

## **Gas severance tax, fairly distributed, must be a priority**

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EDITORIAL

Pennsylvania's burgeoning natural gas industry found enough sympathetic lawmakers in Harrisburg last year to ward off establishment of a "severance" tax on the extraction of gas.

Those lawmakers stonewalled Gov. Ed Rendell's effort to create a tax that he modeled on those in other states with gas and oil industries. Instead, lawmakers opted to auction gas-drilling leases on 32,000 acres of state-owned forest land.

Results of a recent auction for those leases invalidate the arguments against a severance tax.

According to the industry and lawmakers who opposed the tax, such a levy would inhibit growth of the nascent gas industry.

But the state now has nearly 1,000 working wells drawing gas from the Marcellus Shale formation. And the auction produced \$128.5 million for the state, about twice the amount that had been projected by legislators.

Clearly, the gas rush is on. We empathize with the gas industry's plea to establish the profit potential before imposing the tax. But, it is clear now that the quite reasonable tax proposed by Mr. Rendell last year, as a means to help cover a massive deficit, would not inhibit that rush.

Nevertheless, too much of the expected tax revenue is being proposed for the state treasury to help alleviate the state's gaping budget shortfalls, and not enough would be channeled back to the local governments to defray expenses incurred because of drilling industry's wear and tear on local infrastructure and the environment where the drilling takes place.

State lease revenue is helpful in combating the state deficit. But the average bid was just over \$4,000 an acre, which is in the ballpark for leases that the companies have acquired on private land. In order for the state to realize a fair return for the extraction of a natural resource, a severance tax, distributed equitably among municipalities, as well, is essential.

Lawmakers in many other states already have reached that conclusion, even though their gas reserves are not as extensive as those now verified in the Marcellus Shale. According to geologists at Penn State University, the formation contains more than 500 trillion cubic feet of recoverable gas. The entire United States consumes about 20 trillion cubic feet per year.

Mr. Rendell's proposal is modeled on West Virginia's severance tax. That state realized nearly \$330 million last year without harming the industry.

There is nothing extraordinary about Mr. Rendell's proposed severance tax. It is just about standard and widely regarded within the industry as part of the cost of doing business.

State revenue results and projections indicate that another revenue shortfall looms. Over the last year the industry has answered any lingering questions about the viability of the gas fields. It's time to use the fair tax to share the wealth from the commonwealth's natural resource at the local as well as the state level.