



Impact fee uncertainty following record-breaking year

Summary: Revenues from Pennsylvania’s impact fee imposed on unconventional (i.e. fracked) gas wells set a new record in 2022, with collections of \$278.9 million. Collections for 2023 fell 37 percent to \$179.6 million from 2022.

Impact fee payments continue to provide support for state agencies, public infrastructure and local government.

Since the passage of Act 13 of 2012 the Public Utilities Commission (PUC) has collected and distributed over \$2.7 billion in impact fees. *Policy Brief Vol. 23, No. 22*, last highlighted disbursements made in 2021 and predicted that 2022 would set a new revenue record. This *Brief* examines the impact fee disbursements and their effects on the commonwealth for 2022 and 2023. All data were taken from the [PUC](#) website.

The impact fee is imposed on all eligible unconventional wells located within the commonwealth. “The Impact Fee paid by each producer is determined by a multi-year fee schedule that is based on the average annual price of natural gas” ([PUC](#)). The Henry Hub price is the name given to the spot price of natural gas sold (per million British thermal units) on the New York Mercantile Exchange. The monthly average of the Henry Hub price for each year is utilized for the calculation of impact fees. This price falls into one of five ranges: \$2.25 or less; \$2.26 to \$2.99; \$3.00 to \$4.99; \$5.00 to \$5.99; and \$6.00 and greater. The average benchmark Henry Hub price since 2011 is \$3.32, with a high of \$6.64 in 2022 and a low of \$2.08 in 2020.

The age of an eligible well is also used to determine the fee for a particular well. There are four categories for the age of a well: years one through four, five through 10, 11-15, and 15 and beyond. The fee is adjusted downward as wells age because they are presumed to be less productive over time. Exceptions or discounts are made for wells that are plugged and no longer productive or for wells that produce very little.

In 2022, 559 new unconventional wells were drilled, the highest number since 2019. The PUC reported a total of 11,454 eligible wells for 2022. The Henry Hub price of \$6.64 both incentivized the drilling of new wells, and it meant wells were paying the highest fee

possible at that point (for each age range). In total, impact fee revenue climbed to a record \$278.9 million, which was then disbursed to various government entities.

From the total revenue, around \$15 million (previously \$25 million) is initially earmarked for several state agencies as compensation for the effects, or impacts, of statewide drilling. Sixty percent of the remaining funds go to the Unconventional Gas Well Fund (UGWF) while the other 40 percent goes to the Marcellus Shale Legacy Fund (MSLF).

The money in the UGWF is apportioned to all counties with wells; municipalities in counties with wells also receive money, even if the municipality itself does not contain any wells. Distributions to municipalities are determined by population and miles of highways, with more going to those with, or near, qualifying wells.

As per Act 13, these monies are only to be utilized for 13 permissible purposes found [here](#). Fifteen percent of the MSLF is distributed to all counties, regardless of whether they host a well or not, while the remaining funds are utilized for statewide infrastructure and environmental initiatives. While the MSLF funds are intended for environmental purposes, there is no requirement for how they are used. For 2022, the UGWF was allotted \$157.3 million of the near \$279 million total, while the MSLF received \$103.6 million. \$17.9 million was allocated to state agencies.

The jump in revenue for 2022 was mainly driven by the dramatic increase in the Henry Hub price, which fell to a more modest \$2.74 for 2023. Only 410 new wells were added, while the PUC reported a year-end total of 11,829 eligible wells for 2023. The total impact fee revenue in 2023 fell 37 percent (from 2022) to \$179.6 million. The UGWF received \$100.3 million, while the MSLF received \$63.8 million. \$15.5 million went to state agencies.

The average Henry Hub price for 2024 is roughly \$1.86 at the time of writing.

Allegheny County & its municipalities

Allegheny County added eight new wells in 2022 and 13 new wells in 2023 for a total of 185 wells, representing about 1.5 percent of wells across the commonwealth. Because Allegheny County hosts wells, both the county and its municipalities are eligible to receive funds. In 2022, Allegheny County received a total of \$2.3 million from both funds.

Allegheny County contains 130 municipalities; however, both Trafford and McDonald municipalities were removed from the calculations as they also receive money from being in Westmoreland and Washington County, respectively.

In 2022, Allegheny County's remaining 128 municipalities shared a total of \$1.4 million. While all municipalities receive something based on highway miles and population, those hosting (or near) eligible wells will receive additional funding based on highway miles

and population. In 2023, significantly lower total revenue from impact fees meant less for Allegheny County and its municipalities. However, Allegheny County still received a total of \$1.4 million from both funds. Its municipalities shared \$907,466, a 37 percent drop from the previous year.

Again, Act 13 stipulates that proceeds from the UGWF are to be utilized for 13 permissible purposes. PUC reporting data for municipalities for 2022 and 2023 are currently unavailable and not yet reported.

Conclusion

Pennsylvania's natural gas industry has long been an important part of the state's economy, dramatically more so since the advent of shale gas production. The impact fee was introduced to compensate state and local entities for the impact of drilling.

Understandably, counties and municipalities hosting wells have received considerable benefits, while some counties and/or municipalities saw little to no benefits. Even so, since the passage of Act 13, impact fees have generated over \$2.7 billion for local governments and state agencies. Allegheny County has directly received nearly \$20 million, while its municipalities have received roughly \$10.1 million in that time.

As noted in *Policy Brief Vol. 23, No. 22*, variations in disbursements are influenced by impact fee collections year-to-year. The record-breaking and anomalous year of 2022 was driven almost entirely by a soaring Henry Hub price. The following year, the Henry Hub price and collections both dropped to their lowest points since 2020.

Going forward, impact fee collections are expected to decline over time as wells age, production slows and the price of natural gas falls. Regulatory and environmental pressures from policymakers will likely further contribute to an air of uncertainty over the future of the industry (see *Policy Brief Vol. 21, No. 25*).

Notwithstanding possible changes regarding drilling, impact fee payments will continue to provide substantial benefits commonwealth-wide, though local governments may need to begin lowering their expectations, and budgets, accordingly.

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