

Department of Legislative Services
Maryland General Assembly
2010 Session

FISCAL AND POLICY NOTE

House Bill 398

(Allegany County Delegation and Garrett County
Delegation)

Environmental Matters

Environment - Oil and Gas Drilling - Wells

This bill defines a “well” under the Oil and Gas Title of the Environment Article as a borehole, drilled either vertically or horizontally, to be used for producing, extracting, or storing oil or gas. The bill also conforms the drilling of wells for the production or storage of oil or gas to existing proximity requirements applicable for coalbed methane wells. Thus, a well for the production or storage of oil or gas may not be drilled within 500 feet of the property’s boundary without an agreement from the owners of the gas and oil on adjacent lands. Currently, the limit for such wells is 1,000 feet.

Fiscal Summary

State Effect: The bill is not anticipated to directly affect State finances or materially affect State operations. Any increase in the number of oil and gas well drilling permit applications can likely be handled with the existing budgeted resources of the Maryland Department of the Environment (MDE). To the extent that gas production increases significantly, however, State tax revenues increase as a result of greater economic activity.

Local Effect: Although the bill does not directly affect local operations, Garrett County severance and other tax revenues increase by an indeterminate amount annually to the extent that the bill results in additional gas wells and increased production of gas. Allegany County tax revenues could also increase to the extent the bill increases gas production in that county.

Small Business Effect: Potential meaningful benefit for small business mine lease holders and associated mining contractors, particularly in Allegany and Garrett counties.

Analysis

Current Law: A well for the production or underground storage of gas or oil may not be drilled within 1,000 feet of the property's boundary unless under an agreement with the owners of gas and oil on adjacent lands. Maryland law does not define a well used for producing or storing oil or gas. A well for the production of coalbed methane may not be drilled within 500 feet of the property's boundary unless under agreement of the owner of coalbed methane on adjacent lands.

A person must obtain a permit from MDE's Minerals, Oil, and Gas Division before drilling a well for the exploration, production, or underground storage of gas or oil in Maryland. There is no permit fee.

Background: Many states containing oil and gas resources within the Appalachian Mountain range have established laws setting a buffer between a production well and the property boundary of between 100 feet and 2,500 feet, depending on the type of resource, nature of the production agreement, and other pertinent characteristics of the well as established by state law.

Recently, the Marcellus shale formation has attracted significant attention from the energy industry for its rich natural gas deposits. Geologists have long known about the natural gas resources contained within the formation but had considered the gas to be not economically recoverable until the recent development of new drilling technology reliant on a process called hydrofracturing. The shale formation coincides geographically with a part of the Appalachian Mountain range, spanning from upstate New York through southwestern Virginia, and includes Washington, Allegany, and Garrett counties. Current estimates of total recoverable natural gas resources in the Marcellus shale vary significantly, but the U.S. Department of Energy estimates that there are 262 trillion cubic feet of technically recoverable gas, making it potentially the greatest source of natural gas among domestic shale formations.

Small Business Effect: By decreasing the buffer between a gas production well and its property boundary, the potential exists for a greater number of wells to be drilled, and thus a greater share of each gas lease's production capacity may be utilized. Therefore, at least some small business mine lease holders may experience a potentially meaningful increase in gas extracted for sale.

Additional Information

Prior Introductions: None.

Cross File: SB 448 (Senator Edwards) - Education, Health, and Environmental Affairs.

Information Source(s): Allegany and Garrett counties, Department of Natural Resources, Maryland Department of the Environment, U.S. Department of Energy, Department of Legislative Services

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Analysis by: Evan M. Isaacson

Direct Inquiries to:
(410) 946-5510
(301) 970-5510