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GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF ENVIRONMENTAL QUALITY
LANSING



C. HEIDI GREETHER
DIRECTOR

VIA E-MAIL

TO: Members of the Michigan Legislature
FROM: C. Heidi Grether, Director *CHG*
DATE: January 12, 2018
SUBJECT: Oil and Gas Regulatory Fund Annual Report

In accordance with Section 324.61525b(5) 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 2015 – 2016.

If you need further information, please contact Harold R. Fitch, Director, Oil, Gas, and Minerals Division, 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
Al Pscholka, Director, State Budget Office
Darin Ackerman, 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
Amy Epkey, Administration Deputy Director, DEQ
Susan Leeming, External Relations Deputy Director, DEQ
Michael McClellan, Environment 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 2015-2016)



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

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:
Oil, Gas, and Minerals Division
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OIL AND GAS REGULATORY FUND ANNUAL REPORT FISCAL YEAR 2015-2016

The Department of Environmental Quality (DEQ), Oil, Gas, and Minerals Division (OGMD), is responsible for implementing the oil and gas regulatory program in Michigan. The purpose of the program is to assure the efficient and equitable development of oil and gas resources while protecting the environment, natural resources, and public health and safety. The program is funded by the Oil and Gas Regulatory Fund (Fund).

The OGMD oversees the locating, drilling, operating, and plugging of oil and gas wells and the operation of associated storage and disposal facilities under the provisions of Part 615, Supervisor of Wells, of the Natural Resources and Environmental Protection Act, 1994 PA 451, as amended. Staff reviews applications and issues permits to drill and operate; conducts inspections; enforces well construction, spill prevention, and cleanup requirements; and monitors production methods and rates to assure the conservation and efficient recovery of oil and gas.

The OGMD oversees approximately 20,000 wells, including 15,500 active oil and gas production wells, 3,000 natural gas storage wells, and 1,300 injection wells for enhancing oil recovery and disposing of oilfield brine. Another 35,000 wells have been drilled and plugged as nonproductive and/or depleted.

This report itemizes the amount of money received and expended from the Fund; the number of full-time equivalent positions; the number of on-site inspections conducted by the OGMD; and the number of violations identified.

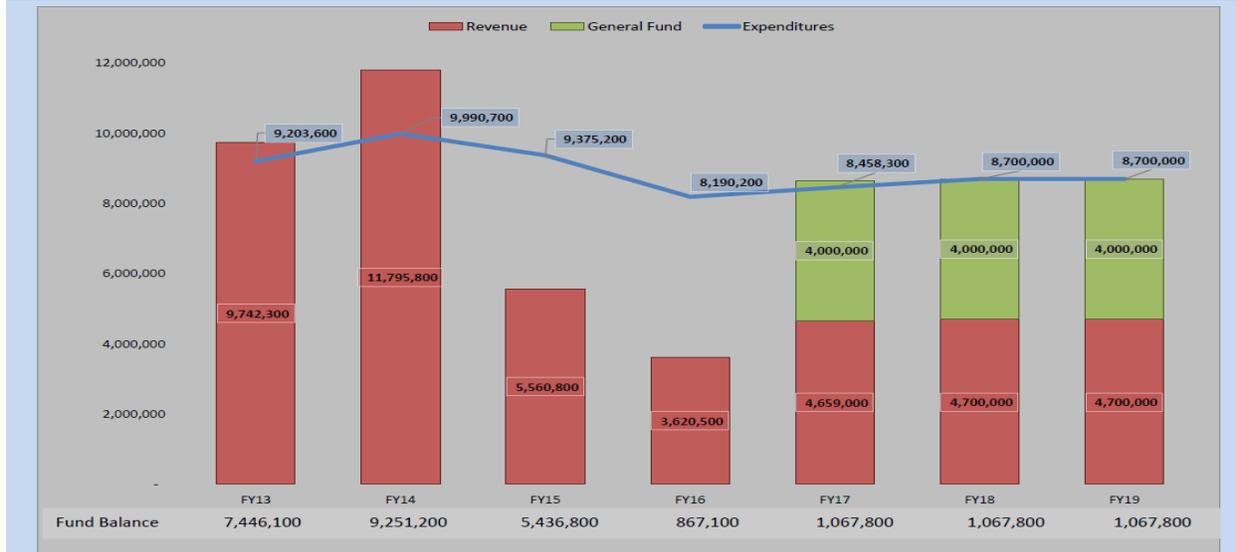
Revenue, Expenditures, and Positions Funded

About 97 percent of the money in the Fund comes from oil and gas surveillance fees, with the remainder coming from permit fees, gas storage well regulatory fees, interest, and other miscellaneous sources. 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, with the goal of maintaining a balance of \$7 million. Money in the Fund is carried forward each year.

Prior to fiscal year (FY) 2014-2015, revenue from surveillance fees was sufficient to maintain the target balance in the Fund and to provide for program costs. However, prices for oil and natural gas dropped sharply in late 2014. The price declines, coupled with declines in production volumes, caused revenues to drop well below expenditures, even with the surveillance fee set at the maximum rate of one percent. Appropriation of General Fund money has been necessary in FY 2016-2017 and FY 2017-2018 to maintain the program at an acceptable level.

Revenue into the Fund totaled \$3,620,505 for FY 2015-2016. Expenditures for the oil and gas program totaled \$8,190,200, causing the balance in the Fund to decline to \$867,100 at the end of FY 2015-2016. A total of 53.0 full-time positions were funded by the Fund. The bar graph on the next page shows the trends and projections for revenue and expenditures for the oil and gas program.

Oil and Gas Program Funding



Attachment A to this report shows a detailed account of revenues and expenditures for FY 2015-2016.

On-Site Inspections

In FY 2015-2016, 20,467 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 OGMD staff issued 860 Notices of Inspection (“Compliance Communications”) and 73 “Notice of Violation” citations in FY 2015-2016 under Part 615. Most involved multiple violations of approximately ten different administrative rules. The violations occurred in various locations 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
- Failure to Erect Signs
- Loss Cleanup and Disposal
- Violation in Gas Burning, Processing, and Disposal
- Failure to Produce Well(s)
- Failure to Erect Hydrogen Sulfide Signs
- Failure to Remove Combustible Materials/Weeds
- Failure to Report Loss or Spill
- Lack of Secondary Containment
- Failure to Submit Records/Reports

Additional details are in Attachments B and C.

This report is prepared in accordance with the requirements of Section 324.61525b(5) of Part 615, Supervisor of Wells, of the Natural Resources and Environmental Protection Act, 1994 PA 451, as amended, establishing the Fund.

**OIL AND GAS REGULATORY FUND
ANNUAL EXPENDITURE REPORT
FISCAL YEAR 2015-2016**

Fund Balance 10/1/2015 **\$ 5,436,841**

Fee Revenue:

Oil & Gas Surveillance Fees	3,672,767
Oil & Gas Permit Fees	14,407
Gas Storage Well Fees	<u>52,080</u>
	3,739,254

Miscellaneous Revenue	6,562
Interest on Fund Balance	7,354
	13,916

Civil Service Assessment	(132,664)
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Total Revenue Received	3,620,505
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Total Funds Available: **\$ 9,057,347**

Expenditures:

Salaries and Fringes	6,360,201
Travel	124,534
Attorney General Legal Services	208,364
Supplies	10,646
Other Operational Expenditures	<u>1,486,475</u>

Total Expenditures Incurred	8,190,217
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Fund Balance 9/30/2016 **\$ 867,130**

Full-Time Equivalent Positions Funded **53.0**

INSPECTION STATISTIC REPORT

10-1-2015 to 9-30-2016

This total does not include Incident Inspections		Type of Inspection	
Total Number of Inspections:	20,467	Administrative Activities:	66
Permitted Well Inspections:	17,174	Bond Site 201 Activities:	4
Permit Application Inspections:	16	Complaint Follow-up Activities:	221
Facility Inspections:	3,272	Complaint Activities:	92
Incidents Inspections:	86	Gas Storage Activities:	1,372
Notices Given by Notice of Inspection:	860	Joint Federal, State Inspections:	0
Notices Given by Notice of Noncompliance:	1	Mineral Well Part 625:	259
Notices Given by Notice of Violation:	0	Miscellaneous/Other Activities:	13
Notices Given by Phone:	20	Multimedia Inspections:	61
Notices Given by Informal Letter:	1	Oil and Gas Part 615 Activities:	17,894
Notices Given to Field Personnel:	30	Orphan Well Part 616 Activities:	59
Notices Given by the Operator:	0	Spill Response Activities:	380
Notices Given by Other:	0		
Inspections with Reoccurring Violations:	53	Purpose of Inspection	
Inspections with Inspection Forms and Reoccurring Violations:	23	Bond Release:	64
Inspections conducted at Well Sites:	83.93%	Completion:	133
Inspections conducted at Tank Batteries:	15.99%	Drilling:	360
Inspections conducted for Permit Applications:	0.08%	Encapsulation:	29
Inspections at Sites Not in Compliance:	0.26%	Emergency Response:	14
Inspections at Sites in Compliance:	99.74%	Facility Construction:	25
Inspections with Inspection Forms:	4.20%	Field Review:	21
		Interim Response:	51
		Lease Inspection:	17,432
		Miscellaneous/Other:	535
		Plugging:	432
		Production:	219
		Remedial Investigation:	132
		Remediation:	182
		Rework:	106
		Site Restoration:	405
		Termination:	27
		Transfer of Owner:	107
		Testing:	188
Information Source			
On-Site Inspections:	19,414		
Verbal Information:	504		
Written Reports or Records:	540		

ENFORCEMENT REPORT

10-1-2015 to 9-30-2016

Total State Inspections:	20,467
Joint Federal/State Inspections:.....	0
Multimedia State Inspections (OGMD in coordination with other DEQ Divisions):	61
Complaint Inspections:.....	92
Complaint Inspections Follow Up:.....	221
Notice of Inspection/Compliance Communication Issued:	860
Violation Letters Issued: (Notice of Noncompliance)	13
Wells:	73
Escalated Enforcement Actions Initiated: (Notice of Violation, Schedules Opportunity to Show Compliance for Violator)	4
Wells:	11
Administrative Consent Order	
Stipulation and Consent Agreement Issued:.....	1
Wells:	1
Stipulation and Consent Agreement Amendment:.....	0
Wells:	0
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:.....	4
Wells:	11
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
Bond Collections:	\$0
Total Penalties Assessed Through Administrative and Civil Actions:	\$0