

The Pigeon River State Forest Controversy

By the mid-1960s exploration was increasing in northern Michigan with widespread anticipation that significant pools of oil and natural gas were waiting to be discovered. On July 1, 1970, Shell Oil Company announced a major find in the area. Shell's discovery began a long battle over drilling in the area that would last for over a decade. For some, July 1, 1970 was considered the blackest of days. Ford Kellum, a wildlife biologist employed by the state's Department of Natural Resources, was one such person. Kellum was inalterably opposed to drilling in the Pigeon River area. The Pigeon River area was a roughly 500 square mile area in the northeast corner of the Lower Peninsula. In the early years of the twentieth century, P. S. Lovejoy, administrator of the State's Department of Conservation, conceived of creating a "wilderness tract" in the area that would become much like the pristine forest that had existed before the logging era. As part of the project, in 1917 and 1918 wild elk from the Rocky Mountains were released in the forest, to recreate the elk which once lived in the region but had become extinct. Until his death in 1942, Lovejoy's was devoted to the "Pigeon River Project."

Kellum inherited Lovejoy's fierce devotion for preserving the area as a "Big Wild" as well as to protecting and enhancing the re-established elk herd and other wild animals which lived in the area. Kellum became the central figure opposing drilling in the area. In the early 1970s Kellum found sympathetic ears among a few northern Michigan newspapermen, who took up his cause, and he organized opposition among groups such as the Audubon Club chapters and the Michigan Bear Hunters Association. In 1971 Kellum resigned his DNR position to spend all of his time opposing drilling in the area. He organized the Pigeon River Country Association to create a group to promote his vision for the forest and to oppose oil exploration in the area. The Pigeon River Country Association organization eventually proposed creating a 125 square mile tract of land to be kept completely free of development. For the next decade, newspapers, the legislature, the courts, the governor, and the public would argue over the fate of this 125 square mile tract.

State government was unable to speak with a single voice on the matter. Some elected officials and state employees supported drilling while others opposed it. The Department of Natural Resources (DNR) was internally divided on the subject and its staff spoke on both sides of the issue. The DNR's on again, off again pronouncements and policies angered all parties.

From the industry perspective, the state had auctioned mineral rights under the Pigeon River Forest for record prices, then balked at issuing drilling permits, sometimes imposing temporary moratoriums on new lease auctions or on all new permits and in some cases denying requests for specific drilling permits. This action was unprecedented. In the past drilling permits had always followed leases. Although in 1977 the state Supreme Court affirmed previous lower court rulings that found that state law did not require the state to issue a drilling permit for land where the state had previously leased its mineral rights, the "change in the rules" led to confusion and anger among oil explorers.

The Pigeon River Country Association believed that no drilling was acceptable. The PRCA demanded that since the state had the authority to ban drilling regardless of whether or not it had leased the mineral rights, it should do so. If PRCA was angry with the DNR, the organization's anger turned to fury in 1975 when DNR Director Howard Tanner issued a proposed regulation

which allowed significant drilling in the area. "Just one well, just one more, could ruin the whole forest," declared the president of the Pigeon River Country Association.

In northern Michigan, public opinion regarding drilling was divided. Some residents certainly agreed with the PRCA's position, but others saw the potential for economic growth outweighing the possibly environmental problems. State representative Mark Thompson of Rogers City, for example, was blunt in his demand for drilling permits. Over the years, at a variety of public hearings held on the topic of oil exploration and exploitation, the industry, environmentalists, and the public all expressed themselves at great length. Attorney William A. Porter, representing diverse citizens of Otsego County at a Michigan Natural resources Commission public hearing February 18, 1972 expressed the local, pro-development, opinion.

Gentlemen ;

I am here representing a number of interested citizens who make up part of the business community and landowners in Otsego County. Our sole purpose in being here today is to acquaint you with the economic impact that the oil and gas and related industries have on our community and will hopefully continue to make in the future.

Historically, the economy of the Otsego County area has been primarily based on the recreation and tourist industry, which until the advent of I-75 was seasonal and greatly fluctuating at best.

We have attempted to gather a few statistics we hope will be meaningful to the Commission in relating to our local economy. To date, there are approximately 240 local employees working directly for the oil and gas industry. These persons are not transferees or persons brought to our community from other parts of the country, but people who have been drawn from our own local labor market. The wages paid to these individuals are well above the average wage that is presently being paid in Northern Michigan. We have personally observed semi-skilled workers whose previous annual income of approximately \$5,000 more than doubled during the last taxable year as a result of their employment in the oil and gas industry.

We have perhaps six oil-related supply firms who have established operations in Otsego County. They, too, have drawn from the local labor pool for their employees. We know that a major oil company has a monthly payroll of \$150,000 in Otsego County alone and I think it is not unreasonable to assume that an additional \$150,000 is paid to wage earners from suppliers to the industry. One of our local real estate brokers reports that during the calendar year of 1971, he sold \$375,000 worth of permanent housing to industry employees. This figure represents approximately one-third of his total sales.

Again this figure would be higher if we included the people employed by related supply and service companies. We have another report from one of our hotel-restaurant combinations indicating that they derived \$300,000 or approximately thirty percent of their gross sales from oil and gas industry employees.

Our local bank grew some 40 percent in the last two years from \$18,900,000 at the end of 1969 to \$26,600,000 at the end of 1971. The oil and gas industry again has added substantially to our

economic base and given its strength and consistency by eliminating the peaks and valleys which we experience in the past and we hope it will continue to do so.

It appears to us that oil and gas exploration and production, well regulated and reasonably controlled with regard to individual circumstances, is not incompatible with legitimate conservation goals. The two are not mutually exclusive. Certainly the industry will not achieve everything it desires, nor will those people who totally oppose any exploration or production achieve everything they want. Ours is merely an expression of a general concern that neither extreme becomes predominant in the regulatory process.

Kellum himself never fully appreciated the reasons for local support of drilling. As Gordon Charles put it, "It came as quite a blow to Kellum, but he didn't give up. He just set his jaw a little harder, met with some of his followers, and mapped a new strategy." Oil company leaders were also setting their jaws a little harder. McClure Oil Company of Alma, for example, which had been denied a drilling permit on land it had previously leased, filed a test case in 1974 that would eventually find its way to the State Supreme Court in 1977.

In October 1975 Tom Washington, the newly appointed director of the Michigan United Conservation Clubs, decided it was time to abandon the environmentalists "absolutely not" strategy. "If we can't stop them," Washington said, "we should seek the most palatable plan and get all the concessions we can." Washington quietly began talking with Frank Mortl, executive director of the Michigan Oil And Gas Association. Eventually an innovative and creative solution was reached that balanced the desire for economic development with the need for preserving the environment. MUCC and MOGA agreed that drilling should continue, however revenue the state realized from oil leases and royalties would be used to buy more land for the use of Michigan's sportsmen. Although Washington was sharply criticized for this stand by some MUCC member organizations, he stood his ground going so far as to disparage the elk herd, which had often been the emotional heart of the discussion. "We are not," Washington said, "enamored with this species and do not feel this would be an irreplaceable loss to the state if, in fact, a total loss will occur." Governor William Milliken, in his 1976 state of the state address, expanded on the MUCC-MOGA solution, calling for all oil and gas revenues generated by the state to be placed in a "Heritage Trust Fund."

The Michigan Natural Resources Trust Fund was created by the legislature through Public Act 204 in 1976. The fund was the first in the nation that earmarked state revenue generated through oil and natural gas industry activity for the acquisition or improvement of environmentally sensitive land or for meeting community needs for outdoor recreation. Specifically the fund serves six purposes:

- Protecting natural resource
- Providing public access to Michigan waterways
- Improving outdoor recreation in urban areas
- Stimulating Michigan's economy through recreation-related tourism
- Meeting community needs for outdoor recreation, and
- Investing funds in projects that will yield the best long-term public recreation return.

As of 2004, \$635,084,700 has been spent through the Trust Fund to support 1,439 projects in all 83 Michigan counties. Among the projects funded by the Michigan Natural Resources Trust Fund are:

- Purchasing 70 miles of river frontage and more than 25,000 acres along two of the nation's top trout streams (the Au Sable and the Manistee)
- Helping the City of St. Joseph acquire 22 acres of Lake Michigan shoreline for Silver Beach County Park
- Assisting Banks Township in Antrim County in obtaining more than 150 acres (including nearly a mile of frontage on Grand Traverse Bay)
- Obtaining 10,000 acres of undeveloped land in Mackinac County, including more than five miles of Lake Michigan frontage
- Acquiring the tip of the Keweenaw Peninsula
- Assisting in the acquisition for public use of Manistee County's CMS Arcadia/Green Point Dunes area as well as augmenting the City of Saugatuck park system with acquisition of the precious Dension South property sand dunes

In the early years, the fund also served as a means to help balance the state budget and fund the Michigan Economic Development Authority and other programs. Only small amounts of monies accrued to the fund's principal balance. Repeated "raids" over a period of seven years saw more than \$100 million diverted to programs other than those in the original philosophy of the fund. Protests to the "raids" on the fund grew louder and more widespread. Voters in a statewide referendum election held in 1982 banned future raids on the Fund. Although voters banned diversion of the Fund for programs not related to its original intent by state government, some critics of the manner in which the Fund is operated continue to complain that tax rules made in the 1980s allowing oil and gas companies to deduct post-production costs from payments due the state unfairly lessened the amount of money paid into the Fund.

Although the creation of the Natural Resources Trust Fund was the most lasting act that flowed from the controversy, it did not in itself resolve the Pigeon River controversy. The controversy finally ended in 1980, with the passage of legislation allowing drilling in the southern third of the Pigeon River State Forest, while banning all drilling operations in the northern two-thirds of the forest for twenty years.

Source: "A History of Michigan Oil and Gas Exploration and Production" by Jack R. Westbrook, Retired Managing Editor, *Michigan Oil & Gas News* magazine. Published in conjunction with an exhibit on the history of Michigan's Oil and Natural Gas Industry in the Clarke Historical Library, Central Michigan University. August 1, 2005 through January 31, 2006.