

FEE REPORT FORM
Oil and Gas 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				\$8,495,250	\$11,670,900	\$17,063,800	\$18,313,800

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

²This 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 (58 P.S. § 601.201(d)) which authorizes the Department to establish, by regulation, well permit fees that bear a reasonable relationship to the cost of administering the Act.

Proposed The Department is proposing a permit fee increase for oil and gas wells. 25 PA Code § 78.19 would be added. 25 PA Code § 78.19 would include 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. Well bore length is 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.

FEE OBJECTIVE: To establish a permit fee to that bear 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 oil and 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 reflect the cost of administering the program as required by the Act.

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 for a well bore length of 0 to 2,000 feet. 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 non-vertical and Marcellus Shale gas well is based on the well bore length and the review of the water use addendum. An applicant for a vertical well with a well bore length of 2,000 feet or less for home use shall pay a permit application fee of \$200.00.

The fee increase is proportional to support staff increases which are necessary to manage increase workloads. The program has had extremely limited staffing increases since the program began in 1985. Recently the program has been inundated with a greatly increased workload in the traditional producing areas of the state because of the increase in oil and gas prices.

In 2004, 4,556 wells were permitted in Pennsylvania. In 2007, the Department issued 7,241 permits for new wells. In addition to this increased workload, there is new interest in the Marcellus Shale formation by large operators in traditional as well as areas of the state where oil and gas operations have not been conducted. This has led to a large amount of time in public outreach and educational efforts. In addition to increasing the number of traditional permit applications, high gas prices and advances in drilling technology have prompted the development of the Marcellus Shale formation. Developing the Marcellus Shale may result in greater areas of earth disturbance, more fresh water use, and the generation of more waste water than traditional oil and gas well development.

Based on a comprehensive workload analysis of the Oil and Gas Program, the Department is proposing an increase to allow for the cost recovery of the program activities. The Department's proposal is based on a base fee for wells completed vertically which are common and a higher base fee for non-vertical wells and Marcellus Shale wells which require additional review time for the application. A Marcellus well requires an addendum to be submitted along with the permit application. This requires additional staff time to evaluate as it includes water issues that are much larger than typical vertical wells. Horizontal wells also take additional space for their drilling pad location and additional time to drill which increases the programs inspection requirement. A vertical well of 4,000 ft would be drilled in a week whereas a horizontal well of 10,000 ft may take a month.

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	\$1,104,200	\$1,314,500	\$1,590,200	\$1,976,400

Amount				
Proposed Fee Amount	\$8,495,250	\$11,670,900	\$17,063,800	\$18,313,800
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. The final form 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.