

## **Marcellus Shale Natural Gas Well “Impact Fee” Proposed - Majority of Revenues Targeted to Local Government**

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Senator Joe Scarnati (R-Jefferson) has recently proposed a plan that would impose an “impact fee” upon Marcellus Shale natural gas wells, with most of the generated revenue being targeted to those local governments most affected by Marcellus Shale drilling.

Under the proposal, a “base fee” of \$10,000 would be imposed on each Marcellus Shale well, which is adjustable based on volume and price adjustment factors. As volume and prices increase, the base fee would rise. The proposal tags the Pennsylvania Public Utility Commission (PUC) as the collector and distributor of the impact fee. Initially, the proposal would capture fees from 2010 by making them payable in two equal installments on August 1, 2011 and October 1, 2011. Thereafter, a year’s fees would be due on March 1 of the following year.

Revenues generated from the fee would be split three ways. First, the majority of the funds would be distributed to local governments through a newly created “Local Services Fund.” The Local Services Fund would be distributed by giving 36% of the fund to counties with Marcellus Shale wells, 37% of the fund to municipalities with Marcellus Shale wells, and 27% of the fund to municipalities having no wells, but located in counties with Marcellus Shale wells. Counties and municipalities could use these funds for road and bridge repair, preservation and improvement of water supplies and surface waters, maintenance and improvements to waste and sewage systems, and other activities related to health, welfare and safety consequences of Marcellus Shale gas wells. Of particular interest is that the proposal would prohibit a municipality that adopts an overly restrictive drilling zoning ordinance from receiving any revenues from the fee.

A portion of the revenues also would be allocated to conservation districts across the state, and to address statewide environmental and infrastructure impacts.

Revenue estimates have been projected using the recent averages of volume and gas price and assume 1,500 new Marcellus Shale wells per year. The total 2010/2011 fees collected are projected to be \$121.2 million, for 2012 the projection is \$103 million, for 2013 the projection is \$127 million, for 2014 the projection is \$150 million, and finally for 2015, fees are estimated at \$172 million. Supporters of the proposal note that the revenue projections for the impact fee are higher than several of the severance tax

plans that were considered during the past few years.

Importantly, because the proposal has been crafted as a “fee” rather than a “tax,” and with none of the proposed revenues earmarked for the General Fund, it has a chance of being signed by Governor Corbett.

We will continue to monitor this proposal and others that relate to the imposition of fees and taxes on the Marcellus Shale industry.

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