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Pennsylvania Tax on Natural Gas "Probable," Industry Says

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Pennsylvania's revenue collection numbers and the hope for approval of legislative initiatives that would remove certain restrictions for the gas-drilling industry make an extraction tax "probable but not definite," industry officials say.

"More companies are open to discuss a reasonable and fair tax," said one industry official who asked not to be identified. "But we would also like to see some guarantee of movement on our issues."

The industry is looking for three key changes to the law:

- Allowing more than one drilling site on a pad;
- More clarity on whether Pennsylvania's Department of Environmental Protection or the local government entity has jurisdiction over certain issues; and
- Unitization of properties, which would allow drillers to pay royalties to a property owner who has not agreed to a lease deal, but whose property is contiguous to others who have.

"Other states with a lot of drilling activity have these issues worked out," the official said. "For the industry to really keep growing, we need the same measures."

In his February 2010 budget address, Governor Rendell proposed an effective 6.25-percent rate on the market value of the gas. He asked the Pennsylvania General Assembly for the same tax last year, but was blocked by the Senate Republicans. Lawmakers appear more open to a tax this year, according to legislative sources.

"We haven't taken any tallies yet in caucus, but the feeling is with this deficit getting worse, almost by the day, something has to be done," said one House Republican staffer.

May 2010 collection figures from the Department of Revenue indicate that year-to-date, state General Fund revenues are \$1.2 billion below estimate. The 2009–2010 fiscal year ends on June 30.

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