Summary of Reed Marcellus Shale Proposal
Amendment A04242 to SB 907 P.N. 1243

PENNSYLVANIA Budget and Policy Center

412 N. Third Street, Harrisburg, PA 17101 • www.pennbpc.org • June 28, 2011

Overview

State Representative Dave Reed's Marcellus Shale impact fee plan is flawed on several levels. The amendment would establish 33 separate county-based drilling fees rather than a single statewide fee and have an effective tax rate of 1%. This rate is far lower than most proposals in the state House and Senate.

The bill would provide no funding for environmental programs or for impacts outside of drilling counties. Instead, a portion of Oil and Gas Lease Fund revenue, which comes from drilling on state lands, would be allocated to the Environmental Stewardship Fund for plugging abandoned gas wells and other uses. Oil and Gas Lease Fund revenue has historically gone to fund environmental programs and an increasing share of the costs of the Department of Conservation and Natural Resources.

The bill does not acknowledge the possibility of impacts to roadways, groundwater, drinking water or other potential effects outside of drilling areas. It does nothing to provide resources to the Department of Environmental Protection (DEP) to improve monitoring or enforcement of existing conservation laws.

The bill does not provide any revenue to make up for proposed cuts to schools, health care or services for vulnerable people.

Introduction

The Reed amendment would establish a county-based Marcellus Shale impact fee. Fees would be paid directly to the county by drilling operators, who would file a certificate indicating the number of wells and total tax owed to the county, on a form prescribed by the county. There are no requirements for production information to be presented or made publicly available.

There are no criminal penalties for failure to file or for filing false information. Every county is empowered to produce its own regulations governing administration and enforcement of the fee.

Fee Schedule

The bill establishes a per-well fee of $50,000 that phases out to $0 in Year 11 of the well's life. This approach varies from most drilling tax and fee proposals in two ways:

- The fee is fixed and does not vary with volume or price;
- The fee stops after Year 10. Most other proposals continue assessing a fee until production drops below a certain amount, generally 60 thousand cubic feet (MCF) or 90 MCF per day.

Total revenue raised in 2012 is $107 million. Over the 10-year fee period, each well would generate $160,000 under this plan. For a typical well, this results in an effective rate of 1%. If a well is reworked to produce more natural gas, the fees on the well restart, beginning at $50,000 and decreasing to $0 over the ensuing 10-year period.

Distribution

Revenue would be distributed as follows:

- 37.5% to counties with producing wells (these counties would be collecting the fees);
- 10% to counties for grants for emergency services delivered by the county or municipalities within the county;
- 25% to municipalities with producing wells;
- 17.5% to municipalities with no producing wells in producing counties;
- 10% transferred to the Pennsylvania Department of Revenue for allocation to County Conservation Districts.

Statewide Environmental Funding

This amendment would allocate a portion of Oil and Gas Lease Fund revenue to the Environmental Stewardship Fund, rather than using funds paid by drilling operators, as is the case in other shale proposals. This means that new funding for the Environmental Stewardship Fund would be tied to leases and royalties derived from drilling on state property (state forests and game land).

The plan would earmark 25% of the Oil and Gas Lease Fund revenue to be transferred to the Environmental Stewardship Fund each July, for plugging abandoned wells and other uses (Growing Greener and other environmental programs).

Beginning in 2014, $40 million from the Oil and Gas Lease Fund would be transferred to the Hazardous Sites Cleanup Fund, which pays for the restoration of abandoned industrial sites across the Commonwealth. The Capital Stock and Franchise Tax pays for this today, but that tax will be phased out by 2014.

The plan allocates 1%, up to $3 million per year, of Oil and Gas Lease Fund revenue to DEP to respond to and remediate catastrophic incidents at well sites.

In addition, 7.5% of Oil and Gas Lease Fund revenue would fund payments in lieu of taxes (PILOT payments) to local governments and school districts to compensate for lost revenue from state forests and gamelands.

County Drilling Fee Revenue

Using the assumptions from the Scarnati Fee estimate (well size of 3.8 BCF, constant price of $4.28 per MCF, and number of wells drilled per year) with one frack per well, the Reed Fee would generate:

- 2011 $40 million (fee in effect for six months)
- 2012 $107 million
- 2013 $128 million
- 2014 $140 million
- 2015 $152 million

Total projected fee revenue in 2012 would be distributed as follows:

Counties with active wells (37.5%):	$40.1 million
Municipalities with active wells (25%):	$26.7 million
Municipalities without wells in drilling counties:	$18.7 million
County grants to local EMS/fire companies:	$10.7 million
Conservation Districts (statewide):	$10.7 million
TOTAL FUNDS	**$106.8 million**