

# Marcellus Shale Impact Fee

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*Senator Scarnati*

## *Summary*

- **Computation**

- Base Fee equals \$10,000 (applies to horizontal/Marcellus wells only)
- Base Fee is adjusted independently for increases in production volume and price of gas
- Fee structure establishes a floor for expected revenues, but if production and/or prices move substantially higher, revenues will increase as well
- Fee is self-prorating for partial years through the volume adjustment factor

- **Administration**

- The Pennsylvania Public Utility Commission (PUC) will collect and distribute the impact fee
- The PUC will publish a twelve-month average price of natural gas on its Internet website for use in determining the applicable price adjustment factor for a calendar year
- Fees will be due for calendar year 2010 activity and shall be paid in two equal installments on August 1, 2011 and October 1, 2011
- The fees due for calendar years 2011 and thereafter will be payable on March 1<sup>st</sup> of the following year

- **Revenue Estimate**

- Estimate is calculated using industry average production per well and recent historical gas price of \$4.50 or less
- Estimate assumes 1,500 new wells per year beginning in 2011 and each year thereafter
- The estimated revenue to be generated from the fee far outpaces the revenue that would be expected under an Arkansas-style tax model
- Preliminary estimates indicate that the fee revenue would approach the expected revenue received from a Texas-style tax model
- The \$45 million fee revenue attributable to 2010 combined with the expected 2011 fee revenue of \$76.2 million will result in cumulative fees of \$121.2 million being collected by March 1, 2012

- **Three-Way Distribution of Impact Fee**

***(1) Majority of the Impact Fee for local governments to be deposited into a newly established Local Services Fund***

- The local Impact Fee revenue distribution between local governments shall be as follows:
  - 36% to counties with producing unconventional gas wells

- 37% to municipalities with producing unconventional gas wells
- 27% to municipalities having no producing sites but located in counties with producing unconventional gas wells
- The local Impact Fee revenue may be used for the following purposes:
  - Reconstruction, maintenance and repair of municipal roadways and bridges
  - Preservation and improvement of municipal water supplies
  - Maintenance and capital improvements to municipal waste and sewage systems
  - Preservation and reclamation of the surface waters of the municipality
  - Other lawful purposes reasonably related to the health, welfare and safety consequences of severing natural gas in the municipality

***(2) A portion of the fee dedicated to conservation districts statewide***

***(3) A portion of the fee utilized to address statewide environmental and infrastructure impacts to include funding for the following:***

- Environmental cleanup projects distributed through the Commonwealth Financing Authority
  - Water and sewer infrastructure
  - Impacted State highway improvements
  - Hazardous sites cleanup
- **Local Zoning**
    - Require the PUC to publish a model zoning ordinance that includes standards set forth in the bill
    - Prohibit a municipality that adopts a zoning ordinance which exceeds the model from receiving funding from the local impact fee
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## *Examples and Implications*

- **Computation Example #1**

- Base Fee = \$10,000 per well
- Base Fee is adjusted independently for increases in production volume and price of gas
- Adjusted Fee = Base Fee x (Volume Adjustment Factor x Price Adjustment Factor)
- Assume new well with production of 750,000 Mcf over one year period and discern the applicable volume adjustment factor
- Assume average price for natural gas = \$4.25 per Mcf and discern the applicable price adjustment factor
- Adjusted Fee = Base Fee x (VAF x PAF) = \$10,000 x (.5 x 5) = \$25,000 per well

- **Computation Example #2**

- Base Fee = \$10,000 per well
- Base Fee is adjusted independently for increases in production volume and price of gas
- Assume five-year old well with production of 150,000 Mcf over one year period and discern the applicable volume adjustment factor
- Assume average price for natural gas = \$4.25 per Mcf and discern the applicable price adjustment factor
- Adjusted Fee = Base Fee x (VAF x PAF) = \$10,000 x (.3 x 5) = \$15,000 per well

- **Revenue Implications**

- A high-performing well, based on the amount of first-year volume, could pay a fee that is 40% higher than the expected fee due from an average-producing well
- Based upon current gas prices and widely-accepted production projections, each well is expected to generate at least \$160,000 in fees over a ten-year period
- Using current gas prices, the fee is expected to generate at least \$675 million over a five-year period
- Recent data shows that prices are expected to increase from below \$4.50 per Mcf currently to well over \$5.00 per Mcf in the next several years. Such an increase could drive cumulative fee revenue to nearly \$1 billion over the next five years