



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: March 7, 2014
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 2012-2013.

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
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
Sarah M. Howes, Legislative Liaison, DEQ
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Adam W. Wygant, DEQ
Rick Henderson, DEQ

Oil and Gas Regulatory Fund Annual Report (Fiscal Year 2012-2013)



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:
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OIL AND GAS REGULATORY FUND ANNUAL REPORT FISCAL YEAR 2012-2013

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 \$9,742,336 for fiscal year (FY) 2012-2013. Expenditures totaled \$9,203,609. 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 2012-2013 was \$7,446,117. A total of 61.5 positions were funded by the Fund. Appendix A shows a detailed account of revenues and expenditures for FY 2012-2013.

On-Site Inspections

Appendix A indicates over 18,500 on-site inspections of oil and gas wells and associated facilities were conducted in FY 2012-2013. 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 932 Notices of Inspection "Compliance Communications" and 21 "Notice of Violation" citations in FY 2012-2013 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 2012-2013**

Fund Balance 10-1-12		\$ 6,907,390
Fee Revenue:		
Oil & Gas Surveillance Fees	9,521,854	
Oil & Gas Permit Fees	60,950	
Gas Storage Well Fees	48,480	
Correction of Prior Year Expenditures	<u>0</u>	
	9,631,284	
Return of Federal Indirect Revenue	200,087	
Miscellaneous Revenue	16,097	
Interest on Fund Balance	<u>6,418</u>	
	222,602	
Civil Service Assessment	(111,550)	
Total Revenue Received	9,742,336	
Total Funds Available:		\$16,649,726
Expenditures:		
Salaries & Wages	3,654,422	
Longevity & Other Lump Sum Payments	93,988	
Fringe Benefits	744,682	
Retirement/FICA/Medicare	2,062,145	
Travel	204,788	
Workmans Compensation	7,833	
Attorney General Legal Services	225,509	
Supplies	33,541	
Other Operational Expenditures	<u>2,176,701</u>	
Total Expenditures Incurred	9,203,609	
Fund Balance 9/30/13		<u>\$ 7,446,117</u>
Full-Time Equivalent Positions Funded		61.5

INSPECTION STATISTIC REPORT

10-1-2012 to 9-30-2013

This total does not include Incident Inspections

Total Number of Inspections:	18,526
Permitted Well Inspections:	16,191
Permit Application Inspections:	69
Facility Inspections:	2,266
Incidents Inspections:	81
Notices Given by Notice of Inspection:	932
Notices Given by Notice of Noncompliance:	1
Notices Given by Notice of Violation:	21
Notices Given by Phone:	61
Notices Given by Informal Letter:	1
Notices Given to Field Personnel:	10
Notices Given by the Operator:	0
Notices Given by Other:	45
Inspections with Reoccurring Violations:	362
Inspections with Inspection Forms and Reoccurring Violations:	248
Inspections conducted at Well Sites:	87.40%
Inspections conducted at Tank Batteries:	12.23%
Inspections conducted for Permit Applications:	0.37%
Inspections at sites not in Compliance:	1.95%
Inspections at sites in Compliance:	98.05%
Inspections with Inspection Forms:	5.03%

Information Source

On-Site Inspections:	17,185
Verbal Information:	775
Written Reports or Records:	565

Type of Inspection

Administrative Activities:	0
Bond Site 201 Activities:	1
Complaint Follow-up Activities:	122
Complaint Activities:	102
Gas Storage Activities:	631
Joint Federal, State Inspections:	1
Mineral Well 625:	67
Miscellaneous/Other Activities:	2
Multimedia Inspections:	52
Oil and Gas 615 Activities:	17,142
Orphan Well 616 Activities:	21
Spill Response Activities:	316

Purpose of Inspection

Bond Release:	54
Completion:	388
Drilling:	1,189
Encapsulation:	97
Emergency Response:	11
Facility Construction:	73
Field Review:	77
Interim Response:	19
Lease Inspection:	14,084
Miscellaneous/Other:	490
Plugging:	494
Production:	95
Remedial Investigation:	106
Remediation:	220
Rework:	173
Site Restoration:	304
Termination:	31
Transfer of Owner:	218
Testing:	403

ENFORCEMENT REPORT

10-1-2012 to 9-30-2013

Total State Inspections:	18,524
Joint Federal/State Inspections:.....	1
Multimedia State Inspections:	52
Complaint Inspections:.....	102
Complaint Inspections Follow Up:.....	122
Violation Letters Issued: (Notice of Intent).....	932
Violation Letters Issued: (Notice of Noncompliance)	16
Wells:	34
Escalated Enforcement Actions Initiated: (Notice of Violation, Schedules Opportunity to Show Compliance for Violator)	13
Wells:	38
Administrative Consent Order	
Stipulation and Consent Agreement Issued:	7
Wells:	18
Stipulation and Consent Agreement Amendment:.....	1
Wells:	3
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:	14
Wells:	86
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