

## House passes shale gas production tax

### GOP-controlled Senate will likely amend the bill

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By Tom Barnes, Post-Gazette Harrisburg Bureau

HARRISBURG -- Democrats and environmentalists praised it, while Republicans and gas industry officials pilloried it. But in the end, a bill to create Pennsylvania's first Marcellus Shale gas severance tax took a step forward Wednesday.

Senate Bill 1155, after being totally rewritten by House Democrats, would slap a hefty levy of 39 cents per thousand cubic feet (MCF) of gas extracted from underground shale throughout Pennsylvania.

The vote was 104 to 94, with most Democrats supporting the tax, along with a few Republicans, who voted for the bill after it was amended to give less money to the state general fund and more funds to protect the environment and water sources from drilling-related chemical contamination.

Two Republicans later changed their no votes to yes, making the final tally 106-92.

"This is a historic move in the House," said Democratic leader Todd Eachus of Luzerne. "This would put resources in place to help communities facing challenges with clear water and environmental safety."

"This tax is reasonable and robust, and allows the drilling industry to flourish while compensating the citizens for the use of the state's natural resources," said Penn Future leader Jan Jarrett.

Kathryn Klaber, president of the Marcellus Shale Coalition, said, "Votes for this misguided, unprecedented tax ... are votes against job creation. We are confident that the senate will remain steadfast in its commitment to realize a competitive climate for growth and prosperity for Pennsylvanians."

But the tax proposal seems unlikely to survive in its current form. The Senate leader, President Pro Tem Joe Scarnati, R-Jefferson, said he and his ruling Republican colleagues don't like what the House did and will seek to change the terms.

A rate of 39 cents per MCF -- forecast to generate almost \$2 billion in the first five years -- is "an absolutely ridiculous tax rate on this industry," Mr. Scarnati told reporters. "The Senate is not going to entertain a tax rate that is punitive to this industry."

Republican senators favor a tax like that of Arkansas, a 1.5 percent levy on the market value of the gas for the first three years or so, with a somewhat higher rate later. Democratic Gov. Ed Rendell has proposed a third model, akin to West Virginia's -- a 5 percent levy on the sale price of the gas, plus 4.7 cents per MCF.

Rep. Tim Solobay, D-Canonsburg, admitted changes will be made to the bill, but called Wednesday's favorable vote "a starting point, an opportunity to continue the conversation."

Mr. Rendell and legislators are trying to meet a self-imposed deadline of Friday for enacting a gas severance tax, as they pledged to do in early July, when the 2010-11 state budget was adopted. The budget counts on getting \$70 million from the first year of the tax, but some Republicans said that's too much for "state bureaucratic spending."

When the Senate will vote on a tax, or when a conference panel would form to find a compromise, isn't known, but it doesn't seem like a final agreement on a tax would be reached by Friday.

Democrats said it makes no sense for Pennsylvania to be the only Marcellus Shale state without a severance tax. They said Pennsylvania natural gas users are paying higher prices because of extraction taxes in Texas, Louisiana, Oklahoma and other gas-producing states.

Rep. Neal Goodman, D-Schuylkill, made an emotional plea for a tax, saying it could produce funds to protect the environment, as should have been done 150 years ago with coal producers in his part of the state.

"I am a son of the coal region," he said. "The coal industry left behind strip-mining pits and other scars. My grandmother lost

her husband at age 44 from a coal mining accident, and that industry did nothing to help her raise her five children."

He said the proposed Marcellus levy "isn't a tax increase. It's a life insurance policy that will protect the state for years to come."

Rep. David Levdansky, D-Forward, also was emphatic. "This bill won't kill the goose that lays the golden eggs," he asserted. "It won't drive drillers to other states. These drillers are savvy businessmen. They've built a severance tax into their business model."

But Republicans, especially those from Marcellus Shale regions, contended the tax will be a job-killer.

"This bill turns too much money over to the Harrisburg bureaucracy," said Rep. Kathy Rapp, R-Warren. "If you think government is better at creating jobs than private industry, vote for this tax, but if you don't, vote against the bill."

"This bill isn't pro-environment or pro-business, it's pro-government spending," complained House GOP leader Sam Smith of Jefferson.

Rep. Garth Everett, R-Lycoming, said the Marcellus industry will mean at least 3,500 jobs to his county, with thousands more around the state.

"Don't make Pennsylvania an unfriendly place for these companies to do business," he said. "They will go somewhere else. Don't drive them away with an onerous tax."

The Pennsylvania Independent Oil and Gas Association called the tax a "staggering economic blow" that would have "grave consequences" to a growing industry. Forty percent of the tax revenue would go to the state's general fund, with the rest divided among local towns, counties and environmental purposes.

"In this desperate effort to grab revenue in order to fill a short-term [state] deficit," the association said in a statement, "the Legislature is single-handedly risking the loss of thousands of jobs," millions in other kinds of taxes and "much-needed capital investment."

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