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GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF ENVIRONMENTAL QUALITY
LANSING



KEITH CREAGH
DIRECTOR

VIA E-MAIL

TO: Members of the Michigan Legislature
FROM: Keith Creagh, Director
DATE: June 8, 2016
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 2014 – 2015.

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
Angela Ayers, Governor's Office
Josh Sefton, Senate Fiscal Agency
Austin Scott, House Fiscal Agency
Jacques McNeely, State Budget Office
Jennifer Harrison, State Budget Office
Jim Sygo, Chief Deputy Director, DEQ
Madhu R. Anderson, Deputy Director, DEQ
Amy Epkey, Deputy Director, DEQ
Maggie Pallone, Deputy Director, DEQ
Sarah M. Howes, Legislative Liaison, DEQ
Harold R. Fitch, DEQ
Kathy Tetzlaff, DEQ
Adam W. Wygant, DEQ
Rick Henderson, DEQ

Oil and Gas Regulatory Fund Annual Report (Fiscal Year 2014-2015)



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 2014-2015

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).

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; and the number of violations identified.

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 \$5,560,851 for fiscal year (FY) 2014-2015. Expenditures totaled \$9,375,242. Attachment A shows a detailed account of revenues and expenditures for FY 2014-2015.

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 2014-2015 was \$5,436,841. With the production of oil and gas declining, and the sharp drop in prices, the OOGM will experience a Fund shortfall by the end of FY 2017, even charging the maximum 1 percent.

A total of 57.0 positions were funded by the Fund.

On-Site Inspections

In FY 2014-2015, 23,138 on-site inspections of oil and gas wells and associated facilities were conducted. 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 822 Notices of Inspection ("Compliance Communications") and 26 "Notice of Violation" citations in FY 2014-2015 under Part 615. Most involved multiple violations of approximately ten different administrative rules. The violations occurred 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. Additional details are in Attachment B.

**OIL AND GAS REGULATORY FUND
ANNUAL EXPENDITURE REPORT
FISCAL YEAR 2014-2015**

Fund Balance 10/1/14 **\$ 9,251,232**

Fee Revenue:

Oil & Gas Surveillance Fees	5,435,769
Oil & Gas Permit Fees	36,900
Gas Storage Well Fees	<u>53,120</u>
	5,525,789

Return of Federal Indirect Revenue	126,777
Miscellaneous Revenue	7,223
Interest on Fund Balance	6,610
Judgements, Settlements, and Bond Collections	<u>26,011</u>
	166,621

Civil Service Assessment	(131,558)
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Total Revenue Received	5,560,852
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Total Funds Available: **\$14,812,084**

Expenditures:

Salaries and Fringes	7,026,550
Travel	159,219
Attorney General Legal Services	236,522
Supplies	14,618
Other Operational Expenditures	<u>1,938,333</u>

Total Expenditures Incurred	9,375,242
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Fund Balance 9/30/15 **\$ 5,436,842**

Full-Time Equivalent Positions Funded **57.0**

ENFORCEMENT REPORT

10-1-2014 to 9-30-2015

Total State Inspections:	23,138
Joint Federal/State Inspections:	0
Multimedia State Inspections (OOGM in coordination with other DEQ Divisions):	63
Complaint Inspections:	160
Complaint Inspections Follow Up:	188
Notice of Inspection/Compliance Communication Issued:	822
Violation Letters Issued: (Notice of Noncompliance)	19
Wells:	30
Escalated Enforcement Actions Initiated: (Notice of Violation, Schedules Opportunity to Show Compliance for Violator)	8
Wells:	26
Administrative Consent Order	
Stipulation and Consent Agreement Issued:	4
Wells:	56
Stipulation and Consent Agreement Amendment:	4
Wells:	70
Transfer Settlement Agreement:	0
Wells:	0
Transfer Settlement Agreement Amendment:	0
Wells:	0
Central Treatment Site Agreement Issued:	0
Wells:	0
Central Treatment Site Agreement Amendment Issued:	0
Wells:	0
Supervisor Order Issued:	7
Wells:	32
Consent Order Penalties	
Secondary Containment Area:	\$0
Supervisor of Wells Order:	0
Consent Order Penalties Collected:	\$0
Civil Referrals to Department of Attorney General:	1
Wells:	61
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
Bond Collections:	\$26,011
Total Penalties Assessed Through Administrative and Civil Actions:	\$26,011