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Rendell warns natural-gas industry that resistance to tax will backfire

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FORT WORTH, Texas - Gov. Rendell, describing himself as the "best ally" of the natural-gas industry, has warned it that public opinion is turning against Marcellus Shale drilling, and that a tax on gas production is the best way to get Pennsylvanians to accept the practice.

In a talk before an energy conference in Dallas, Rendell said the natural-gas business was following "some bad advice" in resisting a Pennsylvania tax on production, and it could face a future backlash resulting in a far more severe tax "that will bleed the industry."

Since the governor's recorded comments Thursday at the conference, sponsored by the George W. Bush Institute and Southern Methodist University (his remarks can be heard at the institute's Web site), a spirited discussion has been sparked about the industry's difficulties communicating to the state's citizenry its positive aspects - jobs, economic development, a reduction in greenhouse gases, and less reliance on imported fuel - rather than the environmental drawbacks of the Marcellus drilling.

Telling his audience at the natural-gas conference that he has campaigned relentlessly to promote the industry in Pennsylvania, Rendell said he recently invited leading gas-drilling executives to the governor's mansion in Harrisburg to discuss a proposal to enact a wellhead-production levy like those in other states with severance taxes.

But only one drilling executive accepted the invitation, Rendell said during the roundtable discussion.

"Now, I have not said that publicly," Rendell said. "If I told the people of Pennsylvania that, there would be a sense of tremendous outrage.

"As governor, I've never had that experience before - I've never invited major CEOs, even to talk about things as difficult as taxes, to come to the residence and had them turn me down.

"So the industry is making mistake after mistake right now, and the tide of public opinion is turning, and even though it is truly the golden goose, we could blow it."

Yesterday, a gas-industry spokeswoman in Pennsylvania said she disagreed with Rendell's assessment that public opinion was shifting against natural-gas extraction because of mounting environmental fears.

"With respect to public opinion, the industry has found an overwhelming number of Pennsylvanians who support the development of this local resource," said Kathryn Z. Klaber, president of the Marcellus Shale Coalition.

Gary Tuma, Rendell's spokesman, said yesterday that the governor was irked because four chief executives initially had agreed to meet him Jan. 12 at his mansion. Then, Tuma said, executives from Range Resources Corp., Atlas Energy Inc., and Chesapeake Energy Corp. backed out and decided to send staff instead; only Murray Gerber, head of EQT Corp. in Pittsburgh, committed to come.

A rescheduled meeting with company representatives, set for Jan. 19, was canceled when Rendell traveled to Haiti after the earthquake.

"He really felt this is a major issue facing the state," said Tuma. "It was the CEOs he wanted to talk to because he felt they had the most influence. That was probably what perturbed him."

In Thursday's remarks, Rendell implied that the industry was making his political life difficult, even though he agreed last year to delay imposing a severance tax.

He said he now faced an insurrection "from my own Democratic Party," demanding a moratorium on leasing additional state forest lands.

Among the industry's mistakes, Rendell said in his talk, was to channel most of its financial support to Republicans in the primary race to elect his successor.

According to campaign-finance reports, gas-industry interests have given \$380,000 to a Republican candidate for governor, state Attorney General Tom Corbett. But, Rendell said, no Democrat in the hotly contested primary has received more than \$5,000.

"That makes a wonderful atmosphere for the Democrats, who control the House," Rendell told his energy-industry audience. "I had to take about 27 angry phone calls from Democrats in the House, saying, 'You're supporting these guys who are giving the Republicans all this money?'"

"Good Lord," he said. "Either give no money at all, or give money with a sense of balance if you're trying to do the things necessary that we need to do to make this industry flourish."

The gas industry was unprepared for the pushback that occurred as drilling approaches populated areas, Rendell said, and its public-relations efforts are inadequate.

Several incidents were "blown out of proportion" by the media, he said. And opposition from environmental groups in the Philadelphia area was expected.

"But even in the northern [part of the state], we're starting to lose support in the counties where people are making the most money from the shale, where the jobs are being created," Rendell told the conference. "And groups like Trout Unlimited, which is a very powerful organization in Pennsylvania, have begun to come out against expansion of shale drilling."

Polls show strong support for a severance tax, Rendell said, and given the billions being invested in the Marcellus Shale, the industry's argument that it is in a nascent stage and needs public support has lost its strength.

Yet the industry rigidly opposes the tax, he said. "There's a Republican Senate that is a no-tax Senate, that will stick with them and keep the tax from going into place."

Rendell said he expected Pennsylvania would be struck by a public-finance "tsunami" in two years, when federal stimulus money is exhausted and the state's pension obligations are scheduled to balloon by \$5.6 billion.

"When that comes, they'll be so desperate for money, that a reasonable severance tax - which I've urged the industry to sit down and write with us - won't be enacted," he said.

"Right now, they have the chance to work with a governor who is pro-industry and who has stood up publicly and fought for the industry" to write a "modest and reasonable severance tax," that could be imposed incrementally, the governor said.

In his closing, Rendell suggested the industry could improve its public relations in Washington, where natural gas has received a cold response from the Obama administration. Then he offered, to many laughs: "I'm available in January."

Not everyone thought the offer was a joke. Will Brackett, managing editor of the influential Powell Barnett Shale Newsletter, who attended the conference, wrote an editorial Sunday saying that Rendell might make a useful lobbyist.

"Given the antagonistic stance toward the natural-gas industry from the Obama administration and leading Congressional Democrats," Brackett wrote, "Rendell could be valuable in the future as an industry advocate, given his status and influence in the Democratic Party."

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