Report Highlights

A Study Pursuant to House Resolution 2023 - 131: Natural Gas Tax Structures

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Legislative Budget and Finance Committee

A Joint Committee of the Pennsylvania General Assembly

House Resolution 131 (HR 131) directed the Legislative Budget and Finance Committee (LBFC) to compare the fee and severance tax structures associated with natural gas extraction in the top five gas-producing states (which are in descending order): Texas, Pennsylvania, Louisiana, West Virginia, and New Mexico. HR 131 also sought information on permitting requirements and costs, geological, geographical, and climatological conditions, and access to processing and transportation infrastructure. We present historical natural gas market price differences at the national and state level. Highlights of our report include the following:

- **Through Act 13 of 2012, Pennsylvania created an "impact fee," which generates revenue on natural gas development.** The other top gas-producing states assess severance taxes on the amount or market value of the extracted natural gas. Whether a fee or severance tax is enacted and how it should be structured is beyond the scope of this report. Pennsylvania's impact fee is "newer" compared to peer states' severance taxes, but that is expected given the recent rise in unconventional well drilling in Pennsylvania.

State	Revenue Basis	Revenue Event	How the fee/tax works...
Pennsylvania	Impact fee	Drilling of well	Producers pay an annual fee during the well's first 15 years of operation. This fee varies based on the nation-wide price of natural gas and generally decreases over time.
Louisiana	Severance tax	Extraction & sale of gas	Producers pay a tax which varies based on the volume of gas extracted. The tax rate is adjusted annually to reflect changes in the national market price of gas.
New Mexico	Severance tax	Extraction & sale of gas	Producers pay 3.5 percent of the market value of gas when it is extracted and sold.
Texas	Severance tax	Extraction & sale of gas	Producers pay 7.5 percent of the market value of gas when it is extracted and sold.
West Virginia	Severance tax	Extraction & sale of gas	Producers pay 5 percent of the market value of gas when it is extracted and sold.

- **Since 2012, Pennsylvania's Act 13 impact fee has generated more than $2.5 billion in revenue, averaging about $212 million per year.** Although the impact fee is assessed per well, the fee amount changes if the national market price of natural gas changes significantly. Over the past five years, the top gas-producing states collected the following fees or tax revenues from natural gas extraction:
  - Texas: $12.0 billion
  - Pennsylvania: $1.10 billion
  - Louisiana: $1.15 billion
  - West Virginia: $1.36 billion
  - New Mexico: $1.32 billion

- **Each state distributes natural gas tax/fee revenue differently based on various financial and statutory requirements.** Pennsylvania distributes up to 90 percent of its extraction fee revenue either directly to county and municipal governments or to programs that fund environmental, transportation, and infrastructure projects. Sixty percent of these funds are distributed to local governments based, at least in part, on the number or percentage of wells located in each county or municipality. Louisiana and West Virginia distribute a much smaller percentage of severance tax revenue to local governments. Texas and New Mexico allocate severance tax revenue to specific state budget categories and do not distribute specific amounts to local governments.

- **We explored unique factors relevant to natural gas production within the leading gas-producing states:**
  - **Permitting:** Each state requires drillers to obtain permits. In Pennsylvania, operators seeking to operate an unconventional well must pay a permit application fee of $12,500, higher than in peer states.
  - **Geology**: Pennsylvania's Marcellus Shale, the state's major natural gas source, is one of the largest natural gas plays in the United States. However, unlike some other Western plays, it currently only produces gas.
  - **Geography**: Pennsylvania is the 33rd largest state by area in the United States and has 121,891 linear miles of highways and 99,136 miles of gas pipelines.
  - **Weather:** From 2012 to 2023, Pennsylvania had the lowest mean temperature of 50.2 degrees Fahrenheit among the states we studied. Temperature variations can affect the natural gas development and production process, and freezing weather can lead to freeze-offs in the flow of natural gas.

- **HR 131 asked for a historical comparison between national natural gas prices and state-specific natural gas prices.** The proceeds that natural gas drillers receive for extracted natural gas are determined by individual natural gas purchases and sales using prices driven by the market conditions at each delivery location. These prices are influenced by weather, economic activity, demographics, storage or transportation capacity, and demand for natural gas in that specific state or city. These prices fluctuate dramatically and sometimes move in the opposite direction of national prices due to localized effects.

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