

Natural Gas Industry in West Virginia Severance Tax & Property Tax

Impact of Marcellus Shale Development

Joint Select Committee on Marcellus Shale

July 12, 2011

4% Growth in 2010: 5th Highest

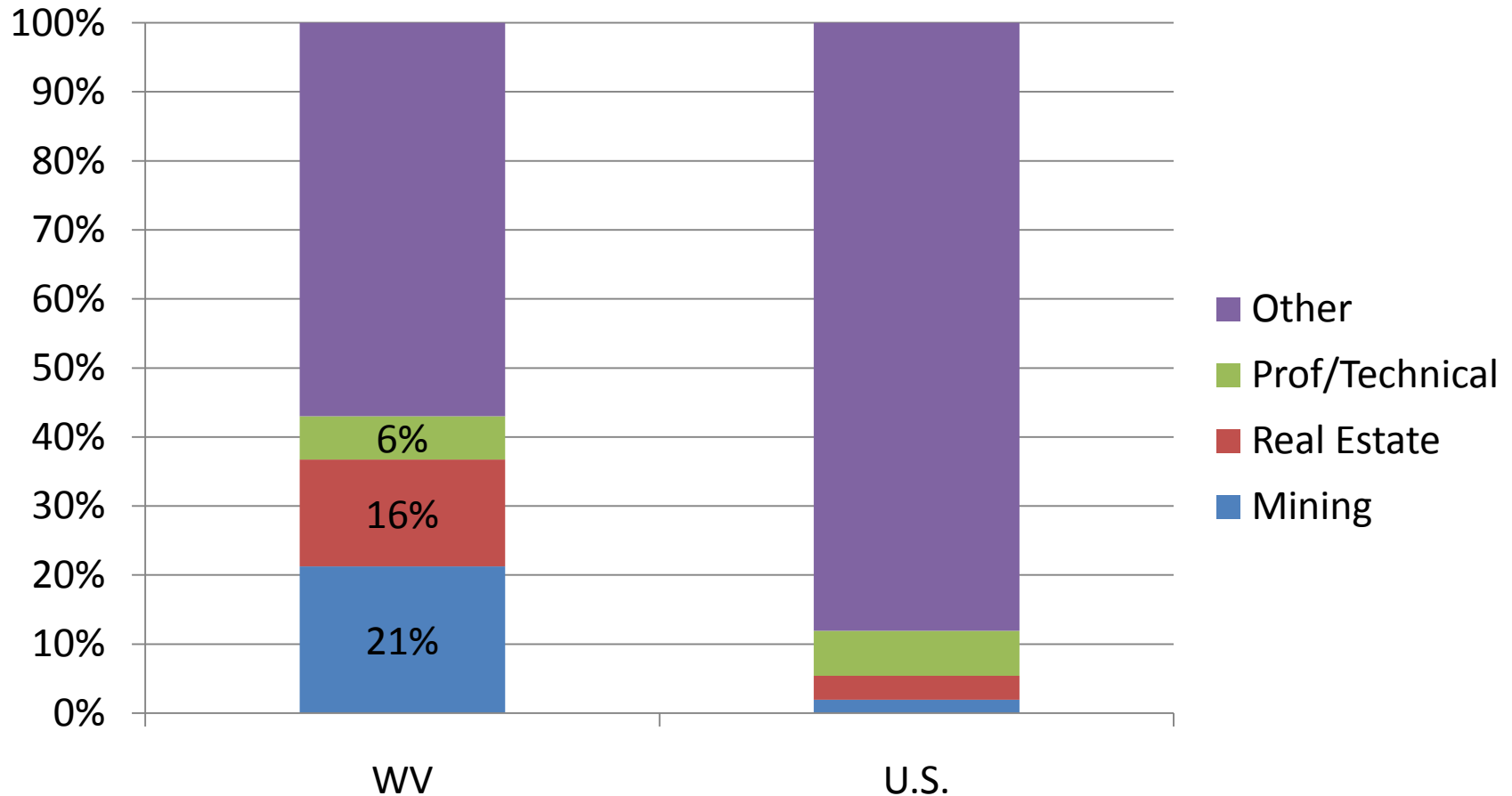
Due to Mining & Related Industries

**MINING INDUSTRY KEY TO WV
ECONOMIC GROWTH IN 2010**

Contribution of Mining to Real GDP Growth in 2010

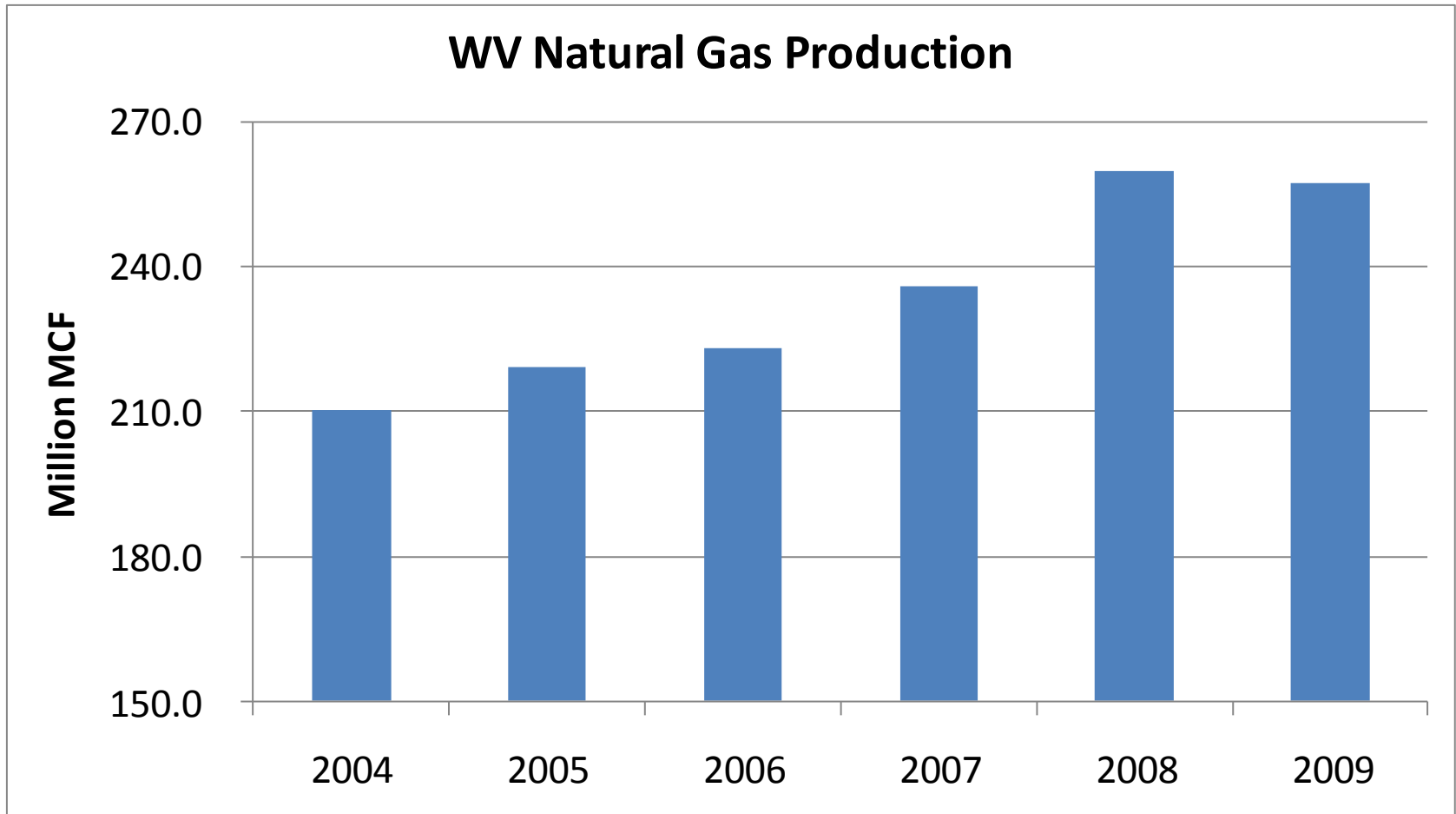
WV 5th Highest Growth Rate of 4.0% v U.S. Growth of 2.6%

Source: U.S. Census Bureau of Economic Analysis



WV Natural Gas Production Trends Higher

Source: WV DEP Office of Oil and Gas



Local Property Tax

Regular State Severance Tax

Workers' Compensation Severance Tax

WV TAX ON NATURAL GAS

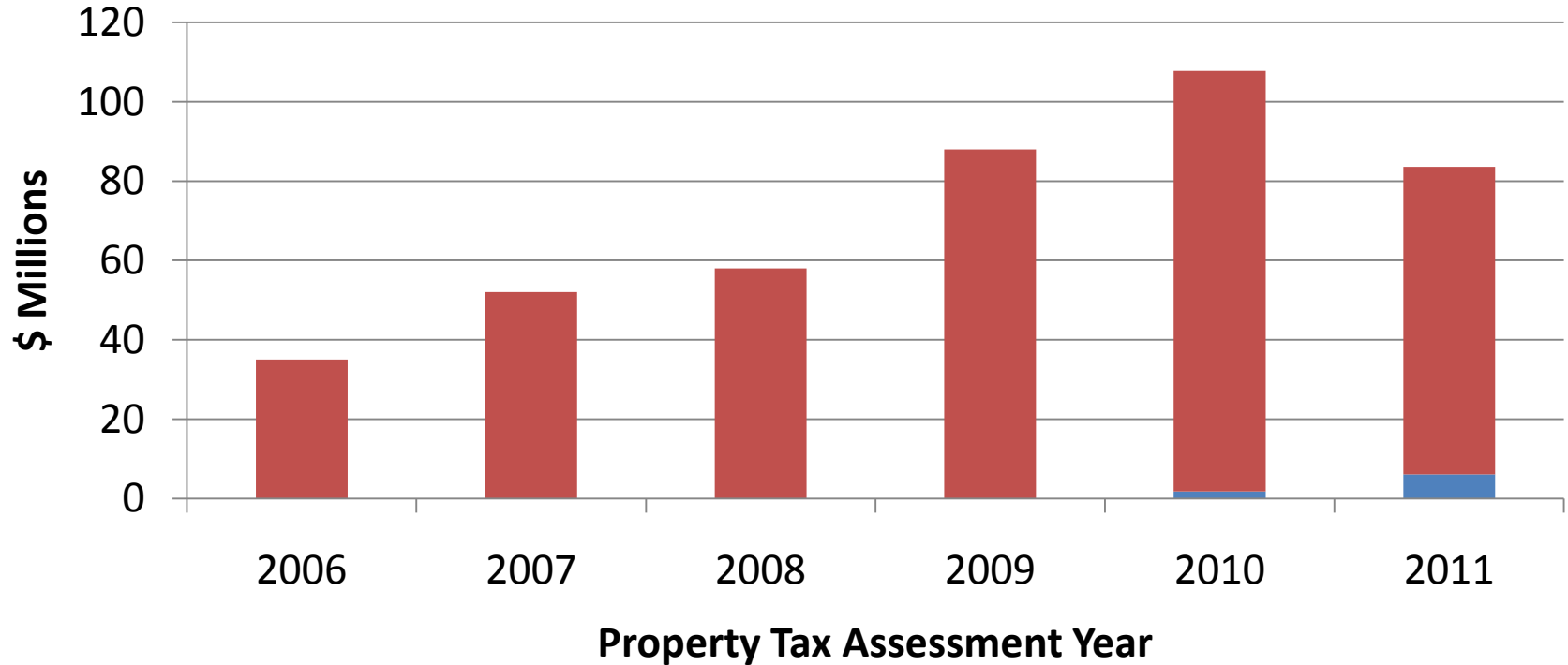
Natural Gas Property Taxes Levied (Price & Production Factors)

Marcellus Share Rises From < 2% in 2010 to 8% in 2011

Tax Assessment Years 2006-2011 Relate to 2004—2009 Period

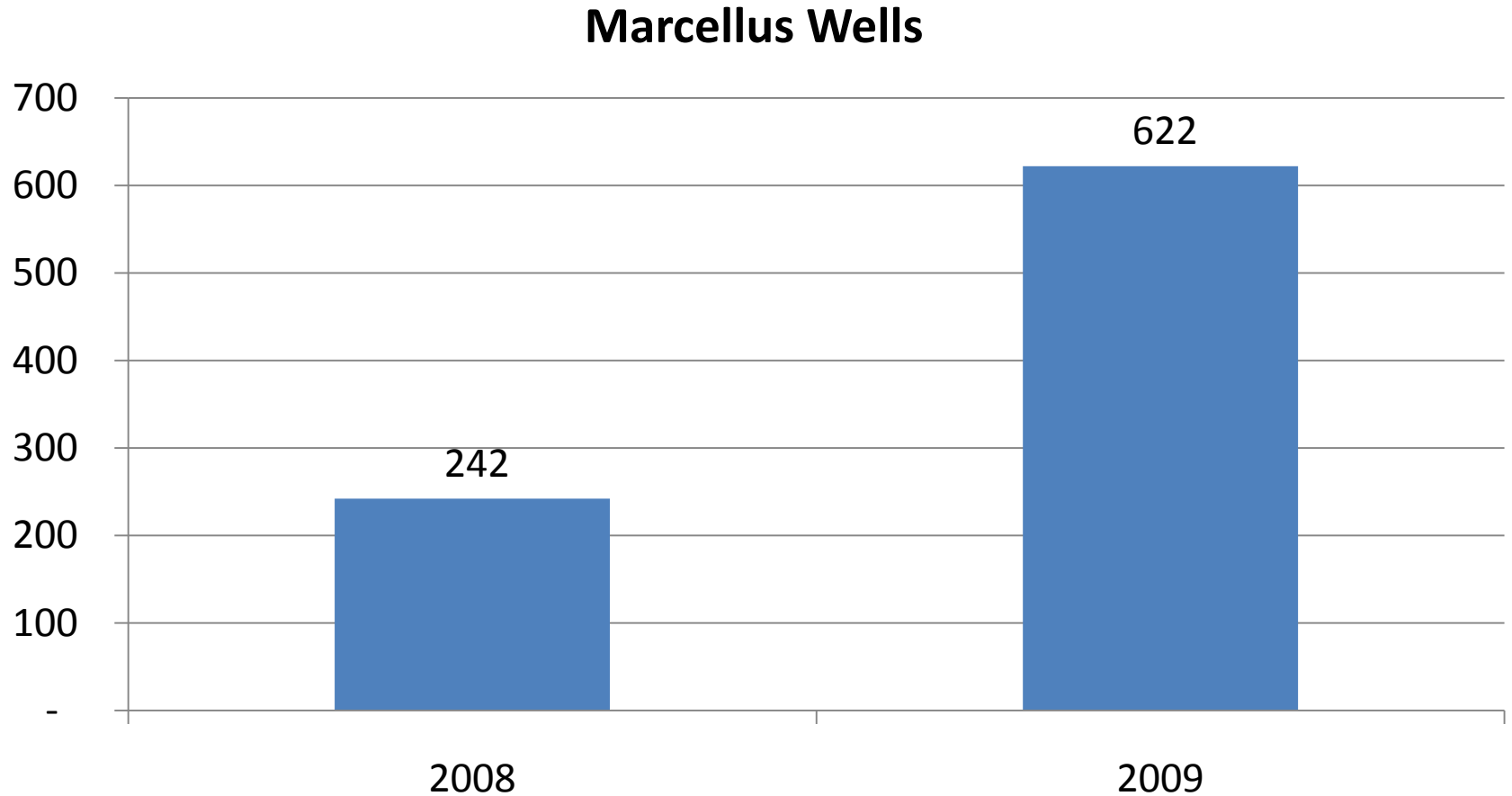
Local Property Taxes Assessed

■ Marcellus Shale ■ Total Natural Gas



Number of Marcellus Shale Wells Increases

Source: Property Tax Division Assessment Data 2010-2011



WV Natural Gas Severance Taxes

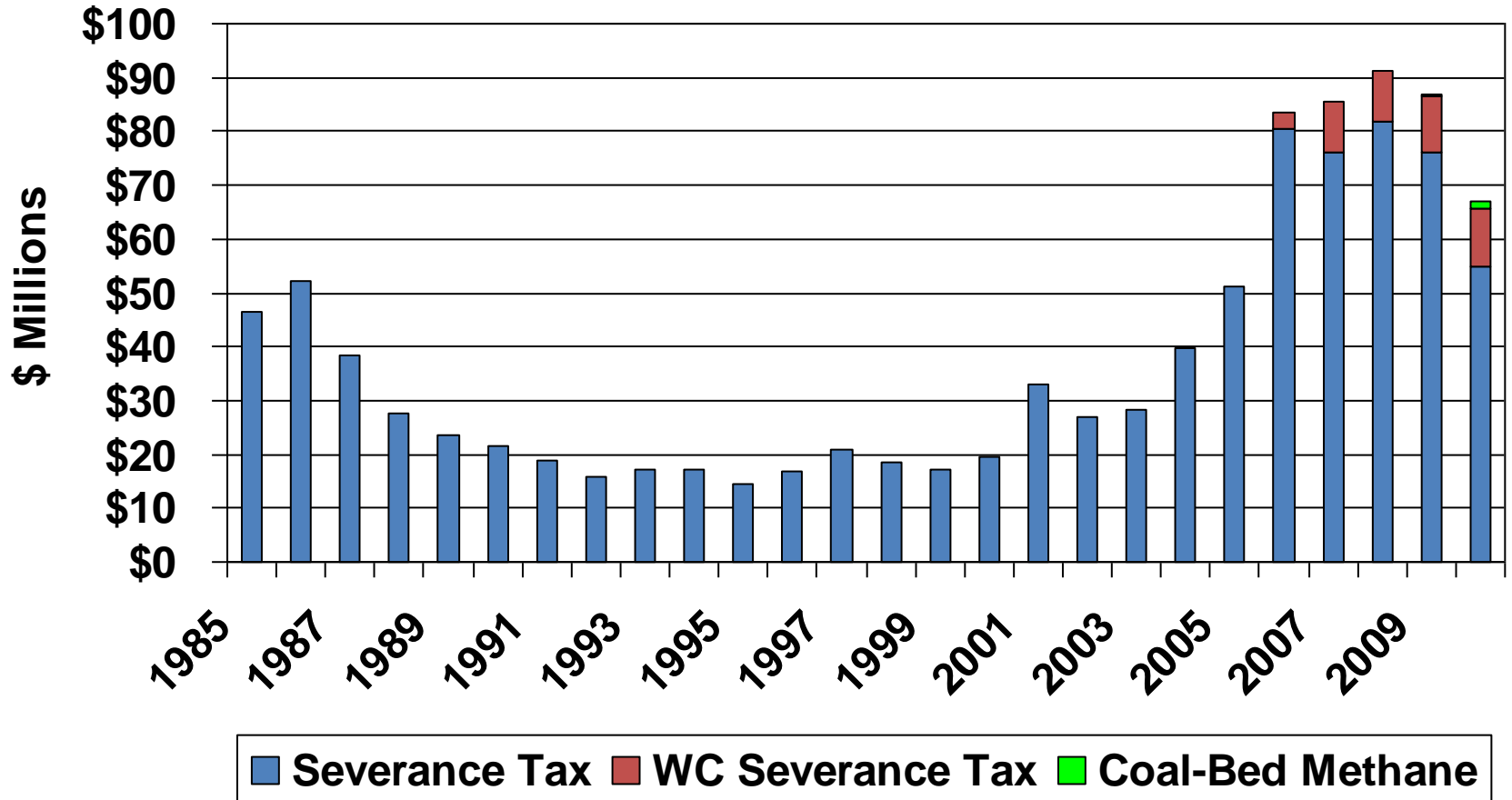
Regular Severance

- **Base: Well-head gross receipts**
- **Rate: 5.0%**
- **Tax Preferences:**
 - Free gas exclusion
 - < 5,000 cubic feet per day wells
 - Shut-in wells -minimum 5 year
 - Pre-2009 Coal-Bed Methane (5-yr)
 - \$500 credit/Taxpayer
 - Some investment tax credits
- **Effective Tax Rate: 4.2% - 4.5%**

WC Severance

- **Base: Units of production –Mcf**
- **Rate: 4.7 cents per Mcf**
- **Tax Preferences:**
 - Free gas exclusion
 - < 5,000 cubic feet per day wells
 - Shut-in wells -minimum 5 year
 - Pre-2009 Coal-Bed Methane (5-yr)
- **Effective Tax Rate: 4.1 - 4.4 cents**

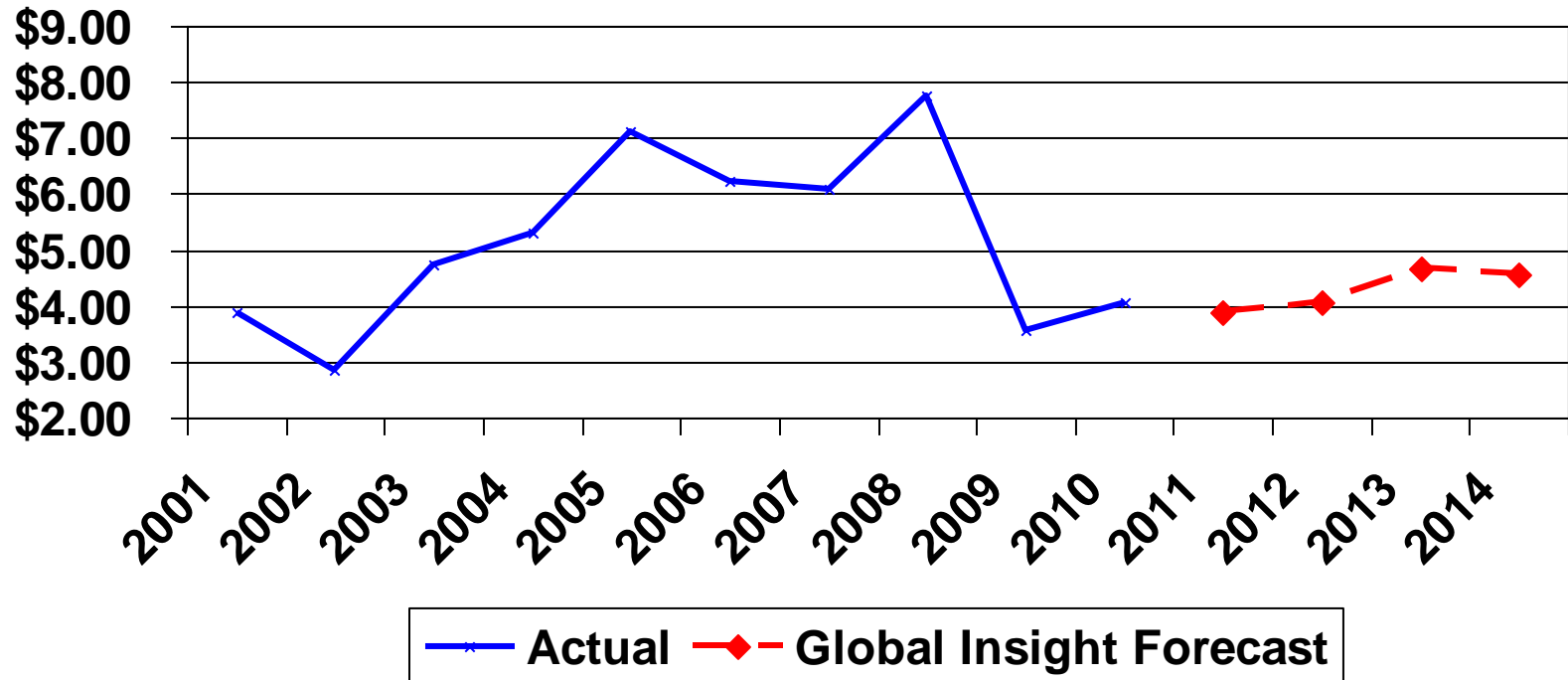
WV Natural Gas Severance Tax Collections by Fiscal Year 1985-2010



Natural Gas Price at Wellhead Forecast

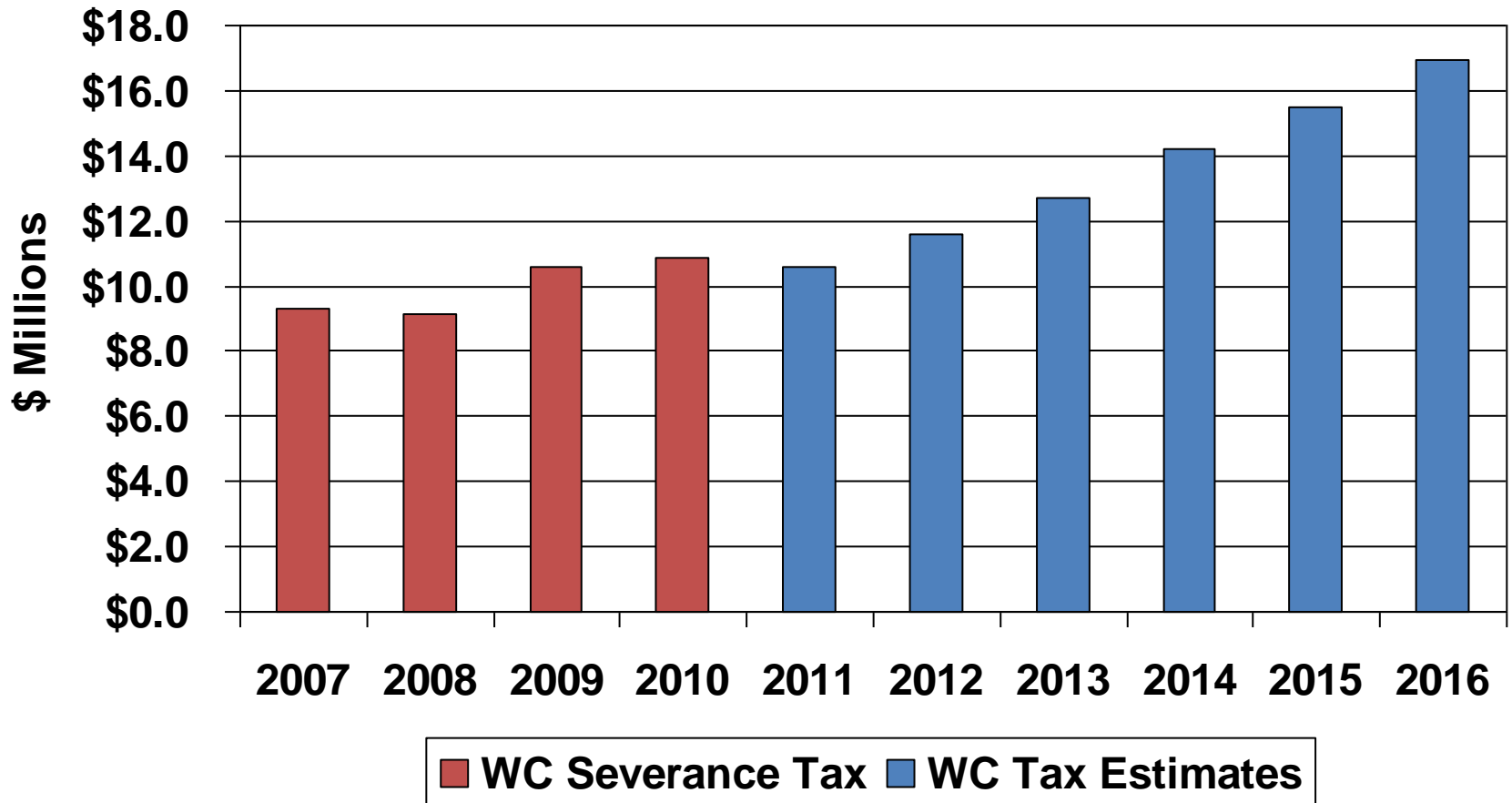
July 2011 Forecast

\$ Per Million Btu



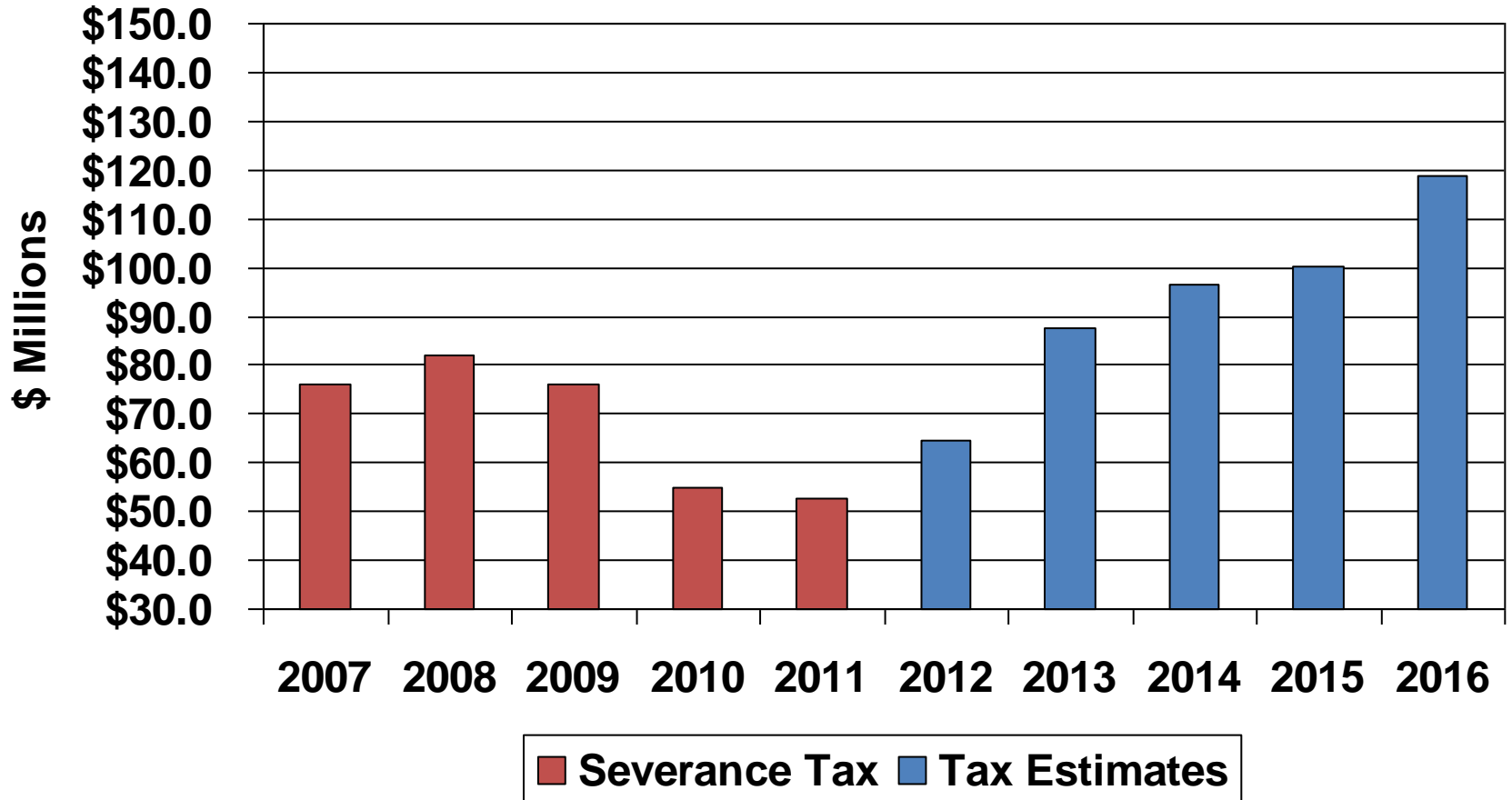
WC Natural Gas Severance Tax Collections by Fiscal Year 2007-2016

Tax Estimates as of November 2010



Regular Natural Gas Severance Tax Collections by Fiscal Year 2007-2016: 17.6% Annual Growth 2011-2016

Tax Estimates as of November 2010



Natural Gas & Coal Production

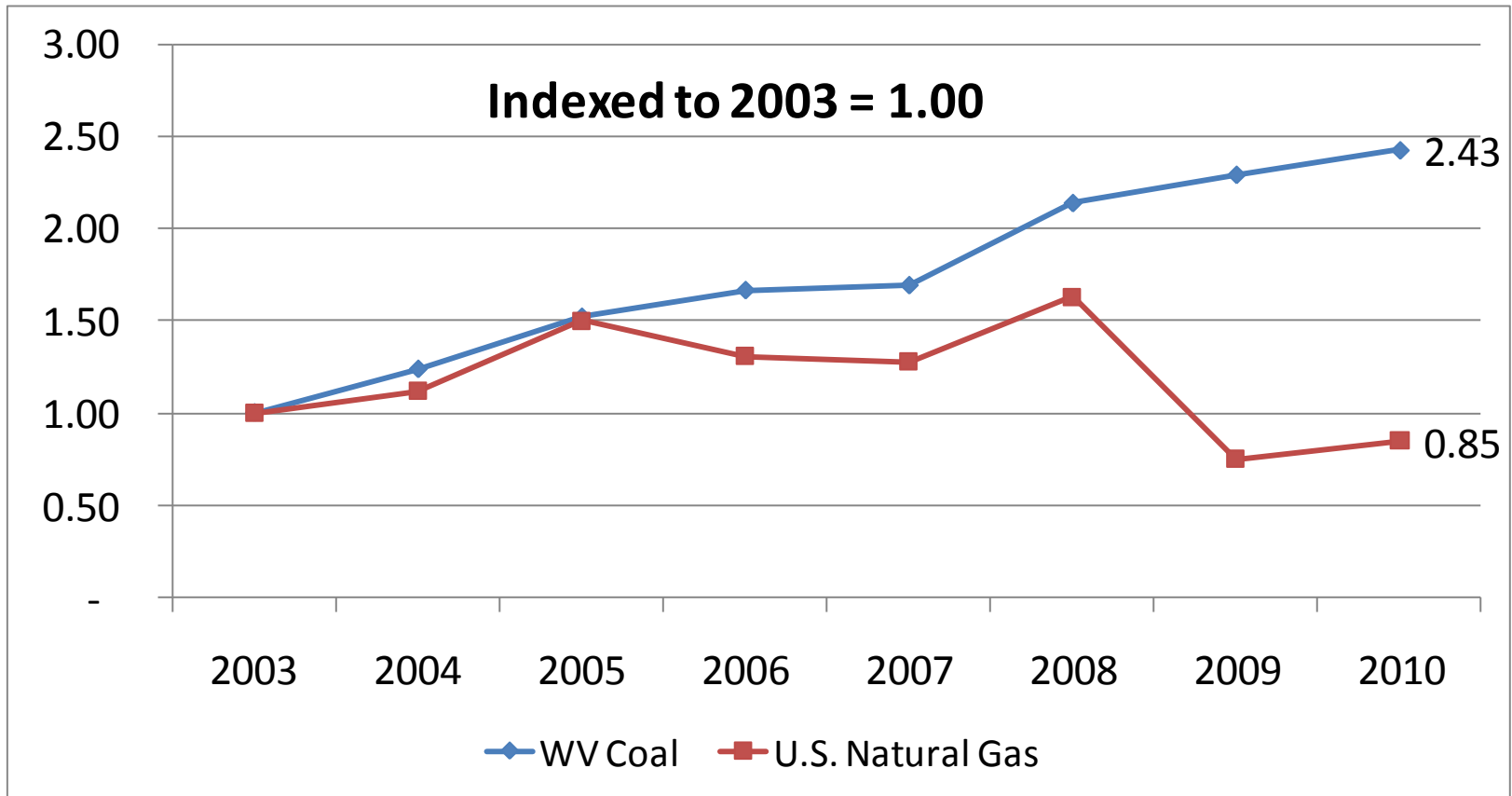
Natural Gas & Coal Prices

Severance Tax Revenues

TRENDS FOR STATE BUDGET

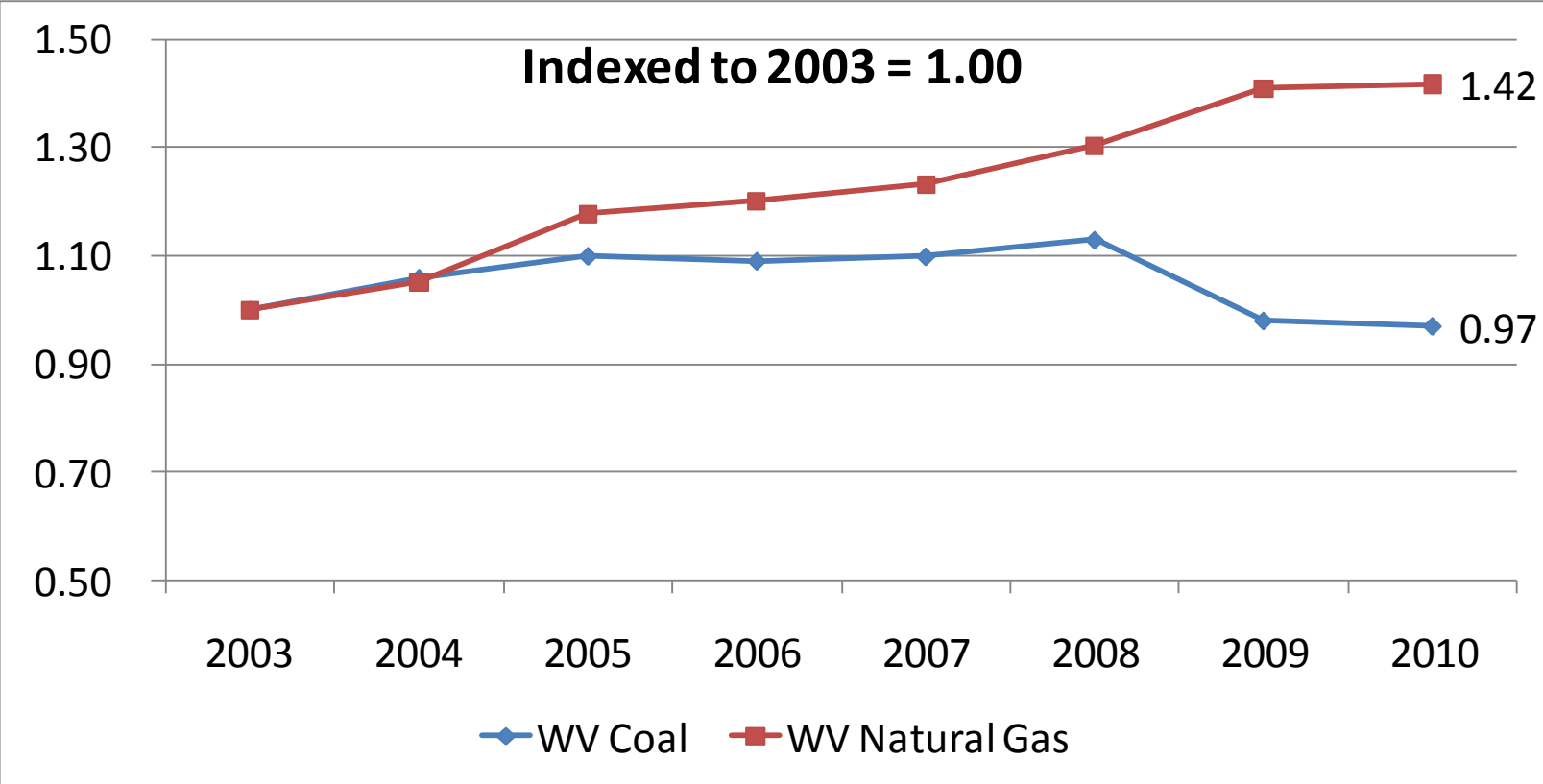
Prices for Coal Rising & Natural Gas Falling

Sources: West Virginia coal severance tax returns and U.S. Energy Information Administration



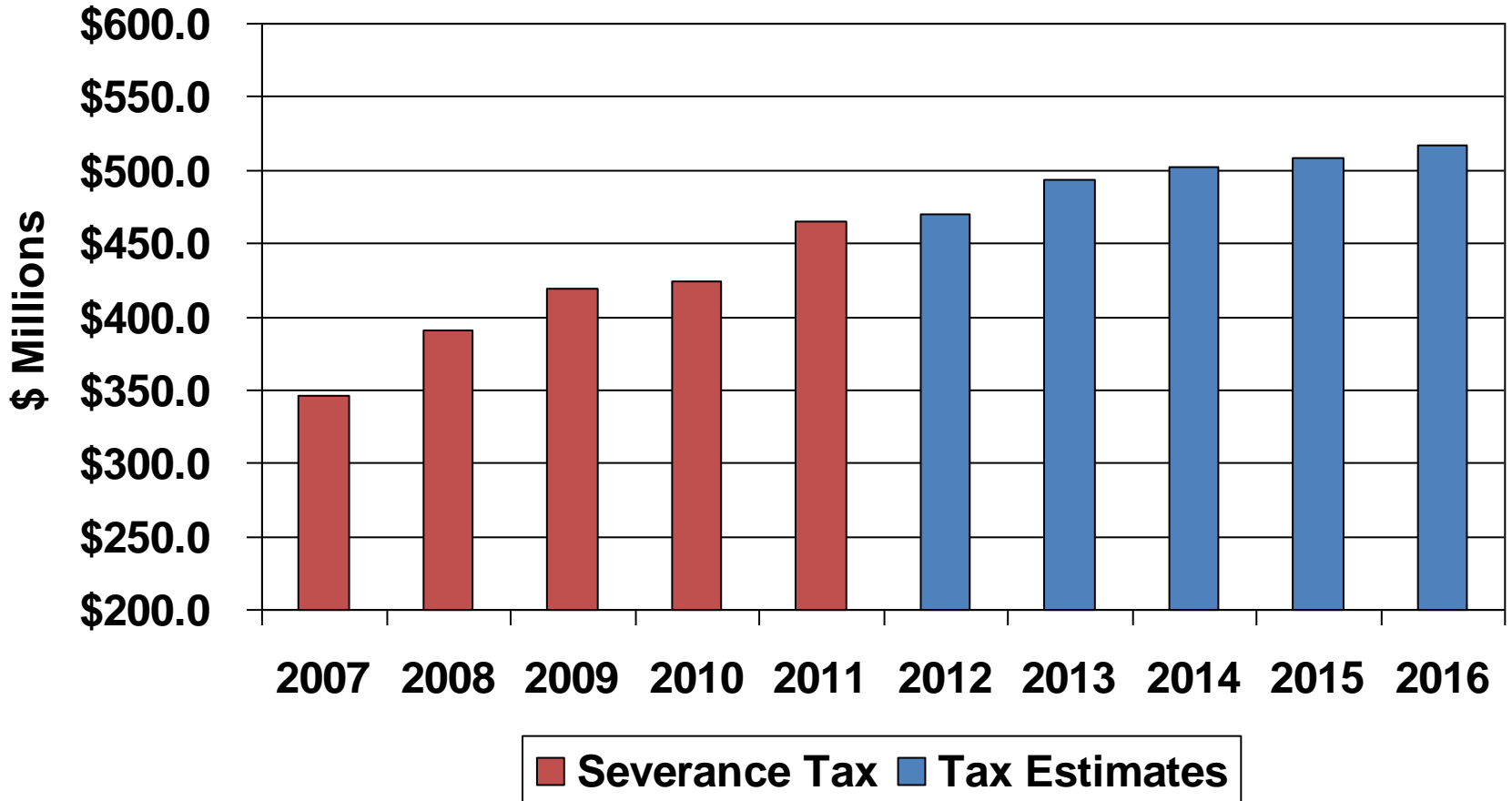
Production for Coal Falling & Natural Gas Rising

Sources: U.S. Energy Information Administration with Tax Estimate on Natural Gas in 2010



Total Regular State Severance Tax Collections by Fiscal Year 2007-2016: 2.1% Annual Growth 2011-2016

Tax Estimates as of November 2010



Contact Information

Questions ?

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