

Before the

132nd General Assembly

The Ohio House of Representatives

Energy and Natural Resources Committee

The Honorable Al Landis

Chair

testimony regarding

**Substitute House Bill 225
(Idle and Orphan Well Bill)**

Presented By:

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Thank you, Chairman Landis, Ranking Member O'Brien, and Members of the Energy and Natural Resources Committee, for allowing me to testify in support of House Bill 225 on behalf of the Ohio Oil and Gas Association who represents all aspects of the Ohio oil and gas producing industry, including both conventional and shale producers.

My name is Jerry James. I am President of Artex Oil Company located in Marietta, Ohio. I was born and raised in Ohio and graduated from Marietta College with a degree in Petroleum Engineering. I have worked here in the oil and gas industry for 35 years. I have served as a past president of the Ohio Oil and Gas Association (OOGA) and past Chairman of the Ohio Oil and Gas Energy Education Program (OOGEEP).

As a part of my volunteer efforts, I worked extensively on Senate Bill 165 in 2010 to ensure adequate funding of Ohio Division of Oil and Gas Resources Management. The industry's goal in Senate Bill 165 was to ensure the Division had adequate funding to protect human health, safety, and the environment of Ohio. The result of Senate Bill 165 was that the industry voluntarily agreed to numerous fee increases, which doubled the amount of money provided to the Division by the industry. Because of the long stakeholder process in drafting Senate Bill 165 involving the Division of Oil and Gas Resources Management, the State Legislature, the Strickland Administration and the industry, I became very familiar with funding and budget issues of the Division of Oil and Gas. It is because of that experience I have been asked to testify before you today.

It may be helpful for the committee to review the history of the funding and expenditures and how it compares to today. Again, the purpose of Senate Bill 165 was to

ensure that the Division had the appropriate revenues to prepare for the perceived start of Utica Shale activity. The Division laid out a plan to the industry, which included the hiring of additional staff, fee increases that reflected staff efforts, and the aforementioned “regulatory cost recovery fee”. The amount to be raised by Senate Bill 165 to fund the Division operations and fund the idle and orphan wells program in 2010 was \$7.1 million per year. With additional revenues flowing into the Division, the industry stressed the importance of funding of the idle and orphan well program, changing the funding for this program to a minimum of 14% of the total money received by the Division.

The reason the industry has continually called for the aggressive funding of the idle and orphan well program is because of the history of Ohio. Over 200 years ago, settlers drilling shallow salt wells encountered oil and gas in Noble County, Ohio. When active oil and gas drilling started in 1860, numerous wells were drilled. In the late 1800’s, Ohio led the world in oil production, and it is estimated over 265,000 wells have been drilled in the state. Although the majority of those wells have been plugged, not all of them have.

Shale production and the increased funding to the Division from severance taxes and fees has created a once-in-a-lifetime opportunity to protect the ground water in the state of Ohio by locating and plugging every historic well.

The revenue received by the Division is more than enough money to fund the statutorily approved budget of the Division and dramatically increase funding of the idle and orphan well program. Increased drilling and production have grown severance tax revenue to \$36.2 million per year, along with fee revenue to \$15.8 million per year, for a total of \$52 million in fiscal year

2017. This compares to \$7.1 million per year intended to be raised by Senate Bill 165 in 2010. The operating costs of the Division have grown substantially and was \$16.6 million in Fiscal Year 2017. I should note that this is without the consideration of payments for lawsuit settlements. The current costs to run the Division (\$16.6 million per year) is about 30% of the total revenue being collected in the fund (roughly \$52 million per year). In turn, the oil and gas well fund is generating approximately 70% of its total revenue over and above the costs to run the Division.

The understanding that the industry had in Senate Bill 165 was that all funding was to be put into a “lockbox” so that issues pertaining to the protection of human health, safety and the environment are addressed. The language inserted in the Ohio Revised Code Section 1509.02 during Senate Bill 165, and as currently written in Ohio law, reads as follows:

The fund shall be used solely and exclusively for the purposes enumerated in division (B) of section 1509.071 of the Revised Code, for the expenses of the division associated with the administration of this chapter and Chapter 1571. of the Revised Code and rules adopted under them, and for expenses that are critical and necessary for the protection of human health and safety and the environment related to oil and gas production in this state.

It should be noted that the money we are talking about belongs to both the producers and landowners of Ohio. This is not money from the general revenue fund. The agreement with the producers when they voluntarily agreed to raise these fees to fund the Division and plug wells was that these were the sole and exclusive purposes for which the money could be expended. All excess funding would be used for future plugging obligations.

As stated earlier and expressed in legislative language, the money was to go into a so-called lockbox. However, on several occasions over the last year, the Ohio Department of Natural Resources (ODNR) has violated both this agreement and the statutory language. The ODNR has taken \$17,660,000 from the Division of Oil and Gas accounts to pay for legal costs and settlements – legal issues having nothing to do with the oil and gas industry.

Thank you once again, Chairman Landis and members of the Committee, for allowing me to speak to you today. I, representing not only myself but all other Ohio oil and gas producers who pay these fees, am here today to make sure our money is used for its intended purpose. Even though 70% of the revenue currently being received is available for the idle and orphan well program, the current version of House Bill 225 before you today asks for a conservative 45% to be dedicated to the idle and orphan well program. We believe this is the minimum that should be put into the fund and used to plug historic wells. As we have seen recently, if the revenue is not used for its intended purposes, it becomes too tempting for the ODNR to spend the money for unrelated purposes.

Additionally, it is also time to discuss revising the 2010 agreement and eliminate the fees which are no longer needed to fund the Division of Oil and Gas and its programs. Elimination of fees would still leave the Division with nearly \$40 million per year to run its operation and fund the idle and orphan well program. The \$40 million per year figure represents over twice the Division's current operating budget.

Since the Ohio Department of Natural Resources has taken \$17,660,000 to settle unrelated lawsuits from the Division of Oil and Gas in the last year and the fee revenue is

\$15,800,000 per year, it is proof that the fee revenue is no longer needed for the Division of Oil and Gas to accomplish its mission.

FIGURE 1: Oil and Gas Well Fund Revenues Under Substitute House Bill 225

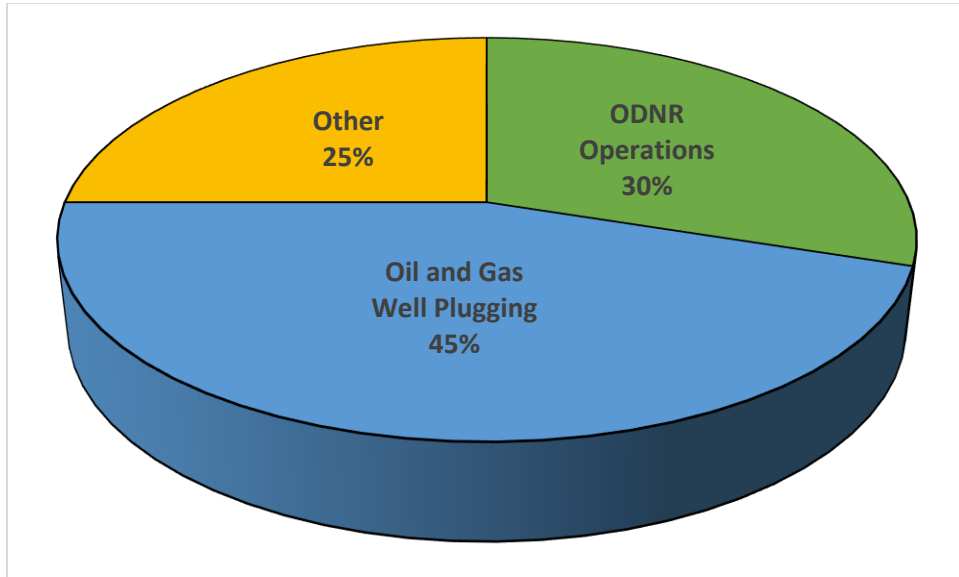


FIGURE 2: Wells Plugged via Oil and Gas Well Plugging Fund (INO Fund) – 1985 - 2014

