

OCCA supports severance tax on gas drilling

Four business advocacy groups have issued joint announcement protesting a 2009-10 state budget proposal for a severance tax oil and gas production. The groups making this petition are the Independent Oil & Gas Association of New York, Unshackle Upstate, New York Farm Bureau and the Greater Binghamton Chamber of Commerce. They claim that this proposal would put thousands of low-volume producing wells out of business statewide.

The Otsego County Conservation Association finds much that is disingenuous in this statement. First of all, the current financial burden of drilling operations resides with taxpayers, not the gas industry. We all support the work of the New York State Department of Environmental Conservation through our taxes, so we are all paying the DEC to review, permit, and inspect drilling activities because fees assessed to the gas industry are not adequate to cover these costs.

A severance tax is needed to remove this burden from the taxpayers. Municipalities have the ability to bill developers for the hiring of engineers and other experts to review proposals. If this is the case for municipalities, why can't it be the case for New York State as well?

The oil and gas coalition wrongly states that a severance tax already exists on the 14,000 natural gas wells in our state and that this tax stays within the municipality. But this is not a production tax; it is a real property tax – a tax on the value of the land itself, and property owners are paying this tax, not the petroleum companies.

The appeal to state lawmakers purports that if gas and oil companies fail, state and local governments will lose property taxes and workers will lose jobs. OCCA foresees another way these companies might fail. The environmentally sound execution of their drilling practices could wreak havoc on our aquifers, surface waters, and soil quality. As Robert F. Kennedy stated in Anita Roddick's "Troubled Water," "Environmental damage is deficit spending." History shows that industry and instances of major environmental pollution go hand in hand. Love Canal comes immediately to mind as a national symbol of industrial failure and criminal negligence in regard to public health.

Locally, we have the example of contamination from the chemicals found benzene, toluene, ethyl benzene and zylene in Oneonta's Neahwa Park, where a manufactured-gas plant that operated from 1880 to the early 1950s. Although New York State Electric & Gas Corp., who owned the plant at the time of its closure, agreed to fund the removal of several thousand tons of soil tainted with coal tar at a cost of \$12 million, DEC and, to a lesser extent, the state Department of Health, must continually monitor the site – at taxpayer expense.

"The profit-loss margin for most of the oil and natural gas producers is so thin that an additional severance tax could drive them out of business," the statement bemoans. But taxpayers nationwide are paying more than their share to bail out businesses from blatantly irresponsible, greedy practices. It is not up to "we the people" to compensate for poor business choices. It is our responsibility to see that public health and safety are ensured through sound policies requiring business to be responsible for the damage it does.

The business groups also assert that the proposed tax will force the lay-offs, causing a "devastating" effect on our economy. But in Otsego County, we do not have a strong petroleum engineering infrastructure, and the majority of workers in drilling operations will be transient workers. We need to

“get it” that grassroots economic opportunities bring local dollars into the local economy. Greg Schnabel, owner of a local renewable energy business, Greasecyclers, states that, “ Sustainable Business Network studies have reported “of every \$100 spent on a local business, \$73 stays in the local economy, while only \$43 on every \$100 stays if money is spent at a non-local business.” How many of the gas industry dollars will remain local?

We have entered an era in which the term “fossil fuels” takes on a new meaning. These are obsolete fuels! We should be focusing on the development of green and renewable energies, not the extraction of an energy source which contributes to global warming. The current intense interest in natural gas is the result of improved technologies. As a compromise, why don’t we consider the Marcellus Shale gas as a long-term investment and let it lie dormant until technologies have improved to the extent that they pose virtually no threat to our life-giving resources?

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ALBANY, NY (03/25/2009; 1134)(readMedia)-- Four business groups jointly announced their objection to an 11th hour proposal that would place another tax on oil and natural gas production in New York. The measure is being considered as part of the 2009-10 state budget negotiations.

The Independent Oil & Gas Association of New York, Unshackle Upstate, New York Farm Bureau and the Greater Binghamton Chamber of Commerce are urging lawmakers to reject a proposed production - or severance - tax, asserting it would put thousands of low-volume producing wells across New York out of business.

Producers would not be the only victims. If these companies fail, state and local governments would lose property taxes, landowners would lose royalty payments and companies would be forced to lay off workers.

"The profit-loss margin for most of the oil and natural gas producers is so thin that an additional severance tax could drive them out of business," said Brad Gill, president of Earth Energy Consultants and executive director of the 350-member IOGA-NY. "Lawmakers must understand that the economic impact of yet another tax on our industry will have a devastating ripple effect throughout the state."

IOGA-NY was joined by business groups that have long argued that the cost of doing business in New York is forcing industry and commerce out of the state and preventing new businesses from coming here. Oil and natural gas production must be preserved in New York.

"Our position all along has been that this upstate economic opportunity is one that must be nurtured, and that attempts to over-tax or over-regulate will result in non-development of the assets," said Lawrence Brinker, who represents the Greater Binghamton Chamber of Commerce and the Unshackle Upstate coalition. "This tax will not only have a chilling effect on the development of new gas wells but appears to kill off existing, low production wells."

There is already a production tax on the existing 14,000 wells in New York that are producing natural gas - through a real property tax process. Under this existing process, this current tax revenue primarily stays local to the municipality. The new tax being contemplated would be additional, and it will only drive countless natural gas businesses OUT of business, harming our cities and towns and creating another roadblock to economic progress and energy independence. In addition, a new tax carries the risk of driving future Marcellus Shale gas production away from New York in favor of more hospitable locations.

"In today's crippling economy we do not need a new tax that would stifle gas exploration and the ability of our rural landowners to raise their standard of living," said Dean Norton, president of New York Farm Bureau, a 30,000-member farm advocacy group. "This ill-conceived measure will hit the pocketbooks of our landowners as they struggle through the worst economic downturn in decades. We strongly oppose this effort to cash in on what is otherwise a huge opportunity for the people of rural New York."

While New York is considering an expansion of natural gas exploration in the Marcellus Shale formation, the most common type of gas well is a Medina Sandstone well, named for the sandstone formation in Western New York, Pennsylvania and parts of Ohio and West Virginia. An average producing Medina well currently costs \$250,000 to drill, and it returns approximately 75,000 mcf - thousand cubic feet - over an average productive life of 25 years.

If gas operators receive about \$5 for every mcf produced, an operator would generate \$375,000 in gross revenue over 25 years. After deducting average production costs of \$3,000 per year over 25 years (\$75,000), this gross yield is reduced to \$300,000. In addition, once you deduct the 12.5 percent landowner royalty, a typical well yields \$262,500. (This royalty would also be lost to the landowner if these wells are no longer economically feasible to drill.) Then factor in transportation costs, landowner gas, taxes, well site reclamation and additional overhead, a typical Medina well will yield barely more than it costs to drill, complete and produce over that 25-year period.

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IOGA-NY was founded in 1980 to protect, foster and advance the common interests of oil and gas producers as well as professionals and related industries in the State of New York.

The Greater Binghamton Chamber of Commerce's is the premier resource for business development in the Greater Binghamton region. Its aim is to support the existing local business community and the attraction of new businesses to the region through member-driven programs and services, the development of strategic community partnerships and effective political advocacy.

Unshackle Upstate is a bi-partisan coalition of over 70 business and trade organizations representing upwards of 45,000 companies and employing more than one million people.

New York Farm Bureau is the statewide lobbying/trade organization that represents thousands of farm families and is dedicated to solving the economic and public policy issues challenging the agricultural community.