



From State Senator Joe Scarnati

Dear Friend,

It was only several years ago that many Pennsylvanians first heard the term **Marcellus Shale**, and very few had any idea what impact it would have on our state. That has all changed recently, particularly in this area which is home to vast quantities of the shale.

The Marcellus Shale region ranks number one as the fastest growing natural gas production sites in the United States. Sixty-percent of this area is within the state of Pennsylvania. It has the potential to supply most of the energy needs for the Northeast for the next 100 years. But we also face a variety of physical, environmental and governmental challenges as we manage this world-class resource.

As the industry has grown, there has been debate on how to regulate it.

Earlier this year, I introduced legislation that I believe strikes a realistic middle ground in promoting this tremendous economic opportunity while protecting the communities and citizens where drilling is occurring.

Senate Bill 1100 would establish an annual fee per Marcellus Shale well. The base fee would be \$10,000 and adjusted upward based on production levels and the current price of natural gas. A majority of the revenue from the fee would be distributed to impacted counties and municipalities. A portion of the fee would be dedicated to conservation districts as well as statewide environmental and infrastructure projects.

My main objective with this bill is to ensure our local municipalities, where drilling takes place, have the resources to assist with road improvements, water and sewage issues, as well as other community enhancements. The state's Marcellus Shale Commission recently recommended an impact fee in its report. In addition, a recent Quinnipiac Poll found that voters also support, by a margin of 78 to 71 percent, a proposed fee on drilling companies with proceeds used to reimburse communities for the impact of drilling.

If you would like to learn more about this proposal, please go to my website, www.senatorsarnati.com and click on the Marcellus Shale button in the corner. You can also access my website to offer your comments and suggestions on how we can regulate this industry as it continues to grow.

I will continue to negotiate and work for passage of my Marcellus Shale bill when the Senate convenes in September.

Sincerely,

State Senator Joe Scarnati

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What Is Marcellus Shale Drilling?

The Marcellus Shale is a rock formation that lies under approximately two-thirds of Pennsylvania and portions of New York and West Virginia at a depth of 5,000 to 8,000 feet.

It is believed to hold trillions of cubic feet of natural gas but has long been considered prohibitively expensive to access. Recent advances in drilling technology and high natural gas prices have attracted new interest in this previously untapped formation.

Extracting natural gas from the Marcellus Shale formation requires both vertical and horizontal drilling, combined with a process known as 'hydraulic fracturing.' After the well is drilled, cased and cemented to protect groundwater and the escape of natural gas and other fluids, drillers pump large amounts of water mixed with sand and other fluids into the shale formation under high pressure to fracture the shale, which allows the natural gas to flow freely to the well bore.

In light of the recent increased oil prices, the production of natural gas from the Marcellus Shale formation is especially important because it produces a clean-burning, Pennsylvania-based energy source in an environmentally responsible manner.



How Scarnati's Impact Fee will Help Communities

Under my bill, the state Public Utility Commission would collect a minimum of \$10,000 for each producing well per year, but that number would rise depending on the price of natural gas and the volume the well produces.

A majority of the impact fee will be deposited in a newly established Local Services Fund, of which:

- 36 percent of revenue would go to counties with Marcellus Shale wells or deeper wells;
- 37 percent would go to municipalities with producing unconventional gas wells;
- 27 percent would go to municipalities having no producing sites but located in counties with producing unconventional gas wells.

The local impact fee revenue may be used for construction and maintenance of municipal roadways, improving municipal water supplies, improvements to municipal waste and sewage systems, and the reclamation of municipal surface waters. The first \$7.5 million from the fee beginning in 2012 would go to county conservation districts, which help manage various local environmental protection efforts. The remaining funds would be split, with 60 percent to counties and municipalities that are home to drilling activity and 40 percent to environmental clean-up projects, impacted state highway improvements, and hazardous site clean-up.

According to Senate estimates, my proposal would generate \$121.2 million in payments by March 1, 2012. Further, each well would generate at least \$160,000 in fees over a decade, based on current gas prices and generally-accepted production projections. When calculated using current gas prices, the commission would collect at least \$675 million over five years. This money will ensure communities affected by the drilling will have the resources necessary to address a wide range of concerns.

My bill will not interfere with any community that elects to ban drilling by

"Senator Scarnati has expanded his legislation to fund critical environmental programs, which we applaud. Similar to Growing Greener, these environmental programs benefit all Pennsylvanians because they preserve and protect our resources for future generations."

Andrew Heath, Executive Director, Renew Growing Greener

local ordinance or restrict drilling activities as they see fit. However, a community which does so will not be eligible for a portion of the fee.

Rather, this fee is designed to offset the direct "impacts" where drilling is taking place. This seems to me to be a common-sense approach to helping communities.



Senator Scarnati takes part in a Senate Policy Hearing on Marcellus Shale.

Recently, Sen. Joseph Scarnati put forth a bold proposal to provide a new steady stream of funding necessary to further protect our natural resources from the mounting strain from the production of the Marcellus Shale. A vital portion of the new impact fee would be distributed to Pennsylvania's County Conservation Districts to ensure that they have the resources and ability to continue their important work. With the increased demand on the district's resources due to natural gas drilling, the Pennsylvania Association of Conservation Districts once again applauds Sen. Scarnati. **The impact fee will help the districts continue with their vital work and support the ongoing protection of Pennsylvania's fragile resources.**

ROBERT B. MAIDEN

Executive Director

Pa. Association of Conservation Districts, Harrisburg