

OIL AND GAS COMMISSION

Enabling Laws

Act 910 of 2005
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 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 administration offices in Little Rock and district offices in El Dorado and Ft. Smith. Approximately 38,000 permits to drill have been issued by the Arkansas Oil and Gas Commission since creation of the Commission in 1939. Permitting, drilling, plugging, and abandonment 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.

Act 105 of 1939, repealed existing oil and gas laws and regulations and created the Oil and Gas Commission to oversee the oil and gas conservation and production requirements contained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.

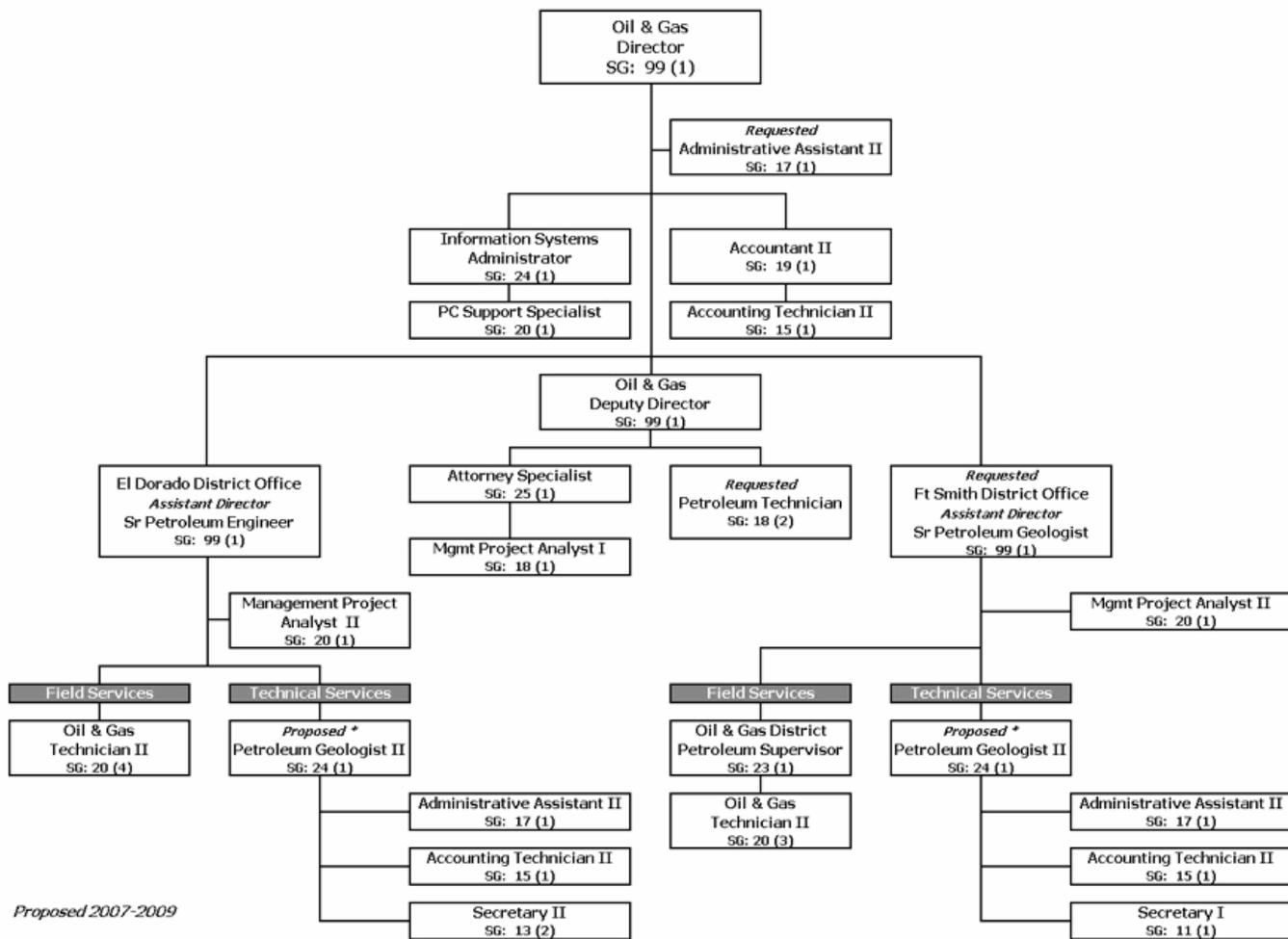
Act 937 of 1979 provided additional authorities to the Commission to regulate drilling for and extraction of bromine from produced brine.

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 and 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.



Proposed 2007-2009

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 production operations of these resources. Increased oil and natural gas prices in addition to the new drilling activity associated with the Fayetteville Shale development has necessitated a Commission request for a budget increase to adequately administer the States' oil and natural gas regulatory program.

The Fayetteville Shale development is occurring in an area of the State, which has not previously experienced oil and natural gas development. Given the existing Commission offices in El Dorado and Ft. Smith area are not located near the Fayetteville Shale development area, and in order to maintain the necessary regulatory presence and provide better public, legislative and governmental agency access to Commission programs, the Commission established a permanent office in Little Rock during FY07. This new office will house the Directors office, associated Commission regulatory staff and field staff (being requested in this budget) assigned to the Fayetteville Shale area. In addition, the management structure of the Commission has been modified to provide for an Assistant Director (Grade 99, which currently exists as a Senior Petroleum Engineer) in the El Dorado District Office and an Assistant Director in the Ft. Smith District Office (which is being requested as a new Grade 99). The Commission is requesting 4 additional staff positions be established to accommodate the above realignment of Commission personnel resources and the new Little Rock office.

In addition to the request for additional personnel, the Commission is also requesting an increase in operations and Capital Outlay to provide for additional costs in operations due to increased field travel for inspection staff, additional hearing days for the full Commission, the new Little Rock office operations, and to provide for building operation costs not included in the Commission budget for the Ft. Smith office. Although the Commission completed the new building in Ft. Smith and moved into the building in 2001, adequate operating costs were not included in subsequent budget requests, which have been included in this budget. In order to maximize Commission resources and minimize the budget request increase due to these increased operations costs, the Commission has reduced the total request for the Commission Data Processing line \$50,000 to help cover some of the increases in Operating Expenses.

In order to fully administer the States' oil and gas regulatory program and in view of the increasing demands on the Commission, the Commission is requesting increases in the Regular Salary, Personnel Services, Operating Expenses and Capital Outlay lines necessary to maintain the regulatory program.

The request to decrease the Refunds/Transfers appropriation (A20) is due to the fact that appropriation is not needed to make transfers from our cash account to the State Treasury Fund. The amount requested will be sufficient to cover necessary refunds for the 2007-09 biennium.

Audit Findings

DIVISION OF LEGISLATIVE AUDIT
AUDIT OF :
ARKANSAS OIL AND GAS COMMISSION
FOR THE YEAR ENDED JUNE 30, 2005

Findings	Recommendations
None	None

Employment Summary

	Male	Female	Total	%
White Employees	12	11	23	100 %
Black Employees	0	0	0	0 %
Other Racial Minorities	0	0	0	0 %
Total Minorities			0	0 %
Total Employees			23	100 %

Cash Fund Balance Description as of June 30, 2006

Fund Account	Balance	Type	Location
3010000	\$217,180	Checking	BanCorp South, El Dorado

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, fines, and penalties; and use them to fund operations.

Revenue Receipts Cycle:

Fees and Penalties are collected through 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

		Historical Data						Agency Request and Executive Recommendation							
Appropriation		2005-2006		2006-2007		2006-2007		2007-2008				2008-2009			
		Actual	Pos	Budget	Pos	Authorized	Pos	Agency	Pos	Executive	Pos	Agency	Pos	Executive	Pos
204	Oil & Gas Commission-Operations	1,981,362	28	2,078,589	28	2,082,532	28	2,604,950	32	2,604,950	32	2,389,950	32	2,389,950	32
2XV	Well Plugging Program	207,236	0	542,765	0	0	0	1,500,000	0	1,500,000	0	0	0	0	0
A20	Refunds/Transfers	136,270	0	2,000,000	0	2,000,000	0	500,000	0	500,000	0	500,000	0	500,000	0
Total		2,324,868	28	4,621,354	28	4,082,532	28	4,604,950	32	4,604,950	32	2,889,950	32	2,889,950	32

Funding Sources			%		%		%		%		%		%
Fund Balance	4000005	2,549,945	47.3	3,060,627	41.8			2,697,093	45.5	2,697,093	45.5	1,840,759	40.3
Special Revenue	4000030	2,812,539	52.2	2,475,000	33.8			2,725,000	46.0	2,725,000	46.0	2,225,000	48.7
Cash Fund	4000045	2,717,272	50.5	1,782,820	24.4			2,000,000	33.8	2,000,000	33.8	2,000,000	43.8
Transfer from Special Revenue	4000565	750,000	13.9	0	0.0			0	0.0	0	0.0	0	0.0
Transfer to Treasury	4000680	(2,717,272)	(50.5)	0	0.0			(1,500,000)	(25.3)	(1,500,000)	(25.3)	(1,500,000)	(32.9)
Transfers / Adjustments	4000683	(750,000)	(13.9)	0	0.0			0	0.0	0	0.0	0	0.0
Trust Fund Interest	4000705	23,011	0.5	0	0.0			0	0.0	0	0.0	0	0.0
Total Funds		5,385,495	100.0	7,318,447	100.0			5,922,093	100.0	5,922,093	100.0	4,565,759	100.0
Excess Appropriation/(Funding)		(3,060,627)		(2,697,093)				(1,317,143)		(1,317,143)		(1,675,809)	
Grand Total		2,324,868		4,621,354				4,604,950		4,604,950		2,889,950	

FY06 Actual and FY07 Budgeted for 2XV exceed Authorized due to this being a Biennial Appropriation with Special Language that allows for Carry Forward. Special Revenue Funds are collected in Agency cash fund (A20) and are transferred to the Oil and Gas Commission Fund (204) to fund operations. Special language allowed for the transfer of \$750,000 from 204 to 2XV. Fund Balances do not match from FY08 to FY09 due to unfunded appropriation levels in appropriation 2XV.

BEFORE PROPOSED MERGER

Agency Position Usage Report

FY2004-2005						FY2005-2006						FY2006-2007					
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	
28	24	4	28	0	14.29%	28	22	6	28	0	21.43%	28	23	5	28	0	17.86%

Analysis of Budget Request

Appropriation: 204 - Oil & Gas Commission-Operations

Funding Sources: SDO-Oil and Gas Commission Fund

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

A cost of living increase is not incorporated in Base Level pending the outcome of the Classification and Compensation Study. The Base Level request of \$1,127,598 for FY08 and \$1,127,598 for FY09 for Regular Salaries does include board member Stipend payments. FY07 salary levels have been held flat each year for all incumbents. Personal Services Matching may reflect increase in the Base Level due to the Social Security Tax maximum income limit and certain increases in Worker's Compensation and Unemployment Tax rates. Personal Services Matching also includes a \$30 increase in the monthly contribution for State employee's health insurance for a total State Match per budgeted employee of \$350 per month.

The Agency is requesting a Base Level budget of \$2,222,451 for FY08 and \$2,022,451 for FY09. In addition, the Agency Change Level request for this appropriation is \$382,499 for FY08 and \$367,499 for FY09.

Personnel related Change Level increases requested for this appropriation include 4 new positions totaling \$163,687 for Regular Salaries and \$51,387 for Personal Services Matching for each year of the 2007-09 biennium; (1) Senior Petroleum Engineer to serve as Assistant Director of the Ft. Smith District Office, (2) Oil & Gas Technician II, (1) Administrative Assistant II to staff new Little Rock office.

A \$52,425 increase in Operating Expenses is being requested each year of the biennium. In addition, an increase in Capital Outlay of \$115,000 for FY08 and \$100,000 for FY09 is requested. The increases will be used to cover needs of the new Little Rock office, as well as, the Ft. Smith office and overall increases in field travel for the inspection staff.

The Executive Recommendation provides for the Agency Request.

Appropriation

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

Historical Data

Agency Request and Executive Recommendation

Commitment Item		2005-2006	2006-2007	2006-2007	2007-2008			2008-2009		
		Actual	Budget	Authorized	Base Level	Agency	Executive	Base Level	Agency	Executive
Regular Salaries	5010000	1,036,886	1,127,598	1,131,298	1,127,598	1,291,285	1,291,285	1,127,598	1,291,285	1,291,285
#Positions		28	28	28	28	32	32	28	32	32
Extra Help	5010001	37,922	45,000	45,000	45,000	45,000	45,000	45,000	45,000	45,000
#Extra Help		6								
Personal Services Matching	5010003	314,541	339,515	339,758	358,377	409,764	409,764	358,377	409,764	409,764
Operating Expenses	5020002	360,617	389,476	329,476	389,476	441,901	441,901	389,476	441,901	441,901
Conference & Travel Expenses	5050009	9,846	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000
Professional Fees	5060010	891	2,000	62,000	2,000	2,000	2,000	2,000	2,000	2,000
Data Processing	5090012	0	0	0	0	0	0	0	0	0
Grants and Aid	5100004	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Capital Outlay	5120011	73,930	75,000	75,000	0	115,000	115,000	0	100,000	100,000
Data Processing Services	5900044	80,223	0	0	200,000	200,000	200,000	0	0	0
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	43,306	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000
Groundwater Protection	5900049	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Total		1,981,362	2,078,589	2,082,532	2,222,451	2,604,950	2,604,950	2,022,451	2,389,950	2,389,950
Funding Sources										
Fund Balance	4000005	2,219,506	2,074,298		2,220,709	2,220,709	2,220,709	1,840,759	1,840,759	1,840,759
Special Revenue	4000030	2,586,154	2,225,000		1,842,501	2,225,000	2,225,000	1,857,501	2,225,000	2,225,000
Transfers / Adjustments	4000683	(750,000)	0		0	0	0	0	0	0
Total Funding		4,055,660	4,299,298		4,063,210	4,445,709	4,445,709	3,698,260	4,065,759	4,065,759
Excess Appropriation/(Funding)		(2,074,298)	(2,220,709)		(1,840,759)	(1,840,759)	(1,840,759)	(1,675,809)	(1,675,809)	(1,675,809)
Grand Total		1,981,362	2,078,589		2,222,451	2,604,950	2,604,950	2,022,451	2,389,950	2,389,950

Actual/Budgeted exceeds Authorized in Operating Expenses due to Budget Classification Transfer and Data Processing Services due to carry forward special language. Special Revenue is transferred to the Oil & Gas Commission Fund. BEFORE PROPOSED MERGER

Change Level by Appropriation

Appropriation: 204-Oil & Gas Commission-Operations

Funding Sources: SDO-Oil and Gas Commission Fund

Agency Request

Change Level		2007-2008	Pos	Cumulative	% of BL	2008-2009	Pos	Cumulative	% of BL
BL	Base Level	2,222,451	28	2,222,451	100.0	2,022,451	28	2,022,451	100.0
C01	Existing Program	382,499	4	2,604,950	117.2	367,499	4	2,389,950	118.1

Executive Recommendation

Change Level		2007-2008	Pos	Cumulative	% of BL	2008-2009	Pos	Cumulative	% of BL
BL	Base Level	2,222,451	28	2,222,451	100.0	2,022,451	28	2,022,451	100.0
C01	Existing Program	382,499	4	2,604,950	117.2	367,499	4	2,389,950	118.1

Justification

C01	Change Level Request for 4 staff positions to accommodate the realignment of Commission personnel resources and the new Little Rock office, and an increase in operations and Capital Outlay for additional costs in operations due to increase in activity and to support new office.
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Analysis of Budget Request

Appropriation: 2XV - Well Plugging Program

Funding Sources: SAW-Abandoned and Orphan Well Plugging Fund

The Oil & Gas Commission's Abandoned and Orphan Well Plugging Fund is utilized for well plugging program expenses. In addition, it is funded by fees, forfeited bonds, proceeds from the sale of hydrocarbons, and grants or gifts from the public. 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. The Fund was established by Acts 1265 and 1267 of 2005 (A.C.A. 15-71-115).

The Agency is requesting the continuation of the Base Level for this appropriation in the amount of \$1,500,000.

The Executive Recommendation provides for the Agency Request. Expenditure of appropriation is contingent upon available funding.

Appropriation

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

Historical Data

Agency Request and Executive Recommendation

Commitment Item	2005-2006	2006-2007	2006-2007	2007-2008			2008-2009		
	Actual	Budget	Authorized	Base Level	Agency	Executive	Base Level	Agency	Executive
Well Plugging Expenses 5900046	207,236	542,765	0	1,500,000	1,500,000	1,500,000	0	0	0
Total	207,236	542,765	0	1,500,000	1,500,000	1,500,000	0	0	0
Funding Sources									
Fund Balance 4000005	0	769,149		476,384	476,384	476,384	0	0	0
Special Revenue 4000030	226,385	250,000		500,000	500,000	500,000	0	0	0
Transfer from Special Revenue 4000565	750,000	0		0	0	0	0	0	0
Total Funding	976,385	1,019,149		976,384	976,384	976,384	0	0	0
Excess Appropriation/(Funding)	(769,149)	(476,384)		523,616	523,616	523,616	0	0	0
Grand Total	207,236	542,765		1,500,000	1,500,000	1,500,000	0	0	0

This is a biennial appropriation. Special language allowed for the transfer of \$750,000 from the Oil and Gas Commission Fund to the Abandoned and Orphan Well Plugging Fund.

BEFORE PROPOSED MERGER

Analysis of Budget Request

Appropriation: A20 - Refunds/Transfers

Funding Sources: 301-Oil and Gas-Cash

The Oil & Gas Commission's cash fund is used for deposit of special revenue fees collected by the Agency 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 Agency Base Level for this appropriation is \$2,000,000 each year of the 2007-2009 biennium. The Agency is requesting a decrease in appropriation of \$1,500,000 for each year because appropriation is no longer need to make transfers to the State Treasury. In accordance with A.C.A. 19-4-710 Interagency Transfers and A.C.A. 19-5-106 Transfer of Funds, transfers within state agencies are to be carried out in a way that will eliminate double accounting of receipts and expenditures. The Agency transfers collected funds to the Oil and Gas Commission fund (Fund SDO0100) to be utilized for Regular Salaries and Operating Expenses. The remaining appropriation of \$500,000 will be utilized to make refunds as necessary.

The Executive Recommendation provides for the Agency Request. Expenditure of appropriation is contingent upon available funding.

Appropriation

Appropriation: A20 Refunds/Transfers
Funding Sources: 301-Oil and Gas-Cash

Historical Data

Agency Request and Executive Recommendation

Commitment Item		2005-2006	2006-2007	2006-2007	2007-2008			2008-2009		
		Actual	Budget	Authorized	Base Level	Agency	Executive	Base Level	Agency	Executive
Refunds/Reimbursements	5110014	136,270	2,000,000	2,000,000	2,000,000	500,000	500,000	2,000,000	500,000	500,000
Total		136,270	2,000,000	2,000,000	2,000,000	500,000	500,000	2,000,000	500,000	500,000
Funding Sources										
Fund Balance	4000005	330,439	217,180		0	0	0	0	0	0
Cash Fund	4000045	2,717,272	1,782,820		2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Transfer to Treasury	4000680	(2,717,272)	0		0	(1,500,000)	(1,500,000)	0	(1,500,000)	(1,500,000)
Trust Fund Interest	4000705	23,011	0		0	0	0	0	0	0
Total Funding		353,450	2,000,000		2,000,000	500,000	500,000	2,000,000	500,000	500,000
Excess Appropriation/(Funding)		(217,180)	0		0	0	0	0	0	0
Grand Total		136,270	2,000,000		2,000,000	500,000	500,000	2,000,000	500,000	500,000

Special Revenue Funds are collected in Agency Cash fund and are transferred to the Oil and Gas Commission Fund to fund operations.

BEFORE PROPOSED MERGER

Change Level by Appropriation

Appropriation: A20-Refunds/Transfers

Funding Sources: 301-Oil and Gas-Cash

Agency Request

Change Level		2007-2008	Pos	Cumulative	% of BL	2008-2009	Pos	Cumulative	% of BL
BL	Base Level	2,000,000	0	2,000,000	100.0	2,000,000	0	2,000,000	100.0
C03	Discontinue Program	(1,500,000)	0	500,000	25.0	(1,500,000)	0	500,000	25.0

Executive Recommendation

Change Level		2007-2008	Pos	Cumulative	% of BL	2008-2009	Pos	Cumulative	% of BL
BL	Base Level	2,000,000	0	2,000,000	100.0	2,000,000	0	2,000,000	100.0
C03	Discontinue Program	(1,500,000)	0	500,000	25.0	(1,500,000)	0	500,000	25.0

Justification

C03	Discontinue program due to appropriation not being needed to make transfers to State Treasury.
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