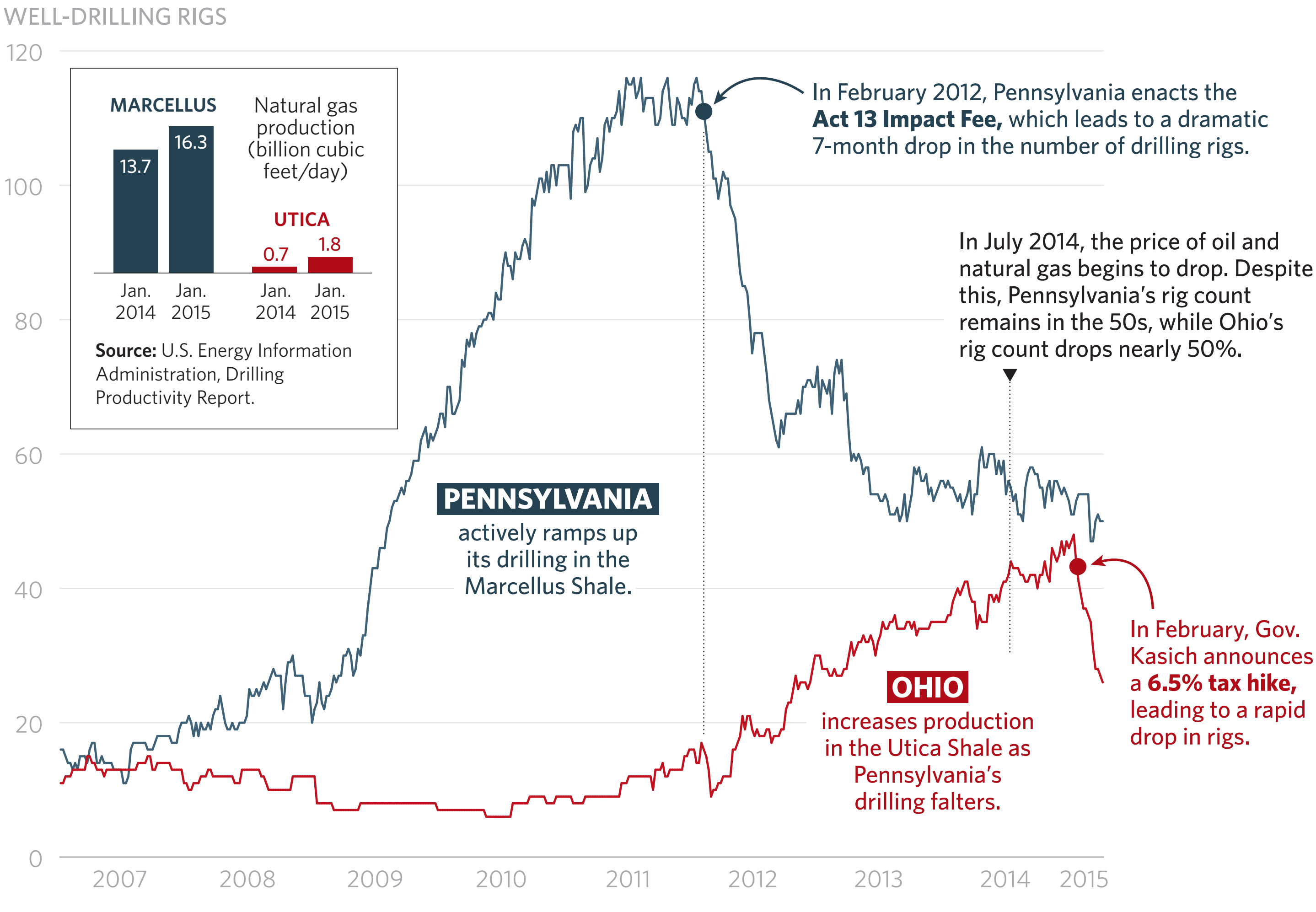
Geology Matters, but So Do Taxes

Ohio and Pennsylvania serve as stark examples on how new taxes and fees can severely inhibit energy production. Pennsylvania benefits from the oil and natural gas found underground in the gigantic Marcellus Shale, but an impact fee has caused energy developers to grow concerned about their investment and subsequently reduce the number of well-drilling rigs in production.

With the current severance tax that is slightly lower than Pennsylvania's impact fee, Ohio was picking up the slack with its smaller Utica Shale until Gov. John Kasich introduced a large energy tax hike in February, prompting wary developers to again pull back on operations.

Both Ohio and Pennsylvania have used the energy boom to energize their economies by growing investments, jobs, and wages, which makes these energy policies all the more puzzling.

Given how much more natural gas lies within the Marcellus Shale than within the Utica Shale (see inset), Ohio can't risk driving the energy industry back across the border by hiking taxes well above Pennsylvania's impact fee. Though Pennsylvania's new Democratic Governor also wants to increase energy taxes, the Republican-controlled Pennsylvania General Assembly knows better than to further undermine their energy investments and jobs. Ohio's General Assembly should keep Ohio's tax competitive advantage by rejecting any severance tax hike.



Sources: Baker Hughes, Rig Count, http://www.bakerhughes.com/rig-count, and *Pittsburgh Post-Gazette*, "Wolf Says Pennsylvania Severance Tax 'Not a Partisan Idea'," March 3, 2015, http://powersource.post-gazette.com/powersource/policy-powersource/2015/03/03/Wolf-Severance-tax-to-replace-Marcellus-shale-impact-fee-not-partisan-idea/stories/201503030192.