



Maryland

Department of the Environment

Larry Hogan, Governor
Boyd Rutherford, Lt. Governor

Ben Grumbles, Secretary
Horacio Tablada, Deputy Secretary

November 1, 2017

The Honorable Mike V. Miller, Jr. President
Senate of Maryland
State House, H-107
Annapolis, MD 21401

The Honorable Michael E. Busch
Speaker of the House
State House, H-101
Annapolis, MD 21401

Dear President Miller and Speaker Busch:

As required by Section 14-124 of the Environment Article, the Maryland Department of the Environment (the Department) submits this letter as the annual report on the Oil and Gas Fund (the Fund) for FY2017. Copies of the report are provided in accordance with Section 2-1246 of the State Government Article.

Sources of money for the Fund consist of fees, funds appropriated by the General Assembly, fines and bond forfeitures collected by the Department that exceed the amount necessary to restore a site, and additional money made available from any source. The Department is authorized to use money in the Fund solely to administer and implement programs relating to oil and gas wells.

The Fund received no revenue and made no expenditures during FY 2017. The Fund had no balance at the close of FY2017. The Department's Mining Program administers the State's oil and gas regulatory program. In FY 2017, Mining Program staff reissued 26 permits for existing wells. No new permit applications were received or issued in FY 2017. There were 33 gas well inspections done in FY 2017, with no violations found.

In July 2010, the General Assembly authorized the Department to establish and collect fees for permit issuance, permit renewal, and production of oil and gas wells installed after October 1, 2010. At that time, the Department had received applications for wells to extract gas from the Marcellus Shale using hydraulic fracturing, and expected additional applications. These wells are more complex to review, and could require the Department to perform more inspections and engage in more intensive compliance activities. The Department began drafting fee regulations, but after the Governor's June 2011 Executive Order established the Marcellus Shale Safe Drilling Initiative (the Initiative), it became apparent that the level of effort associated with permitting and inspecting these wells would depend on the outcome of the Initiative. Therefore, the Department temporarily suspended development of the fee regulations.

Following the conclusion of the Initiative, oil and gas regulations were proposed on January 9, 2015 (42:1 Md. R. 94 — 116). Subsequently, the General Assembly passed legislation in 2015 requiring the Department to adopt regulations to provide for the hydraulic fracturing of a well for the exploration or production of natural gas. Those regulations were prohibited from becoming effective and the Department was prohibited from issuing a permit for hydraulic fracturing until October 1, 2017. In accordance with the 2015 legislation, revised oil and gas regulations were proposed on November 14, 2016 (43:23 Md. R. 1293 — 1316). In 2017, the Governor signed into law Chapter 13, which prohibits the hydraulic fracturing of a well for the exploration or production of natural gas. The 2016 regulatory proposal providing for hydraulic fracturing will therefore not be finalized.

The Honorable Mike V. Miller, Jr., President
The Honorable Michael E. Busch
Page 2

If we can provide you with any additional information, please contact me at 410-537- 3084 or via email at ben.grumbles@maryland.gov or Ms. Hilary Miller, Director of the Land and Materials Administration, at 410-537-3304 or via email at hilary.miller@maryland.gov.

Sincerely,

A handwritten signature in black ink that reads "Ben Grumbles". The signature is written in a cursive style with a large, stylized initial "B".

Ben Grumbles
Secretary

cc: Ms. Hilary Miller, Director, Land and Materials Administration