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SFA BILL ANALYSIS

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House Bill 5399 (Substitute H-3 as passed by the House)
Sponsor: Representative Kwame Kilpatrick
House Committee: Conservation, Environment and Recreation
Senate Committee: Economic Development, International Trade and Regulatory Affairs

Date Completed: 5-27-98

CONTENT

The bill would amend Part 615 of the Natural Resources and Environmental Protection Act (NREPA), which pertains to the regulation of oil and gas wells, to create the "Oil and Gas Regulatory Fund; impose a $20 annual well regulatory fee; increase the fee required for a permit to drill a well from $100 to $300; and delete current monitoring, surveillance, enforcement, and administration fee computation provisions. In addition, the bill would require, upon completion of an inspection, the Supervisor of Wells to notify the owner or operator of the well of any violation of the Act that was identified during the inspection.

Oil and Gas Regulatory Fund

The Fund would be created within the State Treasury and the State Treasurer could receive money or other assets from any source for deposit into the Fund. If at any time, however, the amount of money in the Fund equaled or exceeded $7 million, all money exceeding $7 million would have to be transferred to the Cleanup and Redevelopment Fund and spent for purposes described in Section 20113(4)(f) of the NREPA (emergency response actions for sites of environmental contamination).

The State Treasurer would have to direct the investment of the Fund and credit to it interest and earnings from Fund investments. Money in the Fund at the close of the fiscal year would have to remain in the Fund and could not lapse to the General Fund. The Department of Environmental Quality (DEQ) would have to spend money from the Fund, upon appropriation, only for monitoring, surveillance, enforcement, and administration of Part 615.

The DEQ annually would have to submit to the Legislature a report that itemized the expenditure of money in the Fund. The report would have to include, at a minimum, the amount of money received and spent; the number of full-time equivalent positions funded with Fund money; the number of on-site inspections conducted by the DEQ in implementing Part 615; and the number of violations identified in enforcing Part 615, their locations, and a description of the nature of the violations.

Regulatory Fee

The owner or operator of a well used for injection, withdrawal, or observation related to the storage of natural gas or liquefied petroleum gas that had been used for its permitted purpose at any time during the 12 consecutive months immediately before the time the fee was due would be subject to a $20 annual well regulatory fee. Fees that were imposed would have to be collected by the Supervisor (the DEQ) in the manner provided by the Supervisor. The Supervisor would have to forward all fees collected to the State Treasurer for deposit into the Fund.

Monitoring, Surveillance, Enforcement, and Administration Fee

Currently, the Act imposes a 1% fee, based on the gross cash market value of oil and gas produced in this State for the purposes of monitoring, surveillance, enforcement, and administration. The bill would include the purpose of addressing environmental problems associated with the production and use of oil and gas.

Under the Act, the Director of Management and Budget, by November 1, must certify to the Department of Treasury the amount appropriated for the fiscal year for purposes of monitoring, surveillance, enforcement, and administration. The DEQ must estimate the total production and gross cash market value of all oil and gas that will be produced during the fiscal year ending September 30, and must certify its estimate to the Department of Treasury by November 1. The Department of Treasury must determine, by December 1 of the year, the percentage, the ratio that the appropriation bears to the total gross cash market value of the oil and gas that will be produced as estimated by the DEQ. (The percentage must not exceed 1% and must be the fee beginning the first of the following month and continue to be the fee for the next 12 months until a different fee is determined.) The proceeds of the fee must be credited to the General Fund and appropriated by the Legislature toward the cost of monitoring, surveillance, enforcement, and administration. The bill would delete these provisions and require that the fee be forwarded to the State Treasurer for deposit into the Oil and Gas Regulatory Fund.

MCL 324.61501 et al. Legislative Analyst: N. Nagata

FISCAL IMPACT

The bill could generate an additional $208,000 in restricted revenue for the State.

According to the Department of Environmental Quality, there are approximately 700 permits to drill issued annually and approximately 3,400 active injection, withdrawal, or observation wells that have been used within the past 12 months. The bill would generate approximately $140,000 in new revenue from the increase of $100 to $300 per permit. The bill would also generate approximately $68,000 from the $20 annual fee on active wells.

The establishment of an Oil and Gas Regulatory Fund would have no net fiscal impact on the State, but could redirect current interest and earnings revenue, and allow a carry-forward of funds for use by the Department.

Fiscal Analyst: G. Cutler

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