

OIL AND GAS COMMISSION

Enabling Laws

Act 53 of 2010

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Act 105 of 1939, repealed existing oil and gas laws and regulations and created the Oil and Gas Commission to oversee the oil and gas conservation and production requirements contained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

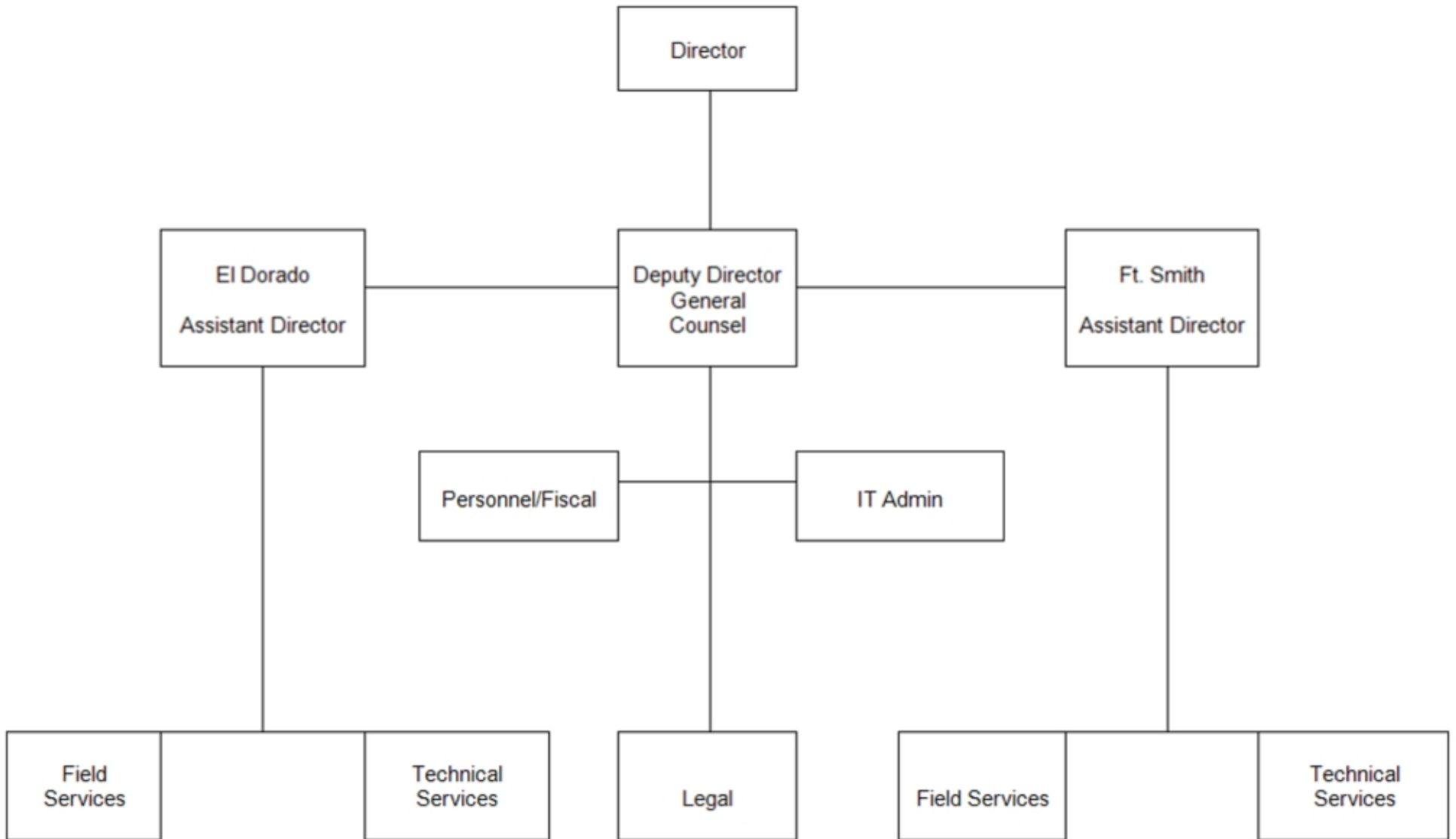
In 1978, the U.S. Congress passed the Natural Gas Policy Act, and the Arkansas Department of Energy determined that the Oil and Gas Commission should serve as the jurisdictional agency for status determination under the provisions of that Act.

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 U.S. Department of Transportation (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 5 years has resulted in a three (3) fold increase in the State's total natural gas production. The Fayetteville Shale development is also 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. The Commission is continuing to address the demands of the Fayetteville Shale development and has requested in the FY12 budget an additional Senior Petroleum Geologist position to address the growing permit review process dealing with drilling, fracture stimulation and citizen inquires dealing with water issues. The Commission is requesting a reallocation of existing appropriation from the Construction line to Salaries and Personnel Services line items to cover the cost of the new position.

In addition, to continue to enhance the states' oil and gas regulatory program and in view of the increasing demands on the Commission, the Commission is requesting additional reallocations of existing appropriation from the Construction line to: 1) UIC (Underground Injection Control), to address the increased need for deep disposal well permit review and compliance inspections; 2) Professional Services, to retain the services of specialized royalty accounting services for investigation of royalty owner complaints and to conduct water analysis resulting from citizen complaints and staff investigations; 3) Conference and Travel Expenses for increased staff technical training dealing with required courses in administration of the DOT Pipeline Program and enhanced petroleum engineering and geology courses, conferences and seminars dealing with groundwater issues, fracture stimulation and unconventional resource development; 4) Operating Expenses to cover increases in the over-all operations of the Commission necessary to maintain and enhance the regulatory program; and 5) Data Processing Services to scan all historical well information to a data base , so that all information is available electronically to industry and the public. Data processing request is in accordance with Agency IT plan. (page 10 - scanning costs)

Audit Findings

DIVISION OF LEGISLATIVE AUDIT
 AUDIT OF :
 ARKANSAS OIL AND GAS COMMISSION
 FOR THE YEAR ENDED JUNE 30, 2007

Findings

A review of disbursements indicated that the Agency did not always document approval of travel expenditures as required by the State Financial Management Guide. Through a review of 16 travel reimbursements, totaling \$3,667, it was noted that eight of the payments, totaling \$1,809, did not indicate approval by a travel supervisor.

Recommendations

The Agency document approval of travel expenditures on prescribed travel reimbursement forms.

Employment Summary

	Male	Female	Total	%
White Employees	20	16	36	97 %
Black Employees	0	1	1	3 %
Other Racial Minorities	0	0	0	0 %
Total Minorities			1	3 %
Total Employees			37	100 %

Cash Fund Balance Description as of June 30, 2010

Fund Account	Balance	Type	Location
3010000	\$576,942	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 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	2009-2010		2010-2011		2010-2011		2011-2012					2012-2013						
	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	3,880,001	38	4,378,200	39	4,323,171	39	4,260,823	39	4,260,823	40	4,260,823	40	4,260,823	39	4,260,823	40	4,260,823	40
2XV Well Plugging Program	209,144	0	1,500,000	0	1,500,000	0	1,500,000	0	1,500,000	0	1,500,000	0	1,500,000	0	1,500,000	0	1,500,000	0
A20 Refunds/Reimbursements	132,100	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	4,221,245	38	6,378,200	39	6,323,171	39	6,260,823	39	6,260,823	40	6,260,823	40	6,260,823	39	6,260,823	40	6,260,823	40

Funding Sources		%		%		%		%		%		%		%		%		%
Fund Balance	4000005	9,406,744	51.5	14,029,218	63.3	15,801,018	65.9	15,801,018	65.9	15,801,018	65.9	17,713,253	68.2	17,713,253	68.2	17,713,253	68.2	
Special Revenue	4000030	8,743,279	47.9	7,750,000	34.9	7,750,000	32.3	7,750,000	32.3	7,750,000	32.3	7,750,000	29.8	7,750,000	29.8	7,750,000	29.8	
Cash Fund	4000045	2,012,257	11.0	400,000	1.8	423,058	1.8	423,058	1.8	423,058	1.8	500,000	1.9	500,000	1.9	500,000	1.9	
Transfer from Special Revenue	4000565	750,000	4.1	750,000	3.4	750,000	3.1	750,000	3.1	750,000	3.1	750,000	2.9	750,000	2.9	750,000	2.9	
Transfer to Treasury	4000680	(1,911,817)	(10.5)	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	
Transfers / Adjustments	4000683	(750,000)	(4.1)	(750,000)	(3.4)	(750,000)	(3.1)	(750,000)	(3.1)	(750,000)	(3.1)	(750,000)	(2.9)	(750,000)	(2.9)	(750,000)	(2.9)	
Total Funds		18,250,463	100.0	22,179,218	100.0	23,974,076	100.0	23,974,076	100.0	23,974,076	100.0	25,963,253	100.0	25,963,253	100.0	25,963,253	100.0	
Excess Appropriation/(Funding)		(14,029,218)		(15,801,018)		(17,713,253)		(17,713,253)		(17,713,253)		(19,702,430)		(19,702,430)		(19,702,430)		
Grand Total		4,221,245		6,378,200		6,260,823		6,260,823		6,260,823		6,260,823		6,260,823		6,260,823		

The FY11 Budget amount for Oil & Gas Commission-Operations (204) exceeds authorized due to salary and matching rate adjustments during the 2009-2011 biennium.

Agency Position Usage Report

FY2008 - 2009						FY2009 - 2010						FY2010 - 2011					
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	
32	32	0	32	0	0.00 %	39	37	2	39	0	5.13 %	39	38	1	39	0	2.56 %

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 salaries and matching do not include appropriation for a Cost of Living Adjustment or Career Service Payments. The Base Level salary of unclassified positions reflects the FY11 line item maximum. The Base Level request for Regular Salaries includes board member stipend payments.

The Commission's request includes Base Level appropriation of \$4,260,823 each year. Change Level requests of \$400,000 each year and includes reallocation requests of \$400,000 of Base Level appropriation to maintain a flat budget. Change Level requests reflect the following:

- Increase of \$83,286 each year in Regular Salaries and Personal Services Matching to support a new Senior Petroleum Geologist position needed to address the increase in permit applications, fracture stimulation and water issues associated with the Fayetteville Shale Development.
- Increase of \$153,497 each year in Operating Expenses to address increases in the over-all operations of the Commission necessary to maintain and enhance operations.
- Increase of \$25,000 in Conference Fees & Travel to provide staff required technical training in the administration of Department of Transportation (DOT) Pipeline Program, enhance petroleum engineering and geology courses, conferences and seminars dealing with ground water issues, fracture stimulation and unconventional resource development.
- Increase of \$50,000 each year in Professional Fees to retain specialized royalty accounting services to investigate royalty owner complaints and conduct water analysis stemming from citizen complaints and staff investigations.
- Increase of \$48,217 each year in Data Processing Services to scan all historical well information to a data base, so that all information is available electronically to industry and the public. Request is compliant with agency's Information Technology Plan.
- Increase of \$40,000 each year in Underground Injection Control to address the increased need for deep disposal well permit review and compliance inspections.
- Reallocation of \$400,000 each year from Construction to offset Commission requests.

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		
		2009-2010 Actual	2010-2011 Budget	2010-2011 Authorized	2011-2012			2012-2013		
					Base Level	Agency	Executive	Base Level	Agency	Executive
Regular Salaries	5010000	1,574,238	1,761,427	1,734,180	1,763,138	1,828,138	1,828,138	1,763,138	1,828,138	1,828,138
#Positions		38	39	39	39	40	40	39	40	40
Extra Help	5010001	57,396	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	486,250	560,473	532,691	561,385	579,671	579,671	561,385	579,671	579,671
Operating Expenses	5020002	756,804	834,300	834,300	834,300	987,797	987,797	834,300	987,797	987,797
Conference & Travel Expenses	5050009	14,906	15,000	15,000	15,000	40,000	40,000	15,000	40,000	40,000
Professional Fees	5060010	19,093	2,000	2,000	2,000	52,000	52,000	2,000	52,000	52,000
Construction	5090005	0	500,000	500,000	500,000	100,000	100,000	500,000	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	10,000	10,000	10,000	10,000	10,000
Refunds/Reimbursements	5110014	950	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000
Capital Outlay	5120011	604,408	120,000	120,000	0	0	0	0	0	0
Data Processing Services	5900044	288,206	300,000	300,000	300,000	348,217	348,217	300,000	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	54,550	60,000	60,000	60,000	100,000	100,000	60,000	100,000	100,000
Groundwater Protection	5900049	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Total		3,880,001	4,378,200	4,323,171	4,260,823	4,260,823	4,260,823	4,260,823	4,260,823	4,260,823
Funding Sources										
Fund Balance	4000005	7,588,839	11,458,281		13,830,081	13,830,081	13,830,081	16,319,258	16,319,258	16,319,258
Special Revenue	4000030	8,499,443	7,500,000		7,500,000	7,500,000	7,500,000	7,500,000	7,500,000	7,500,000
Transfers / Adjustments	4000683	(750,000)	(750,000)		(750,000)	(750,000)	(750,000)	(750,000)	(750,000)	(750,000)
Total Funding		15,338,282	18,208,281		20,580,081	20,580,081	20,580,081	23,069,258	23,069,258	23,069,258
Excess Appropriation/(Funding)		(11,458,281)	(13,830,081)		(16,319,258)	(16,319,258)	(16,319,258)	(18,808,435)	(18,808,435)	(18,808,435)
Grand Total		3,880,001	4,378,200		4,260,823	4,260,823	4,260,823	4,260,823	4,260,823	4,260,823

The FY11 Budget amount for Regular Salaries and Personal Services Matching exceeds authorized due to salary and matching rate adjustments during the 2009-2011 biennium.

Change Level by Appropriation

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

Agency Request

Change Level		2011-2012	Pos	Cumulative	% of BL	2012-2013	Pos	Cumulative	% of BL
BL	Base Level	4,260,823	39	4,260,823	100.0	4,260,823	39	4,260,823	100.0
C01	Existing Program	83,286	1	4,344,109	102.0	83,286	1	4,344,109	102.0
C04	Reallocation	(131,503)	0	4,212,606	98.9	(131,503)	0	4,212,606	98.9
C08	Technology	48,217	0	4,260,823	100.0	48,217	0	4,260,823	100.0

Executive Recommendation

Change Level		2011-2012	Pos	Cumulative	% of BL	2012-2013	Pos	Cumulative	% of BL
BL	Base Level	4,260,823	39	4,260,823	100.0	4,260,823	39	4,260,823	100.0
C01	Existing Program	83,286	1	4,344,109	102.0	83,286	1	4,344,109	102.0
C04	Reallocation	(131,503)	0	4,212,606	98.9	(131,503)	0	4,212,606	98.9
C08	Technology	48,217	0	4,260,823	100.0	48,217	0	4,260,823	100.0

Justification

C01	Salaries and Personal Services Matching is requested to reflect the addition of one new Senior Petroleum Geologist position for our El Dorado Office. This position is needed to address the increase permit demands associated with the Fayetteville Shale Development. To offset the request, I am requesting a reduction in the Construction line of budget.
C04	The requested increase in UIC (Underground Injection Control) is to address the increased need for deep disposal well permit review and compliance inspections. The requested increase in Professional Services is to retain the services of specialized royalty accounting services for investigation of royalty owner complaints and to conduct water analysis resulting from citizen complaints and staff investigations. The requested increase in Conference and Travel Expenses is for increased staff technical training. The requested increase in Operating Expenses are necessary to cover increases in the over all operations of the Commission to maintain and enhance the regulatory program. To offset the request, I am requesting a reduction in the Construction Line of budget.
C08	An increase in the Data Processing Services is requested to complete an ongoing project to scan all historical well information to a data base so that all information is available to the public and industry electronically. Data processing request is in accordance with Agency IT plan. (page 10 - scanning costs) To offset the request, I am requesting a reduction in the Construction Line of budget.

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 is requesting Base Level of \$1,500,000 each year.

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	2009-2010 Actual	2010-2011 Budget	2010-2011 Authorized	2011-2012			2012-2013		
				Base Level	Agency	Executive	Base Level	Agency	Executive
Well Plugging Expenses 5900046	209,144	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
Total	209,144	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
Funding Sources									
Fund Balance 4000005	1,209,303	1,993,995		1,493,995	1,493,995	1,493,995	993,995	993,995	993,995
Special Revenue 4000030	243,836	250,000		250,000	250,000	250,000	250,000	250,000	250,000
Transfer from Special Revenue 4000565	750,000	750,000		750,000	750,000	750,000	750,000	750,000	750,000
Total Funding	2,203,139	2,993,995		2,493,995	2,493,995	2,493,995	1,993,995	1,993,995	1,993,995
Excess Appropriation/(Funding)	(1,993,995)	(1,493,995)		(993,995)	(993,995)	(993,995)	(493,995)	(493,995)	(493,995)
Grand Total	209,144	1,500,000		1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000

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 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			Agency Request and Executive Recommendation			Agency Request and Executive Recommendation		
		2009-2010 Actual	2010-2011 Budget	2010-2011 Authorized	2011-2012			2012-2013		
					Base Level	Agency	Executive	Base Level	Agency	Executive
Refunds/Reimbursements	5110014	132,100	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000
Total		132,100	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000
Funding Sources										
Fund Balance	4000005	608,602	576,942		476,942	476,942	476,942	400,000	400,000	400,000
Cash Fund	4000045	2,012,257	400,000		423,058	423,058	423,058	500,000	500,000	500,000
Transfer to Treasury	4000680	(1,911,817)	0		0	0	0	0	0	0
Total Funding		709,042	976,942		900,000	900,000	900,000	900,000	900,000	900,000
Excess Appropriation/(Funding)		(576,942)	(476,942)		(400,000)	(400,000)	(400,000)	(400,000)	(400,000)	(400,000)
Grand Total		132,100	500,000		500,000	500,000	500,000	500,000	500,000	500,000