



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF ENVIRONMENTAL QUALITY
LANSING



DAN WYANT
DIRECTOR

VIA E-MAIL

TO: Members of the Michigan Legislature
FROM: Dan Wyant, Director
DATE: April 3, 2015
SUBJECT: Oil and Gas Regulatory Fund Annual Report

In accordance with Section 324.61525b of Part 615, Supervisor of Wells, of the Natural Resources and Environmental Protection Act, 1994 PA 451, as amended, attached is the Department of Environmental Quality's (DEQ) Oil and Gas Regulatory Fund Annual Report for fiscal year 2013-2014.

If you need further information, please contact Harold R. Fitch, Chief, Office of Oil, Gas, and Minerals, at 517-284-6823; or you may contact me at 517-284-6700.

Attachment

cc/att: Ellen Jeffries, Director, Senate Fiscal Agency
Mary Ann Cleary, Director, House Fiscal Agency
John Roberts, Director, State Budget Office
Dick Posthumus, Governor's Office
Valerie Brader, Governor's Office
Josh Sefton, Senate Fiscal Agency
Viola Wild, House Fiscal Agency
Jacques McNeely, State Budget Office
Jennifer Harrison, State Budget Office
Jim Sygo, Deputy Director, DEQ
Madhu R. Anderson, Director of Policy, DEQ
Maggie Datema, Director of Legislative Affairs, DEQ
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Amy Epkey, DEQ
Harold R. Fitch, DEQ
Kathy Tetzlaff, DEQ
Adam W. Wygant, DEQ
Rick Henderson, DEQ

Oil and Gas Regulatory Fund Annual Report (Fiscal Year 2013-2014)



Michigan Department of Environmental Quality
Office of Oil, Gas, and Minerals

Pursuant to Part 615, Supervisor of Wells,
of the Natural Resources and Environmental Protection Act,
1994 PA 451, as Amended

For more information on the Oil and Gas Regulatory Program, please contact:
Office of Oil, Gas, and Minerals
Michigan Department of Environmental Quality
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517-284-6823

OIL AND GAS REGULATORY FUND ANNUAL REPORT FISCAL YEAR 2013-2014

This report is prepared in accordance with the requirements of Section 324.61525b of Part 615, Supervisor of Wells, of the Natural Resources and Environmental Protection Act, 1994 PA 451, as amended, establishing the Oil and Gas Regulatory Fund (Fund) within the State Treasury.

Part 615 provides for the regulation of exploration and production of oil and gas in Michigan. The Department of Environmental Quality (DEQ), Office of Oil, Gas, and Minerals (OOGM), is the primary agency responsible for monitoring and enforcement activities under Part 615. This report itemizes the amount of money received and expended; the number of full-time equivalent positions funded by the Fund; the number of on-site inspections conducted by the OOGM to implement Part 615; and the number of violations identified to enforce Part 615.

Revenue, Expenditures, and Positions Funded

Total money received from oil and gas surveillance fees, permit fees, gas storage well regulatory fees, return of federal indirect revenue, cost recovery, and interest totaled \$11,795,860 for fiscal year (FY) 2013-2014. Expenditures totaled \$9,990,745. Part 615 requires the DEQ to calculate the surveillance fee rate each year, up to a maximum of one percent on the gross value of production, such that the Fund maintains a balance of \$7 million. Money in the Fund is carried forward each year. The balance in the Fund at the end of FY 2013-2014 was \$9,251,232. A total of 64.0 positions were funded by the Fund. Appendix A shows a detailed account of revenues and expenditures for FY 2013-2014.

On-Site Inspections

Appendix A indicates 22,812 on-site inspections of oil and gas wells and associated facilities were conducted in FY 2013-2014. These included inspections of drilling, completion, reworking, production, plugging, and site restoration operations. Inspections were conducted for routine monitoring, in response to complaints, to pursue compliance and enforcement actions, for approval of transfer of ownership, and in response to spills or other accidents.

Violations

The OOGM staff issued 926 Notices of Inspection "Compliance Communications" and 1 "Notice of Violation" citations in FY 2013-2014 under Part 615. Most involved multiple violations of approximately ten different administrative rules occurring in all three of the OOGM districts in the Lower Peninsula (there was no oil and gas drilling or production in the Upper Peninsula). Violations fell into the following administrative rule categories: Soil Contamination; Loss Cleanup and Disposal; Failure to Produce Well(s); Failure to Remove Combustible Materials/Weeds; Lack of Secondary Containment; Failure to Erect Signs; Violation in Gas Burning, Processing, and Disposal; Failure to Erect Hydrogen Sulfide Signs; Failure to Report Loss or Spill; and Failure to Submit Records/Reports.

**OIL AND GAS REGULATORY FUND
ANNUAL EXPENDITURE REPORT
FISCAL YEAR 2013-2014**

Fund Balance 10/1/13 **\$ 7,446,117**

Fee Revenue:

Oil & Gas Surveillance Fees	11,262,579
Oil & Gas Permit Fees	55,500
Gas Storage Well Fees	54,860
Correction of Prior Year Expenditures	<u>6,582</u>
	11,379,521

Return of Federal Indirect Revenue	126,858
Miscellaneous Revenue	892
Interest on Fund Balance	5,500
Bond Revenue	319,488
Judgement and Settlements	15,000
Public Fund Balance Transfer	<u>72,454</u>
	540,192

Civil Service Assessment	(123,853)
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Total Revenue Received	11,795,860
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Total Funds Available: **\$19,241,977**

Expenditures:

Salaries and Wages	3,713,151
Longevity and Other Lump Sum Payments	118,116
Fringe Benefits	811,550
Retirement/FICA/Medicare	2,274,375
Travel	202,725
Workmans Compensation	27,058
Attorney General Legal Services	240,300
Supplies	29,394
Other Operational Expenditures	<u>2,574,075</u>

Total Expenditures Incurred	9,990,745
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Fund Balance 9/30/14 **\$ 9,251,232**

Full-Time Equivalent Positions Funded **64.0**

INSPECTION STATISTIC REPORT

10-1-2013 to 9-30-2014

This total does not include Incident Inspections

Total Number of Inspections:	22,812
Permitted Well Inspections:	19,787
Permit Application Inspections:	63
Facility Inspections:	2,962
Incidents Inspections:	65
Notices Given by Notice of Inspection:	926
Notices Given by Notice of Noncompliance:	0
Notices Given by Notice of Violation:	1
Notices Given by Phone:	30
Notices Given by Informal Letter:	5
Notices Given to Field Personnel:	10
Notices Given by the Operator:	1
Notices Given by Other:	4
Inspections with Reoccurring Violations:	237
Inspections with Inspection Forms and Reoccurring Violations:	174
Inspections conducted at Well Sites:	86.74%
Inspections conducted at Tank Batteries:	12.98%
Inspections conducted for Permit Applications:	0.28%
Inspections at sites not in Compliance:	1.04%
Inspections at sites in Compliance:	98.96%
Inspections with Inspection Forms:	4.06%

Information Source

On-Site Inspections:	20,954
Verbal Information:	934
Written Reports or Records:	916

Type of Inspection

Administrative Activities:	75
Bond Site 201 Activities:	0
Complaint Follow-up Activities:	103
Complaint Activities:	127
Gas Storage Activities:	1,146
Joint Federal, State Inspections:	4
Mineral Well 625:	207
Miscellaneous/Other Activities:	21
Multimedia Inspections:	52
Oil and Gas 615 Activities:	20,521
Orphan Well 616 Activities:	112
Spill Response Activities:	395

Purpose of Inspection

Bond Release:	196
Completion:	424
Drilling:	1,214
Encapsulation:	93
Emergency Response:	11
Facility Construction:	82
Field Review:	72
Interim Response:	44
Lease Inspection:	17,271
Miscellaneous/Other:	784
Plugging:	699
Production:	377
Remedial Investigation:	204
Remediation:	275
Rework:	263
Site Restoration:	452
Termination:	17
Transfer of Owner:	55
Testing:	277

ENFORCEMENT REPORT

10-1-2013 to 9-30-2014

Total State Inspections:	22,807
Joint Federal/State Inspections:	4
Multimedia State Inspections:	52
Complaint Inspections:	127
Complaint Inspections Follow Up:	103
Violation Letters Issued: (Notice of Intent).....	926
Violation Letters Issued: (Notice of Noncompliance)	15
Wells:	46
Escalated Enforcement Actions Initiated: (Notice of Violation, Schedules Opportunity to Show Compliance for Violator)	9
Wells:	19
Administrative Consent Order	
Stipulation and Consent Agreement Issued:	6
Wells:	28
Stipulation and Consent Agreement Amendment:.....	0
Wells:	0
Transfer Settlement Agreement:	1
Wells:	6
Transfer Settlement Agreement Amendment:	1
Wells:	56
Central Treatment Site Agreement Issued:	0
Wells:	0
Central Treatment Site Agreement Amendment Issued:	0
Wells:	0
Supervisor Order Issued:	6
Wells:	67
Consent Order Penalties	
Secondary Containment Area:.....	\$0
Supervisor of Wells Order:	0
Consent Order Penalties Collected:	\$0
Civil Referrals to Department of Attorney General:	0
Wells:	0
Civil Settlements Entered	
Administrative Order by Consent Issued:	0
Covenant Not to Sue:	0
Civil Penalties:	0
Value of Associated Supplemental Environmental Projects in Civil Settlements:	0
Total Stipulated Penalties Assessed Through Both Administrative and Civil Actions:	0