

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6335

BILL NUMBER: SB 71

NOTE PREPARED: May 12, 2011

BILL AMENDED: Apr 14, 2011

SUBJECT: Coal Bed Methane and Other Oil and Gas Issues.

FIRST AUTHOR: Sen. Gard

FIRST SPONSOR: Rep. Eberhart

BILL STATUS: Enrolled

FUNDS AFFECTED: **GENERAL**
 X DEDICATED
 FEDERAL

IMPACT: State

Summary of Legislation: *Emergency Rules.* This bill allows the Department of Natural Resources (DNR) to adopt emergency rules for most aspects of oil and gas and other petroleum regulation.

Regulation of Coal Bed Methane Wells. The bill provides that oil and gas statutes do not apply to methane ventilation governed under an approved federal Mine Safety and Health Administration coal mine ventilation plan. The bill requires the Natural Resources Commission (NRC) to regulate various aspects of coal bed methane wells. It provides for regulation of coal bed methane wells and other gas wells in a similar manner. The bill requires coal bed methane well permit applicants to disclose chemicals to be used in the stimulation process of coal seams. The bill terminates the restriction on the extraction of coal bed methane from a well for oil and gas purposes. The bill modifies the definition of "waste" to include a manner that unreasonably reduces the quantity of commercially minable resources. It allows the DNR Director to review certain activities that may result in waste or endangerment of the health and safety of miners.

Division of Oil and Gas. The bill requires the DNR Division to give written notice of permit applications to each person who files an affidavit under IC 14-37-7-8. The bill also requires the Division to give notice to interested persons of applications for coal bed methane permits, prohibits issuance of a permit less than 30 days after the posting, and establishes other permit issuance criteria. The bill requires a permit applicant to submit documentation of (1) receipt of the permit application notice to the coal owner or lessee, and (2) the notice provided to the owner of surface property before the Division issues a permit. It requires the Division to act on a permit application within 15 days after the elapse of the notice period to parties interested in developing commercially minable coal resources. It requires the director of the Division to hold an informal hearing within 30 days after a request when there is a dispute regarding well locations.

It allows the Division to require an owner or operator to modify the location for the drilling of a well for oil and gas purposes, and requires an owner or operator to provide notice of the intent to drill under certain circumstances.

The bill establishes coal seam protection requirements with respect to producing vertical oil and gas wells. It requires the coal owner to acknowledge that the recovery of coal bed methane may result in waste of the commercially minable resource in the written consent authorizing the drilling. Requires: (1) provide thirty (30) days from receipt of the permit application notice to object to the issuance of a permit; and (2) include endangerment of the health and safety of miners as basis for objection.

The bill modifies certain requirements for an affidavit and map used to determine if a commercially minable coal resource is present in an area for which a permit application has been filed. It allows the Division to release information regarding the presence of commercially minable coal seams to a person with an interest only in oil and gas explorations in addition for a well applicant.

It adjusts the requirements for plugging wells. It allows the director to review certain activities that may result in waste or endangerment of the health and safety of miners. It allows the director of the Division to approve alternative plugging methods. It allows an owner or operator of a coal mine to burn by flares coal bed methane under certain circumstances.

The bill limits the exercise of rights in certain circumstances under a coal bed methane estate if the exercise affects miner safety or coal resources.

The bill provides that actual damages are damages to marketable timber, crops, drainage systems, or erosion control systems, or quantifiable and verifiable damage to crops from compaction, abnormal flooding, or abnormal soil erosion caused by oil and gas operations. It requires an owner or holder of mineral interests, unless otherwise agreed by the surface owner, to provide written notice of intent to enter the surface owner's property at least 5 days before an entry for purposes of surveying for drilling for oil, gas, or coal bed methane.

Repeals. The bill repeals provisions concerning requirements for coal seam protection and for plugging of wells.

Effective Date: July 1, 2011.

Explanation of State Expenditures: The bill will require the adoption of rules and posting of information on the DNR website. The Division must maintain a list of certain interested parties and give written notice of each complete permit application to each party on the list. The division may not issue a permit until it follows certain guidelines.

The bill's requirements are within the DNR's routine administrative functions and should be able to be implemented with no additional appropriations, assuming near customary agency staffing and resource levels.

Background. The Division of Oil & Gas does not receive funding from the state General Fund, but is funded by a dedicated fund and federal funds. The dedicated fund--the Oil & Gas Fund--receives 70% to 80% of its revenue from the Petroleum Severance Tax. Other sources of revenue for the fund include permit fees assessed when applying for a permit to drill for oil and/or gas. The Division operates on a budget of

approximately \$1.3 M.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: DNR.

Local Agencies Affected:

Information Sources: Chris Smith, DNR.

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