# HB12-1176

*Colorado Legislative Council Staff Fiscal Note*

# STATE and LOCAL FISCAL IMPACT

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|---|---|---|---|
| **Drafting Number:** | LLS 12-0503 | **Date:** | February 6, 2012 |
| **Prime Sponsor(s):** | Rep. Ryden | **Bill Status:** | House Local Government |
| | | **Fiscal Analyst:** | Clare Pramuk (303-866-2677) |

**TITLE:** CONCERNING OIL AND GAS, AND, IN CONNECTION THEREWITH, INCREASING THE COLORADO OIL AND GAS CONSERVATION COMMISSION'S AUTHORITY TO REGULATE OIL AND GAS OPERATIONS AND INCLUDING WITHIN THE TERM "SURFACE OWNER" THE OWNERS OF LAND OVERLYING THAT PORTION OF A GEOLOGIC FORMATION WITHIN WHICH HORIZONTAL HYDRAULIC FRACTURING IS CONDUCTED.

| Fiscal Impact Summary | FY 2012-2013 | FY 2013-2014 |
|---|---|---|
| **State Revenue**<br>General Fund<br>Cash Funds<br>State Severance Tax Trust Fund | Possible Reduction - See State Revenue | |
| **State Expenditures**<br>Cash Funds<br>Oil and Gas Conservation and Environmental Response Fund | $31,598 | $18,280 |
| **FTE Position Change** | | |
| **Effective Date:** Upon signature of the Governor, or upon becoming law without his signature. | | |
| **Appropriation Summary for FY 2012-2013:** See State Appropriations section. | | |
| **Local Government Impact:** | | |

## Summary of Legislation

This bill authorizes the Colorado Oil and Gas Conservation Commission (OGCC) to require increased setbacks from wells that will be treated with hydraulic fracturing. Current OGCC rules require a minimum setback of 150 feet from a building in low-density areas and 350 feet in high-density areas. Under this bill, setbacks must be 1,000 feet from any school or residence. Surface owners who live outside an urban area may be granted a shorter setback. The bill requires that best management practices for new technologies be established by rule prior to the use of the new technologies. The definition of "surface owner" is expanded to include owners of land overlying well bores.

**Background**

Hydraulic fracturing, commonly referred to as fracking, is the process of creating small cracks, or fractures, in underground geological formations to allow oil or natural gas to flow into the well bore and thereby increase production. To fracture the formation, special fracturing fluids are injected down the well bore and into the formation. These fluids typically consist of water, sand, and chemical additives. The pressure created by injecting the fluid opens the fractures. Sand is carried into the fractures by the fluid and keeps the fractures open to increase the flow of oil or natural gas to the well bore. Most of the hydrocarbon bearing formations in Colorado have low porosity and permeability. These formations would not produce economic quantities of hydrocarbons without hydraulic fracturing. Fracture treatment of oil and gas wells in Colorado began in the 1970s and has evolved since then.

**State Revenue**

***If increasing setbacks to 1,000 feet reduces the amount of oil and gas development in Colorado, then General Fund and State Severance Tax Trust Fund revenue will be reduced.*** Reductions are possible in corporate, sales, personal income, and severance taxes collected by the state. This amount cannot be determined at this time.

**State Expenditures**

***This bill is expected to increase expenditures in the Department of Natural Resources by $31,598 in FY 2012-13 and $18,280 in FY 2013-14 from the Oil and Gas Conservation and Environmental Response Fund.*** These costs are shown in Table 1 and discussed below.

To implement the bill, the OGCC will need to have two, two-day rule making hearings. One hearing will address increased setbacks and the other will address best management practices. Travel and per diem for board members and hearing notifications in newspapers account for $6,050 of operating costs. The remainder is for increased postage to notify landowners that they are in proximity to a well. The number of landowners requiring notification is increased by the expansion of the definition of "land upon which oil and gas operations are conducted." The OGCC needs 96 hours of legal services for the rulemaking process at a cost of $75.71 per hour for a total of $7,268. OGCC appropriations are sufficient to cover all but the $18,280 in postage costs each year. Expenditures may increase after the OGCC establishes rules for processing setback requests and evaluating best management practices. These costs are not addressed in the fiscal note.

| Table 1. Expenditures Under HB12-1176 | | |
|---|---|---|
| **Cost Components** | **FY 2012-13** | **FY 2013-14** |
| Personal Services | | |
| FTE | | |
| Operating Expenses and Capital Outlay | $24,330 | $18,280 |
| Legal Services | 7,268 | |
| **TOTAL** | **$31,598** | **$18,280** |

## Local Government Impact

***If increasing setbacks to 1,000 feet reduces the amount of oil and gas development in Colorado, then severance tax revenue to local governments will be reduced.*** This amount cannot be determined at this time. The increased setbacks provision may result in fewer resident complaints and fewer public hearings to address hydraulic fracturing issues, resulting in possible savings.

## State Appropriations

For FY 2012-13, the Department of Natural Resources requires an appropriation of $18,280 from the Oil and Gas Conservation and Environmental Response Fund. The remaining expenditures can be addressed with existing resources.

## Departments Contacted

Local Affairs Natural Resources