

FISCAL NOTE
LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)				
	FY 2016-17		FY 2017-18	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS				
CASH FUNDS	292,700		262,160	
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS	292,700		262,160	

Any Fiscal Notes received from state agencies and political subdivisions are attached following the Legislative Fiscal Analyst Estimate.

LB 1082 changes the powers and duties of the Nebraska Oil and Gas Conservation Commission (the Commission).

Section 3(3) provides the Commission with authority to periodically sample and report on injection fluids injected into Class II underground injection wells; certify and monitor produced water transporters; and periodically evaluate financial assurance requirements on existing and proposed wells to ensure ability to pay the costs of plugging, abandonment, and surface restoration.

Section 3(4) authorizes the Commission to require public informational meetings and forums for public interaction on permit applications under the jurisdiction of the Commission.

Section 4 requires an operator of a Class II underground injection well to sample and analyze the fluids injected into each disposal well or enhanced recovery project wells no less frequently than annually. The operator shall submit a copy of the fluid analysis to the Commission.

Section 5 requires the owner of a bond required by the Commission to not revoke such bond without providing notice to the commission, and shall annually submit evidence that the required bond is current and in full force and effect.

The Commission estimates the need to hire 2.0 FTE, with related benefits, operating costs, capital costs, and travel. One of the FTE would be utilized to address the increased workload associated with public informational meetings and forums for public interaction on permit applications (found in section 3(4) of the bill). The language in LB 1082 is permissive, not mandatory. However, with the permissive nature of the language, it is within the Commission’s jurisdiction to require such meetings for all permit applications. There is no basis to disagree with the estimated need for this FTE.

The second FTE would be utilized to receive, track, evaluate, and file the reporting documents. With the number of affected wells, the annual reporting requirements in sections 4 and 5 will be significant. In order to address these requirements and to effectively engage with the public, a Public Information Officer will be used. There is no basis to disagree with this need, based on increased workload and necessary knowledge, skills, and abilities required. Due to the travel that the PIO position would undertake, the first year estimate includes a vehicle.

ADMINISTRATIVE SERVICES-STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSES			
LB: 1082	AM:	AGENCY/POLT. SUB: Nebraska Oil and Gas Conservation Commission	
REVIEWED BY: Lee Will		DATE: 2/3/2016	PHONE: 471-4175
COMMENTS: Disagree with the fiscal impact identified by the Oil and Gas Commission based on the assumption that each permit applications will require public meetings/forums. While this bill may increase the amount of public engagement required by the Commission, the fiscal impact is overstated.			

Please complete ALL (5) blanks in the first three lines.

2016

LB⁽¹⁾ 1082

FISCAL NOTE

State Agency OR Political Subdivision Name: ⁽²⁾

Nebraska Oil and Gas Conservation Commission

Prepared by: ⁽³⁾ William H. Sydow

Date Prepared: ⁽⁴⁾ 30 January 2016

Phone: ⁽⁵⁾ (308) 254-6919

ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION

	<u>FY 2016-17</u>		<u>FY 2017-18</u>	
	<u>EXPENDITURES</u>	<u>REVENUE</u>	<u>EXPENDITURES</u>	<u>REVENUE</u>
GENERAL FUNDS	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
CASH FUNDS	<u>\$292,700</u>	<u>0</u>	<u>\$262,160</u>	<u>0</u>
FEDERAL FUNDS	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
OTHER FUNDS	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL FUNDS	<u>\$292,700</u>	<u>0</u>	<u>\$262,160</u>	<u>0</u>

Explanation of Estimate:

LB 1082 would require the Commission to: 1) receive annual reporting of the chemistry of injection fluids, 2) certify and monitor produced water transporters, 3) receive annual reporting of financial instruments, and 4) conduct public informational meetings on *permit applications*. Each of these requirements are additions to the current duties of the Commission. A minimum of 2.0 FTE's of additional staff would be necessary to begin to accomplish the additional work requirements and obligations. The added requirement under RSN 57-905(4) to conduct "public informational meetings and forums for public interaction on *permit applications* under the jurisdiction of the commission" will require at least one FTE. A second FTE will be required to receive, evaluate, track, and file the reporting documents. The new FTE duties will now be addressed.

One additional Administrative Assistant would be required to help establish and maintain new reporting and monitoring systems to accomplish Item Nos. 1, 2, and 3 above. New Section 4 of LB 1082, Page 8, requires annual analyses of fluids injected into each disposal and enhanced oil recovery well. There are over 500 active injection wells for which analyses are required to be received, logged in, evaluated, perhaps scanned, and then properly filed and maintained. Section 5 of LB 1082, Page 8, requires annual "evidence" of bonding. The Commission currently requires bonding and is the *only entity* that can release a bond since no revocation of an insurance bond, by either the bonding company or their client, is allowed. The Commission is currently in both physical and legal possession of every Certificate of Deposit that has been posted by operators for financial assurance. Regardless of the current bonding requirements, the annual submission of "evidence" would require the establishment of a form for the "evidence", perhaps with the approval of the Department of Insurance, and then the receipt, logging in, and otherwise handling of this *confidential information*. Over 150 active operators have either individual or blanket well bonds at the present time. There could be over 230 financial instruments that require weekly attention, depending upon the original date of purchase. We can not estimate the cost to certify and monitor water transporters since this will require some advice, and perhaps consent, from the federal Department of Transportation and the state Department of Motor Vehicles. This section would involve transportation companies from four or more states.

LB 1082, in Section RSN 57-901, Page 2, incorporates the facilitation of "open communication with and the participation of the general public" in anticipation of public presentations concerning permit applications under the jurisdiction of the Commission. LB 1082 is non-specific as to what kind of *permit applications* would require meetings and forums as proposed in RSN 57-905(4), Page 6. Besides permitting new, or annually approved, Enhanced Oil Recovery or Salt Water Disposal injection well operations, the Oil and Gas Conservation Commission approves hundreds of drilling permits, plugging and abandonment permits, and produced water pit permits. It is not unreasonable to assume that over 400 permits are approved annually in perhaps twenty counties. Assuming LB 1082 requires public meetings/forums of **all** *permit applications*, then one new FTE, a Public Information Officer (PIO), with excellent speaking skills, extensive knowledge of petroleum engineering, petroleum geology, regional geology, and ground water geology must be recruited and hired. Further, the new PIO would be required to travel to the 20 counties which produce oil and gas to conduct presentations/forums.

The travel distance, from east to west in Nebraska, requires round-trips of nearly 900 miles. The Commission would have to purchase an additional vehicle and incur operating costs, hotel and meal expenses, and rentals of meeting facilities. No support staff is estimated for the PIO who would be required to prepare all presentation materials and make arrangements in the various counties for meeting facilities. The lack of provision for additional support staff for the PIO may prove to be unreasonable.

We estimate the Administrative Assistant and PIO positions to require initial wages of \$160,000 due to the technical expertise requirements for the PIO. An initial vehicle expense of \$32,000 for a 4WD pickup, 20,000 miles per year of driving at \$1/mile, 3 hotel rooms per week at \$100/night, and 12 meals per week at \$15/meal were estimated. Both FTE's would require initial capital outlays for office equipment, computing, and communications equipment totaling \$6,000 during FY2017.

The notice required, as proposed by RSN 57-905(14), Page 8, would be accomplished by the Commission's current staff since applications of Class II commercial underground injection well permits are uncommon. This section requires the Commission to provide notice to the villages or cities within which the proposed wells may be located, as well as the county governments. Typically, only county governments would be receiving notice and this would be done through certified mail using the United States Postal Service. Costs would be minimal and are not included in the expenditures shown in this Fiscal Note.

Sufficient appropriation levels and permissions for additional FTE requirements are not approved at this time. Given the current commodity prices of \$20.00 per Barrel of oil and \$2.50 per MCF of natural gas, the statutory limit of the Conservation Tax of 15 mills per dollar, and our internal production forecasts, we do not believe that the required incremental funds could be generated to accomplish the new requirements as set forth in LB 1082. Further, LB 1082 does not provide for any additional sources of funds for the additional requirements set forth in the bill.

BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE

Personal Services:

<u>POSITION TITLE</u>	<u>NUMBER OF POSITIONS</u>		<u>2016-17</u>	<u>2017-18</u>
	<u>16-17</u>	<u>17-18</u>	<u>EXPENDITURES</u>	<u>EXPENDITURES</u>
Administrative Assistant	1.0	1.0	\$35,000	\$35,875
Public Information Officer	1.0	1.0	\$125,000	\$130,000
Benefits.....			\$43,200	\$44,785
Operating.....			\$27,500	\$27,500
Travel.....			\$24,000	\$24,000
Capital outlay.....			\$38,000	0
Aid.....			0	0
Capital improvements.....			0	0
TOTAL.....			\$292,700	\$262,160