

FEE REPORT FORM
Marcellus Shale Gas Well Drilling Permit Application Fee

Environmental Protection / Oil and Gas Management
 Agency

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 Date

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Fee Collection	FY 2006/7	FY 2007/8	FY 2008/9	FY 2009/10	FY 2010/11	FY 2011/12	FY 2012/13
Current	730,400 ¹	769,800 ¹	935,100 ²				
Proposed				3,120,000	5,460,000	9,880,000	10,140,000

¹ This is the actual cost for the Oil and Gas Program for that fiscal year cost.

² This is the budget cost for the Oil and Gas Program for that fiscal year cost.

FEE TITLE AND RATE:

Current: 25 PA Code § 78.15 (b) Application requirements includes a fee. The fee was established by the Oil and Gas Act in 1984 and has yet to be adjusted by regulation as specified in Section 201 (d) of the Act. The current application fee is \$100.

Proposed: The Department is proposing a regulatory fee increase specific to Marcellus Shale. 25 PA Code § 78.19 would be added. 25 PA Code § 78.19 would have a Marcellus Shale base fee of \$900 with an additional \$100 per 500 feet of well bore drilled past 1,500 feet. The Department is proposing a final rulemaking with the notice of proposed rulemaking omitted. The cost for a permit application for a typical Marcellus gas well would be \$2,600. Well bore length is as measured from the top of the surface casing.

If the fee submitted with the application does not match the completed well bore length, the applicant will submit the adjusted amount with an additional 10% of the adjustment amount added for administrative processing of the late application fee. A refund will not be provided for wells not completed to proposed total depth or wells not drilled.

FEE OBJECTIVE: To establish a permit fee that bears a reasonable relationship to the cost of administering the act.

FEE RELATED ACTIVITIES AND COSTS

1. Administrative and technical review of permit applications for drilling of Marcellus Shale gas wells and related approvals for alternate methods, water management plans, review and approval of wastewater treatment plant applications for produced fluids, inspection of well sites for drilling rig safety and implementation of environmental controls.
2. Complaint response.
3. Permitting of coal pillars to provide geological support for gas wells through mineable coal seams.
4. Investigating and making determinations on water supply complaints.
5. Repository for oil and gas records and providing industry related information.
6. Emergency response and technical expertise on well related emergencies and gas migration problems.

7. Central Office / Regional Office Supervisory and management oversight.

ANALYSIS

The permit application fee has not been revised since the Oil and Gas Act was passed in 1984. This rulemaking will adjust the application fee to reasonably cover the Department’s cost of reviewing and inspecting a Marcellus Shale gas well as required by the Act.

The fees for a Marcellus Shale gas well is based on the well bore length and the review of the water use addendum. The base fee for any Marcellus Shale well to be drilled to a well bore length of 1,500 feet will be \$900 with an additional \$100 per 500 feet of well bore drilled length. The average cost of a Marcellus Shale gas well based on a 10,000 foot well bore would be \$2,600.

To properly evaluate the proposals to develop the Marcellus Shale formation, the Department has expended additional staff resources to review the permit applications and to issue permits in a timely manner. A Marcellus Shale well requires an addendum to be submitted along with the permit application. This requires additional staff time to evaluate a Marcellus Shale well application because it includes water intake information and water treatment of the hydraulic fracturing liquid. A Marcellus Shale well will 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 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 covering development of the Marcellus Shale well. The Department needs additional resources to properly allow the development of the Marcellus Shale natural gas resources and to protect the environment. This regulatory fee increase is needed to provide the Department with the resources to perform the additional work associated with the review of Marcellus Shale gas well permit applications and with the oversight of the permits that are issued.

It is anticipated that with the announcement of the new fee proposal there will be a large upward trend in applications as the well drilling and operation permit is valid for a year after date of issuance. The first year of implementation may be lower than projected revenue which is based on the workload analysis.

Proposed Operation Cost	FY 09/10	FY 10/11	FY 11/12	FY 12/13
Personnel Cost	\$2,747,873	2,906,343	3,015,825	3,099,273
Operating	332,127	435,951	452,374	464,891
Fixed Assets	\$0	\$0	\$0	\$0
Total Cost	\$3,080,000	\$3,342,294	\$3,468,198	\$3,564,164

	FY 09/10	FY 10/11	FY 11/12	FY 12/13
Current fee Amount	\$120,000	\$210,000	\$380,000	\$390,000
Proposed Fee Amount	\$3,120,000	\$5,460,000	\$9,880,000	\$10,140,000
Anticipated Operation Cost	\$7,888,257	\$8,311,307	\$8,153,424	\$8,382,707
Proposed Operation Cost	\$3,080,000	\$3,342,294	\$3,468,198	\$3,564,164
Total Cost of Operation	\$10,968,257	\$11,653,601	\$11,621,622	\$11,946,871

Note:

Current fee Amount: The amount of revenue generated by the current \$100 permit fee.

Proposed Fee Amount: The amount of revenue generated by the proposed permit fee schedule.

Anticipated Operation Cost: The cost maintaining the current level staff and operation.

Proposed Operation Cost: The cost of the proposed increase in staff and operation.

Total Cost of Operation: The combined cost of anticipated operational cost and the proposed operational cost.

RECOMMENDATION AND COMMENT: Approve the proposed regulations. A draft of this regulation was presented to the Oil and Gas Technical Advisory Board (TAB). The TAB includes representatives from the natural resources consulting firms, energy corporations and academia.