Revised Indiana Regulations On The Verge Of Approval

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BRIDGEPORT, IL.–An extensive rewrite of Indiana's oil and natural gas regulations is due for approval later this year and although operators have raised concerns, for the most part they do not expect the revisions to be unendurable, reports the leader of the state's industry association.

In the meantime, production of oil and gas continues at a steady, if deliberate, pace, indicates Kyle Kingston, president of the Indiana Oil & Gas Association.

"In the last few years, there was some exploration of the Mississippian Lime in the southwest corner of the state, but for the most part, new drilling in Indiana has stopped," acknowledges Kyle Kingston, manager of operations for CDG Operations in Bridgeport. "There are some recompletions here and there and some operators are adjusting their waterflood patterns, but as far as rig work, it is next to nil."

When the association gathers for its annual convention, set for Oct. 12, in New Harmony, In., members will hear about the state's revised oil and gas regulations, Kingston notes. The Indiana Department of Natural Resources' new Division of Oil and Gas director is scheduled to address the meeting, he says.

Regulatory Revisions

The multiyear rewrite of Indiana's oil and natural gas regulations has rounded the final turn and is nearing the finish line, Kingston says. "We expect the Natural Resources Commission to adopt the new regulations this fall," he relates.

According to DNR, the rules package is scheduled for final adoption at the commission's Sept. 19 meeting in Indianapolis. If approved, it is due for review by the attorney general's office and submission to Governor Eric Holcomb in early November. If the governor signs them, the rules will take effect in December.

"Officially, INOGA neither supported nor opposed the revisions," Kingston points out. "Updating regulations can be problematic and we agreed not to take an active role in the discussions. There was an ad hoc group of producers who volunteered to review and comment. As a result, their comments were submitted as individual operators and not as a formal position of the association."

Changes in the revised rules include a new requirement for production reporting that has some in the industry scratching their heads, Kingston says. Starting in March 2018, operators will be required to report monthly sales volumes for each well once a year, according to 312-IAC Rule 29-26, Sec. 1 (a) and (b). In following sections, the regulations state oil and gas production is to be "measured at the time of sale following custody transfer and from which the interest is calculated." Gas measurements are to be normalized for pressure and temperature, it states.

"Some producers questioned why this was even needed since we file production as part of our tax filings," Kingston considers.

Recently retired DOG Director Herschel McDivitt supported monthly production reporting and appeared to insist on its inclusion in the revised regulations, Kingston indicates. "It was a pet peeve of his and he was not going to let go," Kingston suggests.

Fracturing Split

The Indiana rules revision process was partially a delayed reaction that followed a State Review of Oil & Natural Gas Environmental Regulations (STRONGER) review. STRONGER is a nonprofit corporation that has audited regulations in 23 states.

According to Kingston, the revised regulations include new sections on horizontal wells and hydraulic fracturing, which drew INOGA's interest but ultimately did not raise significant concerns for the association. He notes those revisions largely have been drawn from other states' rules and, with Indiana's relative dearth of long-lateral horizontal wells, cover very few wells.

The fracturing rules differentiate completions by volume, Kingston states. "They recognize the difference between a high-volume slickwater frac and smaller workovers and completions done by most producers here," he affirms.

Rule 22, Sec. 7 (a), requires an operator to notify the division before commencing any completion that uses more than 5,000 barrels of fluid. The next section describes the data an operator must file, including fluid and proppant volumes, additives' trade names and purposes, and injection pressures, no later than 30 days after fracturing operations are finished.

Other aspects of the revised rules deal with:

- Expanded requirements for naturally occurring radioactive material waste;
- Fluid disposal and workover pit backfill;
- Underground gas storage facilities; and
- Oil storage facilities.

Kingston also highlights an area in which industry representatives have made their voices heard, with their success helping to set broad definitions for drilling unit sizes.

"As long as the wellbore is 330 feet from the lease line, operators can space a unit however they want," Kingston details. "Not tying spacing units to the land survey grid offers flexibility and helps both producers and land owners."

Indiana does not require operators to file drilling and completion data on the FracFocus completion fluid chemical constituent disclosure registry, Kingston says. Instead, operators must file chemical disclosure statements that are posted on the DNR website, along with copies of the permit application, completion report and pooling and ownership documents.

Quiet Session

With development activity in a lull, Indiana's oil and gas industry drew relatively little attention during this legislative session, Kingston says.

"It was fairly quiet in Indianapolis this year," he assesses. "We have a few operators up there who keep an eye on things, but as we are an all-volunteer organization, we also rely on other resource industries like aggregate and coal to give us a heads-up if something arises."

He adds that his company is like many operating in the Illinois Basin, with operations in both Indiana and Illinois. The experience, Kingston suggests, highlights a striking contrast between how each state tends to treat the companies operating within their borders.

"The difference in business climate between the two is like night and day," he marvels.

During an extended session, Illinois lawmakers in July voted to override Governor Bruce Rauner's veto of budget, revenue and budget-implementation bills and raised the state's personal and corporate income tax rates (*AOGR*, August 2017, pg. 36).

"With the budget mess in Illinois, they are running out of pockets to pick," Kingston opines. "Indiana is so much more business friendly."

Annual Conference

Both oil and gas production declined in Indiana in 2016, DOG reports. Monthly average oil production for the year was 151,500 barrels of crude for a total of 1.8 million barrels, down from 2.2 million barrels produced in 2015. Average monthly oil production has slipped to 149,440 barrels for the first five months of 2017, the division reports.

Natural gas production in 2016 was 6.2 billion cubic feet, down from 7.2 Bcf the year before. This year, state gas production has averaged 495.9 MMcf a month through May.

Of course, slumping commodity prices during the past couple years have trimmed exploration and drilling activity–and the resultant production–in many states. Kingston indicates Indiana's industry knows how to survive lean times.

He acknowledges that the location for INOGA's 2017 convention is a bit of a departure from recent tradition, but says New Harmony has a number of things going for it.

"It is a quaint little town on the Illinois border right off the interstate in the heart of Indiana's oil production," he describes. "With conditions as they are now, we have been looking for a smaller venue. After the meeting, we will compare notes and see if we should go back to Evansville next year." ❐

Coming In October

Official Convention Section for PBPA annual meeting, Oct. 25-26 in Midland.