

**STATE
FISCAL IMPACT**

Drafting Number: LLS 13-0737
Prime Sponsor(s): Sen. Jones
 Rep. Singer

Date: March 19, 2013
Bill Status: Senate Agriculture
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TITLE: CONCERNING ADDITIONAL INSPECTIONS OF OIL AND GAS FACILITIES.

Fiscal Impact Summary	FY 2013-2014	FY 2014-2015
State Revenue		
Cash Funds		
Oil and Gas Conservation and Environmental Response Fund	\$8,224,805	\$7,146,496
State Expenditures		
Cash Funds		
Oil and Gas Conservation and Environmental Response Fund	\$8,224,805	\$7,146,496
FTE Position Change	65.4 FTE	67.4 FTE
Effective Date: Upon signature of the Governor, or upon becoming law without his signature.		
Appropriation Summary for FY 2013-2014: See State Appropriations section.		
Local Government Impact: None.		

Summary of Legislation

This bill requires the Colorado Oil and Gas Conservation Commission (COGCC) in the Department of Natural Resources (DNR) to use a risk-based strategy for inspecting oil and gas locations that targets operation phases that are most likely to experience spills, excess emissions, and other types of violations. The COGCC must have enough inspectors to inspect each oil and gas location once per year. Finally, local governments are prohibited from charging to conduct inspections or monitoring of oil and gas operations that are subject to administration by the COGCC.

Background

The COGCC currently employs 13 oil and gas inspectors and 3 supervisors. Over the past 3 fiscal years, inspectors have conducted an average of 960 well inspections per year and supervisors conducted an average of 400 well inspections. With this level of staffing, each well is routinely inspected about once every 3 years. The average number of inspections is expected to increase to 1,000 per year as inspectors are moved closer to their duty stations with smaller areas to cover. In addition, the JBC has approved an increase of 5 inspectors, 2 environmental protection specialists, and 2 engineers specifically for well inspection for FY 2013-14. These are included in the base resources for COGCC in writing the fiscal note.

Inspectors conduct the first level of compliance response. They identify violations and forward all potential environmental issues to the environmental staff and well-bore or facility problems to the engineering staff. Environmental protection specialists and engineers provide the second level of compliance response by investigating violations and issues identified by the inspectors. The third and final level of compliance response are the hearings and enforcement staff. These staff get involved if violations are not resolved at a lower level or are so egregious that fines need to be imposed.

State Revenue

This bill is expected to increase mill levy revenue to the Oil and Gas Conservation and Environmental Response Fund by \$8,224,805 in FY 2013-14 and \$7,146,496 in FY 2014-15. The mill levy is a charge on the market value at the well of produced oil and gas. It is set by the COGCC by rule and is currently set at 0.7 mills. One tenth of one mill equals about \$1.1 million and the rate is statutorily limited to 1.7 mills. To meet the funding requirements of the bill, the mill level may need to be raised to between 1.4 to 1.5 mills.

State Expenditures

This bill is expected to increase expenditures by \$8,224,805 and 65.4 FTE in FY 2013-14 and \$7,146,496 and 67.4 FTE in FY 2014-15 from the Oil and Gas Conservation and Environmental Response Fund. Detail of these expenditures are shown in Table 1 and explained below.

Table 1. Expenditures Under SB 13-202		
Cost Components	FY 2013-14	FY 2014-15
Personal Services	\$4,518,743	\$4,649,984
FTE*	65.4	67.4
Operating Expenses and Capital Outlay	1,398,589	175,468
Computer Programming	111,000	2,960
Travel	440,373	661,984
Risk Assessment Study	100,000	
Soil Sampling	1,378,000	1,378,000
Legal Services	278,100	278,100
TOTAL	\$8,224,805	\$7,146,496

*Includes 2.4 FTE for Department of Law.

The fiscal note assumes that the COGCC will increase its staff size sufficiently to have each oil and gas well inspected at least once per year. Given that there are currently approximately 53,000 wells and that this number will increase, the COGCC requires a total of 50 inspectors in FY 2013-14 and 52 inspectors in FY 2014-15, plus 7 new inspection supervisors who will conduct about 2,000 inspections per year. This is an increase of 32 and 34 inspectors for FY 2013-14 and FY 2014-15, respectively. The increase in inspectors and supervisors is illustrated in Table 2.

Inspection Staff	Number Annual Inspections	FY 2013-14 Staffing	FY 2013-14 Total Inspections	FY 2014-15 Staffing	FY 2014-15 Total Inspections
Current inspectors	1,000	13	13,000	13	13,000
Decision item inspectors	1,000	5	5,000	7	7,000
SB13-202 inspectors	1,000	32	32,000	34	34,000
Current supervisors	400	3	1,200	3	1,200
SB13-202 supervisors	400	7	2,800	7	2,800
Total inspections			54,000		58,000
Total wells			52,840		56,358

To provide sufficient infrastructure support for the increased inspection effort, the COGCC will add 24.0 FTE each fiscal year including engineers, environmental protection specialists, hearings officers, IT support staff, a training coordinator, budget analyst, and dispatch technician.

The COGCC will conduct a study to analyze the data it has already collected on spills to better understand which operational phases present the highest risk to public health. This study is expected to cost \$100,000 and be completed in FY 2013-14. The fiscal note assumes that COGCC will increase the number of subsurface investigations performed at oil and gas facilities. The extent of this will depend on the results of the spill study. The fiscal note assumes that at least 1 percent of wells (530) per year will have contractors conduct subsurface testing at a cost of \$2,600 per well for an annual total cost of \$1,378,000. If the study suggests that a higher number of subsurface investigations be performed, the cost will be higher.

The COGCC receives legal support from the Department of Law at a rate of \$77.25 per hour. The department negotiates cases and prepares administrative orders for settled cases. With increased inspection activities, the fiscal note assumes a corresponding increase in enforcement actions requiring legal support requiring an additional 3,600 hours of legal support at a cost of \$278,100 and 2.4 FTE each fiscal year.

Expenditures Not Included

Pursuant to a Joint Budget Committee policy, certain costs associated with this bill are addressed through the annual budget process and centrally appropriated in the Long Bill or supplemental appropriations bills, rather than in this bill. The centrally appropriated costs subject to this policy are summarized in Table 3.

Table 3. Expenditures Not Included Under SB 13-202*		
Cost Components	FY 2013-14	FY 2014-15
Employee Insurance (Health, Life, Dental, and Short-term Disability)	\$425,005	\$438,477
Supplemental Employee Retirement Payments	277,360	322,916
Leased Space	100,800	102,900
TOTAL	\$803,165	\$864,293

**More information is available at: <http://colorado.gov/fiscalnotes>*

State Appropriations

For FY 2013-14, the COGCC requires an appropriation of \$8,224,805 and 63.0 FTE from the Oil and Gas Conservation and Environmental Response Fund. Of this, \$111,000 is reappropriated to the Office of Information Technology; \$278,000 and 2.4 FTE are reappropriated to the Department of Law.

Departments Contacted

Counties Local Affairs Municipalities Natural Resources