

ANALYSIS OF SENATE BILL 585

May 23, 1973

A Bill to amend Act 61, P. A. 1939,
The Oil and Gas Conservation Law

Purpose: To consolidate the provisions of Act 326, P. A. 1937, as amended, into Act 61, P.A. 1939, and to provide for repeal of Act 326; to strengthen penalty clauses; to provide for aesthetic considerations; and to establish a regulatory fee commensurate with cost of regulation.

- (a) Introduced at Agency's Request: Yes
- (b) Agency Support: Yes

Revenue or Budgetary Implications in the Bill:

- (a) To the Department: Proposed regulatory fee is designed to bear the cost of regulatory services of the office of the Supervisor of Wells. Approximately \$750,000.00.
- (b) To the State: As to the Department.

Other Principal Departments Affected by the Bill: Department of Treasury

Arguments:

For: Half of the language of Act 326, P.A. 1937, is duplicated in Act 61 except that Act 326 deals exclusively with "dry natural gas" whereas Act 61 deals with oil and its associated gas. Gas associated with oil production is commonly referred to as casinghead gas. By broadening the definitions of gas in Act 61 along with other minor changes those exclusive provisions of Act 326 can be absorbed. The second half of Act 326 totally duplicates the language of Act 9, P. A. 1929, but through an exclusion clause has no effect so long as Act 9 is in force. The proposed amendments embrace the special language of Act 326 dealing with the drilling and operating of gas wells into Act 61. Act 326 would be superseded by the amendments to Act 61 and therefore could be repealed.

Sec. 2(1) An opinion of the Attorney General recites that the Supervisor of Wells is not empowered to deny the issuance of a permit for drilling of an oil or gas well on the basis of aesthetics alone. Contemporary thinking suggests that "aesthetics and environmental values" are positive definable values that should be considered.

Sec. 18. Changes in the penalty clauses are an attempt to modernize. The fines have not been altered since 1939 when the law was enacted and no longer represent fiscal responsibility. Other amendments proposes to remove the necessity of the Supervisor to proceed to circuit court, specifically the Circuit Court of Ingham County, to prosecute a violation. The proposal would facilitate access to district courts.

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Sec. 22. The original purpose of the privilege fee was to provide for costs of administration of the act. Although the fee amount generated by the stated schedule of 1/8 of one cent per barrel produced may have been adequate for the first year or so of implementation of the act, the revenue produced is now only a small fraction of the present costs. The privilege fee revenue for 1971 was \$14,395 and were it not tied to the collection of the severance tax would probably have cost that much or more to collect it.

The proposal to substantially increase the privilege fee is in accord with the spreading practice of causing affected industries to pay the costs of regulation. It is to that end, for costs of administration only, that the proposed amendment is offered. Current costs of administration are approximately \$750,000.00.

Sec. 23. The fee of \$25.00 for a permit to drill was established in 1939. The recommended increase to \$100.00 is in keeping with the recommendation of the Auditor General to more closely reflect the costs of processing.

The several other minor changes are for modernization and simplification of the act and to remove conflicts or duplications of coverage with Act 315, P. A. 1969.

Against: Sec. 22. The oil and gas industry should be expected to oppose the proposed increase in the privilege fee as a large increase in the cost of doing business. It would be. The imposition of this additional cost could cause some of the older low-margin, low-production (stripper) wells to be plugged and abandoned. This may be inappropriate in these times of an energy crisis. Stripper wells provide about 40% of the domestic production of petroleum in Michigan and the Nation.

6. Suggested Amendments: None
7. Other Background Material: None

MICHIGAN DEPARTMENT OF NATURAL RESOURCES