

Utah Department of Natural Resources Division of Oil, Gas and Mining

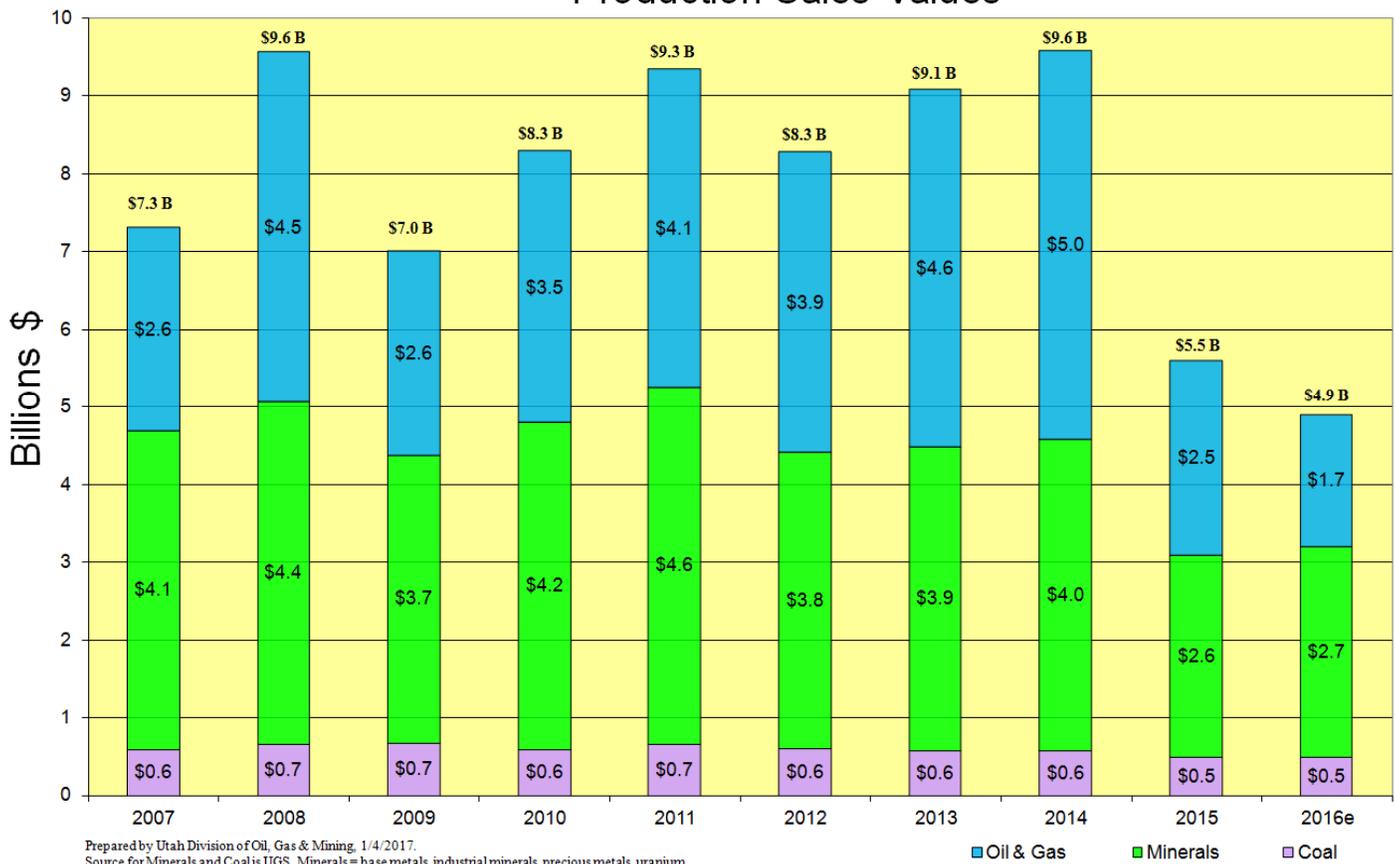


PURPOSE

Utah's energy and non-energy mineral resources including crude oil, natural gas, coal, metals and other mineral commodities are significant contributors to Utah's economy.

- We ensure these resources are developed responsibly in accordance with state rules and regulations.
- We protect the environment by evaluating environmental impacts before, during and after work is completed. Staff inspects wells and mining operations to confirm compliance. We require successful reclamation of lands affected by mining activity.
- We safeguard the public by decreasing hazards and accidents associated with abandoned mines. Outreach programs are administered to educate the public about potential hidden dangers.

Utah's Extractive Industries Production Sales Values



Production sales value is a function of both market prices and production volumes. Lowered values in the past two years were a result of much reduced commodity prices and a corresponding falloff of drilling activity in the petroleum sector. Hoped-for improvements in value will occur when commodity prices stabilize and fuel resurgence in exploration and development activity.

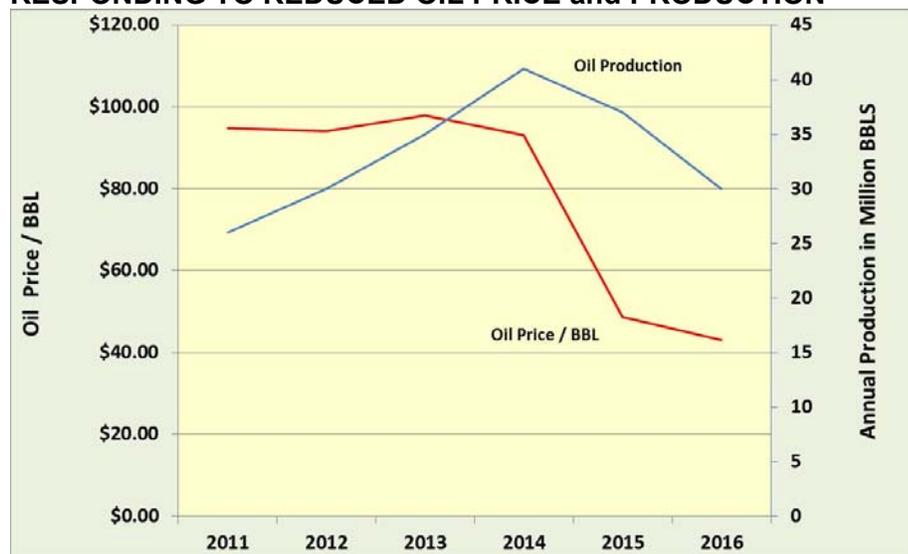


2016 ACCOMPLISHMENTS

- The Coal Program maintained a 92% on-time rating for all permitting actions, despite being shorthanded for several months. They approved an entire new mining area for the Coal Hollow mine in a matter of months and are nearing approval of a new lease tract for the Skyline Mine.
- The Minerals Program maintained a 90% on-time rating for all permitting actions, up from 86% the prior year.
- The Abandoned Mine Reclamation Program completed 110 mine closures, and is in the process of completing the Indian-Price Canyon Project, which will reclaim a large abandoned coal refuse pile north of Helper.
- The Oil and Gas Program inspects the 11,763 producing oil and gas wells in Utah. Staff is currently replacing an antiquated database system and will be conducting an extensive rewrite of its electronic permitting system.
- The Division continued the Mineral and Petroleum Literacy program, which is a high quality, teacher-friendly, interactive geology program exceeding the state standards for 4th grade earth science curriculum. 3,795 Utah students statewide were reached last year.

ISSUES AND CHALLENGES FOR THE FUTURE

RESPONDING TO REDUCED OIL PRICE and PRODUCTION



The drop in crude oil commodity price during the past two years caused a curtailment of drilling activity that had the domino effect of allowing statewide production volume to decline. Lowering production volumes and reduced pricing is a “double whammy” that substantially diminishes oil field monetary revenues.

- Ensure that we can maintain responsible development in the state, despite the economic pressures on industry and the predominance of federal land in Utah that cause unique policy challenges.
- Monitor and communicate on numerous issues arising for extractive industries, e.g. media attention on hydraulic fracturing, wildlife issues with proposed limits on exploration, air quality in the Uinta Basin, state regulatory programs vs. federal overreach.
- Prepare for potential rebound of the oil and gas industry due to new pro-fossil fuel presidential administration.

Utah Department of Natural Resources

Division of Oil, Gas and Mining



DNR - Oil Gas and Mining

Services

1. What do you do?

- a. How does your entity serve the public (mission, objectives)? Who specifically are your customers?

OUR PURPOSE

- We facilitate resource conservation and economic development of Utah's energy and non-energy mineral resources – meaning crude oil & natural gas, coal, metals, and other valuable mineral commodities.
- We address public safety by alleviating the hazards associated with abandoned mining operations, and by ensuring that present-day activities are conducted responsibly.

WHO IS SERVED

- *Business entities and developers who invest in the mineral extractive industries*
 - *Citizens of Utah who may be impacted by mineral development*
 - *Consumers of energy and mineral products*
 - *Future generations who will rely on energy and mineral products, and who require a healthy environment*
- b. What values does your agency add to society? What is the return you bring on the tax payers' investments?
Utah's energy and non-energy mineral resources including crude oil, natural gas, coal, metals and other mineral commodities are significant contributors to Utah's economy. These activities serve as the engine to Utah's economic growth.
 - c. Why should the public continue to pay for these services?
 - We ensure these resources are developed responsibly in accordance with state rules and regulations.
 - We protect the environment by evaluating environmental impacts before, during and after work is completed. Staff inspects wells and mining operations to confirm compliance. We require successful reclamation of lands affected by mining activity.
 - We safeguard the public by decreasing hazards and accidents associated with abandoned mines. Outreach programs are administered to educate the public about potential hidden dangers.

2. How well do you do it?

- a. How do you define and measure success? What are your performance measures? Why have you chosen them? How do they help you accomplish your mission?
 - Foster and encourage petroleum/mineral development that generates taxes, royalties, and economic revenue
 - Ensure minimal environmental impact during development
 - Require effective land reclamation subsequent to operations
 - Secure abandoned mine hazards
 - Provide credible technical information to industry, government, general public, and schools
 - Strive to maximize the quality of life and minimize the costs of development for future generations
- b. What are your goals? How well are you achieving your goals?
 - Timing of Issuing Coal Permits (Target = 100%, Actual = 99%)
 - Customer Satisfaction from Survey (Target = 4.4, Actual = 4.3)
 - Well Drilling Inspections without Violations (Target = 100%, Actual = 92%)
- c. What are your efforts to be efficient and effective?

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3. What do you see in the future?

- a. What are the major issues and challenges in the next 3-5 years for your agency?
 - Continue to apply technology to improve our ability to collect, manage, apply, and disseminate information that is used to responsibly develop Utah's energy and mineral natural resources.
 - Maximize the skills and expertise of our knowledge-based staff members who must apply judgment and reason to technical decisions related to permitting, inspection, and compliance with regulatory requirements.
 - Monitor and communicate on numerous issues arising for extractive industries, e.g. media attention on hydraulic fracturing, wildlife issues with proposed limits on exploration, air quality in the Uintah Basin, state regulatory programs vs. federal intrusion.
 - Ensure that we can maintain responsible development in the state, despite the economic pressures on industry and the predominance of federal land in Utah that cause unique policy challenges.
 - Monitor and communicate on numerous issues arising for extractive industries, e.g. media attention on hydraulic fracturing, wildlife issues with proposed limits on exploration, air quality in the Uinta Basin, state regulatory programs vs. federal overreach.
 - Prepare for potential rebound of the oil and gas industry due to new pro-fossil fuel presidential administration.
- b. What are you doing/going to do about it?

The drop in crude oil commodity price during the past two years caused a curtailment of drilling activity that had the domino effect of allowing statewide production volume to decline. Lowering production volumes and reduced pricing is a "double whammy" that substantially diminishes oil field monetary revenues. Production sales value is a function of both market prices and production volumes. Lowered values in the past two years were a result of much reduced commodity prices and a corresponding falloff of drilling activity in the petroleum sector. Hoped-for improvements in value will occur when commodity prices stabilize and fuel resurgence in exploration and development activity.
- c. Discuss FTE trends and anticipated FTE levels for FY 2017 and a 5 year outlook.

Due to the Oil and Gas Restricted fund revenue shortfall, OGM has not filled twelve positions in the Oil and Gas and Administration programs. This is a 24% FTE reduction. We anticipate to hire needed positions when exploration and development activity returns.

Funding

What is your funding structure?

- a. What is the nature and sources for your base budget?
 - Federal Funds=51%
 - Oil & Gas Restricted Funds=30%
 - General Funds=18%
 - Dedicated Credits=1%
- b. Provide specifics for developing new funding sources.

The Oil and Gas program is collaborating with industry to work on finding ways to not become so reliant on production revenue from the Oil and Gas Restricted Fund.
- c. Provide a description of your non-lapsing (carry-forward) balances and explain how you are using them.

Mining Special Projects/Studies \$250,000-used to address mining (may be emergency) events.

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Computer Equipment/Software: \$50,000; Employee Training/Incentives: \$50,000;
Equipment/Supplies: \$50,000-used to replace employees old computers and equipment.
Well Plugging: \$1,200,000-used to pay for the plugging of abandoned oil or gas wells.
Mineral and Petroleum Literacy program: \$600,000-public educational programs designed to increase knowledge of mineral and petroleum resources and industries

- d. What is your justification to request "non-lapsing" intent language (where applicable)?
UCA 40-6-14.5 (3 & 5) Oil and Gas Conservation Account
Plugging and reclamation of abandoned Oil or Gas wells/public education.

Expenditures

Is the organization run as efficiently as possible?

1. Which expenditure categories had the biggest changes over time? Why?
DP Current Expense-changes in DTS rates.
Other Charges=AML Reclamation Projects-Fluctuations in Construction projects.
2. Is the workload seasonal? Do you really need full-time staff?
No seasonal positions.
UCA 40-6-15 Division created
There is created within the Department of Natural Resources the Division of Oil, Gas, and Mining. The division shall implement the policies and orders of the board and perform all other duties delegated by the board.
3. Are travel expenditures reasonable? Do staff need to travel as much out of state? Can Skype and other video conferencing tools be implemented and used more frequently?
Due to the Oil and Gas Revenue shortfall, the out of state travel of employees has been limited to needed trips. Our Board is using video conferencing technology to allow industry representatives to remotely attend and participate in the board hearing. This has been very successful.
4. Can operating costs be reduced with updated technology/equipment?
The Oil and Gas electronic permitting project is intended to expedite and enhance our ability to accurately process, approve, and monitor oil and gas drilling permits and other associated activities.

Re-allocation of base budgets

Are we funding the highest priorities?

1. What areas within your base budget could be considered for reallocation in order to fund higher priority programs or building blocks?
This is being addressed at the Department level.
2. What programs would you reduce or eliminate if you were required to cut 2% of your base budget? Why did you choose these programs/services?
This is being addressed at the Department level.