



Ohio Legislative Service Commission

Bill Analysis

Michelle R. McGreevy

Sub. S.B. 165

128th General Assembly
(As Passed by the Senate)

Sens. Niehaus, Gibbs, Stewart, Carey, Harris, Seitz, Hughes, Schaffer, Wilson, Cates, Wagoner, Coughlin

BILL SUMMARY

Definitions

- Revises the definitions of "owner" and "brine" in the Oil and Gas Law, and applies the definition of "urbanized area" to the entire Oil and Gas Law.
- Defines "well stimulation" or "stimulation of a well," "production operation," "annular overpressurization," "idle and orphaned well," "temporary inactive well," and "material and substantial violation" in the Oil and Gas Law.

Oil and gas regulatory cost recovery assessment

- Levies on the owner of a well an oil and gas regulatory cost recovery assessment of 10¢ per barrel of oil or ½¢ per 1,000 cubic feet of natural gas, as applicable, that is sold from all of the owner's wells located in this state.
- Establishes requirements and procedures for the collection of the assessment.
- Requires all money received from the assessment to be credited to the Oil and Gas Well Fund.

Injection well disposal fee

- Levies on the owner of an injection well a disposal fee of 5¢ per barrel of each substance that is to be injected in the well when the substance is produced within a Division of Mineral Resources Management regulatory district in which the well is located or within an adjoining district or 20¢ per barrel of each such substance when the substance is not produced in such a district.

- Specifies that the injection well disposal fee may be levied only up to a maximum of 500,000 barrels of substance per injection well in a calendar year.
- Requires the Chief of the Division of Mineral Resources Management to adopt rules that establish requirements and procedures for the collection of the fee, and authorizes the owner of a well to retain up to 3% of the amount collected.
- Requires all money received from the fees to be credited to the Oil and Gas Well Fund.

Gas storage well program fee

- States that it is the intent of the General Assembly to fund the gas storage well program that is administered by the Division of Mineral Resources Management by reasonable fees assessed on owners of gas storage wells.

Oil and Gas Well Fund

- Revises the uses of money in the Oil and Gas Well Fund, including adding a stipulation that the money be used solely and exclusively for certain plugging, restoration, and corrective activities, for the expenses of the Division associated with administering the Oil and Gas Law and the Underground Storage of Gas Law, 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 the state.
- Prohibits expenditures from the Fund for the purchase of real property or to remove a dwelling in order to access a well.

Mandatory pooling

- Requires the owner of a tract of land that is of insufficient size or shape in order to comply with the requirements for drilling a well, and who is unable to form a drilling unit by agreement, to also own the mineral interest in order to submit an application for a mandatory pooling order.
- Revises the contents that a mandatory pooling order must contain, including provisions governing the allocation of a pro rata share of the production of a well to owners.
- Prohibits a person from submitting more than five applications for mandatory pooling orders per year unless the Chief approves additional applications.

- Prohibits surface operations or disturbances to the surface of the land to occur on a tract pooled by an order without the written consent of or a written agreement with the owner of the tract that approves the operations or disturbances.
- Requires the Chief to adopt rules that establish setback requirements for surface facilities of a well that are located near property that is subject to a mandatory pooling order.
- Revises the criteria in accordance with which an owner of a tract that is pooled by a mandatory pooling order must be designated as a nonparticipating owner, and specifies that a nonparticipating owner is not liable for actions or conditions associated with the drilling or operation of the well.
- Revises the criteria in accordance with which the share of production of an applicant for a mandatory pooling order is determined.

Minimum acreage requirements

- Requires rules adopted by the Chief relative to minimum acreage requirements for drilling units to require a drilling unit to be compact and composed of contiguous land.

Surface location of a well restrictions

- Prohibits the surface location of a new well from being within 150 feet of an occupied dwelling that is located in an urbanized area unless the owner of the occupied dwelling consents in writing to a closer location and the Chief approves the written consent; and prohibits the Chief from approving such a written consent when the surface location of the well will be within 100 feet of an occupied dwelling that is located in an urbanized area.
- Prohibits the surface location of a new well from being within 150 feet from a property line of a parcel of land that is not in the drilling unit of the well if the parcel is located in an urbanized area and directional drilling will be used unless the owner of the parcel consents in writing to a closer location and the Chief approves the written consent; and prohibits the Chief from approving such a written consent when the surface location of a new well will be less than 100 feet from the property line of an owner's parcel of land that is not in the drilling unit of the well if the parcel is located in an urbanized area and directional drilling will be used.

Application for a permit to drill a well

- Revises the application requirement concerning notification of the submission of an application for a permit to drill a new well by requiring the notice to be provided by

regular mail to the owner of each parcel of real property, rather than to the owner of each occupied dwelling as in current law, which property is within 500 feet of the surface location of the well.

- Applies the application requirement concerning notification of the submission of an application for a permit to drill a new well only to a new well within an urbanized area.
- Establishes new time periods within which a permit must be issued if a well or proposed well will be or is within an urbanized area.
- Increases the application fees for a permit to drill a well from \$250 to \$500 to conduct activities in a township with a population of fewer than 10,000, rather than 5,000 as in current law; eliminates the fee of \$500 for a permit to conduct activities in a township with a population of 5,000 or more, but fewer than 10,000; and establishes an additional fee of \$5,000 if the application is for a permit that requires mandatory pooling.

Subjects for terms and conditions of a permit

- Adds noise mitigation as an additional subject that the Chief must address when attaching terms and conditions to a permit with respect to a well and the production facilities of a well that are located within an urbanized area.
- Requires the Division to conduct a site review to identify and evaluate any site-specific terms and conditions that may be attached to a permit to drill a proposed well that will be located within an urbanized area.

Term of a permit to drill

- Revises the time for which a permit to drill is valid by specifying that a permit for a well that is or is to be located in an urbanized area is valid for 12 months and all other permits are valid for 24 months rather than 12 months for all permits.

Public meeting by a political subdivision concerning a proposed lease agreement

- Requires the legislative authority of a political subdivision to conduct a public meeting concerning a proposed lease agreement for the development of oil and gas resources on land that is located in an urbanized area and that is owned by the political subdivision prior to entering into the agreement.
- Establishes procedures and requirements concerning the public meeting and notice of the meeting, including providing notice of the meeting to the owner of each

parcel of real property that is located within 500 feet of the surface location of the property that is the subject of the proposed lease.

- Requires an owner of real property that receives notice of a public meeting to provide a copy of the notice to each residence in an occupied dwelling that is located on the owner's parcel of property, if any.

Notice of the filing of an application for a permit to residents in occupied dwellings

- Requires an owner of a parcel of real property who receives a notice concerning the filing of an application for a permit to drill a new well within an urbanized area to provide a copy of that notice within five days of receipt of the notice to each residence in an occupied dwelling that is located on the owner's parcel.

Surety bond

- Requires an owner of any well to execute and file a surety bond before operating or producing from a well in addition to before being issued a permit as in current law.
- Prohibits an owner, operator, producer, or other person from operating a well or producing from a well at any time if the owner, operator, producer, or other person has not executed and filed the required surety bond or other acceptable form of financial security.
- Revises the requirements concerning updates of financial documents that are applicable to owners of exempt domestic wells and nonexempt domestic wells by requiring an owner of an exempt domestic well to file the updates and removing the requirement that the owner of a nonexempt domestic well file updates.

New surety bond in event of forfeiture of surety bond

- Authorizes the Chief to require an owner, operator, producer, or other person who forfeited a surety bond to post a new surety bond in the amount of \$15,000 for a single well, \$30,000 for two wells, or \$50,000 for three or more wells.
- Authorizes the owner of a well, in addition to a surety as in current law, to cause a well to be properly plugged and abandoned and the area properly restored or pay to the Treasurer of State the cost of plugging and abandonment in lieu of total forfeiture.

Liability insurance

- Increases the amount of liability insurance coverage that an owner of a well must obtain from \$300,000 bodily injury coverage and \$300,000 property damage as in current law to \$1 million bodily injury coverage and property damage coverage unless the well is located in an urbanized area, in which case the liability coverage must be at least \$3 million.
- Requires an owner to maintain insurance coverage until all of the owner's wells are plugged and abandoned or are transferred to an owner who has obtained insurance and who is not under a notice of material and substantial violation or under a suspension order rather than until the owner's well are plugged and abandoned as in current law.
- Prohibits an owner, operator, producer, or other person from operating a well or producing from a well at any time if the owner, operator, producer, or other person has not obtained the required insurance coverage.

Notification requirement prior to commencement of drilling, reopening, converting, well stimulation, or plug back operations

- Requires a permittee to notify an inspector from the Division of Mineral Resources Management at least 24 hours, or within another time agreed to by the Chief's authorized representative, prior to the commencement of drilling, reopening, converting, well stimulation, or plug back operations.

Fluid drilling in Onondaga limestone in urbanized areas

- Requires a person who is issued a permit to drill a new well or drill an existing well deeper in an urbanized area to establish fluid drilling conditions prior to penetration of the Onondaga limestone and continue to use fluid drilling until total depth of the well is achieved unless the Chief authorizes drilling without using fluid.

Well construction requirements

- Eliminates standards in current law for the construction of a well, and establishes new standards for construction that must be specified in the permit and that must use materials that comply with industry standards for the type and depth of the well and the anticipated fluid pressures that are associated with the well.
- Authorizes the Chief to adopt rules that are consistent with the standards established by the bill for constructing a well, for evaluating the quality of well construction materials, and for completing remedial cementing.

- Establishes requirements in accordance with which an owner must notify a mineral resources inspector concerning the cementing of a well, and requires an owner to submit to the Chief cement tickets and logs concerning cementing not later than 60 days after the cementing.
- Requires the Chief to grant exemptions from the well construction standards and related rules under specific circumstances.

Statement of production

- Revises the date by which an owner must submit a statement of production of oil, gas, and brine for the last preceding calendar year from on or before March 1 to on or before March 31.
- Requires an owner that has more than 100 wells in the state to submit the statement of production electronically in a format that is approved by the Chief.

Wireline electric logs

- Increases the time from 30 days after the completion of a well in current law to 60 days after the completion of drilling to the proposed total depth or after a determination that a well is a dry or lost hole by which a person must file with the Division all logs, and requires a person also to file an accurate well completion record.
- Revises the information that must be designated in a log, and specifies additional information that must be designated in a log, including the dates on which drilling was commenced and completed, the name of the person who drilled the well, the name of the company that performed the logging of the well, and, if applicable, certain fluids used in acidizing or stimulating the well.
- Requires an owner of a well to file with the Division a supplemental well completion record if the well is not completed within 60 days after completion of drilling operations, and specifies that the supplemental well completion record must include all of the information required under the bill's provisions concerning logs and well completion records.

Well stimulation

- Establishes requirements concerning the stimulation of a well, including a requirement that the well be stimulated in a manner that will not endanger underground sources of drinking water.

- Requires the owner or the owner's representative to notify a mineral resources inspector not later than 24 hours before commencing the stimulation of a well.
- Establishes requirements and procedures concerning damage to specified parts of a well during the stimulation of the well.

Defective wells, casing, or tubing

- Revises the provisions that prohibit the construction of a defective well, casing, or tubing.

Wells not completed or not producing

- Requires the owner of a well that has not been completed, a well that has not produced within one year after completion, or a well that has no reported production for two consecutive reporting periods to plug the well, obtain a temporary inactive well status for the well under the bill, or perform another activity regarding the well that is approved by the Chief.

Temporary inactive well status

- Establishes temporary inactive well status for a well, provided that the owner and the well are in compliance with the Oil and Gas Law, rules adopted under it, any terms and conditions of the permit for the well, and any applicable orders issued by the Chief.
- Establishes application requirements for temporary inactive well status, requires a person to submit such an application to the Chief on a form prescribed and provided by the Chief, and requires that an application for temporary inactive well status include a \$100 nonrefundable fee.
- Establishes criteria and requirements in accordance with which the Chief must either deny the application by order or approve the application.
- Specifies that temporary inactive well status expires one year after the date of approval of the application or production from the well commences, whichever occurs sooner.
- Establishes requirements and procedures for the renewal of temporary inactive well status, and requires that an application for a renewal include a nonrefundable fee of \$250 for the first renewal and \$500 for each subsequent renewal.
- Specifies that a renewal of temporary inactive well status expires one year after the expiration date of the initial temporary inactive well status or one year after the

expiration of the previous renewal of temporary inactive well status, or production from the well commences, whichever occurs sooner.

- Authorizes the Chief to require an owner after a third renewal to provide a surety bond in an amount not to exceed \$10,000 for each of the owner's wells that has been approved for temporary inactive well status.
- Requires the owner of a well that has been approved for temporary inactive well status to notify the Chief of the commencement of production not later than 60 days after the commencement.

Permit to plug and abandon a well

- States that the period of time for which a permit to plug and abandon a well is valid is 24 months rather than a period of time from the date of issue that the Chief may establish by rule as in current law.
- Increases the application fee for a permit to plug and abandon a well if oil or gas has been produced from the well from \$50 to \$250.
- Requires the owner of a well or the owner's authorized representative to notify a mineral resources inspector at least 24 hours prior to the commencement of the plugging of a well unless waived by a mineral resources inspector.
- Revises the requirements governing the notice that an owner of a well must provide to specified persons of the owner's intention to abandon the well.
- Increases the nonrefundable filing fee for an expedited review of an application for a permit to plug and abandon a well, unless the Chief has ordered the applicant to plug and abandon the well, from \$250 to \$500.

Payment for plugging of abandoned wells

- Revises from 1951 to 1978 the date prior to which wells must be abandoned in order for a board of county commissioners to submit to the electors the question of establishing a special fund by levy, by bond issue, or out of current funds to plug the abandoned wells.
- Specifies that the question of establishing a special fund is by general levy, by general bond issue, or out of current funds rather than by special levy, by bond issue, or out of current funds as in current law.

Rules for drilling and treatment of wells, production of oil and gas, and plugging

- Authorizes the Chief to adopt rules that specify practices to be followed in the treatment of wells and plugging of wells in addition to rules adopted under current law specifying practices to be followed in the drilling of wells and production of oil and gas.
- Applies to brine, in addition to oil as in current law, rules concerning procedures, methods, and equipment and other requirements for equipment to prevent and contain discharges.
- Authorizes the rules to specify procedures, methods, and equipment and other requirements for equipment to prevent and contain surface and subsurface discharges of fluids, condensates, and gases, and authorizes the rules to specify notifications.

Restoration requirements

- Requires an owner or an owner's agent to fill all pits for containing brine and other waste substances and to remove all drilling supplies and equipment within 14 days after a well is completed to total depth in an urbanized area and within two months in all other areas rather than within five months after the drilling of a well is commenced as in current law.
- Requires an owner or an owner's agent to grade, plant, seed, or sod the area disturbed that is not required in the production of the well within three months after drilling is commenced in an urban area and within six months in all other areas, unless the Chief approves a longer time period, rather than within nine months after drilling of a well is commenced as in current law.
- Requires an owner or an owner's agent to remove all production and storage structures, supplies, and equipment, and any oil, salt water, and debris, and fill any remaining excavations within three months after the well is plugged in an urbanized area and within six months in all other areas, unless the Chief approves a longer time period, rather than within six months after the well is plugged as in current law.

Secondary or additional recovery operations

- Requires a permit for the underground injection of carbon dioxide for the secondary or tertiary recovery of oil or natural gas.

- States that the Chief may authorize tests to evaluate if fluids or carbon dioxide may be injected in a reservoir and to determine the maximum allowable injection pressure.

Fluids associated with oil and gas development

- Prohibits a person from placing or causing to be placed crude oil, natural gas, or other fluids associated with the exploration or development of gas and gas resources, in addition to brine as in current law, in surface or ground water or in or on the land if the placement causes or could reasonably be anticipated to cause either water that is used for consumption by humans or domestic animals to exceed Safe Drinking Water Act standards or damage or injury to the public health or safety or the environment.
- Revises the standards for the storage and disposal of brine and other waste substances, including a requirement that pits and steel tanks must be used, rather than just pits as in current law, for containing brine and other waste substances in connection with drilling, well stimulation, reworking, reconditioning, plugging back, or plugging operations.

Permit to inject brine or other waste substances

- Increases from \$100 to \$1,000 the amount of the fee for a permit to inject into an underground formation brine or other waste substances resulting or obtained from or produced in connection with oil or gas drilling, exploration, or production.
- States that the Chief may authorize, in the rules regarding the injection of brine and other waste substances, tests to evaluate if fluids or carbon dioxide may be injected in a reservoir and to determine the maximum allowable injection pressure.

Brine transporters

- Requires a business entity that has been issued a registration certificate to transport brine to revise the required surety bonds or certificates of deposit and obtain a new certificate from an insurance company certifying that the business has the required liability insurance if the entity changes its name due to a business reorganization or merger.
- Revises the requirements under which the Chief may release the surety bond or other securities that must be executed and filed with the Division by a transporter of brine.

Application of brine to roads

- Permits only brine that is produced from a well to be spread on a road.
- Prohibits fluids from the drilling of a well, flowback from the stimulation of a well, and other fluids used to treat a well from being spread on a road.

Priority lien

- Establishes that the Division has a priority lien against an owner's interest in a well if the owner fails to pay the fees imposed under the Oil and Gas Law or the severance taxes on oil and gas or if the Chief incurs costs to correct conditions associated with the owner's well.
- Specifies that a lien remains in force so long as any portion of the lien remains unpaid or until the Chief issues a certificate of release of the lien.
- Establishes procedures and requirements concerning the recording of a lien, certificates of release of the lien, modification of a lien, and other related provisions, and requires all money from the collection of liens to be credited to the Oil and Gas Well Fund.

Enforcement actions, citations, and orders of the Chief

- Authorizes the Chief or the Chief's authorized representative to issue a citation in the form of a compliance notice or administrative order for a violation of the Oil and Gas Law or rules adopted under it, terms and conditions of a permit issued under it, a registration certificate that is issued under the Law, or orders issued under it.
- Authorizes the Chief to issue an order to initiate an enforcement action for a material and substantial violation, and authorizes the Chief to issue a suspension order for failure to comply with an enforcement action for a material and substantial violation or other violation.
- Authorizes the Chief to order the immediate suspension of drilling, operating, or plugging activities that are related to a material and substantial violation and to suspend and revoke an unused permit after finding that an owner's actions present an imminent danger to the health or safety of the public or result in or may result in immediate substantial damage to the natural resources of the state.
- Requires the Chief to provide the owner an opportunity to be heard and to present evidence not later than five days after the Chief's issuance of a suspension order, and authorizes the owner to appeal a suspension order to the court of common pleas of the county in which the activity that is the subject of the order is located.

- Authorizes the Chief to issue a bond forfeiture order under the Oil and Gas Law and to notify drilling contractors, transporters, service companies, or other similar entities of the compliance status of an operator.
- Authorizes the Chief to issue a suspension order if the owner fails to comply with a prior enforcement action, requires the Chief to provide the owner an opportunity to be heard and to present evidence not later than five days after the Chief's issuance of a suspension order, and authorizes the owner to appeal a suspension order to the court of common pleas of the county in which the activity that is the subject of the order is located.
- Authorizes the Chief to enter into compliance agreements.

Appeals by persons affected by an order of the Chief

- Authorizes any person claiming to be affected by an order of the Chief, rather than aggrieved or adversely affected by an order of the Chief as in current law, to appeal to the Oil and Gas Commission for an order vacating or modifying the order.
- Requires an appeal to be filed within 30 days after the date on which the appellant received notice by certified mail rather than by registered mail as in current law, and requires the appeal to be filed within 30 days after the date of the order complained of for all other persons claiming to be directly affected by the order.

Transfer or assignment of the entire interest in an oil and gas lease

- Requires a notice to the Division of Mineral Resources Management of an assignment or transfer of the entire interest in an oil and gas lease to include a nonrefundable fee of \$100 for each well.

Transfer or assignment of the entire interest in an oil or gas well

- Requires the owner of a well who has been issued a permit to submit to the Chief an application for the proposed assignment or transfer of the entire interest in the well to the landowner for use as an exempt domestic well, and requires the application to include a nonrefundable fee of \$100.
- Establishes requirements governing the transfer or assignment of a well to a landowner for use as an exempt domestic well.
- Requires the proposed exempt domestic well owner to post a \$5,000 bond prior to the assignment or transfer under certain circumstances, and specifies that a new exempt domestic well owner is subject to severance taxes on oil and gas and all applicable fees established in the Oil and Gas Law.

Regulation of production operations

- Grants the Division of Mineral Resources Management the sole and exclusive authority to regulate production operations, as defined by the bill, within the state.

Miscellaneous

- Makes other revisions to the Oil and Gas Law.

TABLE OF CONTENTS

| | |
|---------------------------------------------------------------------------------------------------------------------------------------------------|----|
| Introduction | 15 |
| Definitions | 16 |
| Oil and gas regulatory cost recovery assessment | 18 |
| Injection well disposal fee | 18 |
| Gas storage well program fee | 19 |
| Oil and Gas Well Fund..... | 19 |
| Sources of money credited to the Fund | 19 |
| Expenditures from the Fund..... | 20 |
| Miscellaneous | 22 |
| Mandatory pooling | 22 |
| Application | 22 |
| Contents of a mandatory pooling order..... | 23 |
| Nonparticipating owners | 24 |
| Miscellaneous | 25 |
| Minimum acreage requirements | 25 |
| Surface location of a well restrictions..... | 25 |
| Minimum distance of a well from an occupied dwelling in an urbanized area | 25 |
| Minimum distance of a well from a property line of land that is not in a drilling unit in an urbanized area when using directional drilling | 25 |
| Application for a permit to drill a well | 26 |
| Contents..... | 26 |
| Time period for issuance of a permit..... | 27 |
| Fees | 27 |
| Miscellaneous | 27 |
| Subjects for terms and conditions of a permit..... | 28 |
| Term of a permit to drill..... | 28 |
| Public meeting by a political subdivision concerning a proposed lease agreement | 28 |
| Notice of the filing of an application for a permit to residents in occupied dwellings..... | 29 |
| Surety bond..... | 29 |
| New surety bond in event of forfeiture of surety bond | 30 |
| Liability insurance | 30 |
| Notification requirement prior to commencement of drilling, reopening, converting, well stimulation, or plug back operations | 31 |
| Fluid drilling in Onondaga limestone in urbanized areas | 31 |
| Well construction requirements..... | 31 |
| Current law..... | 31 |
| The bill | 32 |
| Statement of production..... | 33 |
| Wireline electric logs | 33 |

| | |
|-----------------------------------------------------------------------------------------------|----|
| The bill | 33 |
| Current law..... | 35 |
| Well stimulation..... | 35 |
| Gas flaring..... | 36 |
| Defective wells, casing, or tubing..... | 36 |
| Wells not completed or not producing..... | 37 |
| Temporary inactive well status..... | 37 |
| Application requirements | 37 |
| Approval or denial of an application..... | 38 |
| Renewal..... | 38 |
| Surety bond..... | 39 |
| Miscellaneous | 39 |
| Permit to plug and abandon a well..... | 39 |
| Written report of abandonment and plugging without inspector present..... | 41 |
| Payment for plugging of abandoned wells | 41 |
| Rules for drilling and treatment of wells, production of oil and gas, and plugging | 41 |
| Restoration requirements..... | 42 |
| Filling of pits and grading..... | 42 |
| Removal of all production and storage equipment..... | 43 |
| Secondary or additional recovery operations..... | 43 |
| Fluids associated with oil and gas development..... | 44 |
| Permit to inject brine or other waste substances | 45 |
| Brine transporters | 46 |
| Update of bond and certificate to reflect business name change | 46 |
| Release of surety bond | 46 |
| Application of brine to roads | 46 |
| Priority lien | 46 |
| Enforcement actions, citations, and orders of the Chief | 47 |
| Suspension order concerning a well in a coal bearing township | 49 |
| Appeals by persons affected by an order of the Chief | 49 |
| Transfer or assignment of the entire interest in an oil and gas lease | 50 |
| Transfer or assignment of the entire interest in an oil and gas well..... | 50 |
| Foreclosed mortgaged property that is subject to an oil or gas lease or other instrument..... | 50 |
| Regulation of production operations | 51 |
| Oil and Gas Commission | 51 |

CONTENT AND OPERATION

Introduction

The Division of Mineral Resources Management in the Department of Natural Resources is the state agency that is responsible for regulating the permitting, location, spacing, drilling, and operation of oil and gas wells within the state, including site restoration and disposal of wastes from those wells, in accordance with the Oil and Gas Law and rules adopted under it. The Chief of the Division of Mineral Resources Management heads the Division. The bill revises the Oil and Gas Law.

Definitions

For purposes of the Oil and Gas Law, current law defines "owner" to mean the person who has the right to drill on a tract or drilling unit, to drill into and produce from a pool, and to appropriate the oil or gas produced from the pool either for the person or for others, except that a person ceases to be an "owner" with respect to a well when the well has been plugged in accordance with applicable rules adopted and orders issued under the Oil and Gas Law. The bill revises the definition by stating that "owner" does not include a person who obtains a lease of the mineral rights for oil and gas on a parcel of land if the person does not attempt to produce oil or gas from a well or obtain a permit under the Oil and Gas Law for a well or if the entire interest of a well is not transferred to the person in accordance with the Oil and Gas Law. (R.C. 1509.01(K).)

Current law defines "brine" to mean all saline geological formation water resulting from, obtained from, or produced in connection with the exploration, drilling, or production of oil or gas. The bill adds that "brine" includes saline water resulting from, obtained from, or produced in connection with well stimulation or plugging of a well. (R.C. 1509.01(U).)

Finally, current law defines "urbanized area," for the purpose of attaching terms and conditions to a permit, to mean an area where a well or production facilities of a well are located within a municipal corporation or within a township that has an unincorporated population of more than 5,000 in the most recent decennial census prior to the issuance of the permit for the well or production facilities. The bill applies the definition of "urbanized area" to the entire Oil and Gas Law rather than only to the provisions pertaining to the subjects that the Chief must address when attaching terms and conditions to a permit (R.C. 1509.01(Y)).

For purposes of the Oil and Gas Law, the bill defines all of the following:

(1) "Well stimulation" or "stimulation of a well" means the process of enhancing well productivity, including hydraulic fracturing operations (R.C. 1509.01(Z)).

(2) "Production operation" means site preparation, access roads, drilling, well completion, well stimulation, well operation, site reclamation, and well plugging. "Production operation" also includes all of the following:

(a) The piping and equipment used for the production and preparation of hydrocarbon gas or liquids for transportation or delivery;

(b) The processes of extraction and recovery, lifting, stabilization, treatment, separation, production processing, storage, and measurement of hydrocarbon gas and liquid; and

(c) The processes associated with production compression, gas lift, gas injection, and fuel gas supply. (R.C. 1509.01(AA).)

(3) "Annular overpressurization" means the accumulation of fluids within an annulus with sufficient pressure to allow migration of annular fluids into underground sources of drinking water (R.C. 1509.01(BB)).

(4) "Idle and orphaned well" means a well for which a bond has been forfeited or an abandoned well for which no money is available to plug the well in accordance with the Oil and Gas Law and rules adopted it (R.C. 1509.01(CC)).

(5) "Temporarily inactive well" means a well that has been granted temporary inactive status under the bill (see "**Temporary inactive well status**," below) (R.C. 1509.01(DD)).

(6) "Material and substantial violation" means all of the following:

(a) Failure to obtain a permit to drill, reopen, convert, plug back, or plug a well under the Oil and Gas Law;

(b) Failure to obtain or maintain insurance coverage that is required under the Oil and Gas Law;

(c) Failure to obtain or maintain a surety bond that is required under the Oil and Gas Law;

(d) Failure to plug an abandoned well or idle and orphaned well unless the well has been granted temporary inactive status or the Chief has approved another option concerning the abandoned well or idle and orphaned well;

(e) Failure to restore a disturbed land surface as required under the Oil and Gas Law;

(f) Failure to reimburse the Oil and Gas Well Fund pursuant to a final order issued under the Oil and Gas Law; and

(g) Failure to comply with a final nonappealable order of the Chief issued under the Oil and Gas Law. (R.C. 1509.01(EE).)

Oil and gas regulatory cost recovery assessment

The bill states that in addition to paying the applicable taxes on the severance of oil and gas, an owner must pay an oil and gas regulatory cost recovery assessment of 10¢ per barrel of oil or ½¢ per 1,000 cubic feet of natural gas, as applicable, that is sold from all of the owner's wells located in this state. The owner must collect from each person who has a revenue interest in a well that person's pro-rata share of the assessment. The minimum amount of the assessment for every quarterly period, which periods are specified in the Severance Tax Law, must be either the amount of \$15 multiplied by the total number of the owner's wells or the amount of the owner's severance taxes levied under the Severance Tax Law plus the oil and gas regulatory cost recovery assessment imposed by the bill, whichever is greater. An owner must pay the assessment at the time and using the procedures that are established for the collection of the severance taxes on oil and gas. The bill requires all money collected from the assessment to be deposited in the state treasury to the credit of the Oil and Gas Well Fund (see "**Oil and Gas Well Fund**," below). (R.C. 1509.50.)

The bill requires the oil and gas regulatory cost recovery assessment to be treated the same and equivalent for all purposes as the taxes levied on the severance of oil and gas. However, the bill states that the assessment imposed is not a tax under the Severance Tax Law. (R.C. 1509.50.)

Furthermore, the bill requires an owner that pays an oil and gas regulatory cost recovery assessment to use and file the same return for the assessment that is prescribed by the Tax Commissioner under the Severance Tax Law for the return of severance taxes. However, the bill states that the amounts received by the Tax Commissioner from the oil and gas regulatory cost assessment are not revenue from severance taxes. (R.C. 5749.06.)

Injection well disposal fee

The bill levies on the owner of an injection well who has been issued a permit the following fees:

(1) 5¢ per barrel of each substance that is delivered to a well to be injected in the well when the substance is produced within the Division of Mineral Resources Management's regulatory district in which the well is located or within an adjoining regulatory district; or

(2) 20¢ per barrel of each substance that is delivered to a well to be injected in the well when the substance is not produced within a Division's regulatory district in which the well is located or within an adjoining regulatory district. (See **COMMENT**, below.) (R.C. 1509.221(B)(1).)

The bill establishes a maximum of 500,000 barrels of substance per injection well in a calendar year on which the fee may be levied. In addition, if in a calendar year the owner of an injection well receives more than 500,000 barrels of substance to be injected in the owner's well and if the owner receives at least one substance that is produced within the Division's regulatory district in which the well is located or within an adjoining regulatory district and at least one substance that is not produced within the Division's regulatory district in which the well is located or within an adjoining regulatory district, the fee must be calculated first on all of the barrels of substance that are not produced within the Division's regulatory district in which the well is located or within an adjoining district at the rate established in (2) above. The fee then must be calculated on the barrels of substance that are produced within the Division's regulatory district in which the well is located or within an adjoining district at the rate established in (1) above until the maximum of 500,000 barrels has been attained. (R.C. 1509.221(B)(2).)

An owner of an injection well who is issued a permit for an injection well under the Oil and Gas Law must collect the fee on behalf of the Division of Mineral Resources Management and forward the fee to the Division. The Chief must transmit all money received from the fees to the Treasurer of State, who must deposit the money in the state treasury to the credit of the Oil and Gas Well Fund (see "**Oil and Gas Well Fund**," below). An owner of an injection well who collects the fee may retain, for administrative costs, up to 3% of the amount collected. (R.C. 1509.221(B)(3).)

The bill requires the Chief to adopt rules in accordance with the Administrative Procedure Act establishing requirements and procedures for collection of the fee. (R.C. 1509.221(B)(4).)

Gas storage well program fee

The bill states that it is the intent of the General Assembly that the gas storage well program that is administered by the Division of Mineral Resources Management in the Department of Natural Resources and that includes regulatory oversight of gas storage wells and related facilities and site inspections of gas storage wells and related facilities will be funded by fees assessed on owners of gas storage wells (Section 3).

Oil and Gas Well Fund

Sources of money credited to the Fund

Current law creates the Oil and Gas Well Fund in the state treasury. All money collected by the Chief from permit application fees, permit revision fees, forfeiture of bonds, fees for permits to plug and abandon a well, injection well permit fees, brine transporter registration fees, 90% of the money received from severance taxes on oil and

gas, civil penalties for violations of certain provisions of the Oil and Gas Law, and criminal fines imposed for violations of certain provisions of the Oil and Gas Law must be credited to the Fund. The bill adds that temporary inactive well status fees (see "**Temporary inactive well status**," below), injection well disposal fees (see "**Injection well disposal fee**," above), money from the collection of liens under the Oil and Gas Law (see "**Priority lien**," below), and oil and gas regulatory cost recovery assessments (see "**Oil and gas regulatory cost recovery assessment**," above) also must be credited to the Fund. (R.C. 1509.02.)

Expenditures from the Fund

Current law requires the Chief to spend money in the Fund to plug wells and to restore land surface properly for which bonds have been forfeited, to plug abandoned wells in accordance with the Oil and Gas Law for which no funds are available, to inject oil or gas production wastes in abandoned wells, to correct conditions that the Chief reasonably has determined are causing imminent health or safety risks, for the expenses of the Division associated with the administration of the Natural Gas Policy Act of 1978, and for the Division's other functions (R.C. 1509.02 and 1509.071(B)).

The bill revises the uses of the money in the Fund. It requires that not less than 14% of the revenue credited to the Fund during the previous fiscal year must be used for two purposes. The first purpose is to plug idle and orphaned wells or to restore land surface properly or to use abandoned wells for the injection of oil or gas production wastes. For those purposes, current law requires the expenditures to be made pursuant to contracts between the Chief and persons who agree to furnish all of the materials, equipment, work, and labor as specified in the contract. The bill specifies that the contract is to be for activities associated with the restoration or plugging of a well as determined by the Chief. In addition, the bill adds that the activities may include excavation to uncover a well, geophysical methods to locate a buried well when clear evidence of leakage from the well exists, cleanout of wellbores to remove material from a failed plugging of a well, plugging operations, installation of vault and vent systems, including associated engineering certifications and permits, restoration of property, and repair of damage to property that is caused by those activities. However, the bill prohibits the use of expenditures for salaries, maintenance, equipment, or other administrative purposes, except for costs directly attributed to the plugging of an idle and orphaned well. (R.C. 1509.071(B)(1) and (D)(1).)

Current law states that agents or employees of persons contracting with the Chief for restoration, plugging, and injection projects may enter upon any land on which the well is located for the purpose of performing the work. The bill removes injection projects from that authorization. Current law requires the Chief to give specified persons written notice of the existence of a contract for a project to restore,

plug, or inject oil or gas production wastes into a well. The bill removes injection of oil and gas production waste as an activity that requires such a notice. (R.C. 1509.071(D)(1).)

Current law authorizes certain owners of land on which a well is located who did not properly plug and abandon the well or who did not properly restore the land at the well site to be reimbursed by the Division of Mineral Resources for the reasonable cost of plugging the well under specified conditions. The bill retains the reimbursement provisions, but requires that expenditures for such purposes must be consistent with the expenditures for activities described above. (R.C. 1509.071(D)(2)(a).) Current law requires such an owner to submit an application in order to plug such a well. If the Chief approves the application and issues a permit to plug and abandon the well, the plugging must be completed within 180 days after the landowner receives a notice of approval and permit from the Chief. The bill eliminates the requirement that the well be plugged within 180 days. (R.C. 1509.071(D)(2)(c) and (d).)

The second purpose for which 14% of the revenue credited to the Fund must be used under the bill is to correct conditions that the Chief reasonably has determined are causing imminent health or safety risks. The bill specifies that the imminent health or safety risks must be at an idle and orphaned well. In addition, the bill adds that money from the Fund may be used to initiate a corrective action, within a reasonable period of time as determined by the Chief, for a well for which the owner cannot be contacted. (R.C. 1509.071(B)(2).) The bill adds that the Chief must issue an order that requires the owner of a well to pay the actual documented costs of such a corrective action concerning the well. The Chief must transmit the money so recovered to the Treasurer of State, who must deposit the money in the state treasury to the credit of the Oil and Gas Well Fund. (R.C. 1509.071(H).)

The bill specifies that the Oil and Gas Well Fund must be used solely and exclusively for the two purposes discussed above, for the expenses of the Division associated with the administration of the Oil and Gas Law and the Underground Storage of Gas Law and rules adopted under those laws, 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 the state (R.C. 1509.02).

Finally, current law states that expenditures from the Fund can be made only for lawful purposes. The bill adds that expenditures from the Fund cannot be made for the purchase of real property or to remove a dwelling in order to access a well. (R.C. 1509.071(B).)

Miscellaneous

Current law states that certain criminal fines imposed under the Oil and Gas Law for violations prosecuted by prosecuting attorneys that involve the transportation of brine by vehicle must be paid to the county treasury of the county where the violation occurred. The bill adds that penalties associated with a compliance agreement entered into pursuant to the Oil and Gas Law also must be paid to the county treasury of the county where the violation occurred. (R.C. 1509.02.)

Mandatory pooling

Current law states that if a tract of land is of insufficient size or shape to meet the requirements for drilling a well on it as required by the Oil and Gas Law and the owner has been unable to form a drilling unit by agreement, on a just and equitable basis, the owner may submit an application to the Division of Mineral Resources Management for a mandatory pooling order. The bill revises current law by requiring the owner of the tract also to own the mineral interest. (R.C. 1509.27.)

Application

The application for a mandatory pooling order must include such data and information as are reasonably required by the Chief. The bill retains current law that requires a person to submit an application, but eliminates the requirement that the application include data as reasonably required by the Chief; thus, the application need only include information as reasonably required by the Chief. In addition, current law requires the Chief to notify all owners of land within the area proposed to be included within the order of the filing of the application and of their right to a hearing if requested. The bill instead requires the Chief to notify all owners of land included within the drilling unit of the filing of the application and of their right to a hearing.

Current law states that after the hearing or after the expiration of 30 days from the date notice of the application was mailed to the owners of land, the Chief must issue a drilling permit and a mandatory pooling order if the Chief is satisfied that the application is proper in form and that mandatory pooling is necessary to protect correlative rights or to provide effective development, use, or conservation of oil and gas. The bill revises the provision by stating that the Chief must issue the drilling permit and a mandatory pooling order in the time periods established in current law if the Chief is satisfied that the application is proper in form and that mandatory pooling is necessary to protect correlative rights and to provide effective development, use, and conservation of oil and gas. (R.C. 1509.27.)

Contents of a mandatory pooling order

Current law, retained and somewhat revised by the bill, requires a mandatory pooling order to do all of the following:

(A) Designate the boundaries of the drilling unit within which the well must be drilled;

(B) Designate the proposed drilling site. The bill instead requires designation of the proposed production site.

(C) Describe each separately owned tract or part of a tract pooled by the order (R.C. 1509.27(C));

(D) Allocate on a surface acreage basis a pro rata portion of the production to the owner of each tract. The bill specifies that the pro rata portion is to be allocated to the owner of each tract pooled by the order. In addition, the bill adds that the pro rata portion must be in the same proportion that the percentage of the owner's acreage is to the state minimum acreage requirements established in rules adopted under the Oil and Gas Law for a drilling unit unless the applicant demonstrates to the Chief using geological evidence that the geologic structure containing the oil or gas is larger than the minimum acreage requirement, in which case the pro rata portion must be in the same proportion that the percentage of the owner's acreage is to the geologic structure.

(E) Specify the basis on which each owner must share all reasonable costs and expenses of drilling and producing. The bill instead requires that the pooling order specify the basis on which each owner of a tract pooled by the order must share all reasonable costs and expenses of drilling and producing if the owner elects to participate in the drilling and operation of the well.

(F) Designate the person to whom the permit must be issued.

The bill prohibits a person from submitting more than five applications for mandatory pooling orders per year unless the Chief approves additional applications. (R.C. 1509.27.)

In addition, the bill prohibits surface operations or disturbances to the surface of the land to occur on a tract pooled by an order without the written consent of or a written agreement with the owner of the tract that approves the operations or disturbances. The bill requires the Chief to adopt rules in accordance with the Administrative Procedure Act that establish setback requirements for surface facilities of a well that are located near property that is subject to a mandatory pooling order.

However, the rules cannot conflict with spacing requirements for the surface facilities of a well and cannot prevent the development of the drilling unit. (R.C. 1509.27.)

Nonparticipating owners

Current law states that if an owner does not elect to participate in the risk and cost of the drilling and operation or operation of a well, the owner may elect to be a nonparticipating owner in the drilling and operation or operation of the well on a limited or carried basis, on terms and conditions determined by the Chief to be just and reasonable. If one or more participating owners bear the costs of drilling, equipping, or operating a well for the benefit of a nonparticipating owner, as provided for in the pooling order, then the participating owner or owners are entitled to the share of production from the drilling unit accruing to the interest of each participating owner. However, the share of production from the drilling unit does not include the royalty interest if the fee holder has leased the fee holder's land to others; otherwise, the share of production is $\frac{1}{8}$ of the fee holder's share of the production until there has been received the share of costs charged to that nonparticipating owner plus such additional percentage of the share of costs as the Chief determines. The total amount receivable cannot exceed double the share of costs charged to the nonparticipating owner. (R.C. 1509.27.)

The bill instead states that if an owner of a tract pooled by a mandatory pooling order does not elect to participate in the risk and cost of the drilling and operation of a well, the owner must be designated as a nonparticipating owner in the drilling and operation of the well on a limited or carried basis and is subject to terms and conditions determined by the Chief to be just and reasonable. In addition, if an owner is designated as a nonparticipating owner, the owner is not liable for actions or conditions associated with the drilling or operation of the well. If the applicant bears the costs of drilling, equipping, and operating a well for the benefit of a nonparticipating owner, as provided for in the pooling order, then the applicant is entitled to the share of production from the drilling unit accruing to the interest of that nonparticipating owner. However, the share of production from the drilling unit does not include the nonparticipating owner's proportionate share of the royalty interest until there has been received the share of costs charged to that nonparticipating owner plus such additional percentage of the share of costs as the Chief determines. The total amount receivable cannot exceed 200% of the share of costs charged to that nonparticipating owner. In addition, the bill states that after receipt of that share of costs by such an applicant, a nonparticipating owner must receive a proportionate share of the working interest in the well in addition to a proportionate share of the royalty interest, if any. (R.C. 1509.27.)

Miscellaneous

The bill removes the provision of current law that states that in instances where a well is completed prior to the mandatory pooling of interests in a drilling unit, the sharing of production and adjustment of the original costs of drilling, equipping, and completing the well must be from the effective date of the mandatory pooling order. In addition, the bill removes the provision of current law that states that from and after the date of a pooling order, all operations, including the commencement of drilling or the operating of or production from a well on any tract or portion of the drilling unit, is deemed for all purposes the conduct of such operations on and production from any lease or contract for lands any portion of which is included in the drilling unit. (R.C. 1509.27.)

Minimum acreage requirements

Current law requires the Chief, with the approval of the Technical Advisory Council on Oil and Gas created under the Oil and Gas Law, to adopt rules relative to minimum acreage requirements for drilling units and minimum distances from which a new well may be drilled or an existing well deepened, plugged back, or reopened to a source of supply different from the existing pool from boundaries of tracts, drilling units, and other wells for the purpose of conserving oil and gas reserves. The bill adds that the rules relative to minimum acreage requirements for drilling units must require a drilling unit to be compact and composed of contiguous land. (R.C. 1509.24.)

Surface location of a well restrictions

Minimum distance of a well from an occupied dwelling in an urbanized area

The bill states that, on and after the bill's effective date, the surface location of a new well cannot be within 150 feet of an occupied dwelling that is located in an urbanized area unless: (1) the owner of the land on which the occupied dwelling is located consents in writing to the surface location of the well less than 150 feet from the dwelling, and (2) the Chief of the Division of Mineral Resources Management approves the written consent of that owner. However, the Chief cannot approve the written consent of such an owner when the surface location of a new well will be within 100 feet of an occupied dwelling that is located in an urbanized area. (R.C. 1509.021(A).)

Minimum distance of a well from a property line of land that is not in a drilling unit in an urbanized area when using directional drilling

The bill states that on and after the bill's effective date, the surface location of a new well cannot be within 150 feet from the property line of a parcel of land that is not in the drilling unit of the well if: (1) the parcel of land is located in an urbanized area,

and (2) directional drilling will be used to drill the new well. The 150-foot minimum distance does not apply if the owner of the parcel of land consents in writing to the surface location of the well less than 150 feet from the property line of the parcel of land and the Chief approves the written consent of that owner. However, the bill provides that the Chief cannot approve the written consent of such an owner when the surface location of a new well will be within 100 feet from the property line of the owner's parcel of land. (R.C. 1509.021(B).)

Application for a permit to drill a well

Contents

Current law requires an application for a permit to drill a new well, drill an existing well deeper, reopen a well, convert a well to any use other than its original purpose, or plug back a well to a different source of supply to be filed with the Chief. The bill adds that plug back of a well to a different source of supply includes associated production facilities. (R.C. 1509.06(A).)

Current law also requires the application for a permit to contain specified information. One of the required pieces of information that an application for a permit to drill a new well must contain concerns a sworn statement that the applicant has provided notice of the application to the owner of each occupied dwelling unit that is located within 500 feet of the surface location of the well if the surface location will be less than 500 feet from the boundary of the drilling unit and more than 15 occupied dwelling units are located less than 500 feet from the surface location of the well, excluding any dwelling that is located on real property, all or any portion of which is included in the drilling unit. The bill revises the requirement by instead stating that for an application for a permit to drill a new well within an urbanized area, the application must contain a sworn statement that the applicant has provided notice by regular mail to the owner of each parcel of real property that is located within 500 feet of the surface location of the well. In addition, the bill adds that the notice must contain a statement that informs an owner of real property who is required to receive the notice that within five days of receipt of the notice, the owner must provide notice to each residence in an occupied dwelling that is located on the owner's parcel of real property (see "**Notice of the filing of an application for a permit to residents in occupied dwellings**," below). (R.C. 1509.06(A)(9).)

Current law requires the identity of the owners of occupied dwelling units for purposes of the notice requirement described above to be determined using the tax records of the municipal corporation or county in which the dwelling unit is located as of the date of the notice. The bill revises the requirement to be consistent with the bill's notice requirement discussed above by specifying that the identity of owners of parcels

of real property, instead of owners of occupied dwelling units as in current law, must be determined using the tax records. (R.C. 1509.06(A)(9).)

Time period for issuance of a permit

Current law prohibits the Chief from issuing a permit for at least ten days after the date of filing of the application for the permit unless, upon a reasonable cause shown, the Chief waives that period or a request for expedited review is filed. However, the Chief must issue a permit within 21 days of the filing of the application unless the Chief denies the application by order. The bill instead states that the current requirements apply unless the location of a well or proposed well will be or is within an urbanized area. If the well will be or is within an urbanized area, the Chief cannot issue a permit for at least 18 days after the date of filing of the application for the permit unless the Chief waives that period for reasonable cause or the Chief at the Chief's discretion grants a request for expedited review. However, the Chief must issue a permit for a well or proposed well within an urbanized area within 30 days of the filing of the application unless the Chief denies the application by order. (R.C. 1509.06(C).)

Fees

Current law, revised by the law requires each application for a permit to be accompanied by a nonrefundable fee, revised by the bill as follows:

(1) \$250 for a permit to conduct activities in a township with a population of fewer than 5,000. The bill increases the amount of the fee from \$250 to \$500 and increases the population of the township from 5,000 to 10,000.

(2) \$500 for a permit to conduct activities in a township with a population of 5,000 or more, but fewer than 10,000. The bill eliminates that fee.

(3) \$750 for a permit to conduct activities in a township with a population of 10,000 or more, but fewer than 15,000.

(4) \$1,000 for a permit to conduct activities in a township with a population of 15,000 or more or in a municipal corporation regardless of population.

(5) An additional \$5,000 fee, added by the bill adds, if the application is for a permit that requires mandatory pooling (see "**Mandatory pooling**," above). (R.C. 1509.061(G).)

Miscellaneous

The bill adds that the issuance of a permit cannot be considered an order of the Chief (R.C. 1509.06(F)).

Subjects for terms and conditions of a permit

Current law requires the Chief to adopt rules for the administration, implementation, and enforcement of the Oil and Gas Law. The rules must include an identification of the subjects that the Chief must address when attaching terms and conditions to a permit with respect to a well and production facilities of a well that are located within an urbanized area. The subjects must include all of the following: (1) safety concerning the drilling or operation of a well, (2) protection of the public and private water supplies, (3) location of surface facilities of a well, (4) fencing and screening of surface facilities of a well, (5) containment and disposal of drilling and production wastes, and (6) construction of access roads for purposes of the drilling and operation of a well. The bill adds noise mitigation for purposes of the drilling of a well as an additional subject that the Chief must address. In addition, the bill adds that prior to the issuance of a permit to drill a proposed well that will be located within an urbanized area, the Division must conduct a site review to identify and evaluate any site-specific terms and conditions that may be attached to a permit. (R.C. 1509.03.)

Term of a permit to drill

Current law states that a permit to drill a new well, drill an existing well any deeper, reopen a well, convert a well to any use other than its original purpose, or plug back a well to a source of supply different from the existing pool is valid for 12 months. The bill instead provides that such a permit for a well that is or is to be located in an urbanized area is valid for 12 months, and all other permits are valid for 24 months. (R.C. 1509.05.)

Public meeting by a political subdivision concerning a proposed lease agreement

The bill requires the legislative authority of a political subdivision to conduct a public meeting concerning a proposed lease agreement for the development of oil and gas resources on land that is located in an urbanized area and that is owned by the political subdivision prior to entering into the lease agreement. The public meeting must be conducted in a public venue in the municipal corporation or township in which the proposed well is to be located. The public meeting must not occur at the same meeting at which the legislative authority of the political subdivision votes to enter into a proposed lease, if applicable. (R.C. 1509.61(A).)

The legislative authority of the political subdivision must send notice not later than ten days prior to the date of the public meeting to the owner of each parcel of real property that is located within 500 feet of the surface location of the property that is the subject of the proposed lease agreement (R.C. 1509.61(A)). The legislative authority

must provide the notice in accordance with requirements established by the legislative authority governing public meetings that are held by the legislative authority (R.C. 1509.61(B)). In addition, the bill requires the notice to contain a statement that the legislative authority of the political subdivision is considering entering into an oil or gas lease agreement. The statement also must provide the location, date, and time of the public meeting. In addition, the statement must contain a statement that informs an owner of real property who is required to receive notice of the public meeting under the bill that, within five days of receipt of the notice, the owner is required to provide notice to each residence in an occupied dwelling that is located on the owner's parcel of real property. (R.C. 1509.61(A).)

The bill then requires the owner of a parcel of real property that receives such a notice to provide to each residence in an occupied dwelling that is located on the owner's parcel of real property, if any, a copy of that notice within five days of receipt of the notice (R.C. 1509.61(C)).

Notice of the filing of an application for a permit to residents in occupied dwellings

The bill requires the owner of a parcel of real property who receives a notice concerning the filing of an application for a permit to drill a new well within an urbanized area as required under the bill's provisions (see "**Application for a permit to drill a well**," above) to provide to each residence in an occupied dwelling that is located on the owner's parcel of real property, if any, a copy of that notice within five days of receipt of the notice (R.C. 1509.60).

Surety bond

Current law requires an owner of any well, before being issued a permit to drill a well, to execute and file with the Division a surety bond that is conditioned on compliance with restoration requirements, plugging requirements, permit requirements for plugging and abandoning a well, and all rules and orders of the Chief relating to those requirements in an amount set by rule of the Chief. The bill also requires an owner of any well to execute and file such a surety bond before operating or producing from a well. It prohibits an owner, operator, producer, or other person from operating a well or producing from a well at any time if the owner, operator, producer, or other person has not executed and filed the surety bond or other acceptable form of financial security that is required under current law.

Current law authorizes the Chief, instead of a surety bond, to accept proof of financial responsibility consisting of a sworn financial statement showing a net financial worth within this state equal to twice the amount of the bond for which it substitutes

and, as may be required by the Chief, a list of producing properties of the owner within this state or other evidence showing ability and intent to comply with the law and rules concerning restoration and plugging that may be required by rule of the Chief. The owner of an exempt domestic or exempt Mississippian well is not required to file scheduled updates of the financial documents, but must file updates of those documents if requested by the Chief. The owner of a nonexempt domestic or nonexempt Mississippian well must file updates of the financial documents in accordance with a schedule established by rule of the Chief. The bill revises the requirements for the filing of scheduled updates for owners of exempt domestic and nonexempt domestic wells. The bill requires an owner of an exempt domestic well to file scheduled updates of the financial documents and removes the requirement that the owner of a nonexempt domestic well file updates of financial documents in accordance with a schedule established by rule of the Chief. (R.C. 1509.07.)

New surety bond in event of forfeiture of surety bond

Current law states that when the Chief finds that an owner has failed to comply with restoration requirements, plugging requirements, or certain permit provisions, or rules and orders relating to them, the Chief must make a finding of that fact and declare any surety bond filed to ensure compliance with those requirements, provisions, and rules forfeited in the amount set by rule of the Chief. The bill adds that the Chief may require an owner, operator, producer, or other person who forfeited a surety bond to post a new surety bond in the amount of \$15,000 for a single well, \$30,000 for two wells, or \$50,000 for three or more wells.

Current law also states that in lieu of total forfeiture, the surety, at its option, may cause the well to be properly plugged and abandoned and the area properly restored or pay to the Treasurer of State the cost of plugging and abandonment. The bill adds that the owner has the same options in lieu of total forfeiture as the surety. (R.C. 1509.071(A).)

Liability insurance

Current law requires an owner of any well, except an exempt Mississippian well or an exempt domestic well, to obtain liability insurance coverage from a company authorized to do business in this state in an amount of not less than \$300,000 bodily injury coverage and \$300,000 property damage coverage to pay damages for injury to persons or damage to property caused by the drilling, operation, or plugging of all the owner's wells in this state. The owner must maintain that coverage until all the owner's wells are plugged and abandoned as required by law. The bill revises the liability insurance coverage by requiring such an owner to obtain coverage in an amount of not less than \$1 million bodily injury coverage and property damage coverage to pay

damages for injury to persons or damage to property caused by the drilling, operation, or plugging of all the owner's wells in this state. However, the bill states that if any well is located within an urbanized area, the owner must obtain liability insurance coverage in an amount of not less than \$3 million for bodily injury coverage and property damage coverage to pay damages for injury to persons or damage to property caused by the drilling, operation, or plugging of all of the owner's wells in this state. In addition, the bill requires the owner to maintain the coverage until all the owner's wells are plugged and abandoned or are transferred to an owner who has obtained the required insurance and who is not under a notice of material and substantial violation or under a suspension order. The bill prohibits an owner, operator, producer, or other person from operating a well or producing from a well at any time if the owner, operator, producer, or other person has not obtained the required insurance coverage (R.C. 1509.07).

Notification requirement prior to commencement of drilling, reopening, converting, well stimulation, or plug back operations

The bill requires a permittee or a permittee's authorized representative to notify an inspector from the Division of Mineral Resources Management at least 24 hours, or within another time period agreed to by the Chief's authorized representative, prior to the commencement of drilling, reopening, converting, well stimulation, or plug back operations (R.C. 1509.06(H)).

Fluid drilling in Onondaga limestone in urbanized areas

The bill requires a person who issued a permit under the Oil and Gas Law to drill a new well or drill an existing well deeper in an urbanized area to establish fluid drilling conditions prior to penetration of the Onondaga limestone and continue to use fluid drilling until total depth of the well is achieved unless the Chief authorizes such drilling without using fluid (R.C. 1509.073).

Well construction requirements

Current law

Current law requires any person who drills a well, before drilling into the principal or major producing formation, to encase the well with good and sufficient wrought iron or steel casing so as to exclude all surface, fresh, or salt water from any part of the well penetrating the oil or gas bearing sand or rock or fresh water strata. The method of placing the casing must be approved by the Chief and must be in accord with the most approved method used in the operation of the type of well. The Chief, in lieu of the casing method, may accept adequate mudding methods with prepared clay in the annular space behind the casing in sufficient quantities to shut off all gas or oil

and that will exclude all surface, fresh, or salt water from any part of the well penetrating the oil, gas, or mineral bearing formation or fresh water strata.

Written approval from the Chief is required in each case. In the operation of a gas well, current law authorizes, with the written consent of the Chief, all casing in such a well to be withdrawn, leaving only the tubing and the packer, provided that the well is filled with prepared clay from the top of the pack to the surface as each succeeding string of casing in the well is withdrawn. When the well penetrates the excavations of a mine, the casing must remain intact and must be plugged and abandoned in accordance with the Oil and Gas Law. (R.C. 1509.17.)

The bill

Standards for constructing a well. The bill generally eliminates the provisions described above. Instead, the bill requires a well to be constructed in a manner that is approved by the Chief as specified in the permit, using materials that comply with industry standards for the type and depth of the well and the anticipated fluid pressures that are associated with the well. In addition, a well must be constructed using sufficient steel or conductor casing in a manner that supports unconsolidated sediments, that protects and isolates all underground sources of drinking water as defined by the Safe Drinking Water Act, and that provides a base for a blowout preventer or other well control equipment that is necessary to control formation pressures and fluids during the drilling of the well and other operations to complete the well. An oil and gas reservoir must be isolated during well stimulation and during the productive life of the well using steel production casing with sufficient cement. In addition, sour gas zones and gas bearing zones that have sufficient pressure and volume to over-pressurize the surface production casing annulus resulting in annular overpressurization must be isolated using approved cementing, casing, and well construction practices. However, isolating an oil and gas reservoir cannot exclude open-hole completion. A well cannot be perforated for purposes of well stimulation in any zone that is located around casing that protects underground sources of drinking water without written authorization from the Chief as provided under the provisions discussed below. The bill retains the provision of current law that states that when the well penetrates the excavations of a mine, the casing must remain intact and be plugged and abandoned in accordance with the requirements of the Oil and Gas Law. (R.C. 1509.17(A).)

Rules. The Chief may adopt rules in accordance with the Administrative Procedure Act, which are consistent with the standards for constructing a well discussed above, for evaluating the quality of well construction materials and for completing remedial cementing. In addition, the standards established in rules must

consider local geology and various drilling conditions and must require the use of reasonable methods that are based on sound engineering principles. (R.C. 1509.17(B).)

Cementing. An owner or an owner's authorized representative must notify a mineral resources inspector each time that the owner or the authorized representative notifies a person to perform the cementing of the conductor casing, the surface casing, or the production casing. In addition, not later than 60 days after the completion of the cementing of the production casing, an owner must submit to the Chief a copy of the cement tickets for each cemented string of casing and a copy of all logs that were used to evaluate the quality of the cementing. (R.C. 1509.17(C).)

Exemption. The Chief must grant an exemption from the standards for constructing a well if the Chief determines that a cement bond log confirms zonal isolation and there is a minimum of 500 feet between the uppermost perforation of the casing and the lowest depth of an underground source of drinking water (R.C. 1509.17(D)).

Statement of production

Current law requires the owner of any well producing or capable of producing oil or gas to file with the Chief of the Division of Mineral Resources Management, on or before March 1, a statement of production of oil, gas, and brine for the last preceding calendar year. The bill revises the date on which the statement must be filed to on or before March 31. In addition, the bill requires an owner that has more than 100 wells in this state to submit electronically the statement of production in a format that is approved by the Chief. (R.C. 1509.11.)

Wireline electric logs

The bill

The bill requires any person drilling within the state, within 60 days after the completion of drilling operations to the proposed total depth or after a determination that a well is a dry or lost hole, to file with the Division of Mineral Resources Management all wireline electric logs and an accurate well completion record on a form that is approved by the Chief and that designates all of the following:

- (1) The purpose for which the well was drilled;
- (2) The character, depth, and thickness of geological units encountered, including coal seams, mineral beds, associated fluids such as fresh water, brine, and crude oil, natural gas, and sour gas if such seams, beds, or fluids are known;
- (3) The dates on which drilling operations were commenced and completed;

(4) The types of drilling tools used and the name of the person that drilled the well;

(5) The length in feet of the various sizes of casing and tubing used in drilling the well, the amount removed after completion, the type and setting depth of each packer, and other data relating to cementing in the annular space behind such casing or tubing, and data indicating completion as a dry, gas, oil, combination oil and gas, brine injection, or artificial brine well or a stratigraphic test;

(6) The number of perforations in the casing and the intervals of the perforations;

(7) The elevation above mean sea level of the point from which the depth measurements were made, stating also the height of the point above ground level at the well, the total depth of the well, and the deepest geological unit that was penetrated in the drilling of the well;

(8) If applicable, the type, volume, and concentration of acid, and the date on which acid was used in acidizing the well;

(9) If applicable, the type and volume of fluid used to stimulate the reservoir of the well, the reservoir breakdown pressure, the method used for the containment of fluids recovered from the fracturing of the well, the methods used for the containment of fluids when pulled from the wellbore from swabbing the well, the average pumping rate of the well, and the name of the person that performed the well stimulation. In addition, the owner must include a copy of the log from the stimulation of the well, a copy of the invoice for each procedure and method that was used on the well, and a copy of the pumping pressure and rate graphs. However, the owner may redact from the copy of each invoice the costs of and charges for the procedures and methods that were used on the well.

(10) The name of the company that performed the logging of the well and the types of wireline electric logs performed on the well.

The well completion record must be in a form that has been approved by the Chief and must be submitted in duplicate with one copy retained by the Chief as a permanent record and the second copy transmitted by the Chief to the Division of Geological Survey. Not later than 60 days after the completion of drilling operations to the proposed total depth, the owner must file all wireline electric logs with the Division of Mineral Resources Management, and the Chief must transmit such logs electronically, if available, to the Division of Geological Survey. If a well is not completed within 60 days after the completion of drilling operations, the owner must

file with the Division of Mineral Resources Management a supplemental well completion record that includes all of the required information within 60 days after the completion of the well. (R.C. 1509.10.)

Current law

Current law requires any person drilling within the state, within 30 days after completion of the well, to file with the Division of Mineral Resources Management an accurate log that designates all of the following:

- (1) The purpose for which the well was drilled;
- (2) The character, depth, and thickness of geological formations encountered, including fresh water, coal seams, mineral beds, brine, and oil and gas bearing formations;
- (3) The length in feet of the various sizes of casing and tubing used in drilling the well, the amount removed after completion, the type and setting depth of each packer, and other data relating to mudding in the annular space behind the casing or tubing, indicating completion as a dry, gas, oil, combination oil and gas, brine, or artificial brine well; and
- (4) The elevation above mean sea level of the point from which the depth measurements were made, stating also the height of the point above ground level at the well.

The log must be in a form that has been approved by the Chief. The log must be submitted in duplicate with one copy retained by the Chief as a permanent record and the second copy transmitted by the Chief to the Division of Geological Survey. Any electric log, radioactivity log, or other geophysical log, if made in connection with the well, must be filed with the Division of Mineral Resources Management, and the Chief must transmit such logs to the Division of Geological Survey. (R.C. 1509.10.)

Well stimulation

The bill requires an owner who elects to stimulate a well to stimulate the well in a manner that will not endanger underground sources of drinking water. Not later than 24 hours before commencing the stimulation of a well, the owner or the owner's authorized representative must notify a mineral resources inspector. If during the stimulation of a well damage to the production casing or cement occurs and results in the circulation of fluids from the annulus of the surface production casing, the owner must immediately notify the Chief. If the Chief determines that the casing and the cement may be remediated in a manner that isolates the oil and gas bearing zones of the

well, the Chief may authorize the completion of the stimulation of the well. If the Chief determines that the stimulation of a well resulted in irreparable damage to the well, the Chief must order that the well be plugged and abandoned within 30 days of the issuance of the order. For purposes of determining the integrity of the remediation of the casing or cement of a well that was damaged during the stimulation of the well, the Chief may require the owner of the well to submit cement evaluation logs, temperature surveys, pressure tests, or a combination of those logs, surveys, and tests. (R.C. 1509.19.)

Gas flaring

Current law authorizes the owner of any well producing both oil and gas to burn such gas in flares when the gas is lawfully produced and there is no economic market at the well for the escaping gas. The bill adds that the owner also may burn gas when it is necessary to protect the health and safety of the public. (R.C. 1509.20.)

Defective wells, casing, or tubing

Current law prohibits an owner of any well from permitting defective casing or tubing in the well to leak fluids or gas that may cause damage to other permeable strata. Upon notice from the Chief, the owner must immediately repair the tubing or casing or plug and abandon the well. The bill instead prohibits an owner of any well from knowingly constructing a well, or from permitting defective casing or tubing in a well to leak fluids or gases, that may cause damage to other permeable strata, underground sources of drinking water, or the surface of the land or that threatens the public health and safety. Upon discovering that the casing or tubing in a well is defective or that a well was not adequately constructed, the owner of the well must notify the Chief within 24 hours of the discovery, and the owner must immediately repair the tubing or casing, correct the construction inadequacies, or plug and abandon the well.

Under current law, unless written permission is granted by the Chief, any well that is or becomes incapable of producing oil or gas in commercial quantities must be plugged, but no well can be required to be plugged that is being used to produce oil or gas for domestic purposes or that is being lawfully used for a purpose other than production of oil or gas. The bill eliminates that provision.

Where the plugging method prescribed by rules adopted under the Oil and Gas Law cannot be applied or if applied would be ineffective in carrying out the protection that the law is meant to give, the Chief, by order, may designate a different method of plugging. The bill eliminates the requirement that the Chief do so by order. (R.C. 1509.12.)

Wells not completed or not producing

The bill requires the owner of a well that has not been completed, a well that has not produced within one year after completion, or an existing well that has no reported production for two consecutive reporting periods to plug the well in accordance with the plugging requirements of the Oil and Gas Law, obtain a temporary inactive well status for the well (see "**Temporary inactive well status**," below), or perform another activity regarding the well that is approved by the Chief. If a well has a reported annual production that is less than 1,000 cubic feet of natural gas or 15 barrels of crude oil, or a combination of natural gas or crude oil, the Chief may require the owner of the well to submit an application for a temporary inactive well status for the well. (R.C. 1509.062(A).)

Temporary inactive well status

The bill states that in order for the owner of a well to submit an application for temporary inactive well status for the well, the owner and the well must be in compliance with the Oil and Gas Law and rules adopted under it, any terms and conditions of the permit for the well, and applicable orders issued by the Chief (R.C. 1509.062(B)).

Application requirements

The bill requires that an application for temporary inactive status for a well be submitted to the Chief on a form prescribed and provided by the Chief and contain all of the following:

- (1) The owner's name and address and, if the owner is a corporation, the name and address of the corporation's statutory agent;
- (2) The signature of the owner or of the owner's authorized agent. When an authorized agent signs an application, the application must be accompanied by a certified copy of the agent's appointment as agent.
- (3) The permit number assigned to the well. If the well has not been assigned a permit number, the Chief must assign a permit number to the well.
- (4) A map, on a scale not smaller than 400 feet to the inch, that shows the location of the well and the tank battery, that includes the latitude and longitude of the well, and that contains all other data that are required by the Chief;
- (5) A demonstration that the well is of future utility and that the applicant has a viable plan to utilize the well within a reasonable period of time;

(6) A demonstration that the well poses no threat to the health or safety of persons, property, or the environment; and

(7) Any other relevant information that the Chief prescribes by rule.

The bill authorizes the Chief to waive any of the above application requirements if the Division of Mineral Resources Management possesses a current copy of the information or a document that is required in the application. (R.C. 1509.062(B).)

The bill requires that an application for temporary inactive well status be accompanied by a nonrefundable fee of \$100 (R.C. 1509.062(E)).

Approval or denial of an application

Upon receipt of an application for temporary inactive well status, the Chief must review the application and must either deny the application by issuing an order or approve the application. The bill requires the Chief to approve the application only if the Chief determines that the well that is the subject of the application poses no threat to the health or safety of persons, property, or the environment. If the Chief approves the application, the Chief must notify the applicant of the Chief's approval. Upon receipt of the Chief's approval, the owner must shut in the well and empty all liquids and gases from all storage tanks, pipelines, and other equipment associated with the well. In addition, the owner must maintain the well, other equipment associated with the well, and the surface location of the well in a manner that prevents hazards to the health and safety of people and the environment. The owner must inspect the well at least every six months and submit to the Chief within 14 days after the inspection a record of the inspection on a form prescribed and provided by the Chief. (R.C. 1509.062(C).)

The bill states that temporary inactive well status approved by the Chief expires one year after the date of approval of the application for temporary inactive well status or production from the well commences, whichever occurs sooner (R.C. 1509.062(G)).

Renewal

The bill authorizes the owner of a well, not later than 30 days before the expiration of temporary inactive well status or a renewal of temporary inactive well status approved by the Chief, to submit to the Chief an application for renewal of the temporary inactive well status on a form prescribed and provided by the Chief. The application must include a detailed plan that describes the ultimate disposition of the well, the time frames for that disposition, and any other information that the Chief determines is necessary. The Chief must either deny an application by order or approve the application. If the Chief approves the application, the Chief must notify the owner of the well of the Chief's approval. (R.C. 1509.062(D).) The bill requires that an

application for a renewal of temporary inactive well status be accompanied by a nonrefundable fee of \$250 for the first renewal and \$500 for each subsequent renewal (R.C. 1509.062(E)).

The bill states that a renewal of temporary inactive well status expires one year after the expiration date of the initial temporary inactive well status or one year after the expiration date of the previous renewal of the temporary inactive well status, as applicable, or production from the well commences, whichever occurs sooner (R.C. 1509.062(G)).

Surety bond

After a third renewal of temporary inactive well status, the Chief may require an owner to provide a surety bond in an amount not to exceed \$10,000 for each of the owner's wells that has been approved by the Chief for temporary inactive well status (R.C. 1509.062(F)).

Miscellaneous

The owner of a well that has been approved by the Chief for temporary inactive well status may commence production from the well at any time. The bill requires the owner to notify the Chief of the commencement of production not later than 60 days after the commencement. (R.C. 1509.062.)

Finally, the bill states that the Oil and Gas Law and the rules adopted under it, any terms and conditions of the permit for a well, and applicable orders issued by the Chief apply to a well that has been approved by the Chief for temporary inactive well status or renewal of that status (R.C. 1509.062(I)).

Permit to plug and abandon a well

Current law prohibits a person from plugging and abandoning a well without having a permit to do so issued by the Chief. The permit must be issued by the Chief in accordance with the Oil and Gas Law, and the Chief may establish by rule a period of time from the date of issue during which permits will be valid. The bill retains the requirement for a permit to plug and abandon a well, but states that such a permit is valid for 24 months from the date of issue rather than for a period established by rule as in current law.

Current law requires an application for a permit to plug and abandon a well to be filed with the Chief and establishes application requirements. If oil or gas has been produced from the well, the application fee is \$50. The bill retains the application filing

requirement and application requirements, but increases the application fee if oil or gas has been produced from the well from \$50 to \$250.

Current law states that if a new dry well has been drilled in accordance with law and the permit is still valid, the permit holder may receive approval to plug the well from a mineral resources inspector or, if the well is located in a coal bearing township, both a deputy mine inspector and a mineral resources inspector so that the well can be plugged and abandoned without undue delay. The bill instead states that if a well has been drilled in accordance with law and the permit is still valid, the permit holder may receive approval to plug the well from a mineral resources inspector so that the well can be plugged and abandoned without undue delay. The bill adds that unless waived by a mineral resources inspector, the owner of a well or the owner's authorized representative must notify a mineral resources inspector at least 24 hours prior to the commencement of the plugging of a well. (R.C. 1509.13(A).)

Current law prohibits the plugging and abandonment of a well without a mineral resources inspector present unless permission has been granted by the Chief. The owner of the well must give written notice at the same time to the owner of the land on which the well is located, the owners or agents of adjoining land, adjoining well owners or agents, and, if the well penetrates or passes within 100 feet of the excavations and workings of a mine, the owner or lessee of that mine of the well owner's intention to abandon the well and of the time when the well owner will be prepared to commence plugging it. The bill retains the requirement that a mineral resources inspector be present for the plugging and abandonment of a well unless permission has been granted by the Chief. It eliminates the requirement that notice be given to the owners or agents of adjoining land and adjoining well owners or agents, but adds that the owner of a well that has produced oil or gas must give written notice at the same time to the owner of the land on which the well is located and to all lessors that receive gas from the well pursuant to a lease agreement. Furthermore, the bill requires the owner of the well, if the well penetrates or passes within 100 feet of the excavations and workings of a mine, to give written notice to the owner or lessee of that mine of the owner's intention to abandon the well and of the time when the well owner will be prepared to commence plugging it. (R.C. 1509.13(A).)

Current law authorizes an applicant to file a request for an expedited review of an application for a permit to plug and abandon a well. The applicant must include a nonrefundable filing fee of \$250 unless the Chief has ordered the applicant to plug and abandon the well. The bill increases that nonrefundable filing from \$250 to \$500. (R.C. 1509.13 (B).)

Written report of abandonment and plugging without inspector present

Current law requires a person who abandons a well, when written permission has been granted by the Chief to abandon and plug the well without an inspector present to supervise the plugging, to make a written report of the abandonment to the Chief. The report must contain specified information. Included in that information is the depth of each seam of coal drilled through. The bill qualifies that required information by stating that the report must indicate the depth of each seam of coal drilled through, if known. (R.C. 1509.14(H).)

Payment for plugging of abandoned wells

Current law states that in the case of oil or gas wells abandoned prior to September 1, 1951, the board of county commissioners of the county in which the wells are located may submit to the electors of the county the question of establishing a special fund, by special levy, by bond issue, or out of current funds, which must be approved by a majority of the electors voting on that question for the purpose of plugging the wells. The fund must be administered by the board and the plugging of oil and gas wells must be under the supervision of the Chief, and the board must let contracts for that purpose, provided that the fund cannot be used for the purpose of plugging oil and gas wells that were abandoned subsequent to September 1, 1951. The bill revises the date from 1951 to 1978 prior to which a well may be abandoned for purposes of the levy and use of money in the special fund. In addition, bill states that the question of establishing a special fund must be by general levy, by general bond issue, or out of current funds rather than by special levy, by bond issue, or out of current funds as in current law. (R.C. 1509.12.)

Rules for drilling and treatment of wells, production of oil and gas, and plugging

Current law authorizes rules of the Chief of the Division of Mineral Resources Management to specify practices to be followed in the drilling of wells and in the production of oil and gas for protection of public health or safety and to prevent damage to natural resources. The bill adds that the rules also may specify practices to be followed in the treatment of wells and plugging of wells.

The rules, under current law as revised by the bill, may specify all of the following:

- (1) Appropriate devices;
- (2) Minimum distances that wells and other excavations, structures, and equipment must be located from water wells and bodies of water, streets, roads,

railroad tracks, and other similar structures, public or private recreational areas, zoning districts, and buildings or other structures. The bill prohibits the rules concerning minimum distances from conflicting with the bill's setback provisions (see "**Surface location of a well restrictions**," above).

(3) Other methods of operation; and

(4) Procedures, methods, and equipment and other requirements for equipment to prevent and contain discharges of oil from oil production facilities and oil drilling and workover facilities consistent with and equivalent in scope, content, and coverage to specified provisions of the Federal Water Pollution Control Act Amendments of 1972. The bill adds that the procedures, methods, and equipment are to prevent and contain discharges of brine, in addition to oil as in current law, from the facilities. It also adds that the rules may specify procedures, methods, and equipment and other requirements for equipment to prevent and contain surface and subsurface discharges of fluids, condensates, and gases.

(5) Notifications as added by the bill. (R.C. 1509.23(A).)

Restoration requirements

Current law prohibits an oil or gas well owner or agent of an oil or gas well owner from failing to restore the land surface within the area disturbed in siting, drilling, completing, and producing the well (R.C. 1509.072).

Filling of pits and grading

Current law. Within five months after the date on which the surface drilling of a well is commenced, the owner or the owner's agent, in accordance with the restoration plan filed under the Oil and Gas Law, must fill all the pits for containing brine, other waste substances resulting, obtained, or produced in connection with exploration or drilling for, or production of, oil or gas, or oil that are not required by other state or federal laws or regulations and remove all concrete bases, drilling supplies, and drilling equipment. Within nine months after the date on which the surface drilling of a well is commenced, the owner or the owner's agent must grade or terrace and plant, seed, or sod the area disturbed that is not required in production of the well where necessary to bind the soil and prevent substantial erosion and sedimentation. If the Chief finds that a pit used for containing brine, other waste substances, or oil is in violation of specified provisions of the Oil and Gas Law and rules adopted or orders issued under it, the Chief may require the pit to be emptied and closed before expiration of the five-month restoration period. (R.C. 1509.072(A).)

The bill. Within 14 days after the date on which the drilling of a well is completed to total depth in an urbanized area and within two months after the date on which the drilling of a well is completed in all other areas, the owner or the owner's agent, in accordance with the restoration plan that is filed under the Oil and Gas Law, must fill all pits for containing brine and other waste substances resulting, obtained, or produced in connection with exploration or drilling for oil or gas that are not required by other state or federal laws or regulations and remove all drilling supplies and drilling equipment. Unless the Chief approves a longer time period, within three months after the date on which the surface drilling of a well is commenced in an urbanized area and within six months after the date on which the surface drilling of a well is commenced in all other areas, the owner or the owner's agent must grade or terrace and plant, seed, or sod the area disturbed that is not required in production of the well where necessary to bind the soil and prevent substantial erosion and sedimentation. If the Chief finds that a pit used for containing brine, other waste substances, or oil is in violation of specified provisions of the Oil and Gas Law and rules adopted or orders issued under it, the Chief may require the pit to be emptied and closed before expiration of the 14-day or three-month restoration period. (R.C. 1509.072(A).)

Removal of all production and storage equipment

Current law requires the owner or the owner's agent, within six months after a well that has produced oil or gas is plugged or after the plugging of a dry hole, to remove all production and storage structures, supplies, and equipment, and any oil, salt water, and debris, and fill any remaining excavations. The bill instead states that within three months after a well that has produced oil or gas is plugged in an urbanized area and within six months after a well that has produced oil or gas is plugged in all other areas or after the plugging of a dry hole, unless the Chief approves a longer time period, the owner or the owner's agent must remove all production and storage structures, supplies, and equipment, and any oil, salt water, and debris, and fill any remaining excavations. (R.C. 1509.072(B).)

Secondary or additional recovery operations

Current law prohibits a person, without first having obtained a permit, from conducting secondary or additional recovery operations, including any underground injection of fluids for the secondary or tertiary recovery of oil or natural gas or for the storage of hydrocarbons that are liquid at standard temperature or pressure, unless a rule of the chief expressly authorizes such operations without a permit. The bill adds that a permit also is required for the underground injection of carbon dioxide for the secondary or tertiary recovery of oil or natural gas.

Current law states that secondary or additional recovery operations must be conducted in accordance with rules and orders of the Chief and any terms or conditions of the permit authorizing those operations. The bill adds that the Chief may authorize tests to evaluate whether fluids or carbon dioxide may be injected in a reservoir and to determine the maximum allowable injection pressure. The tests must be conducted in accordance with methods prescribed in rules of the Chief or conditions of the permit. (R.C. 1509.21.)

Fluids associated with oil and gas development

Current law prohibits a person, except when applying brine to roads in accordance with the Oil and Gas Law, from placing brine or causing brine to be placed in surface or ground water or in or on the land in such quantities or in such manner as actually causes or could reasonably be anticipated to cause water that is used for consumption by humans or domestic animals to exceed the standards of the Safe Drinking Water Act or damage or injury to public health or safety or the environment. The bill retains the prohibition and adds crude oil, natural gas, or other fluids associated with the exploration or development of oil and gas resources to the prohibition. (R.C. 1509.22(A).)

Current law requires the Chief to adopt rules and issue orders regarding storage and disposal of brine and other waste substances. However, the storage and disposal of brine and other waste substances, as added by the bill, and the Chief's rules relating to storage and disposal are subject to all of the following standards as revised by the bill:

(1) Brine from any well except an exempt Mississippian Well must be disposed of only by methods or procedures authorized by the Oil and Gas Law.

(2) Muds, cuttings, and other waste substances cannot be disposed of in violation of any rule.

(3) Pits may be used for containing brine and other waste substances resulting from, obtained from, or produced in connection with drilling, fracturing, reworking, reconditioning, plugging back, or plugging operations, but the pits must be constructed and maintained to prevent the escape of brine and other waste substances. The bill revises the standard by providing instead that pits or steel tanks must be used as authorized by the Chief for containing brine and other waste substances resulting from, obtained from, or produced in connection with drilling, well stimulation, reworking, reconditioning, plugging back, or plugging operations. In addition, the pits and steel tanks must be constructed and maintained to prevent the escape of brine and other waste substance.

(4) A dike or pit may be used for spill prevention and control. A dike or pit so used must be constructed and maintained to prevent the escape of brine, and the reservoir within such a dike or pit must be kept reasonably free of brine and other waste substances. The bill adds that a dike or pit also must prevent the escape of crude oil and the reservoir within a dike or pit also must be kept reasonably free of crude oil.

(5) Earthen impoundments constructed pursuant to the Division's specifications may be used for the temporary storage of brine and other waste substances in association with a saltwater injection well, an enhanced recovery project, or a solution mining project. The bill instead states that earthen impoundments constructed pursuant to the Division's specifications may be used for the temporary storage of fluids used in the stimulation of a well.

(6) No pit, earthen impoundment, or dike can be used for the temporary storage of brine except in accordance with item (3) to (5) above. The bill also prohibits a pit, earthen impoundment, or dike from being used for the temporary storage of other substances.

(7) No pit or dike can be used for the ultimate disposal of brine. The bill adds that no pit or dike can be used for the ultimate disposal of other liquid waste substances. (R.C. 1509.22(C).)

Permit to inject brine or other waste substances

Current law prohibits a person, without first having obtained a permit from the Chief, from injecting brine or other waste substances resulting from, obtained from, or produced in connection with oil or gas drilling, exploration, or production into an underground formation unless a rule of the Chief expressly authorizes the injection without a permit. An application for such a permit must include a fee of \$100. The bill increases the amount of the fee for such a permit to \$1,000.

Under current law, the Chief must adopt rules in accordance with the Administrative Procedure Act regarding the injection into wells of brine and other waste substances resulting from, obtained from, or produced in connection with oil or gas drilling, exploration, or production. The bill adds that the rules may authorize tests to evaluate whether fluids or carbon dioxide may be injected in a reservoir and to determine the maximum allowable injection pressure, which must be conducted in accordance with methods prescribed in the rules or in accordance with conditions of the permit. (R.C. 1509.22(D).)

Brine transporters

Update of bond and certificate to reflect business name change

Current law prohibits a person from transporting brine by vehicle in this state unless the business entity that employs the person registers with and obtains a registration certificate and identification number from the Chief (R.C. 1509.222(A)(1)). Before being issued a registration certificate, the applicant must execute and file with the Division a \$15,000 surety bond, cash, or negotiable certificates of deposit (R.C. 1509.225(A)). In addition, the applicant must submit a certificate from an insurance company authorized to do business in this state certifying that the applicant has in force a liability insurance policy in an amount not less than \$300,000 bodily injury coverage and \$300,000 property damage coverage (R.C. 1509.222(A)(2)). The bill states that if a business entity that has been issued a registration certificate changes its name due to a business reorganization or merger, the business entity must revise the required surety bond or certificates of deposit and obtain a new certificate from an insurance company to reflect the change in the name of the business entity (R.C. 1509.222(A)(3)).

Release of surety bond

Current law prohibits the Chief from releasing the surety bond or other securities discussed above except by court order or until two years after the date on which a registration is terminated. The bill instead states that the Chief cannot release the surety bond or other securities except by court order or until the registration is terminated. (R.C. 1509.225(C).)

Application of brine to roads

Current law establishes requirements in accordance with which a board of county commissioners or township trustees or the legislative authority of a municipal corporation may adopt a resolution permitting the application of brine to roads and other similar land surfaces. In addition, current law establishes standards for the application of brine to roads. The bill adds to the standards that only brine that is produced from a well is allowed to be spread on a road. In addition, the bill prohibits fluids from the drilling of a well, flowback from the stimulation of a well, and other fluids used to treat a well from being spread on a road. (R.C. 1509.226(B)(10).)

Priority lien

The bill establishes that if an owner fails to pay the fees imposed under the Oil and Gas Law or the severance taxes on oil and gas, or if the Chief incurs costs to correct conditions associated with an owner's well that the Chief reasonably has determined are causing imminent health or safety risks, the Division of Mineral Resources

Management has a priority lien against that owner's interest in the applicable well in front of all other creditors for the amount of any such unpaid fees and taxes and costs incurred. The Chief must file a statement in the office of the county recorder of the county in which the applicable well is located of the amount of the unpaid fees and taxes and costs incurred. The statement constitutes a lien on the owner's interest in the well as of the date of the filing. The lien remains in force so long as any portion of the lien remains unpaid or until the Chief issues a certificate of release of the lien. If the Chief issues a certificate of release, the Chief must file it in the office of the applicable county recorder. (R.C. 1509.34(A).)

The bill requires the Chief to promptly issue a certificate of release of a lien under either of the following circumstances:

(1) Upon the repayment in full of the amount of unpaid fees imposed under the Oil and Gas Law or severance taxes levied on oil and gas or costs incurred by the Chief to correct conditions associated with the owner's well that the Chief reasonably has determined are causing imminent health or safety risks; or

(2) Any other circumstance that the Chief determines to be in the best interest of the state. (R.C. 1509.34(B).)

The bill authorizes the Chief to modify the amount of a lien. If the Chief modifies a lien, the Chief must file a statement in the office of the county recorder of the applicable county of the new amount of the lien. (R.C. 1509.34(C).) An owner regarding which the Division has recorded a lien against the owner's interest in a well cannot transfer a well, lease, or mineral rights to another owner or person until the Chief issues a certificate of release for each lien against the owner's interest in the well (R.C. 1509.34(D)). The bill states that all money from the collection of liens must be deposited in the state treasury to the credit of the Oil and Gas Well Fund (R.C. 1509.34(E)).

Enforcement actions, citations, and orders of the Chief

Current law requires the Chief, or the Chief's authorized representative, to enforce the Oil and Gas Law and the rules, the terms and conditions of permits and registration certificates, and orders adopted or issued under it. The bill also authorizes the Chief or the Chief's authorized representative to issue a citation to an owner for a violation of the Oil and Gas Law or rules adopted under it, the terms and conditions of a permit issued under it, a registration certificate that is required under that Law, or orders issued under it. A citation may be in the form of a compliance notice or an administrative order.

The bill adds that the Chief may issue an order to initiate an enforcement action for a material and substantial violation. In addition, the Chief may issue a suspension order for failure to comply with an enforcement action for a material and substantial violation or other violation.

Under the bill, the Chief may order the immediate suspension of drilling, operating, or plugging activities that are related to a material and substantial violation and suspend and revoke an unused permit after finding that an owner is causing, engaging in, or maintaining a condition or activity that the Chief determines presents an imminent danger to the health or safety of the public or that results in or is likely to result in immediate substantial damage to the natural resources of the state. The Chief may issue such an order without prior notification if reasonable attempts to notify the owner have failed or if the owner is currently in material breach of a prior enforcement action, but in that event notification must be given as soon thereafter as practical.

Also under the bill, not later than five days after the issuance of a suspension order, the Chief must provide the owner an opportunity to be heard and to present evidence that the condition or activity does not present an imminent danger to the public health or safety or is not likely to result in immediate substantial damage to natural resources. If the Chief, after considering evidence presented by the owner, determines that the activities do not present such a threat, the Chief must revoke the suspension order. The owner may appeal a suspension order to the court of common pleas of the county in which the activity that is the subject of the order is located.

The bill adds that the Chief also may issue a bond forfeiture order under the Oil and Gas Law and that the Chief may notify drilling contractors, transporters, service companies, or other similar entities of the compliance status of an operator. It also adds that if the owner fails to comply with a prior enforcement action, the Chief may issue a suspension order without prior notification, but in that event the Chief must give notice as soon thereafter as practical. Not later than five calendar days after the issuance of an order, the Chief must provide the owner an opportunity to be heard and to present evidence that required records, reports, or logs have been submitted. If the Chief, after considering the evidence presented by the owner, operator, producer, or other person, determines that the reporting requirements have been satisfied, the Chief must revoke the suspension order. The owner may appeal a suspension order to the court of common pleas of the county in which the activity that is the subject of the suspension order is located. Finally, the bill adds that the Chief may enter into compliance agreements. (R.C. 1509.04.)

Suspension order concerning a well in a coal bearing township

The bill relocates and revises the provision in current that authorizes the Chief to order the immediate suspension of the drilling or reopening of a well in a coal bearing township after determining that the drilling or reopening activities present an imminent and substantial threat to public health or safety or to a miner's health or safety. Before issuing such an order, the Chief must notify the owner in any manner that the Chief determines would provide reasonable notification of the Chief's intent to issue a suspension order. However, the Chief may order the immediate suspension of the drilling or reopening of a well in a coal bearing township without prior notification if the Chief has made reasonable attempts to notify the owner and the attempts have failed. If the Chief orders the immediate suspension of such drilling or reopening, the Chief must provide the owner notice of the order as soon as practical.

Not later than five days after the issuance of an order to immediately suspend the drilling or reopening of a well in a coal bearing township, the Chief must provide the owner an opportunity to be heard and to present evidence that the drilling or reopening activities will not likely result in an imminent and substantial threat to public health or safety or to a miner's health or safety, as applicable. If the Chief, after considering all evidence presented by the owner, determines that the activities do not present such a threat, the Chief must revoke the suspension order. Notwithstanding any other provision of the Oil and Gas Law, an owner may appeal such a suspension order to the Reclamation Commission in accordance with the Coal Mining Law. (R.C. 1509.18.)

Appeals by persons affected by an order of the Chief

Current law states that any person claiming to be aggrieved or adversely affected by an order of the Chief may appeal to the Oil and Gas Commission for an order vacating or modifying the order. The bill instead states that any person claiming to be directly affected by an order of the Chief may appeal to the Oil and Gas Commission for an order vacating or modifying the order. Currently, the appeal must be filed with the Commission within 30 days after the date on which the appellant received notice by registered mail of the making of the order complained of. The bill revises the provision by requiring the appeal to be filed with the Commission within 30 days after the date on which the appellant received notice of the order by certified mail and, for all other persons claiming to be directly affected by the order, within 30 days after the date of the order complained of. (R.C. 1509.36.)

Transfer or assignment of the entire interest in an oil and gas lease

Current law establishes certain requirements and procedures governing whenever the entire interest in an oil and gas lease is assigned or otherwise transferred. When notice of any such assignment or transfer is required to be provided to the Division of Mineral Resources Management, it must be provided on a form prescribed and provided by the Division and verified by both the assignor or transferor and by the assignee or transferee. The bill adds that such a notice must include a nonrefundable fee of \$100 for each well. (R.C. 1509.31(A).)

Transfer or assignment of the entire interest in an oil and gas well

The bill adds that when the entire interest of a well is proposed to be assigned or otherwise transferred to the landowner for use as an exempt domestic well, the owner who has been issued a permit under the Oil and Gas Law for the well must submit to the Chief an application for the assignment or transfer that contains all documents that the Chief requires and a nonrefundable fee of \$100. The application for such an assignment or transfer must be prescribed and provided by the Chief. The Chief may approve the application if the application is accompanied by a release of all of the oil and gas leases that are included in the applicable formation of the drilling unit, the release is in a form such that the well ownership merges with the fee simple interest of the surface tract, and the release is in a form that may be recorded. However, if the owner of the well does not release the oil and gas leases associated with the well that is proposed to be assigned or otherwise transferred or if the fee simple tract that results from the merger of the well ownership with the fee simple interest of the surface tract is less than five acres, the proposed exempt domestic well owner must post a \$5,000 bond with the Division of Mineral Resources Management prior to the assignment or transfer of the well to ensure that the well will be properly plugged. The Chief, for good cause, may modify the requirements governing the assignment or transfer of the interests of a well to the landowner. Upon the assignment or transfer of the well, the owner of an exempt domestic well is subject to the severance taxes on oil and gas and all applicable fees established in the Oil and Gas Law. (R.C. 1509.31(B).)

Foreclosed mortgaged property that is subject to an oil or gas lease or other instrument

The bill states if a mortgaged property that is being foreclosed is subject to an oil or gas lease, pipeline agreement, or other instrument related to the production or sale of oil or natural gas and the lease, agreement, or other instrument was recorded subsequent to the mortgage, and if the lease, agreement, or other instrument is not in default, the oil or gas lease, pipeline agreement, or other instrument, as applicable, has priority over all other liens, claims, or encumbrances on the property so that the oil or

gas lease, pipeline agreement, or other instrument is not terminated or extinguished upon the foreclosure sale of the mortgaged property. If the owner of the mortgaged property was entitled to oil and gas royalties before the foreclosure sale, the oil or gas royalties must be paid to the purchaser of the foreclosed property. (R.C. 1509.31(D).)

Regulation of production operations

Current law vests in the Division of Mineral Resources Management the sole and exclusive authority to regulate the permitting, location, and spacing of oil and gas wells within the state. The bill adds that the Division has sole and exclusive authority to regulate production operations (see "**Definitions**," above) within the state. (R.C. 1509.02.)

Oil and Gas Commission

Current law creates the Oil and Gas Commission consisting of five members appointed by the Governor. One of the appointees to the Commission must be a person who, by reason of the person's previous training and experience, can be classed as one learned and experienced in geology. The bill adds that the person can be classed as one learned and experienced in petroleum engineering as well. (R.C. 1509.35(A).)

COMMENT

Article I, Section 8, clause 3 of the United States Constitution grants Congress the exclusive power to "... regulate Commerce ... among the several States" The United States Supreme Court has held that the Commerce Clause has a "negative" or "dormant" aspect that limits the scope of state regulation of commerce, which denies the states the power to unjustifiably discriminate against or burden interstate flow of articles of commerce (*Oregon Waste Sys. v. Department of Env'tl. Quality*, 511 U.S. 93, 98 (1970)). In *Oregon Waste Sys. v. Department of Env'tl. Quality*, the United States Supreme Court stated that the first step in analyzing a state law under the Dormant Commerce Clause is to determine whether the law regulates commerce evenhandedly with only incidental effects on interstate commerce or whether it discriminates against interstate commerce.¹ As used by the Court, "discrimination" means differential treatment of in-state and out-of-state economic interests that benefits the former and burdens the latter. If a restriction on commerce is discriminatory, it is virtually per se invalid.² However, if a state law is nondiscriminatory and has only incidental effects on interstate commerce, the courts will uphold the law unless "the burden imposed on such commerce is clearly

¹ *Id.* at 99.

² *Id.*

excessive in relation to the . . . [reputed] local benefits." (*Pike v. Bruce Church, Inc.*, 397 U.S. 137, 142 (1970).)

A constitutional issue may be raised with regard to the bill's provisions that establish a two-tier injection well disposal fee on the disposal of waste from oil and gas operations. Under the bill, a lower fee is levied on each barrel of substance that is produced within a Division of Mineral Resources Management regulatory district in which the well is located or within an adjoining district. A higher fee is levied on each barrel of substance that is produced outside of such a district. If a court determines that the higher fee, which would be levied on waste generated out of state that is disposed of in this state, results in a differential treatment of in-state and out-of-state economic interests, it is conceivable that the court would hold that the higher fee violates the Commerce Clause of the United States Constitution.

HISTORY

| ACTION | DATE |
|----------------------------------------------|----------|
| Introduced | 09-01-09 |
| Reported, S. Environment & Natural Resources | 12-09-09 |
| Passed Senate (23-9) | 12-15-09 |

S0165-PS-128.docx/jc

