Economic Development Considerations Of Gas Drilling May 24, 2011

Issue: Environmental concerns are being considered in depth. NYS not yet prepared regarding economic considerations

Specific Requests:

- Require drilling regulations to meet secondary mortgage market standards, e.g. Fannie, Freddie, SONYMA and title insurance requirements (as is done or exceeded in many other states)

- Apply setback requirements to ancillary activities, in addition to wells.

- Require recording of full lease information by companies, including renewals and memoranda, within 30 days (local assessment offices cannot currently ensure accuracy for valuation)

- Update ORPTS formula. Provide independent verification of meters to ensure proper royalty payments, local property taxes, and state tax. Done on a schedule to capture steep decline curve.

Needs further consideration:

- Institute tax structure at state and local levels to provide recovery of public investment and oversight (at least equivalent to rates paid by others, Current Tompkins local property tax is 12-19%, school is 14-20%)

- Require company business registration in NYS so that income taxes don't all accrue at company headquarters in Texas

Report Requests:

- Provide information about how NYS has considered economic, market, lending, and recovery of public investment issues.

- Above are examples, agencies, executive branch, and legislative committees with economic responsibilities should be informed and asked to determine appropriate adjustments

Additional Considerations

- Impact on NYS residential lending market
- Understand sub-surface market requirements, in addition to surface
- Impact of neglect will reward poor lending practices
- Will drilling regulations "ramp up" to increased frequency, steep production decline curve, and horizontal extensions, regardless of sgEIS status?
- Local assessment offices cannot currently ensure that they have full information on leases for valuation purposes.

Measurement and Taxation Considerations of Gas Drilling:

Issue: Does New York State have the correct policies in place to ensure public recovery of its investment and to bring economic benefit to the state? Under current procedures, primary economic benefit will accrue at home headquarters of companies in states such as Texas/Oklahoma

- Some estimates show 90% of the value of the well (gas produced) will leave NY State, including 75-*85*% of the net income, but NY will be left with 100% of the clean-up costs.
- NY is one of 2 states without a severance tax (also Pennsylvania); this means the state does not monitor the wells to verify production numbers and this helps companies to avoid other taxes.
- Ad Valorem tax on the gas extracted is collected in NY, but much of shale gas actual value will be gone in the first year or two because of the steep production decline, making the actual production easier to under-report.
- Production is self-reported.
- Local assessors do not have authority to deviate from the ORPTS methodology to value producing wells. Companies self-report their production well after the time of production. The assessment cycle will have passed in which production could be take into account in property valuation for the year production occurred.
- Sales tax on equipment and supplies like: pipe, fluids, compressors, etc. is charged to the state in which equipment is bought (not usually in NY). Those supplier companies pay corporate income tax in their own states (Texas, Oklahoma, etc.)
- Sale price of the gas can be manipulated by the producers to reduce taxes (such as when, where and at what price sales take place).

The dollar value of the gas is determined by the state ORPTS office using a complex formula including royalties, operating expenses, depletion rate, discount rate, sale price, etc. ORPTS needs to look closely at the discount rate and depletion curve for Marcellus formations as economic issues of extracting gas in shale is very different from conventional extraction in other formations. (Production curves show decline in 1-2 years, rather than the 5 years assumed in the current formula.) Recent ORPTS document indicate this is not currently being done. (See April 2011 ORPTS Unit of Production Values)

Land, gas equipment, pipelines, compressors, etc. are taxed as property in NY (different from PA.) The landowner's property is not taxed at a higher rate due to industrial or commercial activity on the land. Rather, new "accounts" under the energy company's name are added to the tax rolls. For example, Joe Smith's tax property is 4.1.1, and a company's (e.g. Chesapeake) tax account for their drilling rig on Joe Smith's land is "4.1.1Account." The company will get a bill for its own separate taxes. Enforcement powers are not clear: what would happen if they don't pay their taxes, i.e., could a municipality foreclose on a compressor station?

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Certificate of Final 2011 Oil and Gas Unit of Production Values

The Office of Real Property Tax Services hereby gives notice that on April 1, 2011, pursuant to Title 5 of Article 5 of the Real Property Tax Law and 9NYCRR Part 196, it established final 2011 oil and gas unit of production values at the amounts shown below. The final oil and gas unit of production values are the same as the tentative values.

Gas Economic Profile
(expressed in dollars per 1,000 cubic feet)

Medina Region 1:	$11.32
Medina Region 2:	$11.32
Medina Region 3:	$11.32
Medina Region 4:	$11.32
Onondaga Reef and Oriskany Sandstone Formations	$9.80
Trenton Black River	$12.12
Formations other than Medina, Onondaga & Oriskany:	$9.80

Oil Economic Profile
(expressed in dollars per barrel)

Enhanced Recovery, e.g., Fluid Injection:	$38.53
Stripper Wells:	$61.16
Other Wells:	$61.16

I, Thomas M. Bellard, Director, Valuation Services Bureau, do hereby certify that the above amounts are the final 2011 Oil and Gas Unit of Production Values established on the 1st day of April 2011.

Thomas M. Bellard, Director
Valuation Services Bureau

Dated: April 1, 2011