

## **EXECUTIVE SUMMARY**

### **Oil and Gas Well Permit Fees (Amendments to Chapter 78)**

The Oil and Gas Act was passed on December 19, 1984, and established a \$100 fee for oil and gas well permits. Section 201 (d) of the Act allows the Department to increase the fee by regulation, provided the fee “bears a reasonable relationship to the cost of administering” the Act. The Department has never increased the permit fee in nearly 25 years despite escalating program costs. Due to a recent and significant increase in workload, the \$100 permit fee no longer covers the Department’s costs of administering the Act. The Department is proposing a regulatory fee increase for oil and gas well permit fees.

#### **Chapter 78 – Oil and Gas Wells Permit Fees**

To properly evaluate and review the significant number of permit applications submitted to develop oil and gas wells in the Commonwealth, the Department has expended additional staff resources. Permit applications for non-vertical gas wells, which include Marcellus Shale gas wells, must include an addendum. The addendum requires the permit applicant to submit a water management plan to the Department because of the volume of water that is used in the hydraulic fracturing of the shale. The review of the water management plan requires additional Department staff time, beyond the review of a typical gas well permit application, because it requires staff to evaluate water intake information associated with the hydraulic fracturing of the shale, including review of the management, treatment and discharge of the wastewater. A non-vertical well could use a million plus gallons of water in the hydraulic fracturing process. This is a much larger volume of water than used in a typical gas well. The Department is anticipating an increased number of vertical well applications which will require more staff to manage the increased workload. The current \$100 per permit application fee does not have any “reasonable relationship” to the actual cost to implement this portion of the Oil and Gas Act program. The Department needs additional resources to properly allow the development of oil and gas resources and to protect the environment.

The Department is anticipating it will receive nearly 40,000 oil and gas well permit applications over the next three calendar years 2009, 2010 and 2011. The fee increase is needed so the Department will be able to continue to permit the optimal development of the oil and gas resources of Pennsylvania consistent with the protection of the health, safety, environment, and property of the citizens of the Commonwealth. The proposed rulemaking adds Section 78.19 that includes a vertical well base fee of \$250 with an additional \$50 per 500 feet of well bore drilled from 2,000 feet to 5,000 feet and an additional \$100 per 500 feet for the well bore drilled past 5,001 feet. Non-vertical wells, which are also called horizontal wells, would have a base fee of \$900 with an additional \$100 per 500 feet of well bore drilled past 1,500 feet. An applicant for a vertical well with a well bore length of 1,500 feet or less for home use shall pay a permit application fee of \$200.

The Commonwealth has a long history of oil and gas activity and many shallow sources are still being recovered by small operators with limited resources. To minimize the impact on these operators which typically drill vertical wells, the Department set a base fee of \$250 down to a depth of 2,000 ft. The \$250 fee is the estimated cost the Department incurs to perform a review of the simplest (or minimal) vertical well application. The complexity of an oil or gas well application increases with the depth and length of the well bore in addition to the amount of water used in the

fracing of the well. This is the reason for the increase in permit fees based on the length of the well bore. The fees for a deviated and Marcellus Shale gas well are based on the well bore length and the review of the water use addendum.

A draft of this regulation was presented to the Oil and Gas Technical Advisory Board (TAB) on October 30, 2008. The TAB includes representatives from the natural resources consulting firms, energy corporations and academia.

The rulemaking will become effective upon publication in the *Pennsylvania Bulletin*, which is anticipated to occur in Fall 2009.

The Department recommends a 30-day public comment period for the proposed rulemaking. No public meetings are planned.