HB13-1322

Colorado Legislative Council Staff Fiscal Note

STATE and LOCAL FISCAL IMPACT

Drafting Number:	LLS 13-1014	**Date:**	April 30, 2013
Prime Sponsor(s):	Rep. Young	**Bill Status:**	House Agriculture
		Fiscal Analyst:	Kirk Mlinek (303-866-2756)

TITLE: CONCERNING THE TREATMENT OF NATURAL GAS RECOVERED FROM OIL STORAGE TANKS.

Fiscal Impact Summary	FY 2013-2014	FY 2014-2015
State Revenue	See State Revenue section.	
State Expenditures	See State Expenditures section.	
FTE Position Change		
Effective Date: Upon signature of the Governor, or upon becoming law without his signature, and applies to acts occurring on or after the effective date.		
Appropriation Summary for FY 2013-2014: None required.		
Local Government Impact: See Local Government Impact section.		

Summary of Legislation

The bill authorizes the Oil and Gas Conservation Commission in the Department of Natural Resources to promulgate rules to allocate recovered gas that would otherwise be lost as waste, as the term is defined in current law. The bill adds definitions of "lease gas" and "recovered gas."

Background

After petroleum is pumped for an oil and gas well, the oil, gas, and water are separated. The oil and water are usually stored in tanks. After the initial phase of separation some gas remains in the oil, which then separates when the pressure subsequently drops. This is commonly referred to as flash gas. Depending on the amount, this gas may be vented or must be captured and controlled, often by flaring. The gas that has not yet passed through a sales meter can be used pursuant to the lease to run onsite processing equipment. Neither severance taxes nor royalties are paid on this so-called "lease gas."

Technology has improved to the point that the vapors described above can now be captured, rather than flared. This process will increase the amount of lease gas which, in some cases, will exceed the amount required to run onsite processing equipment. This excess has the effect of increasing the total volume of metered gas, thereby increasing operator revenue, severance tax collections, and mineral right owner royalties.

State Revenue

State revenue to the Severance Tax Trust Fund could increase under the bill. Such revenue will increase to the extent that additional gas is captured and exceeds the amount used to fuel onsite equipment. No estimate of additional revenue has been made for purposes of this fiscal note, as it is not known to what extent such technology will be employed.

State Expenditures

The bill is not expected to affect state expenditures, although the workload of the Oil and Gas Conservation Commission (OGCC) could increase. The OGCC may promulgate rules under the bill; however, this increase in workload does not require additional appropriations.

Local Government Impact

Local governments impacted by oil and gas revenue will see a revenue increase to the extent that federal mineral lease royalty payments and state severance tax receipts increase as a result of the bill. This revenue takes the form of distribution payments and discretionary grants.

Departments Contacted

Natural Resources	Counties	Local Affairs
Municipalities		