

OIL AND GAS COMMISSION

Enabling Laws

Act 272 of 2012
A.C.A. §15-71-101 et seq.
A.C.A. §15-72-101 et seq.
A.C.A. §15-76-301 et seq.

History and Organization

The purpose and mission of the Arkansas Oil and Gas Commission is to serve the public regarding oil and gas matters, to protect the correlative rights and interests of mineral owners through orderly resource development and to regulate the oil, gas and brine production industries to insure compliance with state and federal laws regarding protection of the environment and waters of the state.

The Commission maintains administrative offices in Little Rock and district offices in El Dorado and Ft. Smith. Approximately 40,000 permits to drill have been issued by the Arkansas Oil and Gas Commission since creation of the Commission in 1939. Well records for these wells are maintained at the Commission district offices in El Dorado and Ft. Smith and are available to the public during normal office hours. The Commission maintains a web page containing information pertinent to the general public and regulated community regarding the oil and gas industry in Arkansas.

Act 105 of 1939, repealed existing oil and gas laws and regulations and created the Oil and Gas Commission to oversee the oil and gas conservation and production requirements contained in Act 105. The Commission consisted of seven members with industry knowledge, appointed by the Governor to serve staggered six year terms. Compensation was also authorized for each day Commissioners attended a meeting or hearing, along with reimbursement of all necessary travel expenses. Act 680 of 1985 added two members to the Commission and specified that industry knowledge would not be a requirement of service by individuals holding these two positions. The Director of Production and Conservation serves as the ex-officio Secretary of the Commission and serves as the Director of the Commission staff. Act 472 of 1949, as amended by Act 232 of 1953, stipulates that the Director shall also serve as a member of the Pollution Control and Ecology Commission.

Act 111 of 1969 amended Paragraph M of Section 11 of Act 105 of 1939 and empowered the Oil and Gas Commission to regulate the drilling for and production of salt water for the bromine industry.

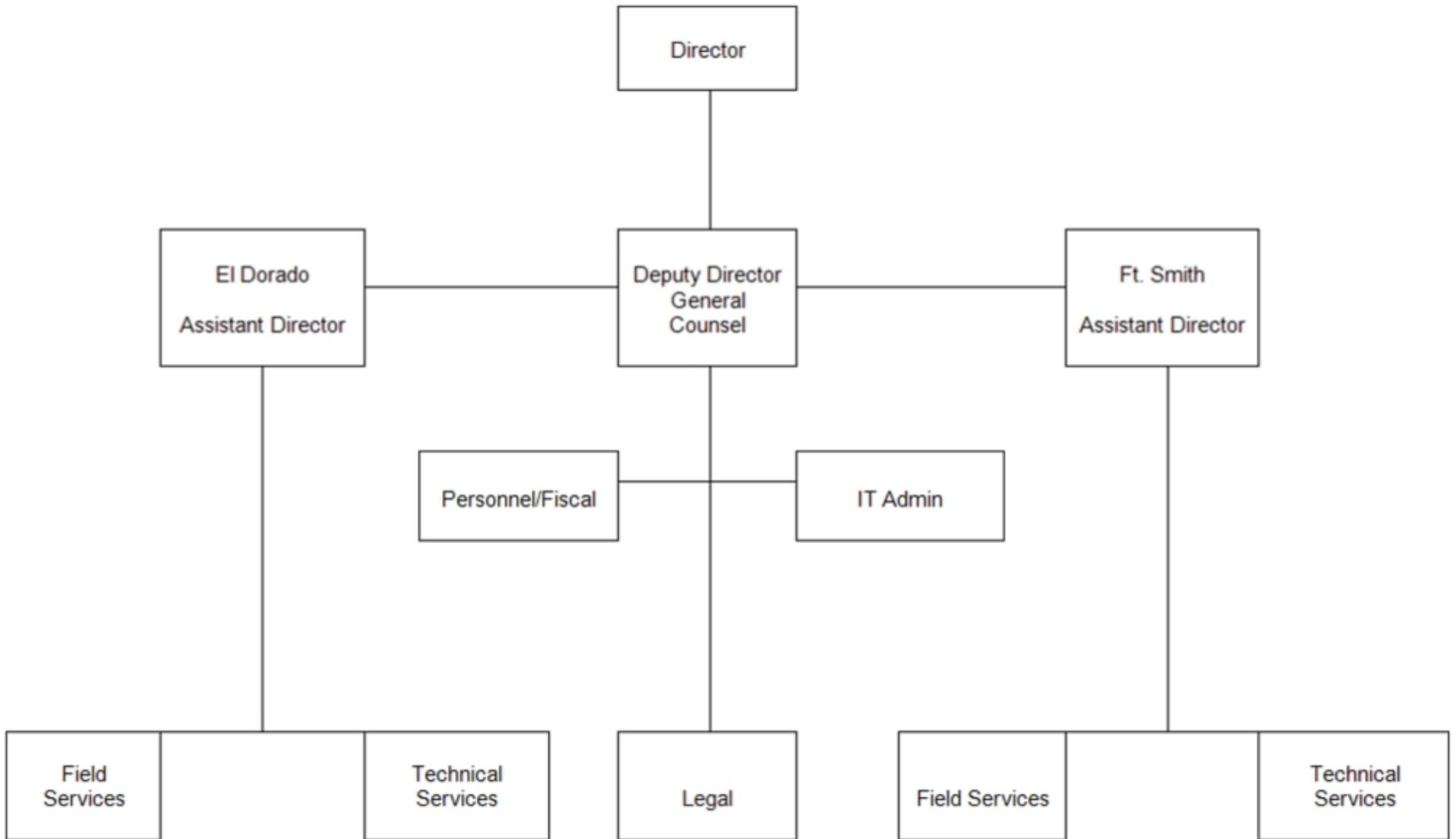
In 1978, the U.S. Congress passed the Natural Gas Policy Act, and the Arkansas Department of Energy determined that the Oil and Gas Commission should serve as the jurisdictional agency for status determination under the provisions of that Act.

Act 937 of 1979 provided additional authorities to the Commission to regulate drilling for and extraction of bromine from produced brine.

In March 1984, the Oil and Gas Commission assumed primacy for the Underground Injection Control Program from the U.S. Environmental Protection Agency for Class II injection wells and Class V bromine-related brine disposal wells. Additional staff personnel were authorized for assimilation of this program into the Agency's regular duties.

Act 5 of 1991 required persons and entities conducting or proposing to conduct field seismic operations in the State to obtain a permit from and post a bond with the Oil and Gas Commission.

Acts 1265, 1266, and 1267 of 2005 created an Abandoned and Orphan Well Plugging Fund to plug abandoned oil and gas wells for which a responsible party no longer existed or could not be located. The Fund and associated plugging program is administered by the Oil and Gas Commission and is funded by an annually assessed fee paid by oil and gas production companies operating in Arkansas.



Agency Commentary

The Oil and Gas Commission is charged by state statute to administer and enforce state and federal laws dealing with the regulatory oversight of the oil, natural gas and brine production industries in Arkansas. These laws are designed to protect the correlative rights of mineral owners, protect the oil, natural gas and brine resources of the state, and to protect the environment and waters of the state during the production of these resources. The Oil and Gas Commission regulatory programs also include administration of the USEPA Underground Injection Control Program for operation of deep injection disposal wells, the USDOT Pipeline Safety Program for natural gas gathering lines and Arkansas Abandoned and Orphaned Well Plugging Program used to plug old abandoned oil and gas wells for which the operators no longer are in existence.

The Fayetteville Shale development continues to expand in the north central part of the state and over the last 7 years has resulted in a six (6) fold increase in the State's total natural gas production. The Fayetteville Shale development is occurring in an area of the State which had not previously experienced oil and natural gas development, which has resulted in increased field inspections to ensure compliance with Commission regulations. The Commission began to address this need during the last two (2) budget cycles and received additional staff and appropriations to meet the growing regulatory program. In addition, exploration is ongoing in the Smackover "brown dense" oil and gas play in the southern part of the State. The Commission is continuing to address the demands of the Fayetteville Shale development and the potential Smackover "brown dense" play and has requested an additional four (4) staff positions in the AOGC FY14-15 budget: a Senior Petroleum Geologist position to address the growing permit review process dealing with drilling, fracture stimulation and citizen inquires dealing with water issues; two (2) Oil and Gas Inspectors for the Fayetteville Shale development area and one (1) Oil and Gas Inspector for the potential Smackover "brown dense" development in south Arkansas.

In addition, to continue to enhance the states' overall oil and gas regulatory program and in view of the increasing demands on the Commission and other State agencies with regulatory oversight in the Fayetteville Shale development area, the Commission is requesting an increase in the AOGC Grant to ADEQ for the purpose of funding ADEQ Fayetteville Field Inspectors currently funded by the Arkansas Game and Fish Commission. The Game and Fish Commission funding of the ADEQ Fayetteville Shale Inspectors will expire at the end of FY13.

There are approximately 700 abandoned and orphaned oil and gas wells currently in the Commission Abandoned and Orphan Well Plugging Program awaiting plugging. In order to sufficiently fund the program to cover the plugging costs for these abandoned and orphan wells, the Commission is requesting to transfer two (2) million dollars annually from the Commission Treasury Fund to the Abandoned and Orphan Well Plugging Fund and increase the expenditure appropriation from the current 1.5 million dollars to 2.5 million dollars annually.

Audit Findings

DIVISION OF LEGISLATIVE AUDIT
AUDIT OF :
ARKANSAS OIL AND GAS COMMISSION
FOR THE YEAR ENDED JUNE 30, 2011

Findings

Recommendations

None

None

State Contracts Over \$25,000 Awarded To Minority Owned Businesses Fiscal Year 2012

None

Employment Summary

	Male	Female	Total	%
White Employees	20	15	35	97 %
Black Employees	0	1	1	3 %
Other Racial Minorities	0	0	0	0 %
Total Minorities			1	3 %
Total Employees			36	100 %

Cash Fund Balance Description as of June 30, 2012

Fund Account	Balance	Type	Location
3010000	\$480,149	Checking	Bank of the Ozark, Little Rock

Statutory/Other Restrictions on use:

n/a

Statutory Provisions for Fees, Fines, Penalties:

A.C.A. 15-71-110 Gives the Commission authority to oversee production of oil and gas and collect fees and fines to fund operations.

Revenue Receipts Cycle:

Fees and Penalties are collected throughout the year.

Fund Balance Utilization:

Refunds/Transfers - Funds are collected on a daily basis. Appropriation is used to make refunds for overpayments and to reimburse posted bonds. The remaining balance at the end of each month is transferred to the State Treasury.

Publications

A.C.A. 25-1-204

Name	Statutory Authorization	Required for		# of Copies	Reason(s) for Continued Publication and Distribution
		Governor	General Assembly		
Rules and Regulations	15-71-111	N	N	0	Required by industry to inform them of Agency rules and regulations. Also included are forms required to be filed for drilling and required production reporting in Arkansas. Available on agency web site.
Weekly Permit and Completion Report	None	N	N	0	Weekly status report of current oil and gas well drilling and completion. Provided to all parties via agency webpage and also available to the general public in Oil & Gas Commission offices.

Department Appropriation Summary

Historical Data

Agency Request and Executive Recommendation

Appropriation	2011-2012		2012-2013		2012-2013		2013-2014						2014-2015					
	Actual	Pos	Budget	Pos	Authorized	Pos	Base Level	Pos	Agency	Pos	Executive	Pos	Base Level	Pos	Agency	Pos	Executive	Pos
204 Oil & Gas Commission-Operations	4,069,503	40	4,315,753	40	4,389,565	40	4,313,051	40	5,029,380	44	5,029,380	44	4,316,834	40	5,033,163	44	5,033,163	44
2XV Well Plugging Program	583,882	0	1,500,000	0	1,500,000	0	1,500,000	0	2,500,000	0	2,500,000	0	1,500,000	0	2,500,000	0	2,500,000	0
A20 Refunds/Reimbursements	161,000	0	500,000	0	500,000	0	500,000	0	500,000	0	500,000	0	500,000	0	500,000	0	500,000	0
Total	4,814,385	40	6,315,753	40	6,389,565	40	6,313,051	40	8,029,380	44	8,029,380	44	6,316,834	40	8,033,163	44	8,033,163	44

Funding Sources		%		%		%		%		%		%		%		%		%
Fund Balance	4000005	19,836,830	62.5	26,936,737	72.4	30,870,984	78.1	30,870,984	76.8	30,870,984	76.8	33,191,604	79.4	32,191,604	77.5	32,191,604	77.5	
Special Revenue	4000030	11,864,758	37.4	9,000,000	24.2	8,133,671	20.6	8,850,000	22.0	8,850,000	22.0	8,133,671	19.4	8,850,000	21.3	8,850,000	21.3	
Cash Fund	4000045	49,534	0.2	500,000	1.3	500,000	1.3	500,000	1.2	500,000	1.2	500,000	1.2	500,000	1.2	500,000	1.2	
Transfer from Special Revenue	4000565	750,000	2.4	750,000	2.0	750,000	1.9	2,000,000	5.0	2,000,000	5.0	750,000	1.8	2,000,000	4.8	2,000,000	4.8	
Transfers / Adjustments	4000683	(750,000)	(2.4)	0	0.0	(750,000)	(1.9)	(2,000,000)	(5.0)	(2,000,000)	(5.0)	(750,000)	(1.8)	(2,000,000)	(4.8)	(2,000,000)	(4.8)	
Total Funds		31,751,122	100.0	37,186,737	100.0	39,504,655	100.0	40,220,984	100.0	40,220,984	100.0	41,825,275	100.0	41,541,604	100.0	41,541,604	100.0	
Excess Appropriation/(Funding)		(26,936,737)		(30,870,984)		(33,191,604)		(32,191,604)		(32,191,604)		(35,508,441)		(33,508,441)		(33,508,441)		
Grand Total		4,814,385		6,315,753		6,313,051		8,029,380		8,029,380		6,316,834		8,033,163		8,033,163		

Agency Position Usage Report

FY2010 - 2011						FY2011 - 2012						FY2012 - 2013					
Authorized in Act	Budgeted			Unbudgeted	% of Authorized Unused	Authorized in Act	Budgeted			Unbudgeted	% of Authorized Unused	Authorized in Act	Budgeted			Unbudgeted	% of Authorized Unused
	Filled	Unfilled	Total	Total			Filled	Unfilled	Total	Total			Filled	Unfilled	Total	Total	
39	38	1	39	0	2.56 %	40	36	4	40	0	10.00 %	40	37	3	40	0	7.50 %

Analysis of Budget Request

Appropriation: 204 - Oil & Gas Commission-Operations

Funding Sources: SDO - Oil and Gas Commission Fund

The Oil & Gas Commission's operating appropriation is funded by special revenues, as authorized in A.C.A §19-6-410.

Base Level Regular Salaries and Personal Services Matching includes Career Service payments for eligible employees. Personal Services Matching also includes a \$20 increase in the monthly contribution for State employee's health insurance for a total State match per budgeted employee of \$410 per month. Base Level salaries and matching do not include appropriation for a Cost of Living Adjustment or Merit Pay Increases. The Base Level salary of unclassified positions reflects the FY13 line item maximum.

The Commission's request includes Base Level appropriation of \$4,313,051 in FY14, \$4,316,834 in FY15 and Change Level requests of \$716,329 each year. Change Level request reflects the following:

- Increase of \$222,829 each year in Regular Salaries and Personal Services Matching to support four (4) positions: one (1) Senior Petroleum Geologist, two (2) Oil and Gas Inspector positions to address the increase in permit applications, fracture stimulation and water issues associated with the Fayetteville Shale Development, and one (1) Oil and Gas Inspector position for the Smackover "brown dense" development in south Arkansas.
- Increase of \$340,000 each year in Grants and Aids to provide a grant to the Arkansas Department of Environmental Quality (ADEQ). The grant will provide funding for unfunded ADEQ personnel assigned to the Fayetteville Shale Play. Initial funding for the positions were provided by a grant from the Arkansas Game & Fish Commission.
- Increase of \$150,000 each year in Capital Outlay to provide vehicles for the new inspectors and replace existing vehicles as needed due to high mileage and/or maintenance costs.
- Increase of \$3,500 each year in Groundwater Protection to provide state membership and program representation in the National Ground Water Protection Council.

The Executive Recommendation provides for the Agency Request.

Appropriation Summary

Appropriation: 204 - Oil & Gas Commission-Operations

Funding Sources: SDO - Oil and Gas Commission Fund

Historical Data

Agency Request and Executive Recommendation

Commitment Item		2011-2012	2012-2013	2012-2013	2013-2014			2014-2015		
		Actual	Budget	Authorized	Base Level	Agency	Executive	Base Level	Agency	Executive
Regular Salaries	5010000	1,854,758	1,861,771	1,935,531	1,850,724	2,017,307	2,017,307	1,853,824	2,020,407	2,020,407
#Positions		40	40	40	40	44	44	40	44	44
Extra Help	5010001	68,479	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000
#Extra Help		9	10	10	10	10	10	10	10	10
Personal Services Matching	5010003	597,359	600,968	601,020	609,313	665,559	665,559	609,996	666,242	666,242
Operating Expenses	5020002	980,572	987,797	987,797	987,797	987,797	987,797	987,797	987,797	987,797
Conference & Travel Expenses	5050009	10,307	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000
Professional Fees	5060010	12,651	52,000	52,000	52,000	52,000	52,000	52,000	52,000	52,000
Construction	5090005	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000
Data Processing	5090012	0	0	0	0	0	0	0	0	0
Grants and Aid	5100004	10,000	10,000	10,000	10,000	350,000	350,000	10,000	350,000	350,000
Refunds/Reimbursements	5110014	2,350	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000
Capital Outlay	5120011	0	0	0	0	150,000	150,000	0	150,000	150,000
Data Processing Services	5900044	320,214	348,217	348,217	348,217	348,217	348,217	348,217	348,217	348,217
Interstate Oil Compact	5900046	8,200	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Underground Injection Control	5900048	99,613	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000
Groundwater Protection	5900049	5,000	5,000	5,000	5,000	8,500	8,500	5,000	8,500	8,500
Total		4,069,503	4,315,753	4,389,565	4,313,051	5,029,380	5,029,380	4,316,834	5,033,163	5,033,163
Funding Sources										
Fund Balance	4000005	17,160,940	23,772,078		28,106,325	28,106,325	28,106,325	30,826,945	29,576,945	29,576,945
Special Revenue	4000030	11,430,641	8,650,000		7,783,671	8,500,000	8,500,000	7,783,671	8,500,000	8,500,000
Transfers / Adjustments	4000683	(750,000)	0		(750,000)	(2,000,000)	(2,000,000)	(750,000)	(2,000,000)	(2,000,000)
Total Funding		27,841,581	32,422,078		35,139,996	34,606,325	34,606,325	37,860,616	36,076,945	36,076,945
Excess Appropriation/(Funding)		(23,772,078)	(28,106,325)		(30,826,945)	(29,576,945)	(29,576,945)	(33,543,782)	(31,043,782)	(31,043,782)
Grand Total		4,069,503	4,315,753		4,313,051	5,029,380	5,029,380	4,316,834	5,033,163	5,033,163

Change Level by Appropriation

Appropriation: 204 - Oil & Gas Commission-Operations
Funding Sources: SDO - Oil and Gas Commission Fund

Agency Request

Change Level		2013-2014	Pos	Cumulative	% of BL	2014-2015	Pos	Cumulative	% of BL
BL	Base Level	4,313,051	40	4,313,051	100.0	4,316,834	40	4,316,834	100.0
C01	Existing Program	716,329	4	5,029,380	116.6	716,329	4	5,033,163	116.6

Executive Recommendation

Change Level		2013-2014	Pos	Cumulative	% of BL	2014-2015	Pos	Cumulative	% of BL
BL	Base Level	4,313,051	40	4,313,051	100.0	4,316,834	40	4,316,834	100.0
C01	Existing Program	716,329	4	5,029,380	116.6	716,329	4	5,033,163	116.6

Justification

C01	The requested increase in Grants/Aid will provide necessary support to ADEQ to maintain current staffing levels for the Fayetteville Shale Inspectors. These ADEQ positions were initially funded by a grant from the Arkansas Game & Fish Commission. The increase would make the total requested appropriation \$350,000 per fiscal year (as AOGC currently provides a Grant to ADEQ in the amount of \$10,000 for testing purposes). The capital outlay requested will provide funds for vehicles for the new inspectors, replace vehicles as required for existing Inspectors and to maintain agency capital expenses. State membership in the Ground Water Protection Council (GWPC) help maintain the ability to represent state programs at the national level. State dues are calculated on a per-state basis and will increase to \$8,500 per state. Four (4) positions are requested: a Senior Petroleum Geologist position to address the growing permit review process dealing with drilling, fracture stimulation and citizen inquires dealing with water issues; two (2) Oil and Gas Inspectors for the Fayetteville Shale development area and one (1) Oil and Gas Inspector for the potential Smackover "brown dense" development in south Arkansas.
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Analysis of Budget Request

Appropriation: 2XV - Well Plugging Program

Funding Sources: SAW - Abandoned and Orphan Well Plugging Fund

This appropriation is funded by special revenue derived from fees, forfeited bonds, proceeds from the sale of hydrocarbons, and grants or gifts from the public. In addition, upon review of the Chief Fiscal Officer of the State and the Legislative Council, special language allows a transfer up to \$750,000 per year from the Oil and Gas Fund to the Abandoned and Orphan Well Plugging Fund. The Oil & Gas Commission's Abandoned and Orphan Well Plugging Fund was established by Acts 1265 and 1267 of 2005 (A.C.A. §15-71-115). The fund is utilized for well plugging program expenses. The Commission specifically utilizes the funds to plug abandoned and orphaned wells by means of contracts, grants to landowners, or for the payment of other plugging costs or corrective work.

In addition to Base Level of \$1,500,000 each year, the Commission is requesting an increase in Well Plugging Expenses of \$1,000,000 each year. The increase is needed to cover the plugging costs for approximately 700 abandoned and orphaned oil and gas wells. To provide funding to support this request the Commission is requesting to increase the special language transfer authority from \$750,000 per year to \$2,000,000 per year from the Oil and Gas Fund to the Abandoned and Orphan Well Plugging Fund.

The Executive Recommendation provides for the Agency Request.

Appropriation Summary

Appropriation: 2XV - Well Plugging Program

Funding Sources: SAW - Abandoned and Orphan Well Plugging Fund

Historical Data

Agency Request and Executive Recommendation

Commitment Item		Historical Data			2013-2014			2014-2015		
		2011-2012 Actual	2012-2013 Budget	2012-2013 Authorized	Base Level	Agency	Executive	Base Level	Agency	Executive
Well Plugging Expenses	5900046	583,882	1,500,000	1,500,000	1,500,000	2,500,000	2,500,000	1,500,000	2,500,000	2,500,000
Total		583,882	1,500,000	1,500,000	1,500,000	2,500,000	2,500,000	1,500,000	2,500,000	2,500,000
Funding Sources										
Fund Balance	4000005	2,084,275	2,684,510		2,284,510	2,284,510	2,284,510	1,884,510	2,134,510	2,134,510
Special Revenue	4000030	434,117	350,000		350,000	350,000	350,000	350,000	350,000	350,000
Transfer from Special Revenue	4000565	750,000	750,000		750,000	2,000,000	2,000,000	750,000	2,000,000	2,000,000
Total Funding		3,268,392	3,784,510		3,384,510	4,634,510	4,634,510	2,984,510	4,484,510	4,484,510
Excess Appropriation/(Funding)		(2,684,510)	(2,284,510)		(1,884,510)	(2,134,510)	(2,134,510)	(1,484,510)	(1,984,510)	(1,984,510)
Grand Total		583,882	1,500,000		1,500,000	2,500,000	2,500,000	1,500,000	2,500,000	2,500,000

Change Level by Appropriation

Appropriation: 2XV - Well Plugging Program
Funding Sources: SAW - Abandoned and Orphan Well Plugging Fund

Agency Request

Change Level		2013-2014	Pos	Cumulative	% of BL	2014-2015	Pos	Cumulative	% of BL
BL	Base Level	1,500,000	0	1,500,000	100.0	1,500,000	0	1,500,000	100.0
C01	Existing Program	1,000,000	0	2,500,000	166.7	1,000,000	0	2,500,000	166.7

Executive Recommendation

Change Level		2013-2014	Pos	Cumulative	% of BL	2014-2015	Pos	Cumulative	% of BL
BL	Base Level	1,500,000	0	1,500,000	100.0	1,500,000	0	1,500,000	100.0
C01	Existing Program	1,000,000	0	2,500,000	166.7	1,000,000	0	2,500,000	166.7

Justification

C01	An increase in appropriation for well plugging is requested so that the workflow for plugging the abandoned wells in the State can continue as work is approved and contractors are available to accomplish the remedial 700+ well project. This would make the total appropriation \$2,500,000 each year of the biennium.								
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Analysis of Budget Request

Appropriation: A20 - Refunds/Reimbursements

Funding Sources: 301 - Oil and Gas Commission Cash

The Oil & Gas Commission's cash fund is used for deposit of special revenue fees collected by the Commission and to hold bonds posted by companies engaged in seismographic exploration in the State. This account provides checks with which to make transfers to the State Treasury and eliminates the necessity of sending cash through the mail. The Commission then transfers collected funds to the Oil and Gas Commission Fund to be utilized for Regular Salaries and Operating Expenses.

The Commission is requesting Base Level of \$500,000 each year.

The Executive Recommendation provides for the Agency Request.

Appropriation Summary

Appropriation: A20 - Refunds/Reimbursements

Funding Sources: 301 - Oil and Gas Commission Cash

Historical Data

Agency Request and Executive Recommendation

Commitment Item	Historical Data			2013-2014			2014-2015		
	2011-2012 Actual	2012-2013 Budget	2012-2013 Authorized	Base Level	Agency	Executive	Base Level	Agency	Executive
Refunds/Reimbursements 5110014	161,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000
Total	161,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000
Funding Sources									
Fund Balance 4000005	591,615	480,149		480,149	480,149	480,149	480,149	480,149	480,149
Cash Fund 4000045	49,534	500,000		500,000	500,000	500,000	500,000	500,000	500,000
Total Funding	641,149	980,149		980,149	980,149	980,149	980,149	980,149	980,149
Excess Appropriation/(Funding)	(480,149)	(480,149)		(480,149)	(480,149)	(480,149)	(480,149)	(480,149)	(480,149)
Grand Total	161,000	500,000		500,000	500,000	500,000	500,000	500,000	500,000