

West Virginia Severance Tax Trends

Finance Subcommittee A

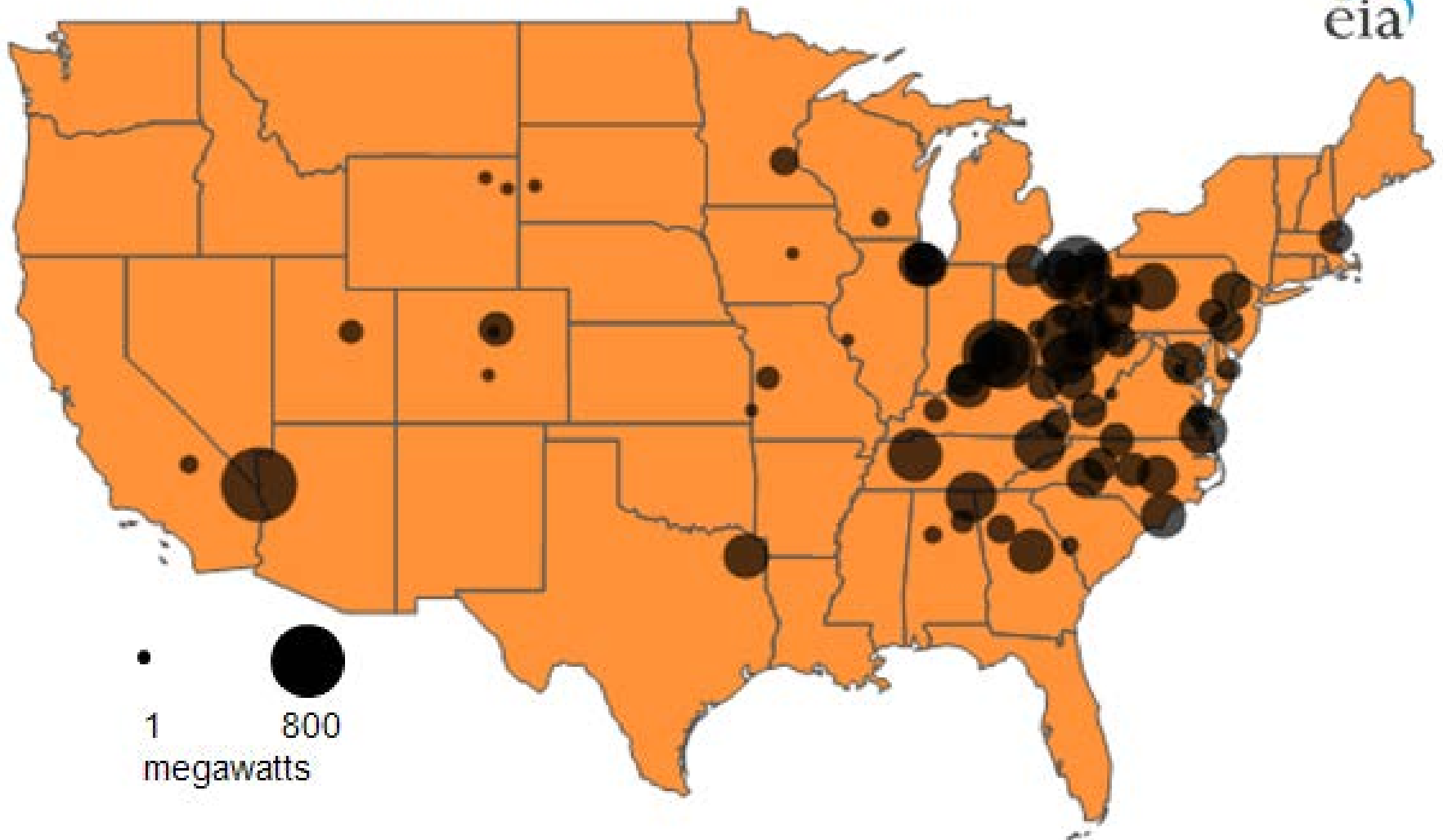
November 26, 2012

Energy Headwinds

- WV Mining GDP: 85% Coal & 15% Oil & Gas
 - WV Coal Production down 7%+ YTD
 - WV Gas Production up 37% in 2011 & 25%+ in 2012
 - WV Natural Gas Price down to \$2/1000 cubic foot
 - Electric Power Generators switching to Gas
 - Mining Employment Falls by over 5,000
- Coal Exports Slow with Global Slowdown
 - Metallurgical coal exports down 10.6% thru September; Steam coal exports Up 95%

27 Gigawatts (8.5%) of Coal-Fired Capacity To Retire

Reported Coal-fired generator retirements, 2012 - 2016

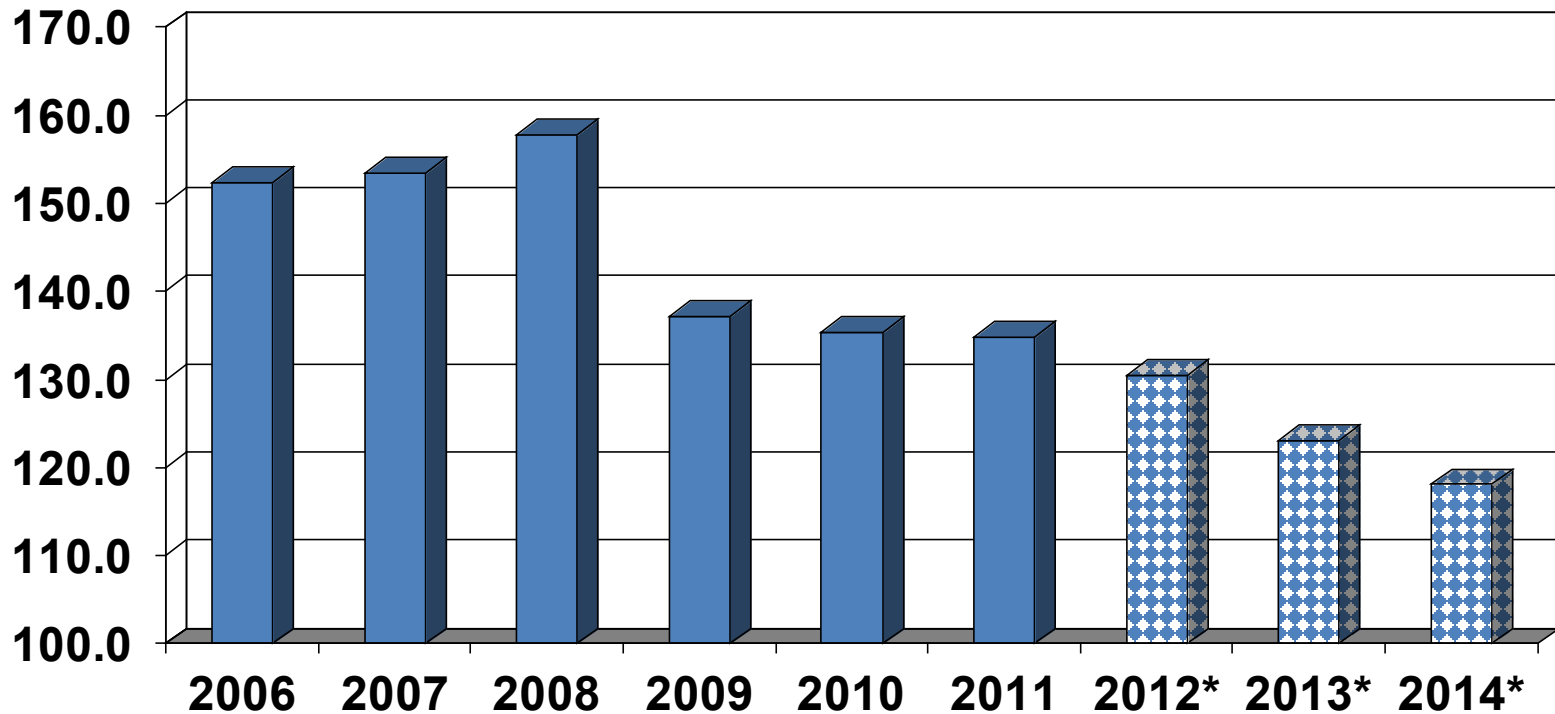


Recent WV Coal Production Trends

157.8 million tons in 2008 & 134.8 million tons in 2011
Preliminary 2012 production numbers – down 7% to 125.7 million tons

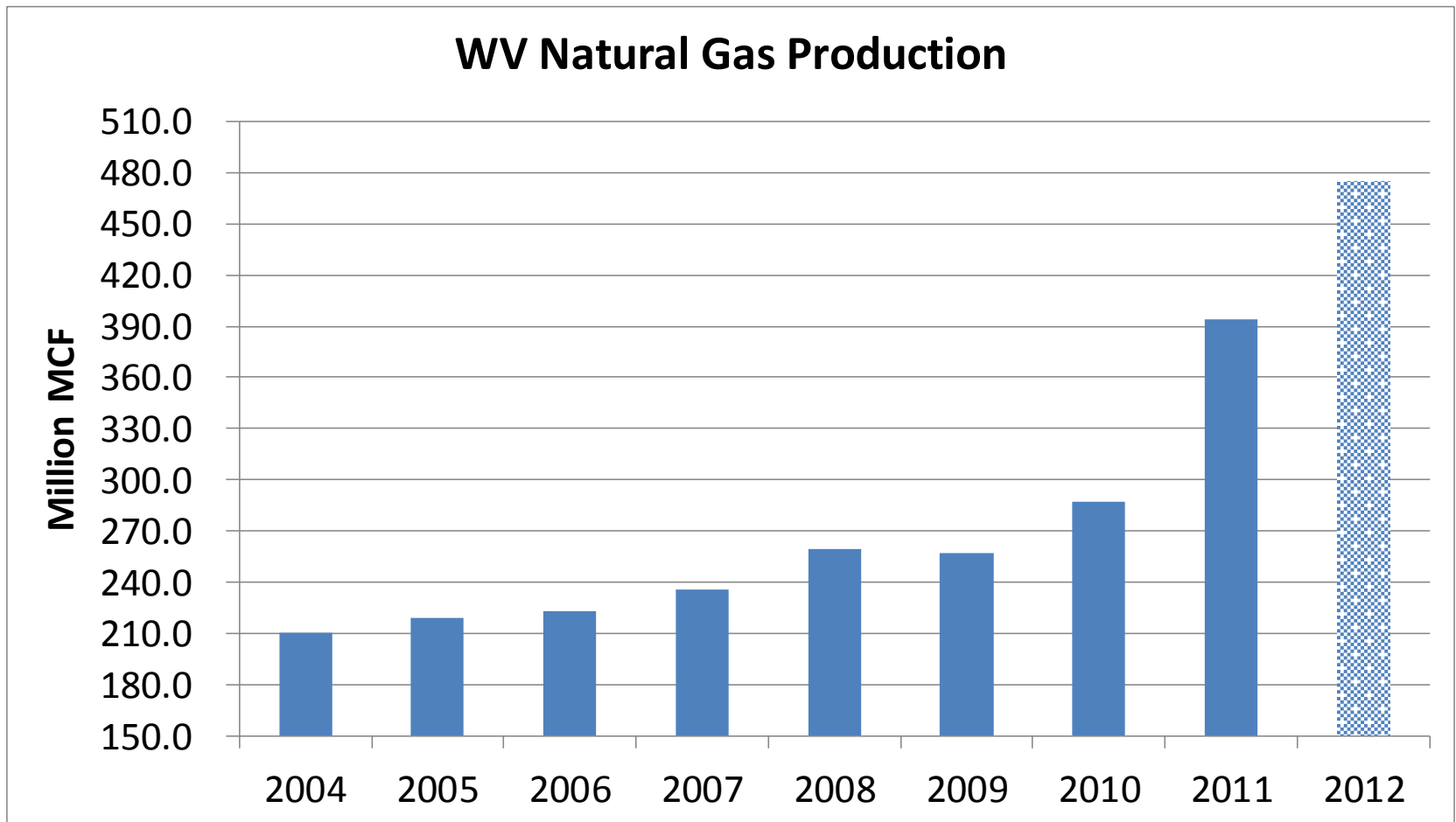
Source: Energy Information Administration & WVU BBER Estimates

Tons of Coal (Millions)

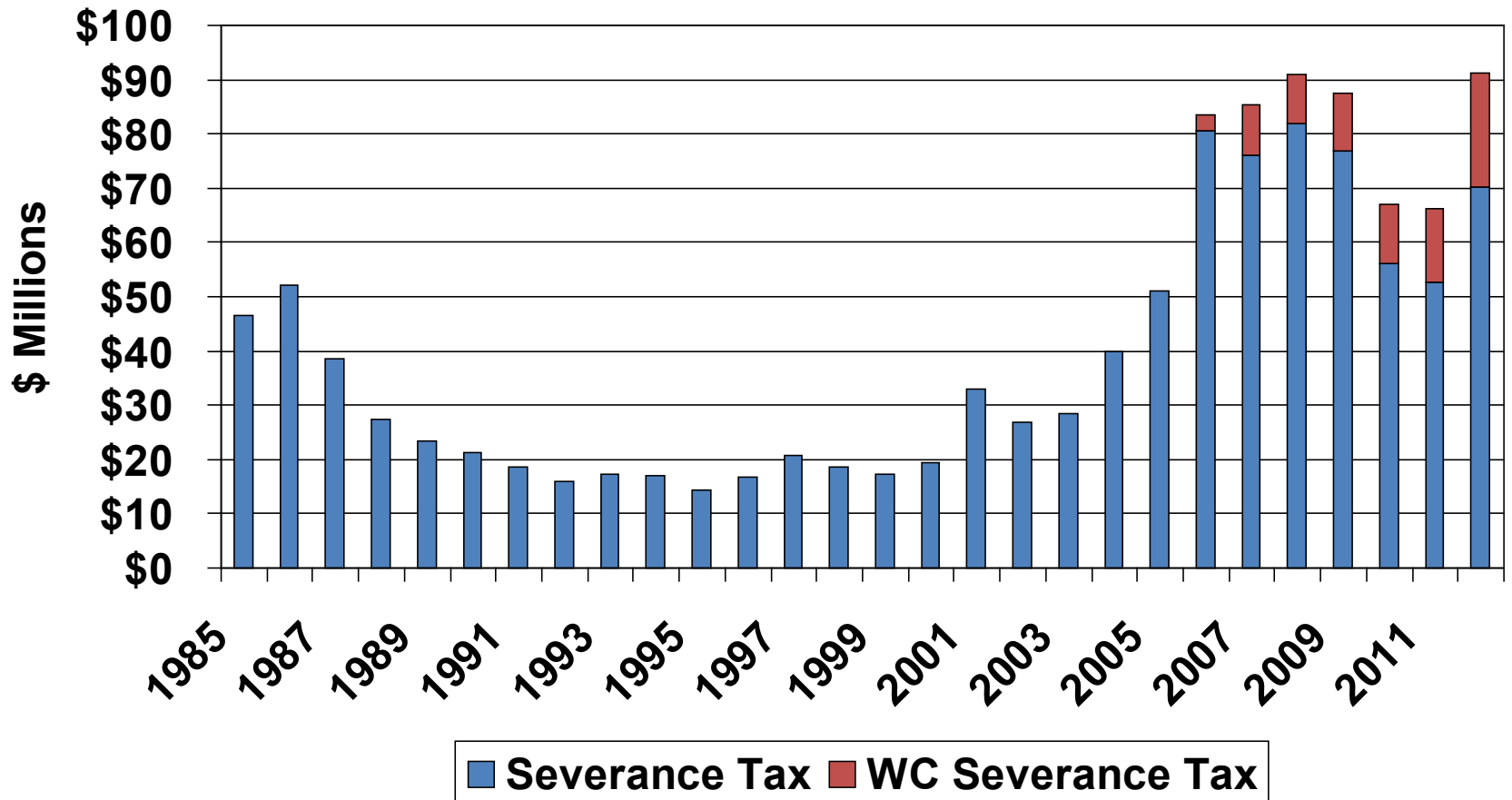


WV Natural Gas Production Up 87% (2004-2011)

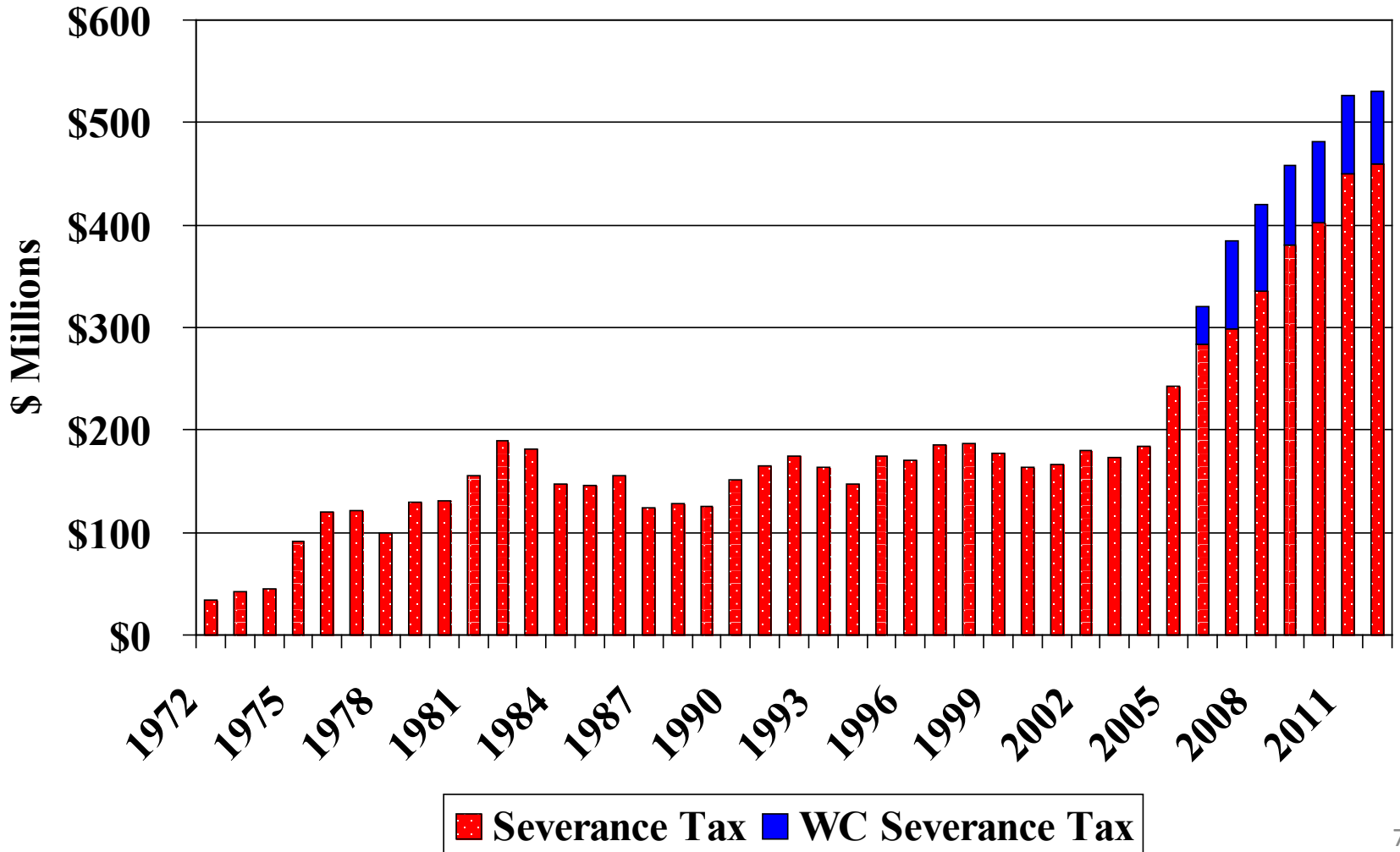
Source: WV DEP Office of Oil and Gas



WV Natural Gas Severance Tax Collections by Fiscal Year 1985-2012

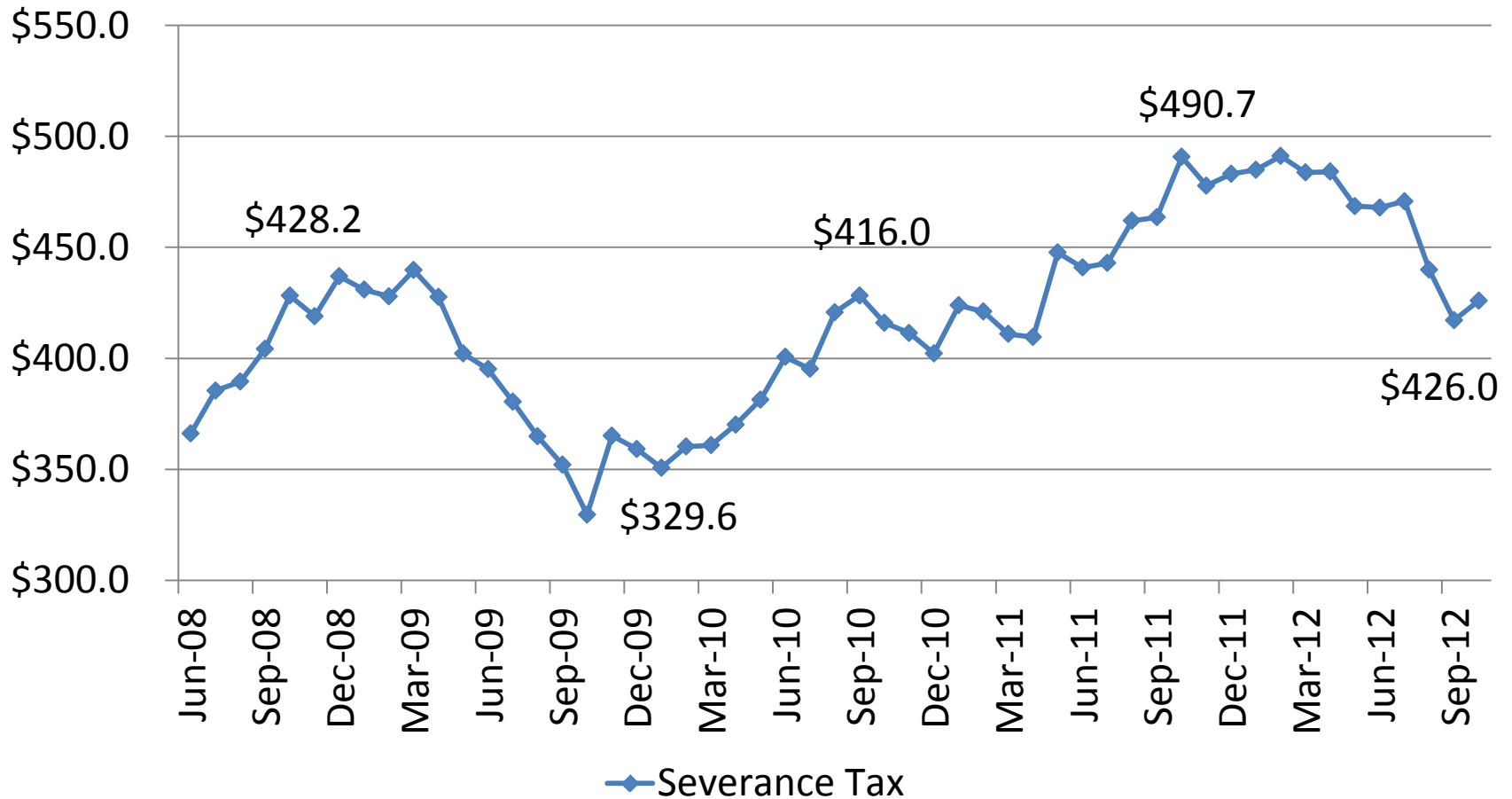


WV Coal Severance Tax Collections By Fiscal Year 1972-2012



Regular Severance Tax (July 2007-Present)

Trailing 12 Month Trend

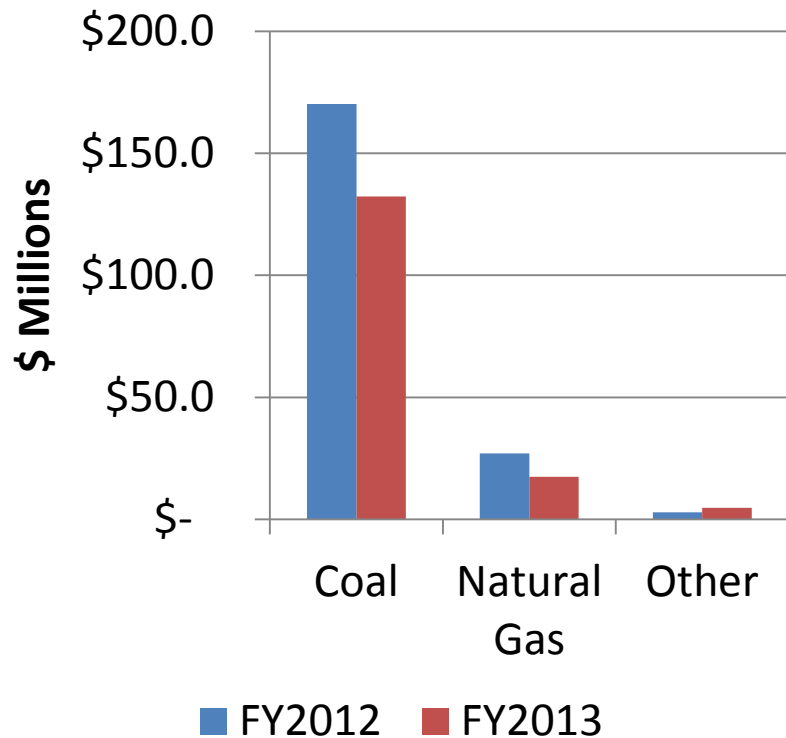


Severance Tax Collections Thru October

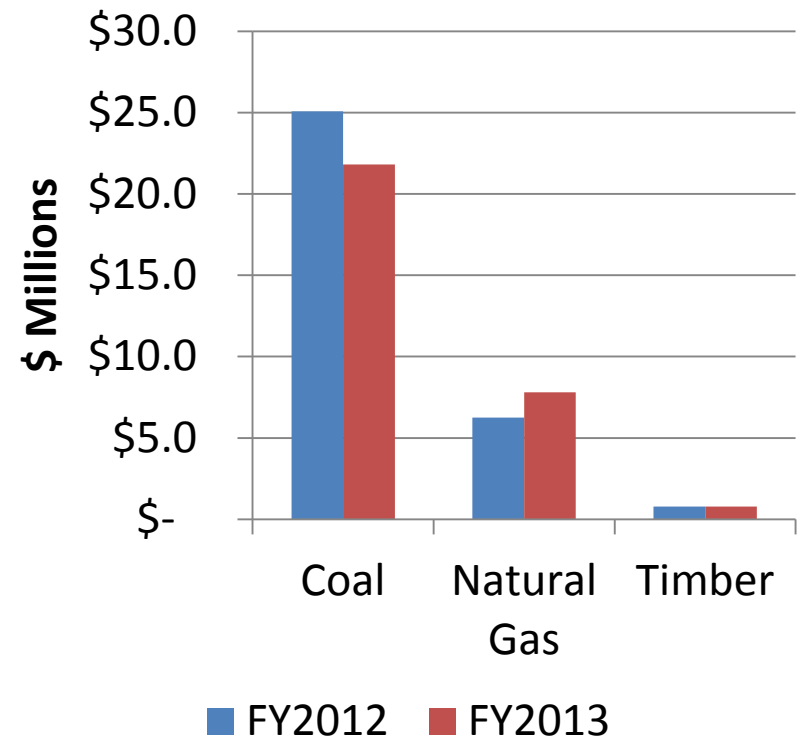
Regular Severance: Coal Down 22%; Natural Gas Down 36%; Other Up 66%

WC Severance: Coal Down 13%; Natural Gas Up 25%; Timber Down 1%

YTD Severance Tax Down \$45.6 Million



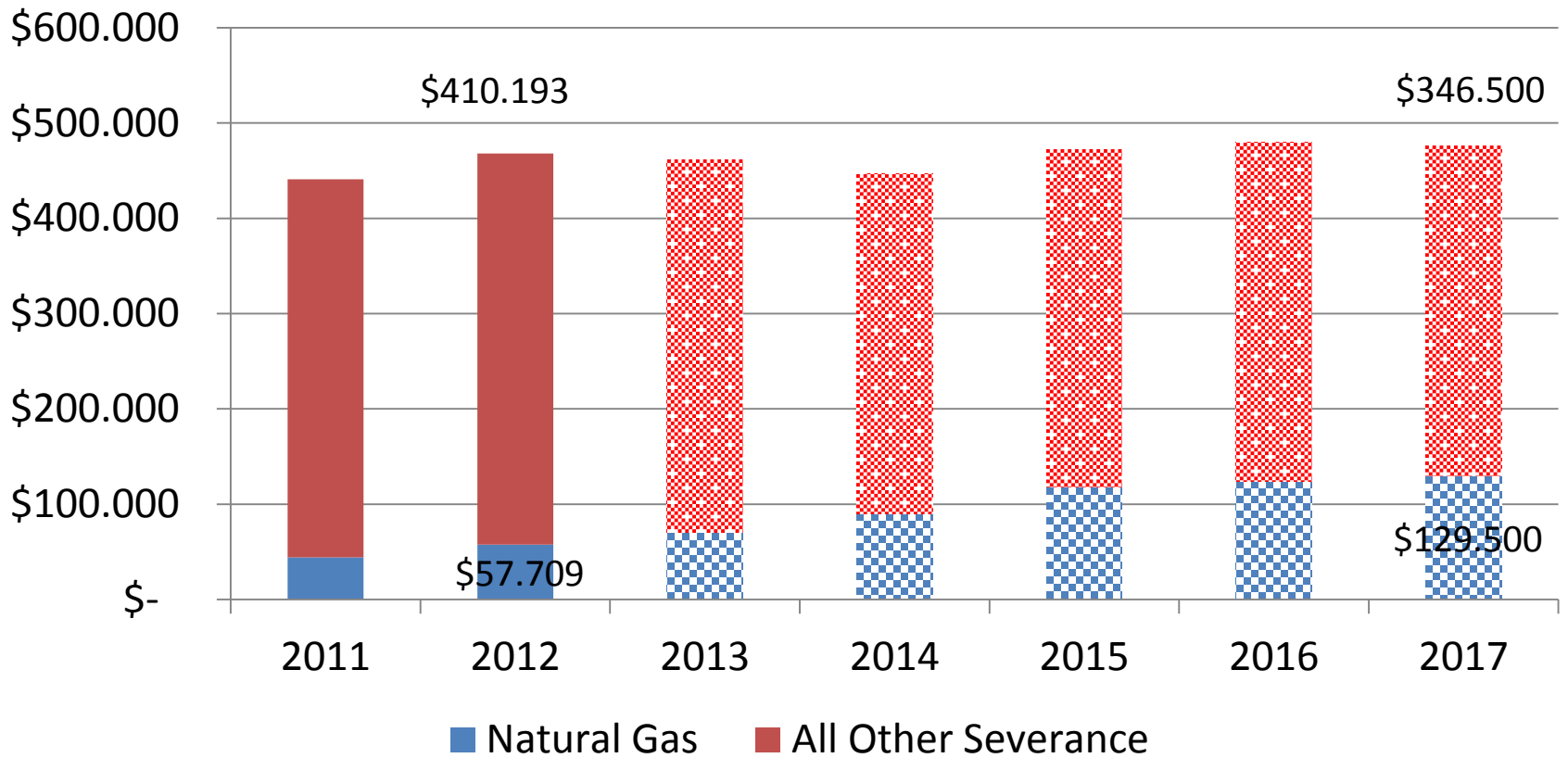
YTD WC Severance Tax Down \$1.7 Million



Gas Tax Collections Rise/Coal Tax Collections Fall

Forecast: Executive Budget Fiscal Year 2013

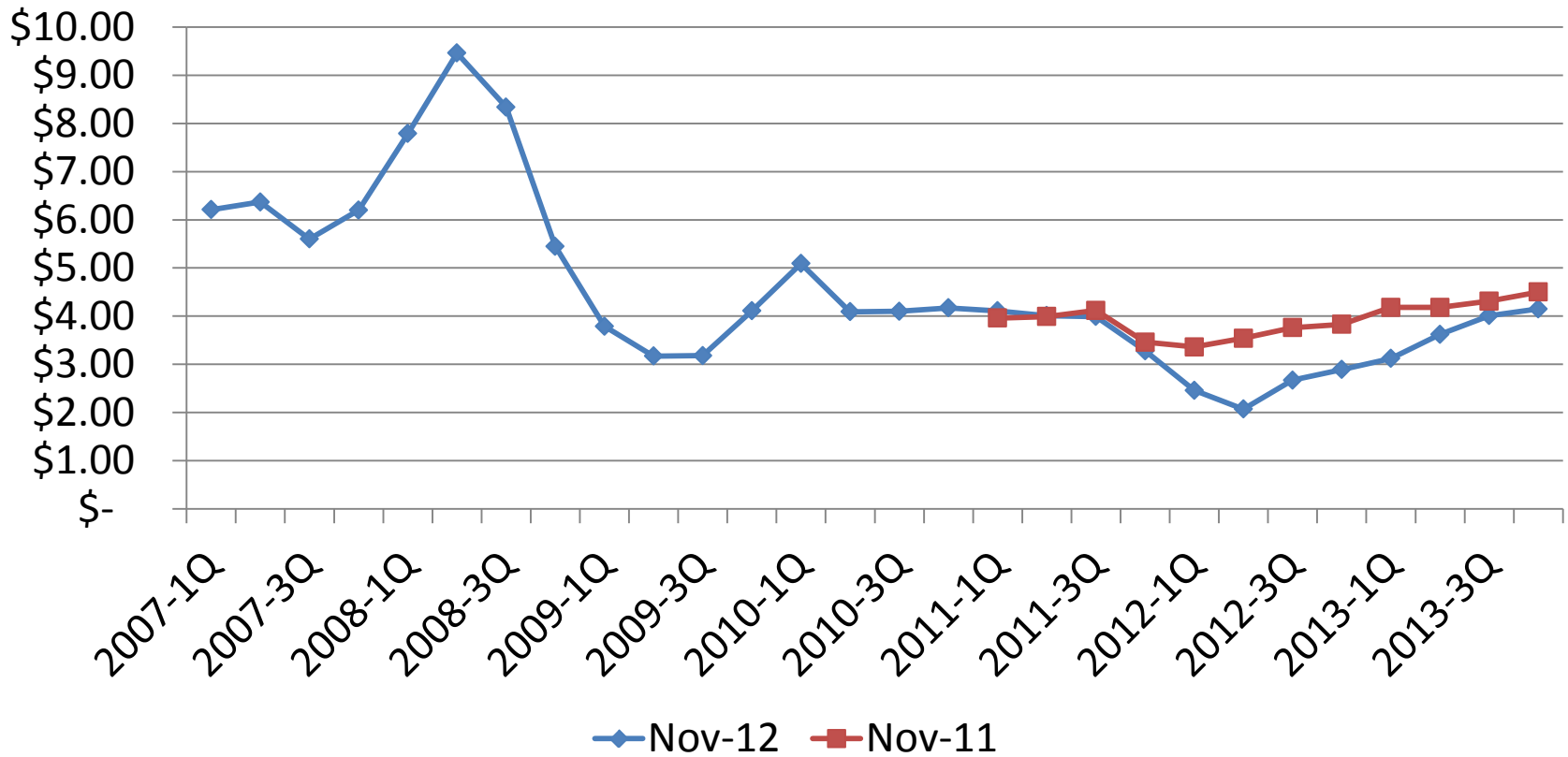
\$ Millions



Natural Gas Price Forecast

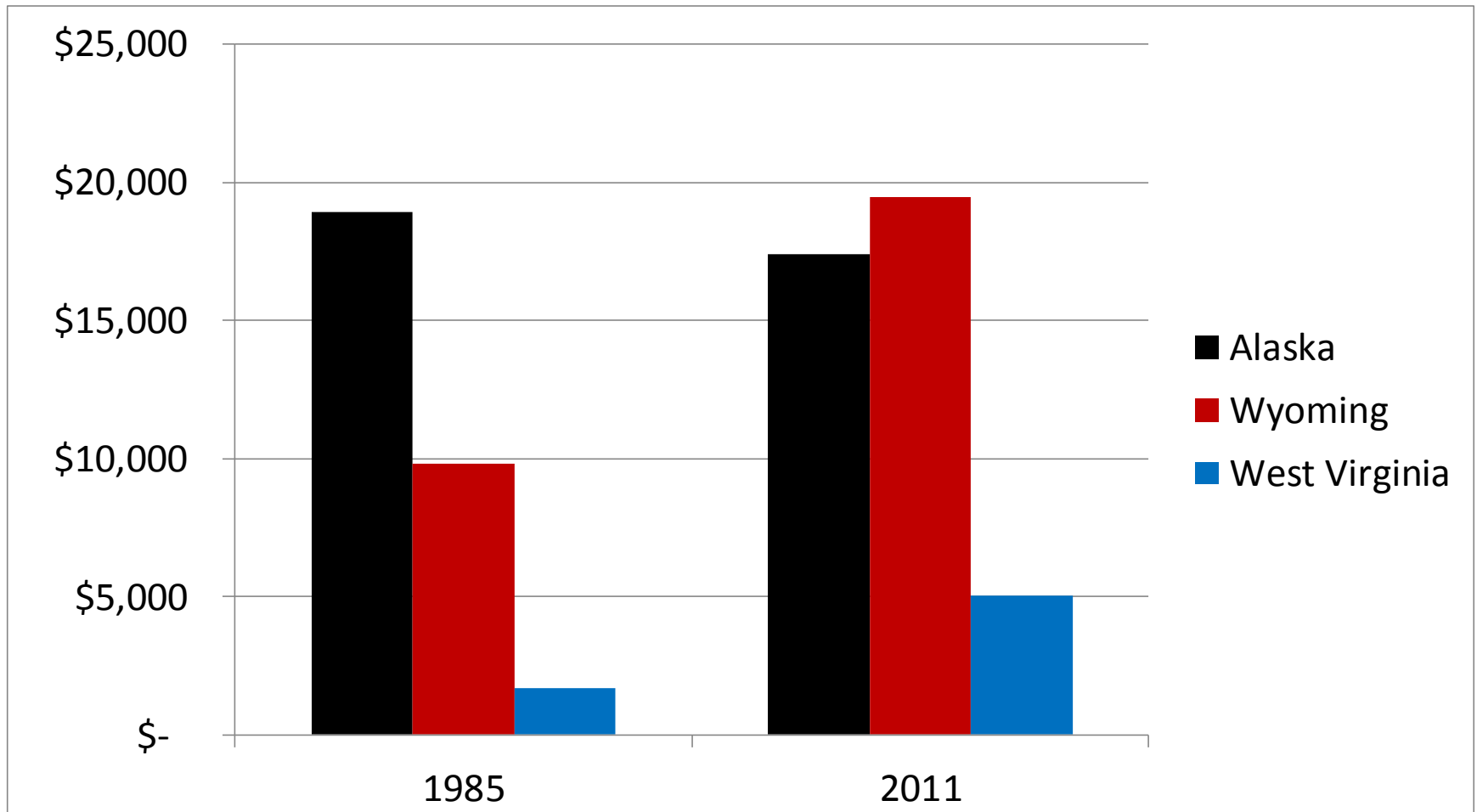
Global Insight November 2011 v November 2012

\$/Million BTU



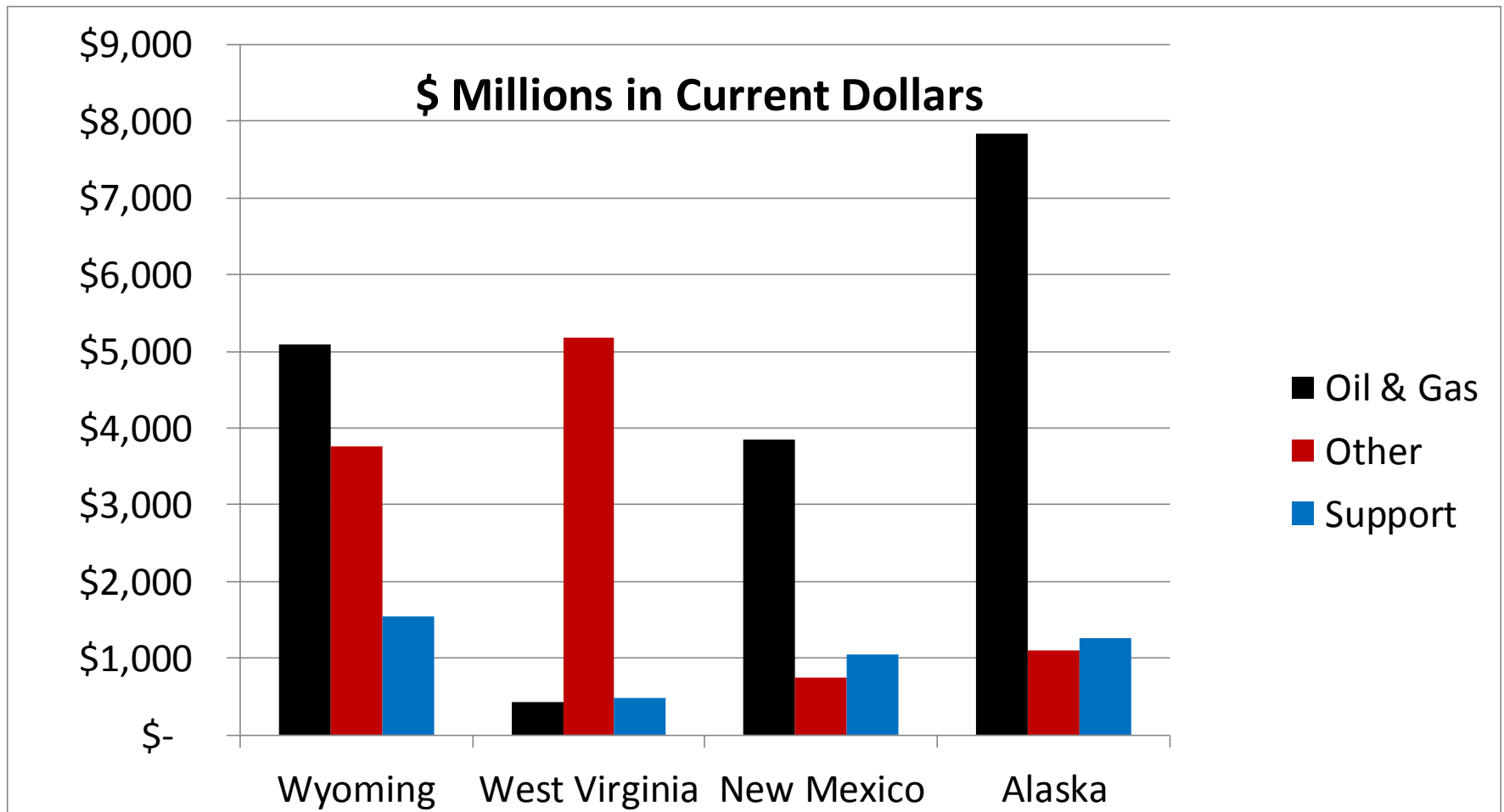
Per Capita Mining Gross Domestic Product: Much Lower in West Virginia

Source: U.S. Department of Commerce: Bureau of Economic Analysis



In WV, Coal Contributes Most to GDP in 2010

Source: U.S. Department of Commerce: Bureau of Economic Analysis



Conclusions

- West Virginia Economy likely to struggle in 2012-2015 due to “Transitions in Energy Sector”
- Weak global economic growth, decreased domestic coal demand & low natural gas prices lead to weakening severance tax collections
- Need 60% increase in natural gas output to offset 10% decrease in coal output – low prices may curtail expansion in short-term
- Natural gas severance tax collections claim greater share of total severance tax collections over time

Contact Information/Questions

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