



FRACKING, FAIRNESS AND THE FUTURE

Making Sure Ohio Taxpayers And Workers Share In The Benefits

EXECUTIVE SUMMARY

Ohio is potentially sitting on a pot of gold. Or, more accurately, on pots of natural gas and oil. According to the industry-funded Ohio Oil and Gas Energy Education Program, an estimated 20 *trillion* cubic feet of untapped natural gas with a value of over \$100 *billion* is lying beneath our feet.ⁱ The Ohio Department of Natural Resources estimates that, in addition to natural gas, 1.3 to 5.5 billion barrels of oil may be contained within Ohio's rich deposits of shale, with a market value of up to \$550 billion.ⁱⁱ

Extracting this oil and gas could bring tens of thousands of jobs to a state desperate for them, as well as hundreds of billions of dollars in revenue to Big Oil companies, most of whom are already doing quite well.

But there is a problem, and it's a big one. All this gas and oil is trapped in large deposits of shale. Extracting it requires a process known as hydraulic fracturing in which toxic chemicals, sand and copious amounts of water—under extremely high pressure—are pumped into horizontally-drilled wells in order to fracture or crack (“frack”) the underground rock and release the gas and oil. A portion of this mixture, called “brine”, bubbles back to the surface as wastewater. These fluids are typically disposed of by pumping them back into the ground into so-called “injection wells.”

On New Year's Eve, a 4.0 earthquake rocked homes in Youngstown, which not only rattled residents, but raised eyebrows. It was the 11th such quake since March in a city that has never before recorded one. After seismic experts from Columbia University concluded that the quakes were probably caused by injecting thousands of barrels of waste fluids into a well near a previously-unknown fault line, Ohio shut down the injection well pending more tests and review.ⁱⁱⁱ

But since there are 177 deep well injection sites in Ohio, which are currently accepting some 37,000 barrels of wastewater a day from sources both inside and outside the state, the battle over fracking and its aftermath is escalating.^{iv} And not just over the possibility of earthquakes. Critics also point to the likelihood of air pollution, well and groundwater contamination and a host of other problems. Environmentalists insist the process will never be safe; the oil and gas industry and state regulators insist it can be made so.

Neither the environmental hazards posed by fracking nor the dangers they pose to public health are the primary focus of this report.

Innovation Ohio believes it is self-evident that neither fracking nor any other industrial process can be allowed to imperil public health and safety. If fracking, including the associated wastewater disposal problem, cannot be made environmentally sound, then it should not be permitted to go forward. Creating jobs will do little good if we poison our people and destroy our state in the process.

The Economics—and Politics—of a Shale Boom

But even if the environmental issues surrounding hydraulic fracturing can be resolved, Innovation Ohio does not believe that a careless, headlong, anything-goes rush into fracking is advisable, nor do we believe that the economic benefits should flow down a one-way street in the direction of Big Oil. Ohio's experience with the coal industry, which once was viewed as the economic salvation for the eastern and southern parts of our state, should serve as a cautionary tale.

In our view, the gas and oil that lie beneath our state are natural resources that belong to all Ohioans. And the rewards that come from exploiting that resource should be shared fully and fairly with all the people of our state, not simply transferred to out-of-state interests, companies and workers. On this, we agree with Governor Kasich who said as recently as January 25: “...(the benefits are) not just for the east. It’s for the whole state. Everybody can benefit from this.”^v

Landowners with mineral rights should not be cheated or misled by unscrupulous company representatives or landmen, and communities should be assured that sources of drinking water are safe from contamination.

Local governments and communities in drilling areas should not be left holding the bag when heavy trucks and equipment damage their roads, or when the influx of new workers and residents spikes the demand for social and public safety services.

And all Ohio taxpayers, whether they live in drilling areas or elsewhere, are entitled to some relief from the draconian reductions in state funding that have left their schools and local governments in dire financial shape.

Requiring Big Oil to share even a small portion of the enormous windfall profits they will reap from exploiting our state’s resources can offset those budget cuts, preserve the jobs of police, firefighters, and teachers, and save taxpayers from having to choose between raising local taxes or going without needed services.^{vi}

In developing sound state policy for Ohio’s potential “shale boom,” it is important to know who the corporate oil and gas players are, how much they are poised to earn, and the influence they may wield with policymakers.

In this report’s “Meet the Frackers” section, we profile the largest oil and gas drillers operating in Ohio’s shale play, the size and value of their land holdings, the number of drilling permits they have been issued, and the number of active wells they are now operating.

Potential Value of Resource:

Natural Gas: \$85.9 billion
Oil: \$130 to \$550 billion

Though estimated revenue figures vary, it is safe to say that if fracking is allowed to go forward, oil and gas drillers will together realize total revenue of at least \$85.9 billion over the lifetime of the natural gas wells that will be drilled in the next four years. We also estimate that, based on estimates of the amount of oil within Ohio’s shale, the industry could reap another \$130 to \$550 billion from its production. Drillers are also set to collect significant revenue from the production of natural gas

liquids, such as butane and propane, the production estimates for which are as yet unavailable.

Oil and gas companies have not been stingy with political contributions. According to a recent report by *Common Cause*, oil and gas drillers, along with their associations and lobbyists, have donated nearly \$3 million in campaign contributions over the past decade to state office-holders and candidates, their committees, and political parties. This generosity has not gone unrewarded. In 2011, the industry’s top legislative priority—“access to the resource base”—was met with legislation, House Bill 133, which opened state lands to drilling.

Policy Recommendations

In the final section of this report, IO makes a number of specific policy recommendations, the three most important of which are:

A Reasonable Wind-Fall Profits Tax on Oil & Gas Companies

At \$.03 per MCF (1000 cubic feet) for gas and \$.20 per barrel for oil, Ohio’s current severance tax ranks near the bottom among oil and gas states that levy a severance tax.

Even Texas, which has long been considered one of the oil and gas industry’s most hospitable states, imposes a severance tax far higher than Ohio’s. We propose that Ohio adjust its severance tax rates to match those of Texas—7.5% on natural gas and 4.6% on oil and natural gas liquids. At these rates, the state’s tax collections over the next two decades would be approximately \$2.5 billion from natural gas, compared to \$250 million under current law.

	Natural Gas	Oil
Revenue to State if Taxed at Current OH Rates	\$250 million	\$260 million - \$1.1 billion
Revenue to State if Taxed at TX Rates	\$2.5 billion	\$5.9 billion-\$25.3 billion

While annual production estimates are not available for the extraction of Ohio's oil resource, the increased severance tax rate on oil production would bring Ohio in line with other resource-rich states. Based on the estimated range of oil resources available, the increased rate would generate between \$5.9 billion and \$25.3 billion in tax revenue over the lifespan of the wells, compared to \$260 million to \$1.1 billion under current law.

This amount of revenue would not only cover all the increased regulatory and infrastructure costs that a shale boom would generate, but would also be enough to reimburse school districts and local governments for a significant percentage of the revenue they've lost through state budget cuts.

A “LandOwner’s Bill of Rights”

A shale boom in Ohio will generate hundreds, if not thousands, of oil and gas land and mineral rights purchases from farmers and other landowners. As documented in the *New York Times*^{vii} and other national publications, such purchases in other states have sometimes resulted in unsuspecting landowners being taken advantage of by unscrupulous companies and their landmen. Property owners have been left with polluted wells and drinking water, despoiled acreage, damaged access roads and a host of other problems which companies have often refused to fix.

Innovation Ohio believes that Ohio farmers and other landowners deserve a “Bill of Rights,” drafted and enforced by the Attorney General, which would inform landowners of their rights prior to signing a mineral rights agreement. Additionally, we propose the Ohio statute be changed to require the public disclosure of chemicals used at each well location, and to mandate baseline water quality testing within 1500 feet of oil and gas wells.

A “Hire Ohio” Policy

Though job estimates vary widely, it is reasonable to assume that a full-blown shale boom in Ohio could generate tens of thousands of new jobs. With a statewide unemployment rate still above 8%, Ohioans understandably believe that they will be the beneficiaries of new employment opportunities. Indeed, the oil and gas industry feeds that expectation in nearly every press release.

But there is no guarantee that these jobs will go to Ohioans. Anecdotal evidence from areas where wells are already operating indicates that job site parking lots are replete with cars sporting out-of-state license plates, often from Texas and Louisiana.

Ohio workers are highly skilled, hard-working and adaptable. All they need is a chance. And as the oil and gas industry has sought to win public support for fracking, the promise of jobs has been its principal selling point.

Because Innovation Ohio believes that Ohio jobs should, whenever possible, go to Ohioans, we propose that the Governor and General Assembly establish and promote a “Hire Ohio” policy. Such a policy, we suggest, could create financial incentives such as slightly reduced tax rates for companies meeting a goal of hiring a designated percentage of their workforce from Ohio. Lawmakers could additionally establish a tax break for companies that establish their own training programs and then hire the Ohioans who graduate.

Certainly other ideas should be considered. The important thing is that companies be incentivized to hire Ohioans on the front end of a fracking operation, not weeks, months or years after a project has begun. Ohioans need jobs now. And before state officials give hydraulic fracturing a green light, they must do everything possible to ensure that Ohioans are hired for the jobs that will be created.