

# OIL AND GAS COMMISSION

## **Enabling Laws**

Act 174 of 2014  
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Act 105 of 1939, repealed existing oil and gas laws and regulations and created the Oil and Gas Commission to oversee the oil and gas conservation and production requirements contained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.

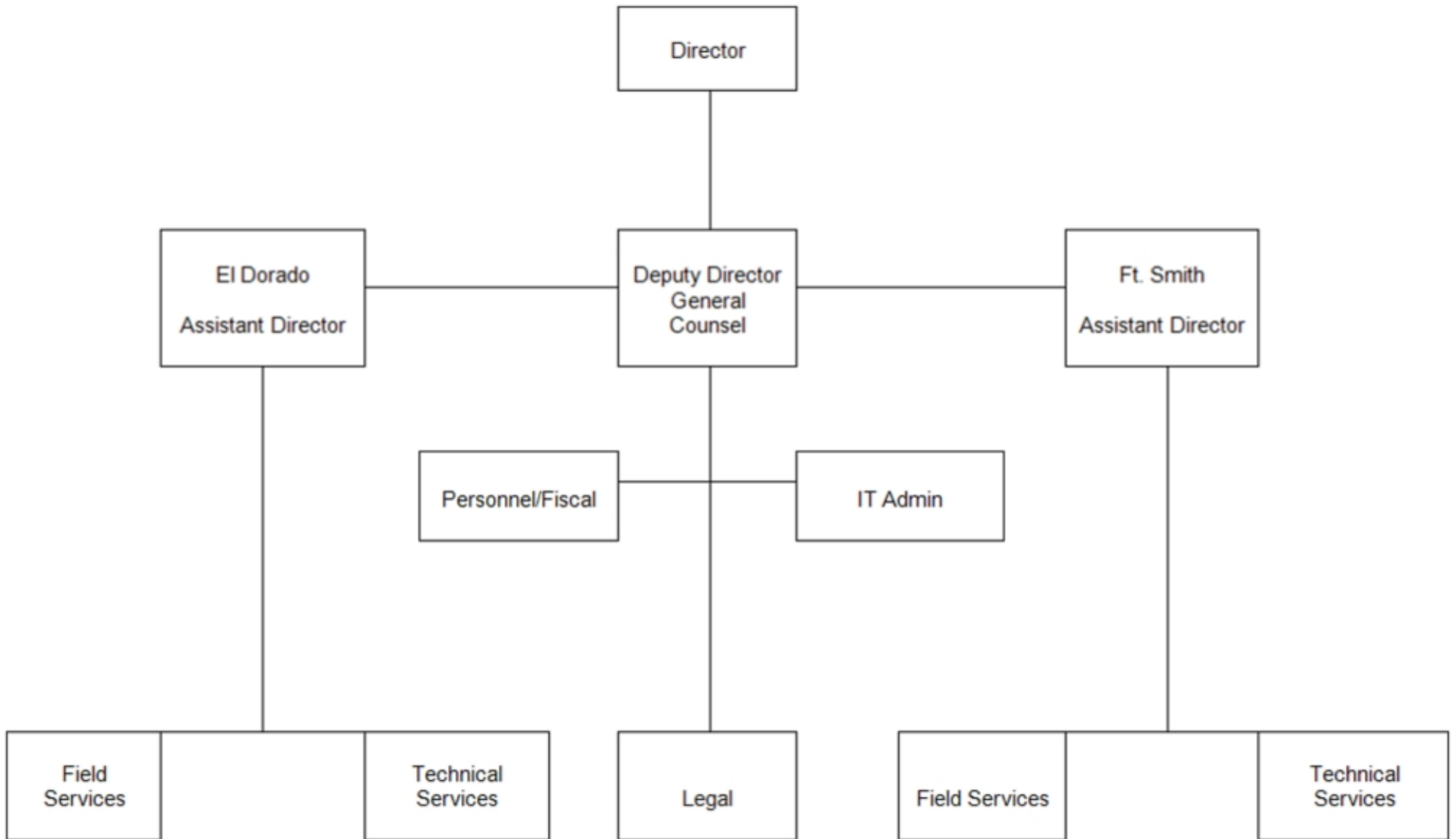
In 1978, the U.S. Congress passed the Natural Gas Policy Act, and the Arkansas Department of Energy determined that the Oil and Gas Commission should serve as the jurisdictional agency for status determination under the provisions of that Act.

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.

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 \$2,000,000 annually from the Commission Treasury Fund to the Abandoned and Orphan Well Plugging Fund and maintain the expenditure appropriation at the Base Level amount \$2,500,000 annually.

First, the Commission requests an additional \$25,000 in appropriation to meet its increased obligations to the Interstate Oil Compact. Second, the Commission also requests an increase in \$110,000 for Geological Research. The appropriation will be used in the form of a transfer to the Arkansas Geological Survey. Third, the Commission is requesting \$6,000,000 in appropriation through the capital projects process for construction of a permanent office building.

## Audit Findings

DIVISION OF LEGISLATIVE AUDIT  
AUDIT OF :  
ARKANSAS OIL AND GAS COMMISSION  
FOR THE YEAR ENDED JUNE 30, 2013

Findings

Recommendations

None

None

## State Contracts Over \$50,000 Awarded To Minority Owned Businesses Fiscal Year 2014

None

## Employment Summary

	Male	Female	Total	%
White Employees	21	18	39	95 %
Black Employees	0	2	2	5 %
Other Racial Minorities	0	0	0	0 %
Total Minorities			2	5 %
Total Employees			41	100 %

## Cash Fund Balance Description as of June 30, 2014

Fund Account	Balance	Type	Location
3010000	\$432,836	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. 25-1-201 et seq.**

Name	Statutory Authorization	Required for		# of Copies	Reason(s) for Continued Publication and Distribution	Unbound Black & White Copies Produced During the Last Two Years	Cost of Unbound Copies Produced During the Last Two Years
		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.	0	0.00
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.	0	0.00

# Department Appropriation Summary

## Historical Data

## Agency Request and Executive Recommendation

Appropriation	2013-2014		2014-2015		2014-2015		2015-2016						2016-2017					
	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	4,352,385	44	5,077,961	44	5,074,720	44	5,109,467	44	5,244,467	44	5,244,467	44	5,114,119	44	5,249,119	44	5,249,119	44
2XV Well Plugging Program	1,614,295	0	2,500,000	0	2,500,000	0	2,500,000	0	2,500,000	0	2,500,000	0	2,500,000	0	2,500,000	0	2,500,000	0
A20 Refunds/Reimbursements	46,500	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
<b>Total</b>	<b>6,013,180</b>	<b>44</b>	<b>8,077,961</b>	<b>44</b>	<b>8,074,720</b>	<b>44</b>	<b>8,109,467</b>	<b>44</b>	<b>8,244,467</b>	<b>44</b>	<b>8,244,467</b>	<b>44</b>	<b>8,114,119</b>	<b>44</b>	<b>8,249,119</b>	<b>44</b>	<b>8,249,119</b>	<b>44</b>

Funding Sources		%		%		%		%		%		%		%		%		%
Fund Balance	4000005	33,738,360	78.4	37,006,677	79.1	38,678,716	79.9	38,678,716	79.9	38,678,716	79.9	40,319,249	80.5	40,184,249	80.5	40,184,249	80.5	
Special Revenue	4000030	12,096,365	28.1	9,250,000	19.8	9,250,000	19.1	9,250,000	19.1	9,250,000	19.1	9,250,000	18.5	9,250,000	18.5	9,250,000	18.5	
Cash Fund	4000045	45,005	0.1	500,000	1.1	500,000	1.0	500,000	1.0	500,000	1.0	500,000	1.0	500,000	1.0	500,000	1.0	
Transfer from Special Revenue	4000565	1,994,683	4.6	2,000,000	4.3	2,000,000	4.1	2,000,000	4.1	2,000,000	4.1	2,000,000	4.0	2,000,000	4.0	2,000,000	4.0	
Transfers / Adjustments	4000683	(4,854,556)	(11.3)	(2,000,000)	(4.3)	(2,000,000)	(4.1)	(2,000,000)	(4.1)	(2,000,000)	(4.1)	(2,000,000)	(4.0)	(2,000,000)	(4.0)	(2,000,000)	(4.0)	
<b>Total Funds</b>		<b>43,019,857</b>	<b>100.0</b>	<b>46,756,677</b>	<b>100.0</b>	<b>48,428,716</b>	<b>100.0</b>	<b>48,428,716</b>	<b>100.0</b>	<b>48,428,716</b>	<b>100.0</b>	<b>50,069,249</b>	<b>100.0</b>	<b>49,934,249</b>	<b>100.0</b>	<b>49,934,249</b>	<b>100.0</b>	
Excess Appropriation/(Funding)		(37,006,677)		(38,678,716)		(40,319,249)		(40,184,249)		(40,184,249)		(41,955,130)		(41,685,130)		(41,685,130)		
<b>Grand Total</b>		<b>6,013,180</b>		<b>8,077,961</b>		<b>8,109,467</b>		<b>8,244,467</b>		<b>8,244,467</b>		<b>8,114,119</b>		<b>8,249,119</b>		<b>8,249,119</b>		

## Agency Position Usage Report

FY2012 - 2013						FY2013 - 2014						FY2014 - 2015					
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	
40	37	3	40	0	7.50 %	44	41	3	44	0	6.82 %	44	41	3	44	0	6.82 %



## **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 include the continuation of the previously authorized 2015 1% Cost of Living Adjustment and Career Service Payments for eligible employees. Personal Services Matching also includes a \$10 increase in the monthly contribution for State employee's health insurance for a total State match per budgeted employee of \$420 per month. Base Level salaries and matching do not include appropriation for Merit Pay Increases. The Base Level salary of unclassified positions reflects the FY15 line item maximum plus the previously authorized 2015 1% Cost of Living Adjustment.

The Commission's request includes Base Level appropriation of \$5,109,467 in FY16, \$5,114,119 in FY17 and Change Level requests of \$135,000 each year. Change Level requests reflect the following:

- Increase of \$25,000 each year for the Interstate Oil Compact's operating expenses proportionate to the State's required contribution.
- Increase of \$110,000 each year in Geological Research to provide support to the Arkansas Geological Survey for geological research related to the oil and gas industry.

In addition, the Commission has requested capital appropriation through the capital projects process totaling \$6,000,000 for construction of a new facility.

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		Historical Data			Agency Request and Executive Recommendation			Agency Request and Executive Recommendation		
		2013-2014 Actual	2014-2015 Budget	2014-2015 Authorized	2015-2016			2016-2017		
					Base Level	Agency	Executive	Base Level	Agency	Executive
Regular Salaries	5010000	1,931,826	2,049,501	2,054,486	2,069,864	2,069,864	2,069,864	2,073,664	2,073,664	2,073,664
<b>#Positions</b>		<b>44</b>	<b>44</b>	<b>44</b>	<b>44</b>	<b>44</b>	<b>44</b>	<b>44</b>	<b>44</b>	<b>44</b>
Extra Help	5010001	68,055	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000
<b>#Extra Help</b>		<b>10</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>10</b>
Personal Services Matching	5010003	665,833	681,946	673,720	693,089	693,089	693,089	693,941	693,941	693,941
Operating Expenses	5020002	733,491	987,797	987,797	987,797	987,797	987,797	987,797	987,797	987,797
Conference & Travel Expenses	5050009	26,114	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000
Professional Fees	5060010	9,654	52,000	52,000	52,000	52,000	52,000	52,000	52,000	52,000
Construction	5090005	99,664	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	350,000	350,000	350,000	350,000	350,000	350,000	350,000	350,000	350,000
Refunds/Reimbursements	5110014	4,224	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000
Capital Outlay	5120011	152,839	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000
Data Processing Services	5900044	243,245	348,217	348,217	348,217	348,217	348,217	348,217	348,217	348,217
Interstate Oil Compact	5900046	10,000	10,000	10,000	10,000	35,000	35,000	10,000	35,000	35,000
Geological Research	5900047	0	0	0	0	110,000	110,000	0	110,000	110,000
Underground Injection Control	5900048	48,940	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000
Groundwater Protection	5900049	8,500	8,500	8,500	8,500	8,500	8,500	8,500	8,500	8,500
<b>Total</b>		<b>4,352,385</b>	<b>5,077,961</b>	<b>5,074,720</b>	<b>5,109,467</b>	<b>5,244,467</b>	<b>5,244,467</b>	<b>5,114,119</b>	<b>5,249,119</b>	<b>5,249,119</b>
<b>Funding Sources</b>										
Fund Balance	4000005	30,922,161	33,507,219		35,429,258	35,429,258	35,429,258	37,319,791	37,184,791	37,184,791
Special Revenue	4000030	11,791,999	9,000,000		9,000,000	9,000,000	9,000,000	9,000,000	9,000,000	9,000,000
Transfers / Adjustments	4000683	(4,854,556)	(2,000,000)		(2,000,000)	(2,000,000)	(2,000,000)	(2,000,000)	(2,000,000)	(2,000,000)
<b>Total Funding</b>		<b>37,859,604</b>	<b>40,507,219</b>		<b>42,429,258</b>	<b>42,429,258</b>	<b>42,429,258</b>	<b>44,319,791</b>	<b>44,184,791</b>	<b>44,184,791</b>
Excess Appropriation/(Funding)		(33,507,219)	(35,429,258)		(37,319,791)	(37,184,791)	(37,184,791)	(39,205,672)	(38,935,672)	(38,935,672)
<b>Grand Total</b>		<b>4,352,385</b>	<b>5,077,961</b>		<b>5,109,467</b>	<b>5,244,467</b>	<b>5,244,467</b>	<b>5,114,119</b>	<b>5,249,119</b>	<b>5,249,119</b>

FY15 Budget amount in Personal Services Matching exceeds the authorized amount due to matching rate adjustments during the 2013-2015 Biennium.

## Change Level by Appropriation

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

### Agency Request

Change Level		2015-2016	Pos	Cumulative	% of BL	2016-2017	Pos	Cumulative	% of BL
<b>BL</b>	<b>Base Level</b>	<b>5,109,467</b>	<b>44</b>	<b>5,109,467</b>	<b>100.0</b>	<b>5,114,119</b>	<b>44</b>	<b>5,114,119</b>	<b>100.0</b>
C01	Existing Program	135,000	0	5,244,467	102.6	135,000	0	5,249,119	102.6

### Executive Recommendation

Change Level		2015-2016	Pos	Cumulative	% of BL	2016-2017	Pos	Cumulative	% of BL
<b>BL</b>	<b>Base Level</b>	<b>5,109,467</b>	<b>44</b>	<b>5,109,467</b>	<b>100.0</b>	<b>5,114,119</b>	<b>44</b>	<b>5,114,119</b>	<b>100.0</b>
C01	Existing Program	135,000	0	5,244,467	102.6	135,000	0	5,249,119	102.6

### Justification

C01	Agency Change Level increase of \$25,000 for the Interstate Oil Compact Commission's operating expenses. Agency Change Level increase of \$110,000 in Geological Research to the Arkansas Geological Survey for geological research related to the oil and gas industry.								
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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.

The Commission requests Base Level for both years of the 2015-2017 Biennium.

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	2013-2014 Actual	2014-2015 Budget	2014-2015 Authorized	2015-2016			2016-2017		
				Base Level	Agency	Executive	Base Level	Agency	Executive
Well Plugging Expenses 5900046	1,614,295	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000
Total	1,614,295	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000
Funding Sources									
Fund Balance 4000005	2,381,868	3,066,622		2,816,622	2,816,622	2,816,622	2,566,622	2,566,622	2,566,622
Special Revenue 4000030	304,366	250,000		250,000	250,000	250,000	250,000	250,000	250,000
Transfer from Special Revenue 4000565	1,994,683	2,000,000		2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Total Funding	4,680,917	5,316,622		5,066,622	5,066,622	5,066,622	4,816,622	4,816,622	4,816,622
Excess Appropriation/(Funding)	(3,066,622)	(2,816,622)		(2,566,622)	(2,566,622)	(2,566,622)	(2,316,622)	(2,316,622)	(2,316,622)
Grand Total	1,614,295	2,500,000		2,500,000	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000

## **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 for each year of the 2015-2017 Biennium.

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			2015-2016			2016-2017		
		2013-2014 Actual	2014-2015 Budget	2014-2015 Authorized	Base Level	Agency	Executive	Base Level	Agency	Executive
Refunds/Reimbursements	5110014	46,500	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000
Total		46,500	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000
<b>Funding Sources</b>										
Fund Balance	4000005	434,331	432,836		432,836	432,836	432,836	432,836	432,836	432,836
Cash Fund	4000045	45,005	500,000		500,000	500,000	500,000	500,000	500,000	500,000
Total Funding		479,336	932,836		932,836	932,836	932,836	932,836	932,836	932,836
Excess Appropriation/(Funding)		(432,836)	(432,836)		(432,836)	(432,836)	(432,836)	(432,836)	(432,836)	(432,836)
Grand Total		46,500	500,000		500,000	500,000	500,000	500,000	500,000	500,000