

What is a natural gas severance tax?

A severance tax is levied on the extraction of natural resources to ensure that the costs associated with extraction, such as infrastructure maintenance and environmental protection, are borne by the producers instead of taxpayers. Currently, Pennsylvania does not impose a severance tax on natural gas extraction.

Calculations to determine a fair severance tax vary but can include a percentage of the market value of gas and natural gas liquids extracted at the wellhead or an amount levied on each cubic foot of extracted gas. A severance tax may also include a price floor to ensure revenue even when gas prices are low.

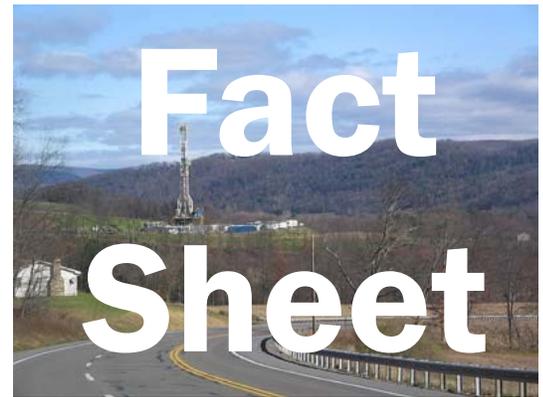
A severance tax is distinct from an impact fee. In Pennsylvania, a company pays an impact fee when it drills a new well. The fee is based on natural gas prices and the Consumer Price Index. Sixty percent of the impact fee revenue stays with the county in which the well is located, ensuring that affected communities will have dedicated funding for infrastructure and other necessary improvements and services. A severance tax can be levied in addition to Pennsylvania's impact fee.

How can a severance tax support Pennsylvania's clean energy future?

The Commonwealth stands at a turning point in its energy policy. Pennsylvania is the only drilling state without a severance tax, yet its natural gas industry is highly profitable and in one of the richest sources of shale gas in the world. In addition, Pennsylvania has allowed its clean energy and energy efficiency industries to stagnate, even though each was once a national leader in job creation and growth.

Rather than our economy relying solely on boom-and-bust natural resource extraction industries, supporting a severance tax makes industry pay its fair share. A severance tax leverages boom cycles in the natural gas industry to invest in the fast growing clean energy industry that won't leave the state when the gas runs dry.

Just as the Commonwealth has embraced natural gas to supplement energy derived from coal, we must continue to diversify our energy portfolio and look to renewable energy and energy efficiency to meet our future energy needs.



Severance Tax: Funding for Vital State Agencies

The **Department of Environmental Protection (DEP)** and the **Department of Conservation and Natural Resources (DCNR)** need robust support to protect our environment and public lands and to ensure that natural gas drilling is performed safely in the Commonwealth. Over the last six years, DEP has lost 14 percent of its employees, compared to an average staff reduction of 6 percent across all other state agencies. DCNR’s budget has become increasingly dependent on the Oil and Gas Lease Fund as its share of the general fund has been reduced. Severance tax revenue can help to reverse the impact of years of funding and staff cuts at these vital state agencies.

Department of Environmental Protection

Without a severance tax:	With a severance tax:
The Oil and Gas Program employs 95 people to inspect Pennsylvania’s oil and gas infrastructure. On average, unconventional gas wells are inspected less than two times each year. From 2013 to 2014, the number of new wells has increased from 1,207 to 1,372.	A DEP analysis found that some wells should be inspected as many as six times per year. DEP Secretary John Quigley has stated that if DEP were to add fifty new staff positions, wells could be inspected more frequently to ensure that the drilling process is being done safely.
In 2014, DEP reported 546 administrative and inspection-based oil and gas violations. Unconventional drilling operators were responsible for 85 of those violations. DEP just announced it is seeking its largest ever fine of \$8.9 million on Range Resources Appalachia LLC for failing to fix a gas well in Lycoming County that leaked methane, polluting groundwater.	With increased oversight of natural gas infrastructure, DEP can more effectively uphold standards to protect air and water from the potential hazards of natural gas drilling and impose fines on companies that are not in compliance.

Department of Conservation and Natural Resources

Without a severance tax:	With a severance tax:
DCNR’s general fund allocation was cut and replaced with money from the Oil and Gas Lease Fund. DCNR has a budget that is tied to drilling on the state lands it oversees, creating a potential conflict of interest.	Increased general fund revenue can be allocated to DCNR to reduce its operating budget’s dependence on revenue generated by resource extraction.
DCNR has a volatile budget based on revenues from the Oil and Gas Lease Fund. The general fund does not make up DCNR’s budget shortfalls if extraction-based revenue falls short of projections.	Increased general fund revenue can be invested in DCNR to help fund the maintenance of state parks and forests, especially those with natural gas drilling. The Oil and Gas Lease Fund can return to its original purpose of furthering conservation efforts through the purchase and restoration of state land.

Severance Tax: Energy Efficiency and Renewable Energy Investments

Pennsylvania has allowed its clean energy and energy efficiency industries to stagnate, even though each was once a national leader in job creation and growth. Rather than our economy relying solely on boom-and-bust natural resource extraction industries, supporting a severance tax makes industry pay its fair share. A severance tax leverages boom cycles in the natural gas industry to invest in the fast growing clean energy industry that won't leave the state when the gas runs dry.



SOLAR From 2009 until the end of 2013, the Pennsylvania Sunshine Solar rebate program distributed over \$103 million in solar rebates to Pennsylvania's residential and commercial sector. The distribution of these funds resulted in over half a billion dollars in immediate economic activity for the state and continues to pay dividends in the form of energy savings for the over 7,000 homeowners and businesses who took advantage of the program.

In 2012, Pennsylvania was ranked fifth in the nation with 4,000 solar jobs in manufacturing, installation, or ancillary services related to solar energy development. The Commonwealth now ranks fifteenth in the nation with only about 2,800 solar jobs.

Because costs for solar have declined overall, investments in solar incentives or solar loan programs for Pennsylvania could result in thousands of additional solar installations for the state. As a result, these installations would create thousands of additional Pennsylvania solar jobs.

WIND The 24 wind projects currently operating in Pennsylvania have an installed capacity of 1,334.5 MW and generate about 3,507,066 megawatt-hours (MWh) of clean electricity each year. That's enough to power nearly 389,674 homes. If we install our full potential of 4,000 MW of wind energy, Pennsylvania can produce enough clean power to meet the annual electricity needs of 1,168,000 homes.

Consumers win when wind is part of the plan. American consumers in the top wind energy-producing states have seen their electricity prices actually decrease by 0.37 percent over the last 5 years, while all other states have seen their electricity prices increase by 7.79 percent over that time period. More Pennsylvania wind means more Pennsylvania savings.



ENERGY EFFICIENCY Energy efficiency is a potential economic powerhouse for Pennsylvania. In fact, Pennsylvanians have seen about a \$2 to \$3 return on every \$1 invested in the Act 129 energy efficiency program. Act 129 has delivered over \$750 million in energy bill savings to date.

Energy efficiency work is the largest part of Pennsylvania's clean energy industry. 37,468 workers are employed in improving the efficiency of commercial and residential facilities, developing better energy storage options, and building "smart grid" innovations in the state.

Investments in energy efficiency financing and programs on the state level could further accelerate savings for consumers and create jobs. Recent analysis conducted by the Natural Resources Defense Council (NRDC) finds that ramping up investments in energy efficiency alone to meet the Environmental Protection Agency's Clean Power Plan would yield more than 5,100 jobs and save families and businesses more than \$450 million by 2020.