

Department of Legislative Services
Maryland General Assembly
2018 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 1029 (Senator Madaleno, *et al.*)
Education, Health, and Environmental Affairs

Oil and Gas Drilling and Production - Restrictions

This proposed constitutional amendment establishes new restrictions on the drilling or production of oil or gas in the State. Additionally, beginning November 15, 2018, the General Assembly is prohibited from authorizing any drilling for oil or gas in the State unless (1) the General Assembly passes an Act by a yea and nay vote supported by three-fifths of all members and (2) approval is granted through a referendum, authorized by an Act of the General Assembly, in a general election by a majority of the qualified voters in the State.

Fiscal Summary

State Effect: Potential increase in State expenditures in future years to include a referendum on authorizing drilling for oil or gas in the State on election ballots. If approved by the voters, the restrictions related to the drilling and production of oil or gas in the State are not anticipated to materially affect State finances or operations, as discussed below.

Local Effect: Potential increase in local expenditures in future years to include a referendum on authorizing drilling for oil or gas in the State on election ballots. If approved by the voters, the restrictions related to the drilling and production of oil or gas in the State are not anticipated to materially affect local finances or operations, as discussed below.

Small Business Effect: Minimal.

Analysis

Bill Summary: A person may conduct drilling or production of oil or gas in the State only (1) in a manner that minimizes effects on the surrounding environment and (2) if the project

has been subject to proper evaluation and uses the most environmentally sound drilling and production methods to prevent adverse environmental consequences that would be detrimental to the general welfare, health, safety, and property interests of the citizens of the State.

Current Law:

Permits Required

A person must obtain a permit from the Maryland Department of the Environment (MDE) before drilling a well for the exploration, production, or underground storage of gas or oil in Maryland. A permit is also required for the disposal of any product of a gas or oil well. MDE regulates gas exploration and production and has broad authority to impose conditions on permits to protect the State's natural resources and to provide for public safety. Further, MDE may deny a permit based on a substantial threat to public safety or a risk of significant adverse environmental impact.

Financial Assurance and Liability Related to Oil and Gas Drilling

Chapter 568 of 2013 established specified financial assurance requirements for a well permit holder and requires a permit holder to have specified comprehensive general and environmental pollution liability insurance coverage. Chapter 703 of 2012 established a presumptive impact area applicable to areas around a deep shale gas deposit well for which MDE has issued a gas exploration or production permit. In a presumptive impact area, it is presumed that contamination of a water supply was caused by the activities of gas exploration or production.

Hydraulic Fracturing Prohibited

“Hydraulic fracturing” is the stimulation treatment performed on oil and natural gas wells in low-permeability oil or natural gas reservoirs through which specially engineered fluids are pumped at high pressure and rate into the reservoir interval to be treated, causing fractures to open. Chapter 13 of 2017 prohibits a person from engaging in the hydraulic fracturing of a well for the exploration or production of oil or natural gas in the State.

Background: According to MDE, Maryland has 84 gas storage wells located in one gas storage field near the Town of Accident in Garrett County. The storage field is a depleted natural gas reservoir that was converted from production to storage in 1966. The majority of these storage wells were drilled in the 1960s through the 1980s. MDE also advises that there are 6 active gas wells in Garrett County and 1 active gas well in Allegany County. The most recent permit was granted in 2006. MDE further notes that other than several applications for drilling in the Marcellus Shale using hydraulic fracturing that were

received in 2009 and 2011, there have been no recent applications to drill oil or gas wells using any methods.

State Fiscal Effect: State costs of printing ballots may increase to the extent inclusion of the proposed referendum on the ballot at the next affected general election would result in a need for a larger ballot card size or an additional ballot card for a given ballot (the content of ballots varies across the State, depending on the offices, candidates, and questions being voted on). Pursuant to Chapter 564 of 2001, the State Board of Elections shares the costs of printing paper ballots with the local boards of elections.

The bill's restrictions related to drilling for oil and gas in the State are not anticipated to materially affect State finances or operations because (1) hydraulic fracturing is statutorily prohibited and (2) MDE has not received new permit applications to drill for gas or oil through conventional methods in the past 10 years. Thus, applications for new permits to drill for oil and gas, are unlikely, even in the absence of the bill.

Local Fiscal Effect: Local boards of elections' printing and mailing costs may increase to include information on the proposed referendum with specimen ballots mailed to voters prior to the next affected general election and to include the proposed referendum on ballots.

The bill's restrictions on the drilling and production of oil and gas in the State are not anticipated to materially affect local finances. Although both Allegany and Garrett counties impose a local severance tax on the production of gas, MDE advises that its current regulations related to the permitting of gas wells meet the bill's environmental requirements. Thus, it is assumed that existing production is not affected. However, the Department of Legislative Services notes that gas storage and active wells are occasionally restimulated and redrilled to maintain efficient storage capacity and production. To the extent that the bill prohibits any future production from existing wells, local severance tax revenues and other revenues associated with general economic activity in the two affected counties may decrease.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland Department of the Environment; Garrett County; Department of Legislative Services

Fiscal Note History: First Reader - March 5, 2018
mag/lgc

Analysis by: Kathleen P. Kennedy

Direct Inquiries to:
(410) 946-5510
(301) 970-5510