



Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536



BILL ANALYSIS

Telephone: (517) 373-5383
Fax: (517) 373-1986
TDD: (517) 373-0543

Senate Bill 1184 (as introduced 3-5-08)
Sponsor: Senator Michelle A. McManus
Committee: Energy Policy and Public Utilities

Date Completed: 3-13-08

CONTENT

The bill would amend the Natural Resources and Environmental Protection Act to do the following:

- **Require the Department of Natural Resources (DNR) to give the proposed Clean Energy Authority an inventory of contracts for the taking of oil and gas from State-owned land.**
- **Require the DNR to enter into contracts, including leases, with the Authority for the taking of oil and gas from State-owned land identified by the Authority.**
- **Require each lease with the Authority to provide for a primary term of seven years and the payment of a one-sixth royalty to the DNR.**
- **Require the DNR to give the Authority advance notice before entering into an oil or gas contract or lease with any other person.**
- **Provide that a lease under the bill would not require approval of the State Administrative Board.**
- **Authorize DNR contracts for the storage of greenhouse gas in or on State-owned land.**

Inventory

Within 120 days after the bill's effective date, the DNR would have to give the Clean Energy Authority created under the Clean Energy Authority Act (proposed by Senate Bill 1164) an inventory of all contracts, including oil and gas leases, for the taking of oil and gas from State-owned land. The inventory would have to include at least the following information for each contract or lease granted by the State as lessor:

- The date the lease was executed and the legal description of the land it covered.
- The name and address of the current lessee.
- The length of the primary term under the lease.
- Whether the DNR considered the lease to be valid and effective on the date of the inventory and, if not, the date of any abandonment, release, discharge, cancellation, or termination of the lease as to the land affected.
- The date of execution of any release or discharge of the lease as to any portion or all of the land it covered.

Lease w/ the Authority

The DNR would have to enter into contracts, including oil and gas leases, with the Clean Energy Authority for the taking of oil and gas from any State-owned land identified by the

Authority. The Authority would have to submit to the DNR written applications identifying State-owned land it wished to secure and develop, as lessee, under oil and gas leases granted by the Department, as lessor.

Upon receiving an application, the DNR would have to enter into a direct lease with the Authority covering the State-owned land identified in the application. Each lease would have to provide for a primary term of seven years and require the payment of a one-sixth royalty to the DNR, as lessor. Money received under a lease that was attributable to the lessor's royalty share would have to be transmitted to the State Treasurer to be deposited and credited as provided in the Act.

A lease permitted under the bill would be valid and effective when entered into by the DNR and the Authority, and would not require the approval of the State Administrative Board.

The DNR would not be required to enter into a direct lease with the Authority covering any land that was in production or was leased or permitted for drilling or production as of the date of the Authority's application.

At least 180 days before offering to enter or entering into a contract or lease for the taking of oil and gas from State-owned land with any other person, through competitive public auction or otherwise, the DNR would have to give the Authority written notice identifying the land. If the Authority submitted an application for a lease covering that land within 180 days from the date of the notice, the DNR would have to enter into a direct lease with the Authority covering the land identified in the notice and application.

DNR Contracts

The Act permits the DNR to enter into contracts for the taking of coal, oil, gas, and other mineral products from State-owned land, upon a royalty or another basis. This power includes authorization to enter into contracts for the storage of gas or other mineral products in or upon State-owned land, with the consent of the State agency having jurisdiction over the land.

A contract permitted for the taking of coal, oil, gas, or metallic mineral products, or for the storage of gas or other mineral products, is not valid unless the contract is approved by the State Administrative Board. The bill would exempt a contract with the Clean Energy Authority from the approval requirement.

Money received from a contract for the storage of gas or other mineral products must be transmitted to the State Treasurer for deposit in the State's General Fund, to be used for defraying the expenses incurred in the administration of the Act and other purposes provided by law. Other money received from a contract under these provisions (except money received from land acquired with money from the former Game and Fish Protection Fund or the Game and Fish Protection Account of the Michigan Conservation and Recreation Legacy Fund) must be transmitted to the State Treasurer for deposit in the Michigan Natural Resources Trust Fund created in Article IX, Section 35 of the State Constitution. Under the bill, this money would have to be transmitted for deposit in the Michigan Natural Resources Trust Fund and the Michigan State Parks Endowment Fund created in Article IX, Section 35a of the State Constitution. (Under Section 35, the Natural Resources Trust Fund consists of royalties, bonuses, and rentals collected or reserved by the State under leases for the extraction of nonrenewable resources from State-owned land. A portion of that revenue must be deposited into the State Parks Endowment Fund.)

Also, in the provisions described above that refer to the storage of gas or other mineral products, the bill would add a reference to greenhouse gas. ("Greenhouse gas" would mean carbon dioxide, methane, a chlorofluorocarbon, or a hydrochlorofluorocarbon.)

FISCAL IMPACT

The bill would change the way State-owned land is managed. The DNR would be required to enter into contracts or leases with the Clean Energy Authority for the taking of oil and gas on any State-owned land that the Authority identified without considering any other factors, such as environmental concerns or the current use of the land (except whether the land was in production or leased or permitted for drilling or production). This could result in degradation of sensitive environmental areas and a loss of recreational opportunities.

The bill would cost the State an indeterminate amount related to staff costs for compiling the inventory of leases and the management of additional contracts and leases for the taking of oil and gas on State-owned land.

If the bill resulted in additional extraction of oil and gas resources from State-owned land, the Natural Resources Trust Fund and the Game and Fish Protection Trust Fund would receive additional revenue of an unknown amount from the collection of royalties. The amount of revenue would depend on the type of material extracted, volume, and market value.

The State also could receive revenue from leases for the storage of greenhouse gases on State-owned land. The revenue would depend on the terms of the leases. Money collected from storage leases would be deposited into either the Natural Resources Trust Fund or the Game and Fish Protection Trust Fund, as required by law.

Fiscal Analyst: Jessica Runnels

S0708\sb1184sa

This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.