Chairman McClain, Ranking Member Cera and members of the House Ways and Means Committee, thank you for the opportunity to discuss the severance tax provision of HB 64. I am Shawn Bennett and I serve as the Executive Vice President of the Ohio Oil & Gas Association (OOGA).

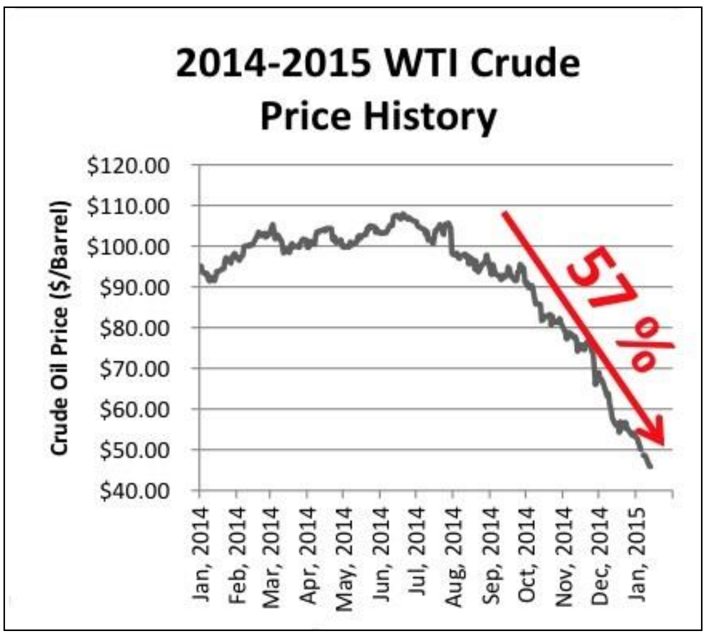
The Ohio Oil & Gas Association is a statewide trade association representing 3,100 members who explore for, develop and produce Ohio's crude oil and natural gas resources. Our membership consists of people who professionally represent all phases of the exploration and production (E&P) process and all sizes of producers, from small independents to major oil companies. The OOGA has represented Ohio's industry since 1947.

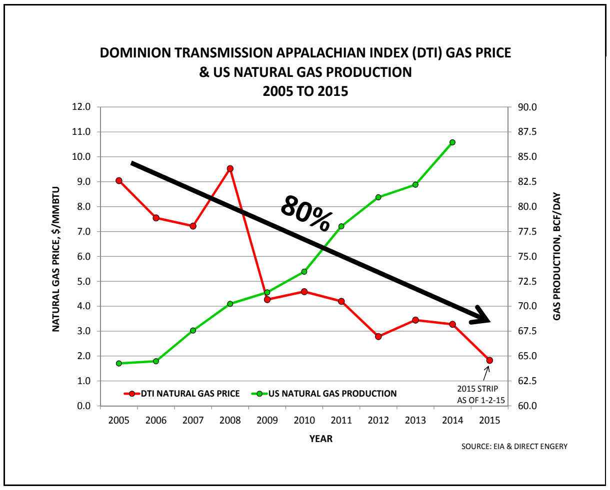
I am here today, representing this membership's opposition to the severance tax provision proposed in HB 64.

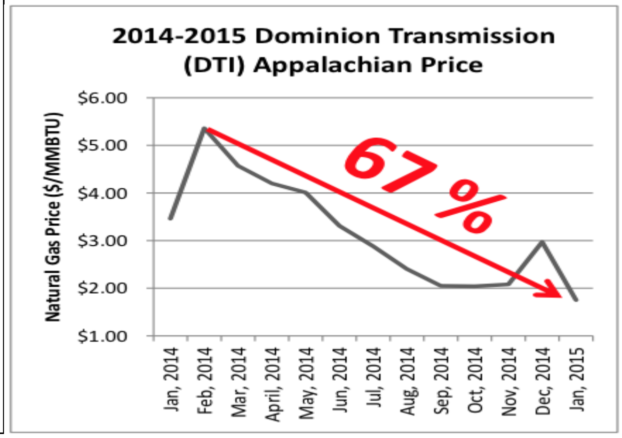
I would like to be begin by addressing the current market forces that impact our industry.

Recent headlines have made it clear: currently, our industry is entering a recession and the recession is evidenced by the reduction of capital expenditures, falling rig rates and shrinking economic development of the Utica play - particularly when compared to other areas.

Crude oil prices have dropped over 50% since June of last year, causing capital to become less available and projects to slow down.

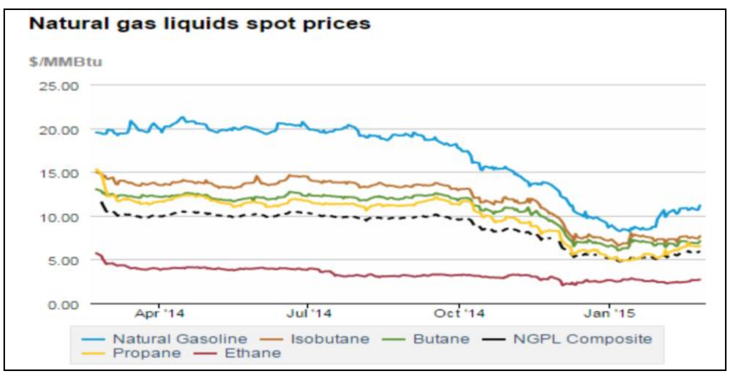






As you can also see, there has been an 80% drop in natural gas prices since 2005, with most of the decline taking place following our last oil crash in 2008. Since then natural gas prices have struggled to rebound, causing increased stress on the industry. This stress has been exacerbated by growth in natural gas production, lack of pipelines to constrained markets, and the absence of a booming manufacturing economy to use our product.

In the past, operators have looked to natural gas liquids, such as butane and propane, to provide an uplift to the low natural gas prices that have plagued the Appalachian basin for the past several years. Unfortunately, natural gas liquids are tied to oil prices, causing the premium to significantly deteriorate, and have provided little benefit for operators processing these "valuable natural gas liquids."



Our operators have reacted to these market forces - the drop in natural gas, natural liquids and oil prices – in the same way through the reduction of investment and drilling programs in the state.

In December of 2014, Ohio had a record of 59 rigs operating in the Utica. Today, a third of those rigs have simply left the state, leaving only 37 rigs operating in the Utica.

More rigs are leaving the state, and will continue to do so - a crystal-clear consequence of the low prices in the market. However, this may be a slow adjustment in active rigs moving forward, as operators are sometimes locked into long-term contracts with these drilling companies. This would cause them to drill wells that they would have otherwise waited to drill.

In terms of development taking place in 2015, we can see how this crash in commodity prices has dramatically and adversely impacted the Utica's future operations by analyzing published earnings and capital budget reports released in the past two months:

- PDC Energy simply packed up and released their rig until the prices rebounded.
- EQT announced earlier this month that they are writing off their Utica acreage, $162 million they are simply walking away from, and leaving the state, stating their decision was "driven by commodity prices as much as anything."
- Chesapeake Energy, Ohio's largest operator, announced last week they will only be operating 3-5 rigs instead of the 8 they ran in 2014.
- Gulfport Energy, who is not a member of OOGA, and I do not speak on their behalf, announced last week they are reducing their budget 40% and only operating 3-4 rigs, down from 8 the company had operating in 2014.
- Antero expects to cut back on its Utica Shale drilling by 36 percent in 2015, intending to only spend $1.8 billion instead of the $3.05 billion of 2014. They will also only be using 5 rigs in the state, down from 7 in 2014.
- Hess announced their spending in the Utica would be $290 million, down from $500 million last year, representing a 42% drop in investment. The company has also announced it will only operate 2 rigs in the Utica, down from the four they operated in 2014.

As you can see commodity prices really do matter.

These are the realities facing the exploration and production companies operating today in the Utica. They depict a trend that is, unfortunately, expected to continue, and one that shows a clear picture - an undeniable truth: Ohio's natural gas play is indeed suffering during this commodities crisis.

It is not only the operators and producers who are suffering in the state. The current market and subsequent decline in operations has had a ripple effect on support industries, particularly in the manufacturing sector.

Northern Ohio has borne the brunt of this downturn. This past October, Republic Steel laid off 105 employees at its Lorain plant. This week, U.S. Steel will also idle its Lorain operations, leaving more than 600 men and women out of work. Due to the decline in activity, Vallourec Star in Youngstown recently idled its plant, leaving in question the future of its more than 700 employees. Just yesterday, Timken Steel in Canton laid off 52 steelworkers citing reduced demand from energy customers because of a decline in oil and natural gas drilling.

GoFrac, a Texas well service company located in my hometown of Cambridge, closed their doors and laid off over a 100 people just last month. Antero laid off 250 contracted landmen in January because they had to cut their budget for land acquisition due to low prices. This downturn is impacting the supply side not only here in Ohio, but across the country as some of the world's largest companies - including Halliburton, Baker Hughes Inc. and Schlumberger - are reducing their workforce, with job losses exceeding 10,000 workers and counting.

These are more than figures. These numbers represent thousands of Ohio families who have felt the most severe consequences of the downturn of the market, we must do everything to ensure more Ohio families do not suffer the same fate, in addition to getting these men and women back to work.

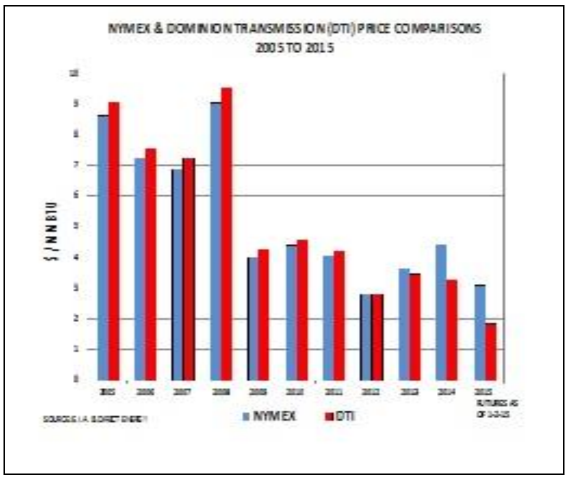
The legislature should not add additional tax burdens on an already struggling industry.
The proposed severance tax before this legislature will dramatically decrease the chance of success in this effort, and only serves as a deterrent to future recovery, growth and stability in Ohio's oil and gas industry.

The Ohio Oil and Gas Association's concerns go beyond the poor timing of the current tax increase proposal and the imposition of this increased tax on an industry at the bottom of a business cycle.

As written in the current proposal, the state would give the authority to the Tax Commissioner to tax Ohio producers based on the average quarterly spot price from a publicly available source, determined by the Tax Commissioner.   In essence, this proposal would give the commissioner free reign to tax the industry for a price we didn't actually receive.

One would assume the commissioner would use Henry Hub or NYMEX as the publicly available source, since these are the primary national public sources for natural gas prices in the United States.

The problem is that producers don't actually receive those prices. Operators in the Appalachian Basin who use Dominion suffer from what is called a "negative basis". As an illustration of this issue in 2014, Ohio operators received an average 25% percent lower for natural gas when compared to NYMEX or Henry Hub. This discount is the direct result of the region's high production volumes of natural gas and lack of infrastructure to take it to market.

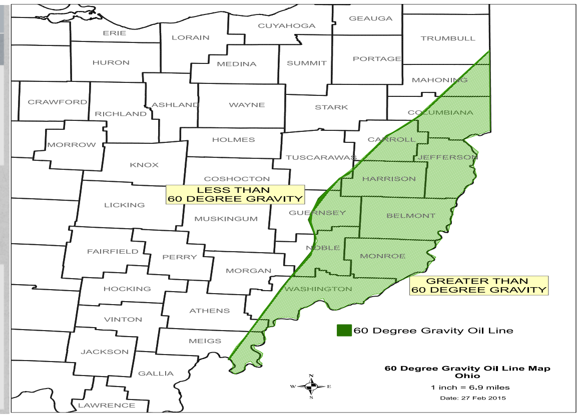


Why should this industry be taxed on a price it does not receive? It is akin to taxing a car dealer at the MSRP rate, regardless of whether or not an automobile was sold at that price or below. Singling out one industry is not conducive to growth, nor does it encourage continued investment.

The same can be said for the specifics of the oil taxation in this proposal. Again, here, the commissioner is the one who determines the price of oil. And again, what he may use is not actually the price producers receive. It is likely the tax commissioner would use the West Texas Intermediary (WTI) as the public source for oil in this proposal. However, the pricing of oil is not as simple as some assume. There are gravity's that determine the price of oil and what is being producers out of the Utica is <u>not</u> the same as the crude being traded in Cushing, Oklahoma. As of Friday, the WTI price for crude was $49.42 per a barrel of oil. At Ergon, a refinery in Northern West Virginia, producers would receive $48.76 if they were lucky enough to have Utica Medium 38.0-49.9 API gravity oil. Sadly it is not the case. Only a small amount, maybe 10%, of the oil production is actually Utica Light 50-59.9 API gravity, which currently receives $42.76, $6.66 less that WTI pricing.

The vast majority of the oil coming from the Utica is actually condensate, 60.0 API Gravity and above, collected at the wellhead, not oil as the state identifies it in their production numbers. Utica condensate only fetches $24.76, which is $24.66 less than WTI pricing.

Effective Date	2015-02-27
Bulletin Number	15-039
Marcellus - Utica Medium 38.0-49.9 API Gravity 150 Plus net barrels of crude oil from one tank battery B.S.&W. 1% or less	$48.76
Marcellus - Utica Light 50.00-59.9 API Gravity 150 Plus net barrels of crude oil from one tank battery B.S.&W. 1% or less	$42.76
Marcellus - Utica Condensate (Formerly ALS) 60.0 API Gravity and above 150 Plus net barrels of crude oil from one tank battery B.S.&W. 1% or less Reid Vapor Pressure limited to a maximum of 12.5	$24.76



Let us be clear: as proposed, this bill is not implementing a severance tax. A true severance tax provides for a recovery of capital deployed to develop the resources. This is a revenue tax, plain and simple. This is a tax on one industry’s revenue stream.

In arguing for the passage of this proposal, proponents of this new tax increase have attempted to suggest the past four years of developing with low severance tax rates amounts to a cost recovery. This argument demonstrates a basic lack of understanding of how this industry works. This is a play made up of independent operators, and each one of them follows the same simple fundamental process.

Independent producers typically invest 110-113% of their revenue into finding and developing new energy sources. Cost recovery is needed to provide revenue to drill new wells.

Each new well drilled will continue to create more jobs, generate more taxes, and more royalties for landowners in eastern Ohio, the heart of the state’s Utica Shale resources.

This developing region, mostly rural, has suffered from poverty, a stagnant economy, and lack of opportunity for generations. Their communities will be hardest hit from the negative consequences of this bill.

It is their workforce, their small business owners, their service employees, their mechanics and their families who will suffer the most from stifled development. Landowners in these communities who are receiving royalties will now be bearing a heavy tax burden in order to ease the income rates of those in more affluent areas of the state.

When the subject of an increase in severance tax was first proposed years ago, there was a prevalent belief the Utica Shale formation would be the “biggest thing to hit Ohio since the plow”, and production companies would develop these resources regardless of the environment simply because it’s there.

Today, after years of exploration, and greater experience in the formation, we have a better understanding of the true reach of this play. While these geological gifts still provide great potential and great opportunity for our state, it is not the 18 county-encompassing play it was heralded to be in 2011.
BP, who wrote off $500 million in Utica investment, Shell, Anadarko, Devon Energy, Mountaineer Keystone, Halcon and EQT are among those companies who have abandoned operations in the state due to poor results, lack of a return on investment, and economics of oil and gas development. They have turned to shale plays in other states.

This tax increase has been pushed forward based on the potential of the geology, not the reality of the returns we are seeing.

Today, we know this play mainly consists of 7 counties east of Interstate 77. Under this proposal, the citizens of these 7 counties, again mostly rural, poor, Appalachian counties, would be asked to surrender their opportunity for prosperity to provide income tax reductions to residents of cities outside of the developing region.

This industry has contributed greatly to Ohio's rise from the recession, and allowed the state to advance at a greater rate than non- energy developing states.

In 2010, Carroll County was facing an unemployment rate of 16.1 percent, while the average unemployment rate of the majority of the counties in Eastern and Southeastern Ohio saw average rates of 14.8 percent. Four years later, Carroll County's unemployment rate dropped by an astounding 72 percent, while the other counties reduced their unemployment rate by 52 percent.

Counties in Ohio impacted by shale have seen unemployment drop by 13 percent more than the Ohio average, and 15 percent more than the national average.

According to the Ohio Department of Jobs and Family Services, over 190,153 jobs have been created and supported by this industry up from 4,614 in 2011 thanks to our industry's expanding development and the more than $22.5 billion it has invested through 2014 according to a Bricker and Eckler report.

Today, thanks to the oil and natural gas industry, Ohioans are saving on their energy costs. This year Ohioans are saving $6.7 billion a year on natural gas when compared to 2008. Thanks to $48 oil, the estimated petroleum cost savings are over $10 billion given the current rate of consumption. These are savings that each and every Ohioan is receiving thanks to increased oil and natural gas development.

Hotels are being built. Restaurants are being staffed. Realty, automobile and tractor dealerships are thriving in developing areas. Roads are being repaved at the expense of operators.

In short, this is the private sector doing exactly what it was intended to do; create jobs, generate tax revenue, and foster economic growth.

This tax proposal stands as a wall impeding continued progress, and it does so at a time when the industry is under attack from external factors coming from far beyond Ohio's borders.

These external factors are not only hindering the continued development of resources within our state, but across the country in other producing areas including Texas, North Dakota, Oklahoma and Mississippi. These are the same developing states often cited as examples and points of comparison when discussing severance tax rates, and whether or Ohio's increase would be prohibitive to investment by the industry.

In this regard, these states have only one thing in common: they are all home to carbon-bearing geological formations. The proven reserves, historical success, regulatory structure, tax structure and business climate in these states differ as much as the geological formations being developed in them.

Any company seeking to invest the millions of dollars it requires to be successful in oil and gas development must take the aforementioned factors into account when determining the viability of a given play.

To use solely the differing severance tax rates of these states in an attempt to determine the viability or appeal of Ohio's development is gross oversimplification.

According to the 2014 Global Petroleum survey, which includes input from 710 industry executives from across the globe, Ohio – with its current tax structure and climate – ranks well below other top developing states in measure of appeal to producers.

In Jurisdictional Ranking, a survey analyzing existing investment barriers, Ohio ranks below Oklahoma, Mississippi, Alaska, Alabama, Kansas, Texas, North Dakota, Wyoming, Utah and Louisiana.

Ohio falls into the same ranking in the Policy Perception Index, which gauges the most attractive regions for investment in petroleum exploration and development.

In the Commercial Environment Index - based on the five commercial environment index factors: fiscal terms, taxation in general, trade barriers, quality of infrastructure, and labor avail ability and skills - again, Ohio ranks 10th in favorability among producing states.

Operators, and those who they employ across the country are reliant on an environment that is conducive to growth and viable return on investment in order to continue expansion.

As it stands now, with the current tax structure in place, Ohio is already playing catch up to competing producing states.

The future of the success of this industry in Ohio, and across the United States, is dependent on a concerted effort to combat the myriad of global and geopolitical factors that have sank commodity prices and stunted growth.

The State of Ohio, by implementing this tax, would create an added barrier to increased investment. In doing so the state risks standing in opposition to those who would suffer the most as a consequence of its passage – Ohio's working families.

The Ohio Oil & Gas Association urges the House Ways and Means Committee to remove this measure from HB 64 and allow the industry time to recover from this downturn before debating on the merits of an increased severance tax.

On behalf of our Association and its members, I thank you for allowing me to testify today regarding this proposal.

Respectfully submitted,

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