

OIL & GAS BOARD
5-YEAR STRATEGIC PLAN
FOR THE FISCAL YEARS 2020-2024
LBO NUMBER 491-00

OIL & GAS BOARD

1. Comprehensive Mission Statement:

The mission of the Mississippi State Oil and Gas Board is to foster, encourage, and promote the development, production, and utilization of the natural resources of oil and gas in the state of Mississippi; and to protect the public and private interests against the evils of waste in the production and utilization of oil and gas by prohibiting waste as herein defined; to safeguard, protect and enforce the co-equal and correlative rights of owners in a common source or pool of oil and gas to the end that each such owner in a common pool or source of supply of oil and gas may obtain his just and equitable share of production therefrom.

Further it is the duty of the Mississippi State Oil and Gas Board to make such inquiries as it may think proper to determine whether or not waste, over which it has jurisdiction, exists or is imminent and to take such action as may be reasonably necessary to enforce the provisions of Sections 53-1-1 through 53-1-47 and Sections 53-3-1 through 53-3-21, inclusive. To make suitable and adequate rules and regulations requiring the disposal of waste products such as, but not limited to mud, acids, saltwater, or any corrosive products brought to the surface from any oil, gas or condensate well in this state, to prevent seepage, overflow, or damage and injury to the topsoil or surface. To not only conserve the minerals but to conserve and protect its surface lands for agriculture, timber, and any and all other beneficial purposes. As well as protecting the public health, safety and the environment.

2. Statement of Agency Philosophy:

The Mississippi State Oil and Gas Board is committed to the promulgation and enforcement of its rules and regulations as well as the protection of the co-equal and correlative rights of all owners of interests; and to regulate the non-commercial disposal of oilfield waste in an environmentally safe manner consistent with federal and state regulations. The Board's philosophy is to adhere to the highest standards of honesty, integrity, impartiality and conduct in order to earn and maintain the confidence of the citizens, the industry and any other interested parties.

The Mississippi State Oil and Gas Board is also committed to ensuring that the natural resources of the state, and the health and safety of its citizens are protected by ensuring all wells are operated and maintained in compliance with the Conservation Statutes of the State, and the Rules and Regulations of the Mississippi State Oil and Gas Board.

3. Relevant Statewide Goals and Benchmarks:

The regulation of the drilling of oil and gas wells, production and underground storage in conformance with the conservation laws of Mississippi and regulating the disposal of oil field waste in conformance with the conservation laws and EPA oversight.

To hold public hearings as mandated by law and upon examining all evidence, render decisions based on statutes and rules to protect and enforce the co-equal and correlative rights of all parties of interests; to maintain accurate and precise records for state and public use as required by law; to issue all permits relating to the drilling, production, underground storage and operation of oil or gas wells. As promulgated under the Safe Drinking Water Act to function as the primary authority of the EPA delegated Class II Injection Well Program to ensure the proper permitting, operating, plugging and abandoning of all Class II Injection Wells in the State.

To address non-compliance issues in a timely manner, assessing civil penalties and/or orphaning wells as needed in order to avoid any potential harm to the environment and the public health and safety.

4. Overview of the Agency 5-Year Strategic Plan:

Three activity areas are planned for the next five years. The Board plans to develop regulations to oversee the storage of manufactured CO₂. Authority was granted to the Agency in the 2011 Legislative Session. The Legislature passed Senate Bill 2723 which establishes standards by which the Mississippi Department of Environmental Quality and the Mississippi Oil and Gas Board will oversee and monitor geologic carbon dioxide sequestration, Class VI wells. According to Senate Bill 2723, Memorandum of Agreement with Mississippi Department of Environmental Quality and the EPA the Oil and Gas Board will have legislative authority to regulate Class VI wells for the storage of CO₂ in geologic formations such as depleted oil and gas reservoirs. The Agency also has plans to continue to plug as many orphaned oil/gas wells as reasonably possible each year. The economic crisis has affected several operators who have filed for Chapter 11; their wells will likely be orphaned leaving the Agency with the responsibility of plugging the wells to protect the USDW.

In its regulatory function, the Oil & Gas Board requires well operators to submit various forms documenting the records of each well which are made available for public review and research. Development of a web based reporting system for the filing of these forms will enhance the processing and review activities of these important records. Better access to these public records will bring about increased research for the development of the oil and gas resources of the State of Mississippi.

The Oil & Gas Board plans to continue to plug orphan wells as they are designated by the Board. It is difficult to predict the number of wells that will be orphaned each year as there are many factors that may contribute to an operator abandoning the well(s). The plugging of an orphan well is necessary to assure the protection of our ground water resources from the well bores that have penetrated through the fresh water zones. It is essential the agency continue its program of plugging wells which have been designated as orphan wells; the longer these wells remain unplugged they have the potential to become a greater risk for environmental hazards and costing the state more for the plugging and remediation.

The Board has plugged 434 orphan wells. During FY 2018 the agency contracted for the plugging of 5 “orphaned” wells. Funds were requested from the Capital Expense Fund for this purpose, Senate Bill 2001, 1st Extraordinary Session. The cost for plugging these five (5) wells was \$168,000.00, four (4) in Adams County and one (1) in Madison County. Our Agency is currently working with an Operator in Flora Field, Madison County, to bring its wells into compliance; however, it is possible that these wells will also become orphan wells, which would result in another thirty-seven (37) wells being added to the Orphan Well list.

At this time, there are no existing drilling or producing oil/gas wells offshore in the State waters of Mississippi. Since 1952 there have only been five exploratory wells drilled offshore in Mississippi waters and all were plugged as non-productive. With recent Legislative changes made to the leasing process of State-owned minerals, primarily offshore minerals, interests and activity is expected to increase towards offshore exploration. The regulation and inspection of offshore exploration and production activities will be more complex than onshore activities. Staff training and work load will increase to assure that offshore drilling and production is conducted in a manner in which the State of Mississippi will benefit from its oil and gas resources while providing protection to other natural resources of the State. As offshore drilling and production increases, so will the Oil & Gas Board’s regulatory activity increase.

The Mississippi State Oil and Gas Board remains actively involved in regulating the deep Tuscaloosa Marine Shale (the “TMS”) wells in Amite, Wilkinson and Pike Counties. The workload for the administrative and technical staff, in addition to the field personnel has increased with the increased exploration in the TMS. As exploration and production increases in the TMS, the regulatory responsibilities of the Mississippi State Oil and Gas Board will also continue to dramatically increase.

The Mississippi State Oil and Gas Board have several critical needs as it relates to staffing. The first immediate priority is to hire a Petroleum Engineer. State Statute 53-1-9 provides that it is the duty of the Supervisor to employ a Petroleum Engineer; however recent attempts to fill this position have been unsuccessful; we believe that this is due to the low salary being offered. A Petroleum Engineer is necessary to advise the Board in matters related to the recovery of the natural resources of the State and to protect against waste, to protect the coequal and correlative rights of the mineral owners in the State as well as protect the USDW (Underground Source Drinking Water).

The salary for an Engineer Adv (Chief), Petroleum with the State is \$57,231.63 - \$100,155.35. The U. S. Bureau of Labor Statistics May 2017 quoted the median salary for a Petroleum Engineer at \$132,280.00. The Occupational Employment Wages, May 2017 estimates wages for this occupation begin at \$74,400.00 and range up to \$190,580.00. The Mississippi State Oil and Gas Board believes that in order to get an experienced, qualified Petroleum Engineer the agency must to be able to offer a more competitive salary range of \$74,000.00 – \$135,000.00. Therefore, we will be seeking an additional PIN for the position of Petroleum Engineer and funding to support the hiring

of a qualified, experienced individual to fill the critical role of Petroleum Engineer within our agency.

Additionally, the agency is short staffed in many areas, which creates a hardship for the agency when staff members are out on vacation or due to an illness. Currently the agency has six (6) vacant positions; we will be advertising to fill two (2) – three (3) of those positions in the near future. However, we lack funding to fill all of the vacant positions, which are desperately needed. Staffing shortfalls have increased the workload for many agency personnel, which can result in mistakes and job dissatisfaction leading to absenteeism, illness and resignation. An additional \$119,923.07 (\$166,113.00 w/fringe) is needed to fill the unfunded vacant positions that the agency currently has. If the agency is unable to fill these vacant positions it could potentially impact the agency in its mission to protect the public health, safety and the environment.

The staff of the Mississippi State Oil and Gas Board has proven to be dedicated individuals who are committed to the agency and ensuring all interested parties are treated fairly and respectfully. They have taken on extra duties and have gone out of their way to assist in areas where needed. We also have a number of staff who in the next five (5) years will be eligible to retire either with years of service or age 60. The industry knowledge the employees of this agency have is specific to the agency and to lose this knowledge could be detrimental to the agency and our ability to effectively and efficiently provide a vital service to the State of Mississippi. In order to retain these employees, the Mississippi State Oil and Gas Board is seeking to raise the salaries of those individuals who have been with the agency five (5) years or more by \$2,000.00 annually in Fiscal Year 2020. This would include eighteen employees and would require an additional \$36,000.00 in salaries plus fringe, for a total of approximately \$48,995.76. Retention of these employees is essential as the agency works to train newer staff to take on the responsibilities currently performed by those employees who may be considering retiring in the short term or who may be seeking employment elsewhere for more pay, or who find personal reasons dictate their absence or departure from the agency.

5. External/Internal Assessment:

The economic conditions of the industry with which this agency is charged by statute to regulate remain volatile, complex and cyclical bringing about great difficulty in determining the budgetary demands 18 to 30 months in the future. Oil and gas well operators in Mississippi can be classified as Independent Oil & Gas Companies. The Major Oil & Gas Companies in the United States of America do not operate wells in Mississippi. Therefore, the price of a barrel of oil and a cubic foot of gas greatly affects the Independent Companies operating in Mississippi; continued low prices for a barrel of oil and a cubic foot of gas leads to more potential problems in the field.

Any increase of activities in Mississippi offshore waters will be contingent upon the economics of oil and gas discoveries and production.

The Federal EPA Grant is designed to help the State to implement the UIC Program. Current responsibility in the State of Mississippi for the approval and control of all underground injection wells utilized for saltwater disposal, hydrocarbon storage, and enhanced recovery of oil and gas is vested in the Mississippi State Oil and Gas Board. Program development from both a field and an office perspective has continued to improve in the reporting and coordination with EPA Region IV to insure that the requirements of the Safe Drinking Water Act, the amended Memorandum of Agreement and the previously negotiated Enforcement Agreement are fully met. The UIC Technical Coordinator is responsible for reviewing all new regulations, rules and MOA's for acceptance or modification, and is responsible for administering permit requirements, preparing work plans and providing other reports as required by EPA's Strategic Planning and Management Systems.

5.1 Operators and their investors are still willing to spend money on costly exploration; however, the lower prices in oil and gas impacts the number of permits issued by the agency. Lower prices also affect the number of dockets before the Board as a large part of the Docket usually involves requests for the drilling of new wells in the state. Lower oil and/or gas prices may also impact field operations; there is the possibility of smaller independent operators not having the resources to maintain their current wells when prices are low. This may lead to abandonment of wells, or wells not being properly maintained and the Board issuing a Show Cause Order for being out of compliance with agency rules and regulations and these wells being orphaned by the Board.

During the FY 2016 Legislative Session, two bills impacted the Mississippi State Oil and Gas Board's ability to perform its statutory responsibility for the plugging and abandonment of wells designated as Orphan wells; which are deemed to represent an imminent threat to the public health and safety and the environment. House Bill 828 directed the agency to transmit monies from both of the agency's Special Funds, the Oil and Gas Conservation Fund and the Emergency Plugging Fund, in the total amount of \$15,000,000.00 to the Capital Expense Fund and Senate Bill 2362 requires the abolishment of both Special Funds and all future revenues to be deposited in the General Fund.

With the passage of these Legislative Bills the agency was left with no resources in which to handle unanticipated and unexpected oilfield emergency situations (e.g. well blowouts, major oil spills, etc.) It is difficult to forecast when or if a well will be designated an Orphan well by the Board. Additionally, it is impossible to predict the cost of plugging an Orphan well as there are many factors which can impact the cost of plugging a well; the depth of the well, the condition of the well, whether there is pressure on the well, etc.

The fact that the agency will no longer be able to draw upon the Emergency Plugging Fund will in all likelihood impact its ability to continue addressing these Orphan wells and any emergency as expeditiously and diligently as it has previously as the agency will not have access to the resources necessary to timely address the plugging of the well(s).

5.2 Through the process of monthly meetings the Board hears matters related to Mississippi's Conservation Statutes and the Rules and Regulations of the Board to ensure the interests of the state and its citizens are served. Management policies are in place to address the deficiencies in the process. The Mississippi State Oil and Gas Board has a data management system called RBDMS (Risk Based Data Management System) developed under the aegis of the GWPC, which is used to track all permits, inspections and other activities associated with the drilling and regulating of oil and gas wells in the state. The agency has scanned most historical paper copies of the well files that we have in-house and is in the process of securing additional software which will allow the agency to scan and make accessible to the public, operators and any interested parties docket information and production reports.

6.1 Agency Program Goals:

To foster, encourage, and promote permitting, drilling and production by enforcing the Board's Rules and Regulations. To utilize the natural resources of oil and gas in the State of Mississippi; prohibit waste, to enforce the oil and gas conservation statutes of this state as enacted by the Mississippi Legislature, as well as the Rules, Regulations, orders and/or policies of the Mississippi State Oil and Gas Board and protect the natural resources of the state, the environment and the health and safety of its citizens.

6.2 Program Goal Objectives:

OBJECTIVE A.1. To regulate all on shore permitting, drilling and production in the state.

Outcome: Protection of the environment of our state.

A.1.1. Strategy: Oversee and supervise this agency's field inspectors whose function it is to regularly inspect oil and gas wells and related facilities.

Output: Periodic update on numbers for drilling and production in the State.

Efficiency: Number of inspections

Explanatory: Protection of underground source of drinking water (USDW)

OBJECTIVE A.2. Process all dockets received

Outcome: Protection of the environment of our state

A.2.1. Strategy: Oversee and supervise the daily operations of the office personnel.

Output: Periodic update on numbers for drilling, permitting and production in the state.

Efficiency: Number of dockets

OBJECTIVE A.3. Issue permits for all wells according to State Statutes, Rules and Regulations and Board Orders.

Outcome: Protection of the environment of our state

A.3.1. Strategy: Oversee and supervise the daily operations of the office personnel.

Output: Periodic update on numbers for drilling, permitting and production in the state.

Efficiency: Number of permits

OBJECTIVE A.4. Process all requests for copies of information in a timely manner and maintain accurate and precise records for public use.

Outcome: Protection of the environment of the state.

Outcome: Maintain accuracy of Production Records

Outcome: Maintain accuracy of field maps

A.4.1. Strategy: Oversee and supervise the daily operations of the office personnel.

Output: Periodic update on numbers for drilling and production in the State.

Efficiency: Ensure integrity of records

Explanatory: Promote exploration; information for new operators and public

OBJECTIVE A.5. Plugging and abandoning of orphan wells.

Outcome: Protection of the environment of the state.

A.7.1 Strategy: Board Order designating well(s) as Orphan well(s), after notice and hearing.

Output: Number of Orphan wells plugged

Efficiency: Cost of plugging Orphan wells

Explanatory: Protection of underground source of drinking water (USDW)