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Pennsylvania Public Utilities Commission Increases Impact Fees for 2017

AUDIT, ENERGY & RESOURCES

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For 2017, Pennsylvania's Independent Fiscal Office (IFO) is projecting the impact fee to be approximately \$219.4 million, the third highest in the history of the fee, and an increase of \$46.1 million from the prior year. This is due to the Pennsylvania Public Utility Commission (PUC) increasing the unconventional well impact fee by \$5,400 for first-year horizontal wells and \$1,000 for newly drilled vertical wells. Act 13 of 2012, enacted to strengthen environmental standards, directs the PUC to adjust the fee annually based on the average NYMEX Henry Hub price for the year and the Consumer Price Index (CPI) for the region when unconventional wells spud increases from the prior year. Over the past seven years, the fee has generated more than \$1.4 billion, which is distributed to local governments to assist with infrastructure, emergency services, environmental initiatives and other programs. The fee was the highest in 2013, when it reached \$225.7 million.

There are two primary sources for the increase. First, the average annual NYMEX price of natural gas exceeded \$3.00 in 2017, causing the PUC to adjust the statutory fee schedule upward, resulting in a \$43.4 million estimated increase. The other reason is that the revenue from 812 new wells spud in 2017 offset reduced collections from older wells and wells that moved into the exempt stripper category. The effect of the offset from new wells on the fee is an increase of approximately \$2.7 million. Just about 8,600 wells are subject to this fee, while 2,300 are exempt due to being plugged or low production of gas.

The IFO has also calculated the effective rate of the impact fee at an estimated 2.9 percent for 2017, a decrease from 4.5 percent in 2016. The effective rate, calculated by taking the annual impact fee revenues and dividing them by the total market value of unconventional natural gas production, has ranged from a high of 6.9 percent in 2015 to a low rate of 2.4 percent in 2014, with the biggest changes in rates due to changes in the price of natural gas.

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