Compromise, the word of the week in the Statehouse

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Compromise, an interesting term.

When I turned to the Merriam-Webster dictionary I saw the obvious leading definition; "settlement of differences by arbitration or by consent reached by mutual concessions." Further, another definition; "a concession to something prejudicial, 'a compromise of principles.'"

Compromise among Ohio's leadership continues to drive the ever-evolving state energy roadmap. Industry, environmentalists and regulators; renewables and co-generation; Democrats and Republicans — all felt some level of compromise this past week in the debate over the state's energy policy bill also known as Substitute Senate Bill 315.

As you read this, S.B. 315 is passing through the House and should be on to the governor for his signature before month's end. Suffice it to say, the major provisions have been reached through compromise.

Ohio will incent more co-generation with some waste energy recovery soon to be considered renewable energy. Co-gen is certainly good practice for Ohio's manufacturing base, but could hamper the state's growing wind industry, which clocked in last year with two of the state's top 10 private sector investments totaling $775 million and is also a growing purchaser of Ohio manufactured steel, bearings and turbine components.

The bill improves state government efforts to conserve energy and water to reduce costs to taxpayers, tweaks the kilowatt-hour tax for the largest energy users in Ohio and creates the Alternative Fuel Transportation Program.

The dominant public issue has been on Ohio's shale play as S.B. 315 overhauls several items of regulatory oversight. Although the Legislature did not accept the complete "cradle to grave" or "spud to plug" provisions sought by regulators, Ohio undoubtedly will have the most comprehensive state-level regulation of chemical disclosure and tracking of the shale drilling industry especially during key steps in the drilling process.

The bill refines and tightens the regulatory practices for injection wells handling the waste stream, addresses regulations on pipeline safety and clarifies those regarding gathering lines. It more closely regulates the water draws for well activity, and clarifies road use maintenance issues for the industry's many heavy trucks that will use Ohio's rural routes. It even includes provisions for pipeline operators to track the country of origin for steel pipes, and tracking of the industry's annual impact on job creation.

Overall, S.B. 315 should give Ohioans a level of comfort that the industry is being properly regulated to ensure safety and health standards without over-burdensome efforts that would slow investment and job creation.

The elephant in the room (pun intended) on Ohio's energy matters is the governor's proposed income tax cut stripped from another piece of legislation (H.B. 487) in March. What does an income tax cut have to do with energy policy? The proposed cut would be funded with severance taxes on oil, natural gas and gas liquids like ethane, propane and butane.

Already showing to be controversial, the tax plan has yet to be taken up by legislators, most of whom face election this November. It has gathered some support from business groups, including the Columbus and Cincinnati chambers, based on the benefit of a lower income tax, especially for small businesses that pay their primary business tax through the personal income tax. But others, like the Zanesville-Muskingum chamber, nestled in the center of the shale play, are concerned with raising taxes on the fledgling industry that is bringing growth after decades of decline.

This past week, Ernst & Young, at the behest of the Ohio Business Roundtable, released the most compelling analysis yet of the tax impact by taking an "all-in" approach to Ohio taxes; not looking at the severance tax changes in a vacuum but including all of the associated business taxes a company would pay.

No study is ever definitive, and there are data points missed by E&Y that could make Ohio look more or less attractive, but in summary they stated: "If the proposed severance tax change is adopted, Ohio would still rank lowest among the eight states in terms of overall effective tax rates, including all major state and local taxes…"

Clearly an "all-in" tax approach is the right way to assess the issue from a broader public policy standpoint. On a technical level, many don't argue with some of the concepts, including a tax on natural gas liquids which will play a big part in the Ohio play different from surrounding states. On the political level, even Americans for Tax Reform has said that the governor's plan doesn't violate the "no new taxes" pledge that so many Republican candidates and officials have signed.

When officials eventually take up the issue, one thing I am sure of is we will once again have compromise. The definition however will be subject to interpretation.

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