



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF ENVIRONMENTAL QUALITY
LANSING



C. HEIDI GRETHER
DIRECTOR

VIA E-MAIL

TO: Members of the Michigan Legislature
FROM: C. Heidi Grether, *CHG* Director
DATE: April 27, 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 2017.

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
John Walsh, 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 2017



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
Michigan Department of Environmental Quality
P.O. Box 30256, Lansing, Michigan 48909-7756
517-284-6823

OIL AND GAS REGULATORY FUND ANNUAL REPORT FISCAL YEAR 2017

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.

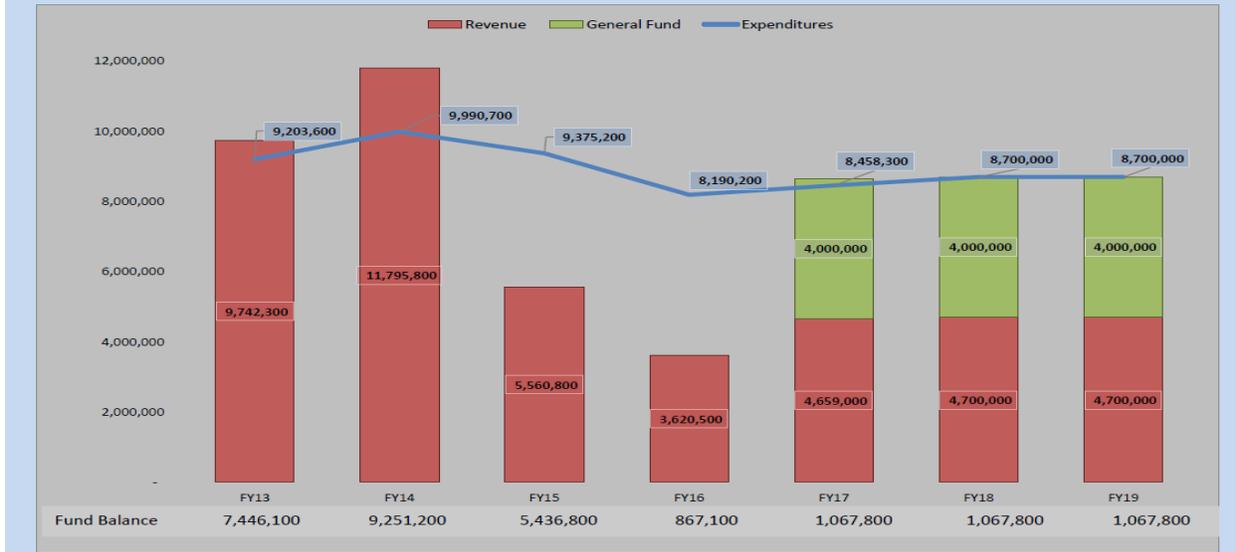
Revenue, Expenditures, and Positions Funded

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) 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 was included in the OGMD budget for FY 2017 and FY 2018 to maintain the program at an acceptable level.

Revenue into the Fund totaled \$4,574,105 for FY 2017. Expenditures for the oil and gas program totaled \$4,188,726. A total of 20.0 full-time positions were funded by the Fund with General Fund support for the remaining 32 positions. 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 2017.

On-Site Inspections

In FY 2017, 17,580 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 29 Notices of Inspection (“Compliance Communications”) and 10 “Notice of Violation” citations in FY 2017 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 Attachment B, Inspection Statistic Report, and Attachment C, Enforcement Report.

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 2017**

Fund Balance 10/1/2016		\$867,130
Fee Revenue:		
Oil & Gas Surveillance Fees	\$4,597,432	
Oil & Gas Permit Fees	21,700	
Gas Storage Well Fees	51,760	
	\$4,670,892	
Miscellaneous Revenue	\$22,408	
Interest on Fund Balance	815	
	\$23,223	
Civil Service Assessment	(\$120,010)	
Total Revenue Received	\$4,574,105	
Total Funds Available:		\$5,441,235
Expenditures:		
Salaries and Fringes	\$2,437,528	
Travel	36,182	
Attorney General Legal Services	110,226	
Supplies	8,869	
Other Operational Expenditures	1,595,921	
	\$4,188,726	
Total Expenditures Incurred	\$4,188,726	
Fund Balance 9/30/2017		\$1,252,509
Full-Time Equivalent Positions Funded		52.0

INSPECTION STATISTIC REPORT

10-1-2016 to 9-30-2017

This total does not include Incident Inspections		Type of Inspection	
Total Number of Inspections:	17,580	Administrative Activities:	84
Permitted Well Inspections:	14,590	Bond Site 201 Activities:	6
Permit Application Inspections:	1	Complaint Follow-up Activities:	183
Facility Inspections:	2,990	Complaint Activities:	59
Incidents Inspections:	28	Gas Storage Activities:	951
Notices Given by Notice of Inspection:	29	Joint Federal, State Inspections:	0
Notices Given by Notice of Noncompliance:	22	Mineral Well 625:	225
Notices Given by Notice of Violation:	10	Miscellaneous/Other Activities:	10
Notices Given by Phone:	1	Multimedia Inspections:	91
Notices Given by Informal Letter:	0	Oil and Gas 615 Activities:	15,578
Notices Given to Field Personnel:	2	Orphan Well 616 Activities:	20
Notices Given by the Operator:	0	Spill Response Activities:	139
Notices Given by Other:	0		
Inspections with Reoccurring Violations:	0	Purpose of Inspection	
Inspections with Inspection Forms and Reoccurring Violations:	0	Bond Release:	42
Inspections conducted at Well Sites:	82.99%	Completion:	147
Inspections conducted at Tank Batteries:	17.01%	Drilling:	518
Inspections conducted for Permit Applications:	0.005%	Encapsulation:	14
Inspections at sites not in Compliance:	44.41%	Emergency Response:	16
Inspections at sites in Compliance:	55.58%	Facility Construction:	36
		Field Review:	7
		Interim Response:	47
		Lease Inspection:	14,303
		Miscellaneous/Other:	552
		Plugging:	571
		Production:	79
		Remedial Investigation:	93
		Remediation:	129
		Rework:	140
		Site Restoration:	329
		Termination:	22
		Transfer of Owner:	89
		Testing:	168
Information Source			
On-Site Inspections:	16,318		
Verbal Information:	401		
Written Reports or Records:	671		

ENFORCEMENT REPORT

10-1-2016 to 9-30-2017

Total State Inspections:	17,580
Joint Federal/State Inspections:.....	0
Multimedia State Inspections (OGMD in coordination with other DEQ Divisions):	91
Complaint Inspections:.....	20
Complaint Inspections Follow Up:.....	59
Notice of Inspection/Compliance Communication Issued:	130
Violation Letters Issued: (Notice of Noncompliance)	22
Wells:	101
Escalated Enforcement Actions Initiated: (Notice of Violation, Schedules Opportunity to Show Compliance for Violator)	10
Wells:	21
Administrative Consent Order	
Stipulation and Consent Agreement Issued:.....	1
Wells:	1
Stipulation and Consent Agreement Amendment:.....	1
Wells:	9
Transfer Settlement Agreement:.....	1
Wells:	1
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:	3
Wells:	17
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