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Hiked permit fees latest shale industry hurdle

By Colin McNickle

A massive hike in the cost of new shale gas well permits raises serious questions about the operations of the Pennsylvania Department of Environmental Protection (DEP) and could imperil the very industry that has contributed so much to the Keystone State economy, says a scholar at the Allegheny Institute for Public Policy.

“The higher permit fees are yet another burden placed on the commonwealth’s unconventional natural gas industry,” says Elizabeth Miller, a research associate at the Pittsburgh think tank (in *Policy Brief Vol. 20, No. 38*).

Pennsylvania’s shale formations have created a boom industry that has created many jobs, royalties for those who have leased their gas rights and $2 billion in impact fees for local and state coffers since 2012. Pennsylvania now is the second-largest natural gas producer in the United States.

But on Aug. 1, and after years of the industry fending off an extraction tax (though the administration of Gov. Tom Wolf continues to push for one), the state DEP’s Oil and Gas Program increased the cost of unconventional, or fracked, gas well permits by as much as 200 percent.

“Previously, non-vertical unconventional well permits cost $5,000 and vertical unconventional well permits cost $4,200,” Miller says. “Now a new fee of $12,500 applies to both types of unconventional wells.”

That’s a 150 percent increase for non-vertical wells and just under 200 percent for vertical wells. Pennsylvania now has the highest unconventional gas well permit fees in the nation.

The DEP maintains the massive hike was necessary to continue to fund the program that oversees the industry and to maintain current staffing levels. It argues that the number of permits has been declining and to continue paying for the program, those fees had to rise. It also says that, at the newly established rates, 2,000 permit applications per year would be needed to fund the program.

"Unfortunately for the DEP, over the last five years permit counts have fallen well short of 2,000," Miller reminds. Based on the most current available data (the number of permits in the first half of FY 2019-20), it is very likely that fewer than 1,600 permits were issued for that fiscal year.

"And, with data showing the number of new wells drilled declining dramatically since FY 2014-15 as gas prices remain low, it is highly improbable that the program will receive 2,000 permit applications per year for quite some time," the think tank researcher concludes.

Which begs several questions.

"Is the permit fee being raised to enable … other funding sources to be cut back?" Miller asks. "Is it being done in an ill-disguised attempt to deter new drilling? Is DEP hoping to fund its stated goal of 226 employees with the option to hire extra staff in the future as well?"

Do note that while new well permit applications have fallen, natural gas production consistently has increased year over year since 2011, albeit in smaller percentages as of late.

"The situation with production continuing to rise and the number of new wells being drilled falling is likely to be unsustainable over a long period," Miller says, adding that raising the well permit fee "was exactly the wrong action to take" and only serves to further worsen "the already antagonistic stance DEP and anti-fracking groups have demonstrated for years."

"With the promise of so much clean energy from natural gas, the efforts to weaken the financial situation of the industry are hard to fathom," Miller concludes. "The potential for job loss and weakened economic growth should not be dismissed as readily as DEP seems willing to do."

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