

Chm 1

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DATE PREPARED: January 13, 2012
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LB 877

Revision: 00

FISCAL NOTE

LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES *

	FY 2012-13		FY 2013-14	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS	10,000-260,000		10,000	
CASH FUNDS				
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS	10,000-260,000		10,000	

*Does not include any impact on political subdivisions. See narrative for political subdivision estimates.

LB 877 requires the owner or operator of a well on which a hydraulic fracturing treatment is performed to provide the composition of the hydraulic fracturing fluids used in such treatment to the Nebraska Oil and Gas Conservation Commission on a form provided by the commission for such purpose. Section 1 specifies certain information that shall be collected on the form and requires the commission to post the completed form on its web site.

Section 2 requires a service company to provide information to the owner or operator necessary to comply with the requirements in section 1.

Section 3 requires the commission to prescribe a process by which an entity required to comply with sections 1 or 2 may withhold and declare certain information as a trade secret for purposes of the Trade Secrets Act.

Section 4 addresses challenges of a claim of entitlement to trade secret protection under section 3.

Section 8 provides a non-specific operative date. The timing of any costs may vary once such a date is established.

The commission estimates the need to establish and maintain a new computer system to allow for the collection and display of chemical data and volumes. Their current system is unable to accommodate the new data.

A limited number of contractors are capable of developing the modules that would be required. The commission estimates one-time costs of \$250,000 with ongoing maintenance costs of \$10,000 per year.

Fund Source

It is unclear whether the costs associated with LB 877 can be paid from the Oil and Gas Conservation Fund. Section 57-919 specifies that money in that fund "shall be used exclusively to pay the costs and expenses incurred in connection with the administration and enforcement of sections 57-901 to 57-921." Unless and until the provisions of LB 877 are codified within this statutory range, it must be assumed that the costs cannot be paid from this cash fund. The commission contends that the costs are rightly borne from the General Fund, "since there have been no natural gas wells drilled and completed in Nebraska during the past three fiscal years, there has been little hydraulic stimulation data required to input into RBDMS." In essence, the contention is that the dollars already in the fund have little or no connection to the activities in LB 877. However, it should be noted that section 57-919 provides that expenses incident to the administration of section 57-901 to 57-921 shall be paid from the fund. The activities in the bill would be incident to the administration of these sections if the aforementioned codification takes place.

The end result is that the funds source used to pay these costs is unclear; as such, we must assume they will be borne by the General Fund unless the bill is clarified to provide a specific fund source.

Necessary Costs

The commission estimates the need to develop a new computer system to implement the provisions of LB 877.

At its most basic level, LB 877 calls for the commission to accept forms and post the submitted information to its website. This could be accomplished by taking the submitted documents, scanning them into a computer, creating PDF files and posting those to the website.

It is assumed that this would carry a minimal cost of \$10,000 per year for software, hardware and communication costs that are identified in the agency's attached response.

The true cost of the bill is therefore estimated to be between \$10,000 and \$260,000 for the first year and \$10,000 per year thereafter. In order to properly quantify the bill's estimated costs, this issue should be clarified. If a database with searchable data is intended, start-up costs will be closer to \$250,000. If, however, a simple PDF file posted to a website is adequate, the costs will be closer to \$10,000 per year.

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LEGISLATIVE FISCAL

LB⁽¹⁾ 877 FISCAL NOTE

State Agency OR Political Subdivision Name: ⁽²⁾

Oil and Gas Conservation Commission

Prepared by: ⁽³⁾ Bill Sydow

Date Prepared: ⁽⁴⁾ 12 January 2012

Phone: ⁽⁵⁾ (308) 254-6919

ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION

	<u>FY 2012-2013</u>		<u>FY 2013-2014</u>	
	<u>EXPENDITURES</u>	<u>REVENUE</u>	<u>EXPENDITURES</u>	<u>REVENUE</u>
GENERAL FUNDS	260,000	0	10,000	0
CASH FUNDS	0	0	0	0
FEDERAL FUNDS	0	0	0	0
OTHER FUNDS	0	0	0	0
TOTAL FUNDS	260,000	0	0	0

Return by date specified or 72 hours prior to public hearing, whichever is earlier.

Explanation of Estimate:

LB 877 would require a system which would allow for the collection and display of chemical data and volumes which the Commission does not, and can not provide, at the present time. Our core software platform, the Risk Based Data Management System (RBDMS), would require significant modification to house and display these data. Only two contractors in the United States are capable of developing the modules that would be required. The estimated cost to develop such a system is \$250,000. Since these modifications are not required by either industry or our mineral interest owners and no appropriation exists, an emergency appropriation from the General Fund would be required to be approved by the Legislature in order to begin the necessary software development.

The Commission maintains a website which serves the industry, mineral interest owners, and general public. However, LB 877 mandates that certain volumes and ingredients be 'posted' on our website. Since LB 877 requires the data be posted, the cost to maintain the software, hardware, and communication lines should then be borne by the General Fund at a cost of \$10,000 per year. This cost would be ongoing and probably escalate into the future.

We can make no prediction of either the increased workload or the associated staffing requirements and costs that may result from passage of LB 877. Since there have been no natural gas wells drilled and completed in Nebraska during the past three years, there has been little hydraulic stimulation data required to input into RBDMS. However, if additional staff were to be required in the future in order to meet the requirements of LB 877, we believe that all of those costs should be borne by the General Fund.

MAJOR OBJECTS OF EXPENDITURE

Personal Services:

<u>POSITION TITLE</u>	<u>NUMBER OF POSITIONS</u>		<u>2012-2013 EXPENDITURES</u>	<u>2013-2014 EXPENDITURES</u>
	<u>12-13</u>	<u>13-14</u>		
Benefits.....				
Operating.....				
Travel.....				
Capital outlay.....				
Aid.....				
Capital improvements.....				
TOTAL.....				