Ohio Oil and Gas Association
Proponent Testimony
Senate Bill 219

Senate Energy Committee
Senator Brian Chavez, Chairman

Chairman Chavez and members of the committee, thank you for the opportunity to provide proponent testimony on Senate Bill 219.

My name is Rob Brundrett, and I am the President of the Ohio Oil and Gas Association (OOGA). OOGA is a 78-year-old statewide trade association. Our association includes members that represent all aspects of Ohio's oil and gas industry - upstream, midstream, and downstream.

Ohio is a vitally important energy-producing state. As Senator Landis mentioned in his testimony, Ohio is the seventh largest natural gas producer, the tenth largest crude oil producer and the sixth largest refining capacity state. Ohio has a long history of oil and gas. Ohio lays claim to the discovery of the first oil well in North America, the Thorla-McKee well in Noble County. The well was drilled in 1814 in search of salt, then an extremely important food preservative, but the drillers accidently struck oil. At the time it was repackaged as a cure-all elixir named "Seneca Oil." Ohio's first commercial well was drilled in 1860, one year after the famous Drake well was drilled in Pennsylvania. Ohio's first big boom was in the 1880s and its very first oil and gas law passed in 1883.

For a time in the 1800s and early 1900s Ohio, the home of John D. Rockefeller's Standard Oil Company, was the largest oil producer in the country. Ohio has always been at the forefront of technology, including home to the first offshore oil well in the country, located in Grand Lake St. Marys.

Ohio has experienced several different drilling booms. The Morrow County boom in the 1960s ushered in the modern age of oil and gas laws and regulations in Ohio and led to the creation of the Division of Oil and Gas at the Ohio Department of Natural Resources.

The shale revolution that has taken place over the past decade and a half has transformed the oil and gas industry in Ohio. Production has skyrocketed; drilling distances and efficiencies not dreamed about 20 years ago are now commonplace.

In 2012 Ohio passed Senate Bill 315. The bill was designed to help usher in the shale era and to update Ohio's statutes to account for the massive changes in oil and gas production and development. That bill helped make Ohio a national leader in energy development. Senate Bill 219 is designed to advance those laws to account for industry changes over the past thirteen years when that bill was first signed into law.

Protecting the Oil and Gas Well Fund and Plugging Efficiencies

Ohio has one of the oldest and most envied orphan well plugging programs in the country. Ohio designed and first implemented the program decades ago to account for orphan wells that were almost all entirely drilled prior to the laws and regulations of the 1960s.

A program that was only plugging 20 wells a year ten years ago is plugging around 500 wells per year today and with a realistic goal of getting to 1,000 per year. But in order to achieve this goal, the state must protect the Oil and Gas Well Fund. The Fund, which is funded by severance taxes, has been subject to rotary fund raids by the government. OOGA has worked tirelessly on this bipartisan issue and has worked with an unusual coalition of industry and environmental advocates over the years to protect the funding and to grow the program. Senate Bill 219 makes the necessary steps to create a custodial fund to protect those dollars from a future potential raid, while at the same time ensuring there is still the potential of legislative oversight. I would be remiss to not thank the DeWine administration for keeping its promises to not redirect funds from the program and for ramping up plugging across the state.

The bill also changes the notice provisions for the Landowner Pass-Through Plugging Program. A few years ago, the legislature made some changes at the recommendation of ODNR and OOGA that have allowed this program to take off and become extremely successful. Allowing for the streamlined plugging notice provisions will only help it continue to grow and allow for faster and more efficient plugging of these wells.

Aligning Ohio Law with Practical Realities
Since Ohio has not updated its oil and gas laws in over a decade, it is important to align Ohio's laws as the industry continues to mature. The bill does nothing with Ohio's current unitization laws. It does however clarify that if an operator is following an order from ODNR regarding a unit it is not a breach of lease terms. One Ohio district court is the singular outlier in interpreting leases in this fashion.

The bill also reduces the statute of limitations for terminating a lease from 21 years to six years. Ohio's current business contract statute of limitations has been reduced several times over the years, and this would align oil and gas law with the rest of the business community.

Senate Bill 219 attempts to put some standards around Road Use Maintenance Agreements, or RUMAs. Both the industry and local governments would point to RUMAs as being an important tool for oil and gas development. However, depending on the company and the local government, RUMAs can look quite different. Also, many companies and local governments will enter into unofficial agreements in lieu of a RUMA. This is done for a variety of reasons. To account for these relationships, the bill continues RUMAs and sets their terms of duration moving forward at three years with the option to continue these into the future. The bill also ensures that operations and development can continue when frost laws are in place as long as the parties have tried to come to agreements on a RUMA.

The bill also updates the definition of owner for purposes of obtaining a permit from the regulatory agency, recognizing that there may be multiple people with the right to drill and produce on a tract of land.

Business Efficiencies

The bill heavily focuses on aligning Ohio law with practical realities in the industry. First, the bill allows for up to ten expedited permits per year for operators. The bill also gives ODNR the option to allow more than 10 permits if a circumstance requires it. OOGA also respectfully asks the committee to consider amending the bill to apply this for plugging permits as well.

Second, paperwork delays often prevent the liability of a well being transferred from seller to buyer in a timely fashion. Ohio requires certain paperwork to be submitted when completing a transfer. In some cases, paperwork is neither processed nor provided in a timely fashion. The bill allows a seller to provide much of the required information and is allowed to provide proof of insurance coverage from the buyer. This does not relieve the buyer from having the required financial assurances or insurance coverage.

Clarifying Ohio Law

The bill makes belt and suspender changes to oil and gas laws. First the bill makes it clear that the Chief of the Division of Oil and Gas Resources Management has the authority to regulate cross-state drilling. Second it clarifies that gathering lines are not subject to the public utility tax. Recently there has been some confusion as to what is or is not a gathering line or system. This bill clarifies what is a gathering line.

Closing

While the bill covers a variety of topics, we would also urge the committee to review some of the Governor's oil and gas vetoes included in the budget bill that were overwhelmingly approved of by the Senate and House during the budget process. If the committee sees fit, we ask that those items be considered for inclusion in this bill.

Mr. Chairman and members of the committee thank you for your attention. I would once again like to thank Senator Landis for introducing this important piece of legislation and I am happy to try to answer any questions the committee may have. Thank you.