For Immediate Release
May 21, 2015

Contact:
Mike Chadsey
Director of Public Relations
Ohio Oil and Gas Association
330-714-1271
mike@ooga.org

Ohio Oil and Gas Association: Southern Methodist University Maguire Energy Institute and Cox School of Business Release Study Detailing Risks of Proposed Ohio Severance Tax Increase

From Shawn Bennett, executive vice president of the Ohio Oil and Gas Association:

Today the Maguire Energy Institute and Cox School of Business at Southern Methodist University in Dallas, Texas released a study detailing the dangers of enacting a steep severance tax increase as suggested by Governor Kasich's Administration in February 2015.

As stated in the study, simply put, now is the worst time to increase oil and gas severance taxes, since the industry is at the bottom of the business cycle.

The study highlights the global factors contributing to the decline in worldwide natural gas and crude oil commodity prices, the deeply discounted price being paid to producers in the Appalachian Basin for natural gas and the steep decline curve of wells currently being drilled in Ohio's Utica Shale. All of these factors combined make the economics of Ohio's Utica and Marcellus Shales more uncertain than the economics that can be achieved in other shale plays across the country. By adding additional tax burdens and cost uncertainty to oil and gas prospects, the Governor could depress an already struggling industry.

The study also illuminates that the effective severance tax rate could be as high as 7.5 percent on oil and 13 percent on natural gas if the tax is based on a national "index" such as NYMEX-WTI for oil or Henry Hub for gas. This is due to a regional supply glut and lack of pipeline takeaway and processing plant infrastructure; natural gas in Ohio sells at up to a 50 percent "negative basis" to national prices. Because Ohio's Utica shale is primarily a natural gas play, raising severance taxes on these producers could prove disastrous for a region that already faces unfavorable pricing and infrastructure constraints.

"Hiking Ohio's severance taxes on oil and gas production at this time would be extremely short-sighted, said Bernard Weinstein, Ph.D. and lead author of the study. "Because of the 40 percent drop in crude oil prices over the past year, and hugely discounted prices for Utica gas due to a lack of takeaway capacity, the profitability of most Ohio producers could be seriously impaired by the huge rate increases being proposed by Governor Kasich. What's more, higher tax burdens on Ohio producers may simply shift production and future investment to surrounding states in the Utica and Marcellus shale plays."

About the Ohio Oil and Gas Association

The Ohio Oil and Gas Association is a trade association with more than 3,100 members involved in the exploration, production and development of crude oil and natural gas resources within the state of Ohio. For more information, visit www.ooga.org.