

Department of Legislative Services
Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 881

(Senator Hafer)

Education, Health, and Environmental Affairs

Environmental Matters

Environment - Gas and Oil - Coalbed Methane Production

This bill prohibits a well for the production of coalbed methane from being drilled on any property closer than 500 feet to the boundary of the property except by agreement with the owners of coalbed methane on adjacent lands. The bill also modifies a provision regarding the release of lands on completion of a gas or oil well. Finally, the bill authorizes the Maryland Department of the Environment (MDE) to make inspections to ensure compliance with Subtitle 1 – In General, of Title 14 (Gas and Oil) of the Environment Article.

Fiscal Summary

State Effect: Although the bill could result in an increase in gas well permit applications, MDE could handle any such increase with existing budgeted resources. The bill's other changes would not materially affect State operations. Revenues would not be directly affected.

Local Effect: The bill would not directly affect local government operations or finances.

Small Business Effect: Potential meaningful.

Analysis

Current Law: A person may not drill any well for the exploration, production, or underground storage of gas or oil in the State without obtaining a permit from MDE. There is no permit fee.

A well for the production or underground storage of gas or oil may not be drilled on any property closer than 1,000 feet to the boundary of the property except by agreement with the owners of the gas and oil on adjacent lands. On property where it is impossible to locate a well the required distance from the boundary, and where no agreement with the owners of adjacent lands has been made, a well may be located closer than 1,000 feet to the boundary with the consent of MDE. In those cases, MDE must notify specified entities of the proposed well and hold a hearing. MDE may issue a permit. If a permit is issued, any landowner, royalty owner, or leaseholder within 1,000 feet of the proposed well has the right to a rehearing and appeal to the courts. A request for a rehearing or an appeal stays the authority granted under the permit until a final determination is made.

MDE is required to prescribe the distance between any two wells on any property by rule or regulation.

Background: Coalbed methane is the natural gas that lies trapped in coal seams. MDE advises that, currently, there are no coalbed methane wells in Maryland. Coalbed methane is produced in surrounding states, however, and has become more marketable with peak demands in the energy market. According to the U.S. Department of Energy, coalbed methane accounts for 10% of all domestic natural gas reserves and, in 2004, accounted for 9% of U.S. dry gas production. MDE advises that one company currently operating in the Appalachian region has expressed interest in exploring for coalbed methane in Western Maryland.

Small Business Effect: By reducing the required setback from 1,000 feet to 500 feet for coalbed methane wells, the bill could encourage coalbed methane exploration in Maryland. If coalbed methane wells are drilled, it may provide jobs in drilling and managing well sites. According to MDE, standard practice is to lease the mineral rights and pay royalties to the right owners. Accordingly, lease holders and right owners could benefit.

The provisions authorizing MDE to make inspections may benefit mineral rights owners. Currently, MDE requires the operator to have a right-of-entry form signed by both the landowner and the operator. According to MDE, if the mineral rights have been severed from the surface rights, the surface rights owner can hold a veto power over the permit if he refuses to sign.

Additional Information

Prior Introductions: None.

Cross File: HB 1451 (Delegate Edwards) – Environmental Matters.

Information Source(s): Maryland Department of the Environment, Judiciary (Administrative Office of the Courts), U.S. Department of Energy, Department of Legislative Services

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