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A shale gas severance tax? Think again (again)

By Colin McNickle

Impact fee revenue from fracked natural gas wells in Pennsylvania jumped 21 percent in 2017 from 2016, reversing three years of declines, according to the state Public Utility Commission (PUC).

But the increase, brought on by rising prices and increased drilling activity -- most welcome news to those who benefit from the revenue stream -- could be blunted if those calling for the addition of a severance tax win the day, says a researcher at the Allegheny Institute for Public Policy.

"A severance tax has the potential to curtail production, causing a reduction in these payments as drilling will likely be reduced or shifted to neighboring states that are also above the Marcellus and Utica shale formations," says Frank Gamrat, senior research associate at the Pittsburgh think tank.

Act 13 of 2012 authorized the impact fee to be assessed on such fracked wells retroactive to 2011. The fee is based on the trading price of natural gas on the New York Mercantile Exchange and the age of the well. Older wells producing less gas are assessed a lower fee.

More than $209.55 million in impact fees were collected from Keystone State natural gas wells last year. That's up from 2016 collections of $173.26 million, the lowest point in the seven-year history of the fee. Collections peaked at $225.75 million in 2013.

A plethora of state agencies get first dibs on the impact fee's first $10.5 million -- from the state Department of Environmental Protection to the PUC, from the Fish and Boat Commission to the state Emergency Management Agency and from the state Fire Commission to the Pennsylvania Department of Transportation.

Another $7.75 million goes to the state Conservation Commission for disbursements to county conservation districts.

For 2017, $114.78 million of the $209.55 million impact fee kitty was earmarked for counties and municipalities with the balance -- $76.52 million – going to a shale legacy fund, which has its own plethoric distribution network.

The focal point of the impact fee is to tax the drilling industry and then return the money to those communities most affected by drilling. (But even counties with no drilling and no impacts receive modest shares of the fee.)

"The money would then bypass the political machinations of Harrisburg and send the money more directly to those counties and communities most impacted by the activity surrounding the drilling and to those state agencies that would also be impacted from the activity," the Ph.D. economist reminds.

And there are guidelines and limitations (though some have argued they are too loose) as to how the money can be spent.

Yet the clamoring for a severance tax continues.

"But what those favoring a severance tax fail to consider is that not only do drillers pay the impact fee, they also pay the assorted business taxes levied by the commonwealth and pay royalties to leaseholders," the Allegheny Institute scholar says.

As the Marcellus Shale Coalition notes, those taxes and fees total $4.5 billion. And that's on top of impact fees totaling $1.43 billion.

Also note that the latest severance tax proposal from Harrisburg would leave the impact fee in place "amounting to double taxation on the industry," Gamrat says.

"The impact fee has struck a balance between holding drillers accountable for their activities and generating much-needed revenues to those counties and municipalities most affected," he stresses.

"These totals are quite significant and most likely larger than if the state would switch to a severance tax instead and the money was allocated from Harrisburg at the whim of those viewing the shale industry as a cash cow for their own pet projects."

Colin McNickle is a senior fellow and media specialist at the Allegheny Institute for Public Policy (cmcnickle@alleghenyinstitute.org).

Allegheny Institute for Public Policy
305 Mt. Lebanon Blvd.* Suite 208* Pittsburgh PA 15234
Phone (412) 440-0079 * Fax (412) 440-0085
E-mail: aipp@alleghenyinstitute.org