

# SENATE APPROPRIATIONS COMMITTEE FISCAL NOTE

**BILL NO.** Senate Bill 694

**PRINTER NO.** 832

**AMOUNT**

See Fiscal Impact

**FUND**

Unconventional Gas Well Fund

**DATE INTRODUCED**

May 31, 2019

**PRIME SPONSOR**

Senator Yaw

**DESCRIPTION**

Senate Bill 694 amends Title 58 (Oil and Gas) to provide for cross unit drilling.

This legislation allows an operator who has the right to drill on separate leases or units when the leases do not prohibit a traversing well, to drill a well horizontally under more than one unit or lease. The operator is required to allocate production from the well among the leases related to the acreage of the units.

This act shall take effect in 60 days.

**FISCAL IMPACT:**

Senate Bill 694 is likely to have a negative impact on the Unconventional Gas Well Fund. Currently, the Impact Fee is paid into the Unconventional Gas Well Fund for every unconventional gas well spud in the Commonwealth. The fee is calculated by the formula in Title 58 that utilizes the average price of natural gas and Consumer Price Index (CPI) increase for the Pennsylvania, New Jersey, Delaware and Maryland region over the prior year.

Average Price of Gas	Year 1	CPI Increase				
		1.25%	1.50%	1.75%	2.00%	2.25%
\$ 0 - \$2.25	\$ 40,000	\$ 40,500	\$ 40,600	\$ 40,700	\$ 40,800	\$ 40,900
\$2.26 - \$2.99	\$ 45,000	\$ 45,600	\$ 45,700	\$ 45,800	\$ 45,900	\$ 46,100
\$3.00 - \$4.99	\$ 50,000	\$ 50,700	\$ 50,800	\$ 50,900	\$ 51,000	\$ 51,200
\$5.00 - \$5.99	\$ 55,000	\$ 55,700	\$ 55,900	\$ 56,000	\$ 56,100	\$ 56,300
\$6.00 or higher	\$ 60,000	\$ 60,800	\$ 60,900	\$ 61,100	\$ 61,200	\$ 61,400

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## FISCAL NOTE

This legislation allows for the drilling of a horizontal well that traverses more than one unit or lease, effectively reducing the number of wells spud and the accompanying surface disturbance. Because of the effective date in this legislation, the earliest estimated fiscal impact on the Unconventional Gas Well Fund will be in 2021, when fees are paid for wells spud in 2020 and continue into the future. While it cannot be estimated how many fewer wells will be drilled due to this legislation, if it is assumed that the average cost of natural gas stays below \$5.00 per mcf on average for 2020, and the CPI increase is less than 2.25%, this bill would have a fiscal impact of a reduction of \$40,500 to \$51,200 per well not drilled in the first year. Statute currently provides for a fee structure for a producing well to pay for up to 15 years with the amount decreasing after year one, two, three and ten. The total Impact Fee forgone over the 15-year duration for each well not drilled ranges between \$194,000 to \$317,000, depending upon the average annual price of natural gas in those years.

It should be noted that funds from the Unconventional Gas Well Fund are distributed across multiple agencies and funds including, Fish and Boat Commission, Pennsylvania Utility Commission, Department of Environmental Protection, Pennsylvania Emergency Management Agency, State Fire Commissioner, Counties, Municipalities and the Marcellus Legacy Fund.