GRETCHEN WHITMER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF
ENVIRONMENT, GREAT LAKES, AND ENERGY
LANSING

LIESL EICHLER CLARK
DIRECTOR

VIA E-MAIL

TO: Members of the Michigan Legislature

FROM: Liesl Eichler Clark, Director

DATE: April 30, 2019

SUBJECT: Oil and Gas Regulatory Fund 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 Environment, Great Lakes, and Energy's (EGLE) Oil and Gas Regulatory Fund Report for fiscal year 2018.

If you need further information, please contact Adam W. Wygant, Director, Oil, Gas, and Minerals Division, at 517-284-6823; or you may contact me at 517-284-6710.

Attachment
cc/att: Chris Harkins, Director, Senate Fiscal Agency
Mary Ann Cleary, Director, House Fiscal Agency
Chris Kolb, Director, State Budget Office
Greg Bird, Legislative Director, Governor's Office
Emily Laidlaw, Policy Director, Governor's Office
Abbey Frazier, Senate Fiscal Agency
Austin Scott, House Fiscal Agency
Jacques McNeely, State Budget Office
Jennifer Harrison, State Budget Office
Aaron B. Keatley, Chief Deputy Director, EGLE
Amy Epkey, Senior Deputy Director, EGLE
Sarah M. Howes, Director, Office of Legislative Affairs, EGLE
David Fiedler, Regulatory Affairs Officer, EGLE
Adam W. Wygant, EGLE
Kathy Tetzlaff, EGLE
Rick Henderson, EGLE

MICHIGAN DEPARTMENT OF
ENVIRONMENT, GREAT LAKES, AND ENERGY

Legislative Report

Oil and Gas Regulatory Fund Annual Report for Fiscal Year 2018

Authority:

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:
Department of Environment, Great Lakes, and Energy
Oil, Gas, and Minerals Division
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517-284-6823

OIL AND GAS REGULATORY FUND ANNUAL REPORT
FISCAL YEAR 2018

The Department of Environment, Great Lakes, and Energy (EGLE), 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.

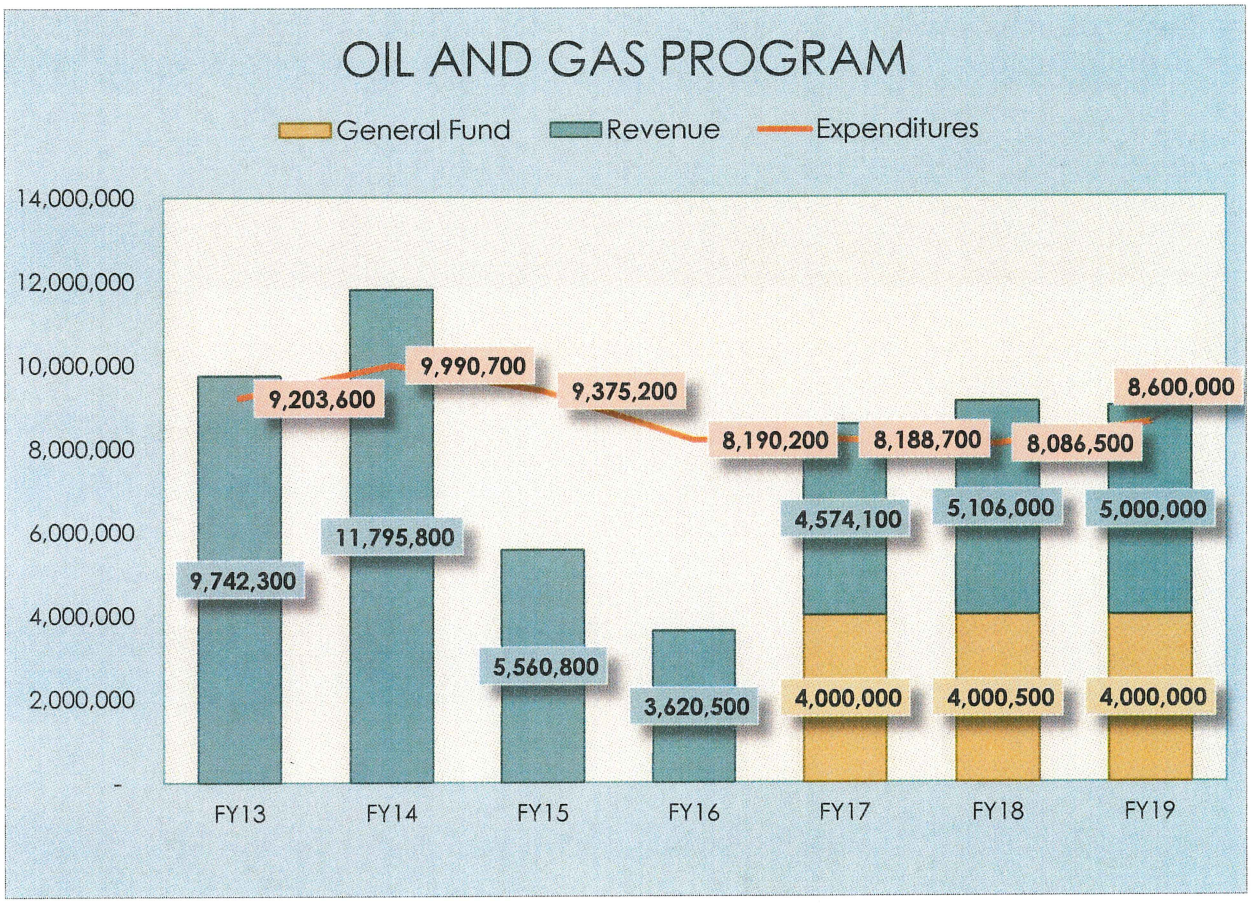
This report itemizes the amount of money received and expended from the Fund; the number of full-time equivalent positions; the number of on-site inspections conducted by the OGMD; and the number of violations identified.

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 EGLE 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 beginning in FY 2017 and continues to be an ongoing source of revenue needed to maintain the program at an acceptable level.

Revenue into the Fund totaled $5,105,969 for FY 2018. Expenditures for the oil and gas program from all funding sources (general and restricted) totaled $8,086,528. A total of 18.5 full-time positions were funded by the Fund with General Fund support for the remaining 32.5 positions. The bar graph below shows the trends and projections for revenue and expenditures for the oil and gas program:



Attachment A to this report shows a detailed account of revenues and expenditures for FY 2018.

On-Site Inspections

In FY 2018, 14,730 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

OGMD staff issued zero Notices of Inspection ("Compliance Communications") and 10 "Notice of Violation" citations in FY 2018 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

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.

Attachment A

OIL AND GAS REGULATORY FUND
ANNUAL EXPENDITURE REPORT
FISCAL YEAR 2018

Fund Balance 10/1/2017		**$1,252,509**
Fee Revenue:		
Oil & Gas Surveillance Fees	$5,058,320	
Oil & Gas Permit Fees	24,515	
Gas Storage Well Fees	51,340	
	$5,134,175	
Miscellaneous Revenue	$23,975	
Interest on Fund Balance	0	
	$23,975	
Civil Service Assessment	(52,181)	
Total Revenue Received	**$5,105,969**	
Total Funds Available:		**$6,358,478**
Expenditures:		
Salaries and Fringes	$2,381,357	
Travel	34,558	
Other Operational Expenditures	1,670,066	
Total Expenditures Incurred	**$4,085,981**	
Fund Balance 9/30/2018		**$2,272,497**
Full-Time Equivalent Positions Funded		**51.0**