MISSISSIPPI LEGISLATURE REGULAR SESSION 2016

By: Senator(s) Hopson (By Request)

To: Accountability, Efficiency, Transparency

SENATE BILL NO. 2113

AN ACT TO AMEND SECTION 53-1-1, MISSISSIPPI CODE OF 1972, TO AUTHORIZE CREATION OF THE REGULATORY DIVISION OF THE OIL AND GAS BOARD; TO AMEND SECTION 53-1-3, MISSISSIPPI CODE OF 1972, TO REVISE DEFINITIONS; TO AMEND SECTION 53-1-7, MISSISSIPPI CODE OF 1972, TO ASSIGN TO THE STATE SUPERVISOR THE RESPONSIBILITY FOR OIL AND GAS COMPANY DUTIES TO RESPOND TO OWNER REQUESTS FOR INFORMATION; TO CREATE NEW SECTION 53-1-8, MISSISSIPPI CODE OF 1972, TO CREATE THE REGULATORY DIVISION OF THE OIL AND GAS BOARD AND TO PROVIDE FUNDING THEREFOR; AND FOR RELATED PURPOSES.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MISSISSIPPI:

SECTION 1. Section 53-1-1, Mississippi Code of 1972, is amended as follows:

53-1-1. (1) It is hereby declared to be in the public interests 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 coequal 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; and to obtain, as soon as practicable, consistent with the prohibition of waste, the full development by progressive drilling of other wells in all producing pools of oil and gas or of all pools which may hereafter be brought into production of such, within the state, until such pool is fully defined.

(2) It is not the intent nor the purpose of this law to require or permit the proration or distribution of the production of oil and gas among the fields and pools of Mississippi, on the basis of market demand. It is the intent and purpose of this law to permit each and every oil and gas pool in Mississippi to be produced up to its maximum efficient rate of production, subject to the prohibition of waste as herein defined, and subject further to the enforcement and protection of the coequal and correlative rights of the owners of a common source of oil and gas, so that each common owner may obtain his just and equitable share of production therefrom.

(3) In order to ensure and protect the interest of Mississippi citizens and others who own surface, mineral and royalty rights, there shall be a regulatory division of the Oil and Gas Board. The principal duties of the regulatory division shall be to enforce the regulations adopted by the Oil and Gas Board, to investigate allegations of misconduct, and to impose

administrative penalties against those who are found to have violated the regulations adopted by the Oil and Gas Board.

SECTION 2. Section 53-1-3, Mississippi Code of 1972, is amended as follows:

53-1-3. Unless the context otherwise requires, the words defined in this section shall have the following meaning when found in Sections 53-1-1 through 53-1-47, inclusive, and in Sections 53-3-3 through 53-3-21, inclusive:

(a) "Board" shall mean the State Oil and Gas Board as created by Section 53-1-5.

(b) "Person" shall mean any individual, corporation, partnership, association, or any state, municipality, political subdivision of any state, or any agency, department or instrumentality of the United States, or any other entity, or any officer, agent or employee of any of the above.

(c) "Oil" shall mean crude petroleum oil and all other hydrocarbons, regardless of gravity, which are produced at the well in liquid form by ordinary production methods and which are not the result of condensation of gas.

(d) "Gas" shall mean all natural gas, whether hydrocarbon or nonhydrocarbon or any combination or mixture thereof, including hydrocarbons, hydrogen sulphide, helium, carbon dioxide, nitrogen, hydrogen, casinghead gas, occluded natural gas from coal seams, compressed air and all other hydrocarbons not defined as oil in subsection (c) above.

(e) "Pool" shall mean an underground reservoir containing a common accumulation of oil or gas or both. Each zone of a general structure which is completely separated from any other zone in the structure is included in the term "pool" as used herein.

(f) "Field" shall mean the general area which is underlaid or appears to be underlaid by at least one (1) pool; and "field" shall include the underground reservoir or reservoirs containing oil or gas or both. The words "field" and "pool" mean the same thing when only one (1) underground reservoir is involved; however, "field," unlike "pool," may relate to two (2) or more pools.

(g) "Owner" shall mean the person who has the right to drill into and produce from any pool, and to appropriate the production either for himself or for himself and another or others; "royalty owner" shall mean any person who possesses an interest in the production but who is not an "owner" as herein defined.

(h) "Producer" shall mean the owner of a well or wells capable of producing oil or gas or both.

(i) "Product" shall mean any commodity made from oil or gas, and shall include refined crude oil, processed crude petroleum, residuum from crude petroleum, cracking stock, uncracked fuel oil, fuel oil, treated crude oil, residuum, casinghead gasoline, natural gas gasoline, naphtha, distillate,

gasoline, kerosene, waste oil, blended gasoline, lubricating oil, blends or mixtures of oil with one or more liquid products or by-products derived from oil or gas, and blends or mixtures of two (2) or more liquid products or by-products derived from oil, condensate, gas or petroleum hydrocarbons, whether hereinabove enumerated or not.

(j) "Underground Injection Program" shall mean a program regulating the injection of any fluids produced or fluids associated with the exploration, storage and/or production of oil and/or gas and being among those other laws relating to the conservation of oil and gas as referred to in Section 53-1-17(a).

(k) "Illegal oil and illegal gas" shall mean oil or gas which has been produced within the State of Mississippi from any well during any time that the well has produced in excess of the amount allowed by law or by any rule, regulation or order of the board. "Illegal product" shall mean any product derived, in whole or in part, from illegal oil or illegal gas.

(l) "Waste" shall mean and include the following:

(i) The inefficient, excessive or improper use or dissipation of reservoir energy; and the locating, spacing, drilling, equipping, operating or producing of any oil or gas well or wells in a manner which results or tends to result in reducing the quantity of oil or gas ultimately to be recovered from any pool in this state.

(ii) The inefficient storing of oil; and the locating, spacing, drilling, equipping, operating or producing of any oil or gas well or wells in a manner causing or tending to cause unnecessary or excessive surface loss or destruction of oil or gas.

(iii) Abuse of the correlative rights and opportunities of each owner of oil or gas in a pool due to nonuniform, disproportionate, or unratable withdrawals causing undue drainage between tracts of land or resulting in one or more owners in such pool producing more than his just and equitable share of the production from such pool.

(iv) Producing oil or gas in such manner as to cause unnecessary channeling of water or gas or both or coning of water.

(v) The operation of any oil well or wells with an inefficient gas-oil ratio.

(vi) The drowning with water of any stratum or part thereof capable of producing oil or gas.

(vii) The creation of unnecessary fire hazards.

(viii) The escape into the open air, from a well producing both oil and gas, of gas in excess of the amount which is necessary in the efficient drilling or operation of the well.

(ix) Permitting gas produced from a gas well to escape into open air.

(x) The use of gas from gas wells, except sour gas, for the manufacture of carbon black, except and unless the board shall find that there are no adequate pipeline connections to otherwise market the gas.

(m) "Drainage unit" or "drilling unit" shall mean the maximum area in a pool which may be assigned to one (1) well so as to produce the reasonably recoverable oil or gas in such area, shall be established by statewide rules or by special field rules of the board, and shall be of such size and configuration as will foster, encourage and promote the development, production and utilization of the natural resource of oil and gas.

(n) "Developed area" or "developed unit" shall mean a drainage unit having a well completed therein which is capable of producing oil or gas in paying quantities.

(o) A "certificate of compliance" shall mean a certificate issued by the board showing compliance with the conservation laws of the state, and conservation rules, regulations and orders of the board, prior to connection with a pipeline.

(p) A "certificate of clearance" shall mean a permit for the transportation or the delivery of oil, gas or products, approved and issued or registered under the authority of the board.

(q) "Supervisor" or "State Oil and Gas Supervisor" shall mean the officer appointed by the State Oil and Gas Board pursuant to Section 53-1-7.

(r) "Orphan well" shall mean any oil or gas well in the state, including Class II wells, which has not been properly plugged according to the requirements of the statutes, rules and regulations governing same and for which a responsible party such as an owner or operator cannot be located or for which, for whatever reason, there is no other party which can be forced to plug the well.

(s) "Refined hydrocarbons" shall mean any refined petroleum products.

(t) "Oil field exploration and production wastes" shall mean:

(i) Any liquid, gaseous, solid, naturally occurring radioactive, or other substance(s), including but not limited to, any chemical, produced water, sludge, oil-water emulsion, oil field brine, waste oil, sediment, scale or other waste substance(s);

(ii) Any equipment or any other related apparatus containing or contaminated with such substance(s) as set forth in subparagraph (i) above; or

(iii) Any land or structures containing or contaminated with such substance(s) as set forth in subparagraph (i) above, which is associated with, produced by, or used in the

exploration, drilling, and/or production of oil, gas or other minerals within the territorial limits of the State of Mississippi.

(u) "Noncommercial disposal of oil field exploration and production waste" shall mean the storage, treatment, recovery, processing, disposal or acceptance of oil field exploration and production waste which is not commercial oil field exploration and production waste disposal as defined in Section 17-17-3.

(v) "Regulatory division" means the regulatory division of the Oil and Gas Board established under Section 53-1-1(3).

SECTION 3. Section 53-1-7, Mississippi Code of 1972, is amended as follows:

53-1-7. The board shall appoint a State Oil and Gas Supervisor, herein called supervisor, who shall be a competent and qualified administrator and receive as compensation for his services an annual salary to be fixed by law. The supervisor shall be solely responsible for the administration of the offices of the State Oil and Gas Board and shall be charged with the duty of enforcing Sections 53-1-1 through 53-1-47, and Sections 53-3-3 through 53-3-165, and all rules, regulations and orders duly adopted by the board. The supervisor shall be ex officio secretary of the board and shall give bond, in such sum as the board may direct, with corporate surety to be approved by the board, conditioned that he will well and truly account for all funds coming into his hands as such secretary. He shall remit to

the State Treasurer all * * * monies collected by him as such secretary for deposit in trust for the use of the board in a special fund known as the Oil and Gas Conservation Fund to be expended as provided by law.

The supervisor shall devote his entire time to his official duties.

In addition, it shall be the supervisor's duty and responsibility to:

(a) Supervise and manage all personnel of the offices of the Oil and Gas Board.

(b) Formulate the duties and responsibilities of every staff employee in detail, including written job descriptions and written policies and procedures for performing staff tasks.

(c) Outline a detailed method of preparing, and devise a systematic procedure for the filing of reports by field inspectors.

(d) Formulate written policies and procedures for the effective and efficient operation of the office, and present these policies and procedures to the board for promulgation.

(e) Supervise the provision of technical support and assistance to the board in its decision-making capacity.

(f) Require oil companies that conduct operations in this state to provide full disclosure of contract information when so requested, including explanation of all symbols and abbreviations as well as all information available to the company

concerning the computation of the owner's interest on any division order.

SECTION 4. The following shall be codified as Section 53-1-8, Mississippi Code of 1972:

53-1-8. **Regulatory division.** (1) The board shall appoint a regulatory division. The staff shall include the following positions:

(a) At least one (1) attorney who is licensed to practice law in Mississippi and who has familiarity and expertise in real property law and oil and gas law.

(b) At least one (1) investigator with experience in administrative law and procedures.

(c) Such support staff as the director of the board deems advisable.

(2) (a) Any person, including an employee of an oil company, who violates a regulation of the board shall be investigated by the regulatory division and, if a violation is found, the regulatory division shall pursue all lawful administrative remedies against the person for the violation.

(b) The maximum administrative penalty that may be imposed by the regulatory division is not to exceed Five Hundred Dollars ($500.00) per day per violation.

(c) Administrative fines assessed pursuant to this section shall be deposited in the Oil and Gas Board Regulatory Division Fund.

(d) There is created in the State Treasury a special fund to be known as the Oil and Gas Board Regulatory Division Fund. The purpose of the fund shall be to provide funding for the Oil and Gas Board Regulatory Division. Monies from the funds derived from administrative fines under this section shall be distributed by the State Treasurer upon warrants issued by the Department of Finance and Administration. The fund shall be a continuing fund, not subject to fiscal-year limitations, and shall consist of:

(i) Monies appropriated by the Legislature for the purposes of funding the Oil and Gas Board Regulatory Division;

(ii) The interest accruing to the fund;

(iii) Monies received from the federal government;

(iv) Donations; and

(v) Monies received from such other sources as may be provided by law.

SECTION 5. This act shall take effect and be in force from and after July 1, 2016.