states for a variety of reasons, such as the depth of the well drilled, or the geology of the basin being explored and developed, or the tax and regulatory regime in place. Policymakers need to consider the overall competitive forces when planning to make changes in energy policy. In this strained low-price environment and with Pennsylvania's already high drilling costs, raising taxes on producers would stifle economic growth and the tax revenue generated from it.

An additional energy tax makes investment decisions more difficult and places Pennsylvania further at a competitive disadvantage. No matter how hard the proponents try to spin that the industry can "afford" a severance tax, the economic reality cannot be denied. Capital is movable and seeks the greatest return on investment.

Pennsylvania is an epicenter of America's energy renaissance. Thanks, in large part, to the production happening throughout Pennsylvania, household budgets across the nation grew in 2015 by $1,337 due to utility and other energy-related savings in 2015. Sitting atop the prolific Marcellus and Utica shale plays, Pennsylvania is a natural gas production powerhouse – thanks to modern hydraulic fracturing and horizontal drilling. It is hard to decipher the public policy rational that intentionally jeopardizes Pennsylvania's potential by adopting additional energy taxes. The U.S. Energy Information Administration reports that the two plays provided 85 percent of U.S. shale gas production growth since the start of 2012, reflecting the blossoming production from shale and other tight-rock formations through safe development. Why would Pennsylvania risk throwing this all away with instituting additional taxes on energy?

This debate comes down to one issue, competitiveness. Does Pennsylvania want investment here or elsewhere? The choice should be clear.

Thank you for your consideration.

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[1] American Petroleum Institute, Independent Petroleum Association of America, Mid-Continent Oil & Gas Association, "Joint Association Survey on 2014 Drilling Costs" December 2015

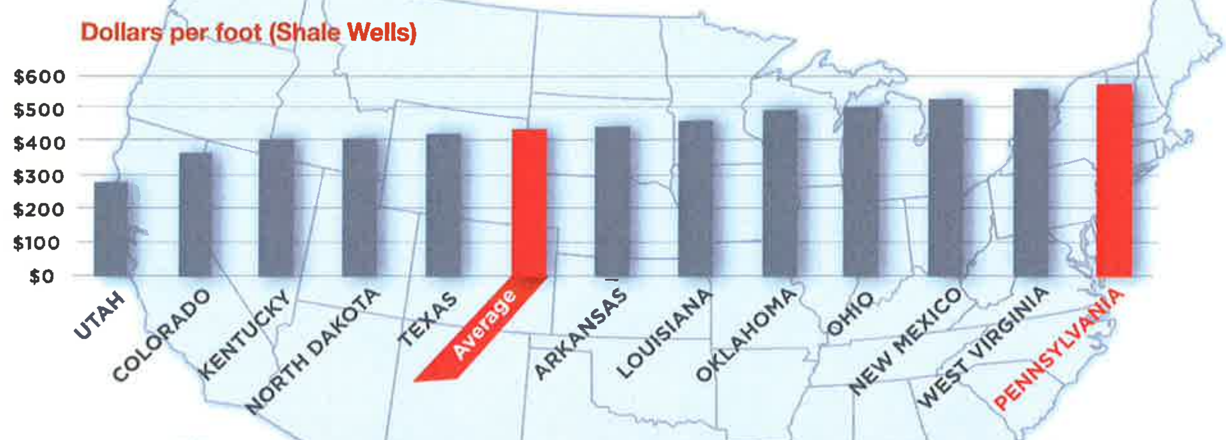
energy API

AMERICAN PETROLEUM INSTITUTE

2017 API SURVEY

# THE COST TO DRILL SHALE-OIL AND SHALE-GAS WELLS

The cost to drill shale-oil and shale-gas wells varies across states for a variety of reasons, such as the depth of the well drilled, or the geology of the basin being explored and developed, or the tax and regulatory regime in place. **Policymakers need to consider the competition when planning to make changes to energy policy.**




| In 2014 the oil and gas industry spent $69.9 billion dollars drilling over 158 million feet of shale wells. | | AVERAGE* |
|---|---|---|
| Utah | $279 | |
| Colorado | $367 | |
| Kentucky | $410 | |
| North Dakota | $418 | |
| Texas | $424 | |
| Arkansas | $443 | $441 |
| Louisiana | $466 | |
| Oklahoma | $495 | |
| Ohio | $515 | |
| New Mexico | $529 | |
| West Virginia | $570 | |
| Pennsylvania | $582 | |

NOTE: *Represents average of reported Joint Association Survey shale wells, excluding sidetrack wells.

Source: American Petroleum Institute, Independent Petroleum Association of America, Mid-Continent Oil & Gas Association, "Joint Association Survey on 2014 Drilling Costs" December 2015