Drilling Fee Would Yield $180M in First Year

MARC LEVY,Associated Press

HARRISBURG, Pa. (AP) — Pennsylvania's booming natural gas industry would pay a fee for the first time, with the money spread across drilling communities and to state infrastructure and environmental programs, and have to obey tougher safety standards under sweeping legislation speeding toward votes in the Republican-controlled state Legislature as early as Tuesday.

The bill, unveiled Monday, nevertheless encountered opposition from minority Democrats, who say the industry will pay a meager price for extracting a valuable natural resource and that the bill is riddled with loopholes that undercut the ability to protect people and communities from damage caused by drilling.

The 174-page proposal is a result of weeks of talks between Republican leaders of the House and Senate and Gov. Tom Corbett, a fellow Republican. A full Senate vote was expected Tuesday morning after a Monday evening House-Senate committee approved the bill, with majority Republicans outvoting Democrats, 4-2.

Senate President Pro Tempore Joe Scarnati, who pushed for the bill for the past year, defended it as striking a complicated balance between a variety of interests.

"This is a compromise between the House, the Senate and the governor and it truly reflects meeting those needs of local impacts, environmental standards, consistency across the state and looking for that balance ... between jobs and protecting the environment and this bill does it," Scarnati, R-Jefferson, told committee colleagues.

House Minority Whip Michael Hanna, D-Clinton, skewered the bill as a weak product negotiated in secret by Republicans that would repeat the mistakes of past governments that did not guard against environmental contamination by extraction industries.

"This is a deal brokered in darkness and written for the big oil and gas lobbies," Hanna said. "This certainly isn't a product of good government or transparency."

Pennsylvania is the only major gas-producing state that does not tax natural gas production, and Democrats were not part of the negotiations after trying unsuccessfully for three years to win enough Republican votes to impose a severance tax on the industry.

Because Corbett opposes a tax on the industry, Republicans legislative leaders instead pursued an "impact fee" that he views as being fundamentally different than a tax.

Both the House and Senate passed bills on the topic late last year, but some details

were substantially different, such as the size of the fee and the distribution of the money.

The fee would be paid on all Marcellus Shale wells, and the total amount would rise in ensuing years as more wells are drilled, tallying $180 million for 2011 and more than $1 billion over the first five years, according to Republicans.

The 15-year impact fee would rise and fall with the price of natural gas and inflation and would be roughly equivalent to a 3 percent tax rate, Republicans said. Democrats countered that it would reflect a 1 percent tax rate. Either way, it would net less money than many other natural-gas producing states.

Counties that host the drilling would have the option of whether to impose the fee — a key element insisted on by Corbett — but a critical mass of municipalities would have 60 days to override a county's refusal. Counties and municipalities that refuse the fee would lose a share of the money.

Sen. John Yudichak, D-Luzerne, criticized what he viewed as loopholes in the bill.

"Maybe a fee is imposed by counties, maybe we have a job creation policy, maybe we have environmental regulations that protect our air, land and water," he said.

Money from the fee would aid state agencies tasked with regulating the industry, communities that are home to the drilling and statewide environmental improvement programs. Dollars also would flow to projects to improve bridges and water and sewer plants, purchase natural gas-powered fleet vehicles and to potentially assist the development of a massive petrochemical refinery in southwestern Pennsylvania and the reuse of three Philadelphia-area oil refineries that are shutting down.

In addition to guiding money from the impact fee, the bill would require some money garnered by drilling on state forest land to flow to two environmental improvement programs.

Some lawmakers had worried over the industry's quest for provisions to prevent the ability of municipalities to limit drilling activity, particularly in residential areas. The bill would address that by allowing municipalities to apply zoning standards on things like lighting, noise and structures that are used for other industrial activities, even though municipalities would have to permit drilling in residential zones and obey state spacing requirements.

The bill would increase penalties on violators and the required distances between drilling and public water sources such as reservoirs, but not to the extent sought by Democrats and environmental groups, and it would require the state to develop regulations for transporting drilling wastewater and enforce qualifications of treatment plant operators.

It also would strengthen disclosure requirements for chemicals used in the hydraulic fracturing process, although state regulators could keep confidential portions of the

disclosures that the companies deemed to be proprietary.

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