Schedule 13
Funding Request for the 2013-14 Budget Cycle

Department: Natural Resources/Oil and Gas Conservation Commission
Request Title: Additional Field Inspectors, Environmental, Engineering
Priority Number: R-1

Dept. Approval by: Will H. Lee 10/19/2012 (Date)

OSPB Approval by: [signature] 10/23/12 (Date)

- [x] Decision Item FY 2013-14
- [ ] Base Reduction Item FY 2013-14
- [ ] Supplemental FY 2012-13
- [ ] Budget Amendment FY 2013-14

Line Item Information		FY 2012-13		FY 2013-14		FY 2014-15
		1	2	3	4	6
	Fund	Appropriation FY 2012-13	Supplemental Request FY 2012-13	Base Request FY 2013-14	Funding Change Request FY 2013-14	Continuation Amount FY 2014-15
Total of All Line Items	**Total**	25,658,694	-	27,996,489	571,702	557,179
	FTE	74.0	-	74.0	5.0	5.0
	GF	2,199,862	-	2,277,847	-	-
	GFE	-	-	-	-	-
	CF	19,521,282	-	21,417,839	571,702	557,179
	RF	1,266,086	-	1,650,650	-	-
	FF	2,671,464	-	2,650,153	-	-
(1) Executive Director's Office Health, Life, and Dental	**Total**	10,007,209	-	11,107,783	22,105	22,105
	FTE	-	-	-	-	-
	GF	963,577	-	818,991	-	-
	GFE		-		-	-
	CF	6,215,329	-	7,266,502	22,105	22,105
	RF	1,069,178	-	1,437,218	-	-
	FF	1,759,125	-	1,585,072	-	-
(1) Executive Director's Office Short Term Disability	**Total**	155,493	-	176,734	593	593
	FTE	-	-	-	-	-
	GF	26,141	-	30,041	-	-
	GFE	-	-	-		-
	CF	102,043	-	116,019	593	593
	RF	5,494	-	5,731	-	-
	FF	21,815	-	24,943	-	-
(1) Executive Director's Office Equalization Disbursement	**Total**	3,185,576	-	3,766,558	12,049	13,388
	FTE	-	-	-	-	-
	GF	473,384	-	576,485	-	-
	GFE		-		-	-
	CF	2,157,966	-	2,561,300	12,049	13,388
	RF	102,945	-	109,157	-	-
	FF	451,281	-	519,616	-	-

Line Item Information		FY 2012-13		FY 2013-14		FY 2014-15
		1	2	3	4	6
	Fund	Appropriation FY 2012-13	Supplemental Request FY 2012-13	Base Request FY 2013-14	Funding Change Request FY 2013-14	Continuation Amount FY 2014-15
(1) Executive Director's Office Supplemental Equalization Disbursement	**Total**	2,735,659	-	3,400,364	10,878	12,551
	FTE	-	-	-	-	-
	GF	404,868	-	520,438	-	-
	GFE		-		-	-
	CF	1,854,503	-	2,312,284	10,878	12,551
	RF	88,469	-	98,544	-	-
	FF	387,819	-	469,098	-	-
(1) Executive Director's Office Vehicle Lease Payments	**Total**	3,106,375	-	3,103,483	3,208	19,248
	FTE	-	-	-	-	-
	GF	331,892	-	331,892	-	-
	GFE	-	-	-	-	-
	CF	2,723,059	-	2,720,167	3,208	19,248
	RF	-	-	-	-	-
	FF	51,424	-	51,424	-	-
(4) Oil and Gas Conservation Commission Program Costs	**Total**	6,468,382	-	6,441,567	522,869	489,294
	FTE	74.0	-	74.0	5.0	5.0
	GF	-	-	-	-	-
	GFE	-	-	-	-	-
	CF	6,468,382	-	6,441,567	522,869	489,294
	RF	-	-	-	-	-
	FF	-	-	-	-	-

Letternote Text Revision Required? **Yes:** ☑ **No:** ☐ **If yes, describe the Letternote Text Revision:**

Letternote a: the figure $3,256,350 from OGCERF would increase to $3,778,159. Severance Tax funding is unchanged.

Cash or Federal Fund Name and COFRS Fund Number: Oil and Gas Conservation and Environmental Response Fund (#170)

Reappropriated Funds Source, by Department and Line Item Name:

Approval by OIT? **Yes:** ☐ **No:** ☐ **Not Required:** ☑

Schedule 13s from Affected Departments: Yes

Other Information:

DEPARTMENT OF NATURAL RESOURCES

FY 2013-14 Funding Request
November 1, 2012

John W. Hickenlooper
Governor

Mike King
Executive Director

11-1-2012

Signature Date

Department Priority: R-1
Additional Field Inspectors, Environmental, & Engineering Staff

Summary of Incremental Funding Change for FY 2013-14	Cash Funds	FTE
OGCC –Additional Field, Environmental, Engineering FTE Total	$571,702	5.0
Personal Services and Operating Costs	$493,494	5.0
Contract Services	$75,000	0.0
Vehicle Leases	$3,208	0.0

Request Summary:
To improve the Colorado Oil and Gas Conservation Commission's (OGCC) public service, particularly in the areas of field inspections, environmental assessments, and technical reviews of drilling and completion designs, the agency recommends increasing the appropriation from the Oil and Gas Conservation and Environmental Response Fund by $571,702 (CF) to fund the following 5.0 FTE, four state vehicles, and contract services:

- 3.0 Field Inspectors (+ 3 vehicles)
- 1.0 Environmental Protection Specialist (+ 1 vehicle)
- 1.0 Professional Engineer

Problem and Proposed Solution:
Colorado's active well count has been growing at an average rate exceeding 2,800 wells per year since FY 2005-06. In the dozen years prior to that, the active well count grew at an average annual pace of about 1,000 wells. Each well, after it is drilled, cased, cemented, hydraulically fractured, and connected to a sales line, will produce oil and/or natural gas for decades. Therefore, even when drilling temporarily slows, the active well count, which is the primary workload metric for the OGCC, continues growing, albeit at a slower pace. If drilling suddenly came to an unprecedented complete halt at the end of FY 2012-13, the active well count would already have exceeded 50,000. Most of these wells would require monitoring on multiple fronts by the industry and OGCC for a minimum of 20 to 30 years. Hundreds of currently active wells were drilled in the 1940s and 1950s. A few wells that are still producing were drilled as long ago as the 1900s and 1910s.

All of the requested positions, described in more detail below, are ultimately tied to this continued increase in the total active well count. They are also tied to technical changes in the industry, new policies, or new rules that require either more complex reviews or enforcement. Due to increased public awareness of oil and gas activity, every aspect of the agency has been scrutinized by environmental groups, the general public,

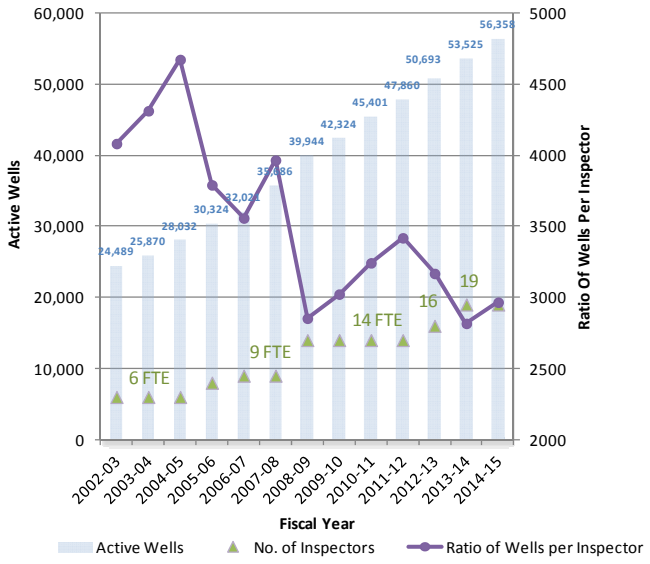
local governments, and other stakeholders over the last several years. The OGCC's policy of full transparency, with all documents made publically available on the Internet, has provided all these stakeholders the opportunity to review the actions of the agency and the oil and gas operators. As a result of this policy, the OGCC attempts to document all operational and enforcement related communication with the industry and other stakeholders. The agency is no longer willing to make verbal agreements to correct problems with a well. Instead, written documentation, by email or the completion of an official form, is required. Written documentation is the best way to indicate, at a later date, that an issue was addressed. This additional transparency, although time consuming for OGCC staff, allows all interested parties to evaluate operator and agency performance.

As of July 15, 2012, four Front Range communities (Erie, Longmont, Loveland, and Boulder County) had drilling moratoriums in effect. The most common reason cited in the press is the state's inability to enforce its rules due to the OGCC's inadequate resources. This request, which follows on the heels of the FY 2012-13's budget increase of 7.0 FTE, represents the Department's ongoing commitment to strengthening its resources where needed, and in the most cost effective manner possible.

Field Inspectors (2 on Front Range and 1 on West Slope) 3 State Vehicles

As stated in last year's budget request, the addition of two inspectors in FY 2012-13 "would not provide the resources necessary to fully keep pace with bond release requests, the current level of drilling, and all the activity and complaints associated with a robust oil and gas industry". This statement was made because the agency had not expanded its inspection staff since FY 2008-09 while the number of active wells had continued to climb. The two additional inspectors were not expected to close the gap created by three years of fixed staffing. Although the optimal ratio of active wells per inspector is somewhat controversial and continues to change over time due to drilling technology, environmental issues, and the urbanization of drilling; current and expected industry activity suggests that a statewide ratio of about 2,500 wells per inspector is a reasonable target. Figure 1 below demonstrates how the three requested inspectors, two for the Front Range and one for the West Slope, would reduce the ratio from the current 3,200 wells per inspector down to about 2,800 in early FY 2013-14. While this does not meet the target goal of 2,500 wells per inspector, this lowered ratio would allow the OGCC to visit the wells more frequently and enforce its rules closer to the level expected by stakeholders impacted by oil and gas activity. The figure also illustrates how the ratio would quickly return to about 3,000 wells per inspector by FY 2014-15 if staffing remained static for two years in a row.

Figure 1: Wells Per Inspector - Impact of 3 Additional Inspectors



One, and possibly both, of the two requested Front Range inspectors would be added to the Wattenberg field in Weld County to increase the rate of inspections in the urban interface areas during the construction, drilling, completion, and reclamation phases. These additional inspectors would allow the OGCC to continue responding promptly to complaints and to conduct more critical inspections of blowout prevention

equipment, surface casing cement, hydraulic fracturing, and interim reclamation activities. Urban interface drilling has created many complex complaint scenarios, which reduced the overall number of inspections, statewide, from 17,088 in FY 2010-11to 11,287 in FY 2011-12, or to an average of 806 per inspector. At this rate, assuming no staffing changes are made for FY 2013-14 each well, on average, would be inspected once every 4.2 years. The three requested inspectors would improve the average frequency of inspections in FY 2013-14 to once every 3.5 years.

The complaint scenarios include issues such as noise and odors that are highly specific to a particular phase of a project and extremely sensitive to atmospheric conditions. Therefore, field inspectors must frequently make three or more site visits in order to observe the issues that are driving the complaints of surface owners and other residents in the area. Horizontal wells and large scale hydraulic fracturing operations also generate large numbers of dust and traffic complaints. Both of these issues may involve multiple state and local governmental agencies, adding to the complexity and the amount of time required to ensure the problems have been addressed.

The third requested field inspector would be stationed on the West Slope to reduce time between well inspections; to witness more formation integrity tests, a test conducted after the cementing of the surface casing to determine the need for intermediate casing; to inspect activities related to hydraulic fracturing; and to carry out more inspections on new wells in the urban/rural residential areas (*i.e.* pad construction, blowout prevention equipment, drilling inspections, interim reclamation). Even though drilling activity has slowed recently on the West Slope, the activity that *is* occurring is spread over a large area, requiring significant dirt road, backcountry travel over mountain passes, making it difficult to respond to common complaints, such as odor and dust. The recent slow-down in this area has also resulted in large, temporarily unused drilling pads that require monitoring for stormwater practices, weed control, and other potential issues that could go unnoticed during the lull in drilling activity.

Other benefits of additional field inspection staff would be: improved coordination among inspectors; better documentation of complaints, in regards to the specifics of the complaints and the agency's response time and effectiveness; and timelier follow-up with operators who have been given corrective actions. While many operators quickly address a complaint, others require multiple follow-up calls and site visits to ensure issues have been resolved. The OGCC's three regional supervisors could improve coordination of these activities if they had support from additional inspectors. Although they would continue conducting routine inspections, they would be able to focus more effort towards coordination and prioritization of inspections and complaint response, as well as train less experienced inspectors. They have also been required to increase their participation in public outreach activities, of which the more formal, documented ones increased, statewide, from 70 in FY 2010-11 to 117 in FY 2011-12.

Environmental Protection Specialist (Home-based EPS II in Larimer or Weld County) 1 State Vehicle

An additional home-based *Environmental Protection Specialist (EPS)* is requested for Northeast Colorado to provide support in an area that has been subject to rapid oil and gas development. The Niobrara shale play was discovered in early 2010, resulting in a flood of leasing, permitting, and drilling in the region, which extends from the Wyoming state line all the way south to El Paso County. With development in this area encroaching upon large population centers, additional environmental protection specialists are needed to ensure compliance with applicable rules and to provide timely response to spills and complaints. None have been added to NE Colorado since 2006. The two staff members currently covering the

region split Weld County and divide the remaining 15 counties as follows:

- Weld (northern half), Logan, Sedgwick, Phillips, Morgan, Washington, Adams (east half) and Yuma counties *(the EPS covering this area works out of a home-based field office)*

- Weld (southern half), Denver, Larimer, Boulder, Broomfield, Adams (west half), Arapahoe, Jefferson, Park, Gilpin, Chaffee, and Clear Creek counties *(this EPS works out of the COGCC's Denver office)*

While some of the counties listed above are experiencing relatively little activity, others, such as Weld, Larimer, Boulder, Broomfield, Arapahoe, and Denver, are exploding with drilling and/or leasing activity. The Front Range urban area, which is currently under intense scrutiny by the press and public, demands an enormous amount of attention.

As of the end of FY 2011-12, this 16 county region was home to a total of about 25,000 active wells and 20,000 inactive wells. These figures far exceed the workload that two environmental specialists can effectively manage, from both the OGCC's perspective and the public's. Experience shows that the workload target, should be somewhere between 5,000 and 6,000 active wells per EPS, depending on factors such as the proximity to urban areas, environmental issues, the age of the producing fields, and the number of inactive wells, the latter of which require more attention by environmental specialists than is generally recognized. Assuming that about 1,500 new wells are drilled in this region in FY 2012-13, funding this request would reduce the ratio to about 8,800 active wells per EPS; not ideal, but an improvement.

Weld County, the most active county in the region, has seen its number of active wells grow from 11,900 in CY 2006 to over 18,000 by the end of June 2012, a 51% increase. The high level of industry activity has lead, among other things, to an increase in the reporting of spills and releases, the latter of which tend to be small leaks that occur over time, going undetected until the equipment is replaced, upgraded, and/or the property is transferred to a new owner. In CY 2011, 166 spills and releases were reported in Weld County, as opposed to 89 in 2006. Rather than being a one-time event in terms of staff time, spills and releases tend to have a cumulative impact on workload, because many are serious enough to require a subsequent remediation plan. About 120 remediation plans were submitted for Weld County in 2011, versus 85 in 2006. These plans often result in several years of time-consuming follow-up work for OGCC staff, because operators are typically required to submit quarterly updates until no residual impacts exist and the remediation is declared "closed" by the OGCC. These quarterly updates are usually 100 pages or more of analytical results from water and soil tests. Each can take hours to review, competing for time with field work beyond what is required to respond to a complaint or spill. In Weld County alone, there are currently 364 ongoing remediations, with the vast majority related to spills and releases. Without additional resources the ability to monitor remediations and conduct field investigations is jeopardized.

Additionally, the horizontal drilling activity in Weld County produces large volumes of drilling fluids and cuttings that require disposal at waste management facilities. These sites require monitoring to ensure operators are following waste management plans submitted to the OGCC and that volumes are not in excess of what the facility can adequately treat.

The EPS II included in this request would work in a home-based office, from which he or she could assist with the high volume of activity-driven complaints and spills in Weld County, as well as the historical impacts in Morgan, Washington, and Logan counties where thousands of inactive and low volume wells receive little attention.

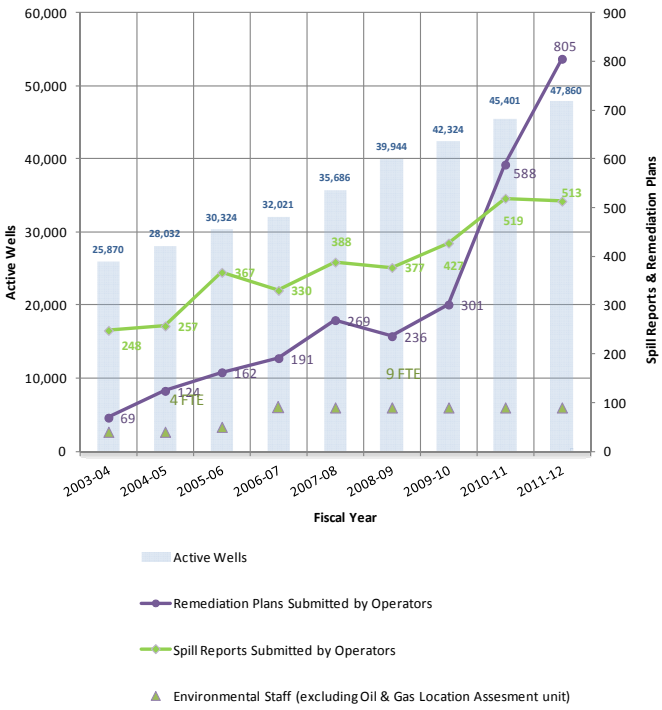
Recent visits by environmental specialists suggest that there may be a large percentage of these wells that are out of compliance, especially in regards to OGCC pit rules. The addition of this EPS II would provide the resources for the OGCC to begin addressing this lingering problem.

The impact of not funding the requested EPS would essentially be the status quo, or substantially worse, given that the number of active wells continues to increase. Maintaining the status quo essentially means that the following work will continue to be performed at a minimal level, adding risk to the state and to an already substantial backlog of work, which could give the impression that the OGCC is ineffective in enforcing its rules.

1. Assessment and remediation of historic impacts in Logan, Morgan & Washington Counties
2. Inspections of waste management facilities/land application locations
3. Field inspections to verify proper spill response and cleanup (Spill Report/Form 19 follow-up)
4. Field inspections to verify remediation was completed as reported (Form 27 follow-up)
5. Special studies such as additional baseline groundwater studies and the assessment of Naturally Occurring Radioactive Material (NORM) in drilling fluids/cuttings [the need for NORM studies was a finding that came of out of the review by an eight person team appointed by a non-profit, multi-stakeholder organization named State Review of Oil and Natural Gas Environmental Regulation, Inc. (STRONGER)]
6. Review of quarterly and other reports for ongoing remediation projects

Figure 2 below shows the ongoing increase in the receipt of spill/release reports (Form 19s) and Remediation Plans (Form 27s). As mentioned earlier, oil and gas wells typically produce for decades, meaning the increased workload associated with them is long term.

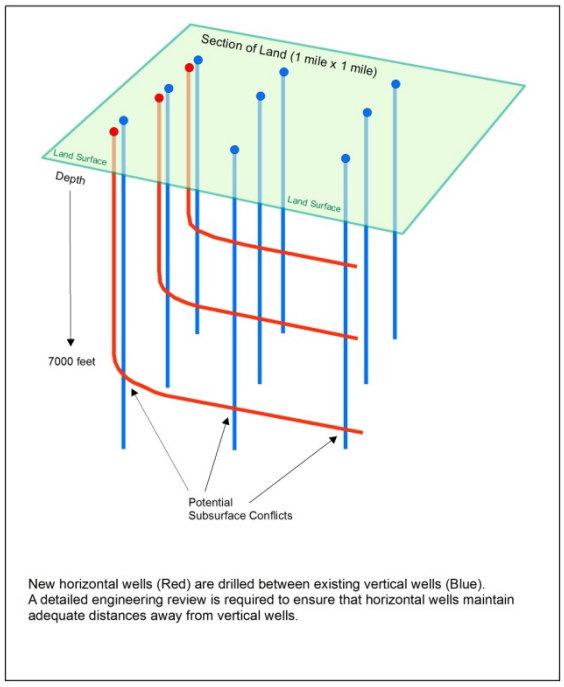
Figure 2: Spill/Release Reports & Remediation Plans vs Environmental Staffing



Professional Engineer

Professional Engineer: In September 2011, the Greater Wattenberg Area (GWA) Rule 318A was revised to remove the restriction on well density, thereby allowing for horizontal drilling where existing well density had already been maximized. As a result of the revised GWA Rule, the number of permitted horizontal holes has increased to 27% of all permits. Prior to this rule change, the multiple producing zones within the GWA were drilled with vertical wells. Now, horizontal wells are being drilled through multiple horizons through a field of existing vertical wells, often within several hundred feet of each other. The simple, schematic drawing below (Figure 3) shows three new horizontal wells that have been drilled between nine existing vertical wells.

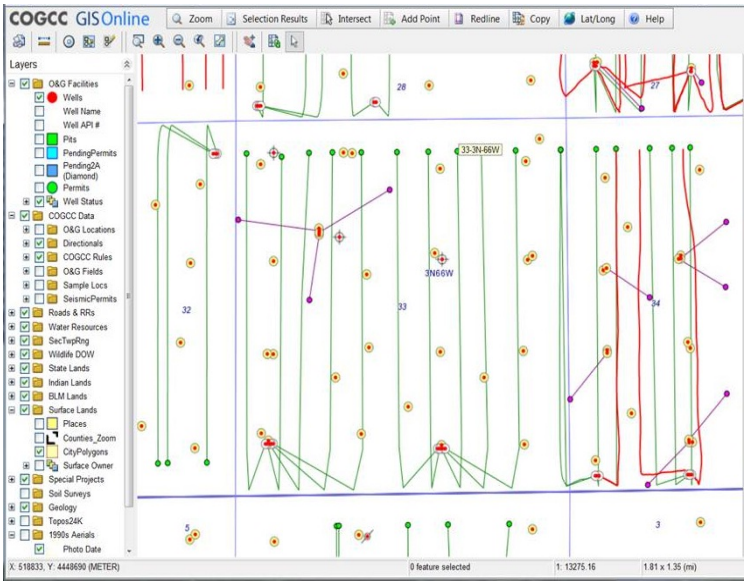
Figure 3



New horizontal wells (Red) are drilled between existing vertical wells (Blue).
A detailed engineering review is required to ensure that horizontal wells maintain adequate distances away from vertical wells.

Cross Section View
Three Horizontal Wells Drilled Between Nine Vertical Wells in a Section

Figure 4



Below is a plan view (Figure 4), taken directly from the agency's online GIS system, of an actual one-mile section (Section 33-3N-66W) that contains 25 vertical wells and 10 new and proposed horizontal wells. The red dots with yellow circles around them represent the surface locations of existing vertical wells, whereas the red dots, with green lines emanating from them represent the surface locations and wellbore paths of horizontal wells that have been permitted but not yet drilled. The red dots connected to red lines, in the section to the right, represent proposed horizontal wells that are currently under review by the OGCC. The shorter purple lines show the actual wellbore paths of existing directional wells.

Additional engineering resources are needed to adequately review the lateral portions of these wells, check the design for safe and appropriate offset distances from adjacent wells, and ensure compliance with anti-collision practices, which include running gyro surveys in nearby wells to confirm their exact locations.

Permit reviews by engineers must also include an evaluation of all adjacent wells to verify they were appropriately constructed and cemented to isolate production zones and protect aquifers, thereby reducing the risk for potential impacts from the new horizontal well. To adequately conduct these reviews, staff engineers must understand the hydraulic fracture design and objectives, fracture geometry (length and height), the type and amount of proppant used, azimuth, and, stage count. This knowledge can only be developed through operator meetings, phone conversations, literature reviews, and wellsite visits during a hydraulic fracture treatment. This complex evaluation process can add significant review time to a horizontal well's permit approval

process, potentially hours to days more than a typical vertical well. This negatively impacts the Engineering unit's ability to approve permits in a timely manner while keeping up with the workload associated with other regulatory reports, such as sundry and completion reports, which are submitted more frequently for horizontal wells than vertical wells due to the multitude of technical changes made during the course of drilling the well. The total number of active wells is also driving additional workload on all fronts, due to the number of follow-up regulatory reports they generate for the engineering staff to review.

Contract Environmental Support - $75,000:
Since late FY 2009-10 the OGCC has used contractor environmental technicians to support the EPSs in the evaluation and management of documents generated by the spill, assessment, remediation, and complaint processes. Currently, along with the duties described above, each EPS is responsible for field response, data collection, data assessment, reporting, and ultimately filling out the appropriate forms and ensuring the data is updated in the publically accessible electronic filing system. Even with the assistance of contractors over the last two fiscal years, a backlog of report processing still exists. With an increasing well count and heightened public interest in oil and gas operations, it is anticipated that this workload will continue to increase (see Figure 2 above for recent workload metrics). Contract technical support accelerates the entry of project data and reports, thereby making them accessible to the public in a timelier manner. Without a reliable source of contract funding, the OGCC would eventually return to the "pre-contractor" days of 2010 when there was a backlog of remediation reports and the agency's website indicated that 3,500 remediation projects, statewide, were still in progress. In most cases these projects had been completed, but never officially closed and updated on the website, leaving the appearance that nothing was getting done. By July 16, 2012, the total number of open remediation projects had been reduced to 1,200. This would not have been possible without contract technical support.

For the last couple of years, the OGCC has been using inconsistent vacancy savings to fund these services. In FY 2011-12, multiple vacancies, such as the division director and environmental manager, provided contract funding for many more months than was originally anticipated. The OGCC spent a total of $108,973 for 2,038 contract hours at an hourly rate of $53.46. FY 2012-13 contract expenditures is unknown as of August 1. The encumbrance will be increased on a monthly basis as funds become available. The requested $75,000 would provide a reliable source of funding for about 1,400 contract hours until the workload justifies an additional full-time employee. Vacancy savings will be relied upon, however, for contract needs above and beyond the requested $75,000.

Assumptions for Calculations:
Due to competition with the oil and gas industry for skilled employees, the OGCC has been unable to attract qualified staff at range minimum salaries in recent years. The scarcity of applicants has forced the OGCC to conduct multiple searches and ultimately pay salaries up to 30% above range minimum. Exacerbating the problem are positions that require relocation to remote regions of the state or to areas with a relative high cost of living. To successfully compete for qualified candidates, the OGCC is requesting that funding be appropriated at 29% above range minimum for the Field Inspectors, 25% above for the Professional Engineer, and 25% above range minimum for the Environmental Specialist position. These figures represent the salaries required of the most recent candidates for these job classes.

For the two requested home–based field inspectors to perform their tasks, vehicles, travel expenses, laptops, field equipment, safety equipment, and cell phones, as described below, will also be necessary.

- Four state vehicles are required for the requested three home-based field inspectors, who will live in northwest and northeast Colorado, and the home-based Environmental Specialist, who will live in northeast Colorado. State Fleet Management has reported that 4x4 Chevy Blazers (or similar vehicle) will cost approximately $401 per month, per vehicle. Four wheel drive vehicles are necessary to access oil and gas fields, which are frequently located in rough terrain. Because the requested state vehicles would not arrive until the fourth quarter of FY 2012-13, the request includes only two months of new vehicle lease during the first year. The new field staff will use temporary state vehicles, at a rate of $26.50/month, and incur the variable mileage cost during the first ten months of FY 2012-13.

- Vehicle mileage estimate is based on average miles driven by existing employees living and working in the region.

    - Northeast Inspector: 20,483 miles
    - Northwest Inspector: 22,194 miles
    - NE EPS: 11,600 miles

  The estimated variable rate for FY 2013-14 is $0.295 per mile, based on FY 2011-12 rates.

- Travel expenses are estimated at $1,700 per year per inspector.

- Laptops: Field Inspectors, Professional Engineers, and Environmental Specialists require laptops with upgraded processors and storage to allow them to use GIS software and OGCC custom applications, both of which are necessary to carry out the agency's mission. The most recent laptops were purchased for $2,100 each in April 2012. (More specifically, the laptops include a 500 gb hard drive, 4 gb of memory, and a 2.40 GHz CPU. These upgrades are needed to allow the inclusion of the complete OGCC database, which allows for GIS applications and the new electronic inspection form process, which all run locally on the laptops.)

- Appropriate field and safety equipment for field inspectors and environmental specialists include: GPS units (for precise mapping of orphan wells, spills, etc.), digital cameras, gas detectors (to detect dangerous levels of H2S, methane, and other gases), SPOT units (for search and rescue if inspector or EPS does not return from remote well location in timely manner), and FRC (fire retardant clothing, i.e. coveralls, as required by many operators before allowing OGCC staff on an oil and gas site). The request includes $1,000 to cover a portion of these costs in the first year and $250 per year thereafter for routine maintenance, new batteries, and the purchase of new equipment, as needed.

- Cell Phones: Verizon's basic plan is currently $31.14/month.

Consequences if not Funded:
Some of the consequences of not funding this request, such as increased time between well inspections and an ongoing, increasing backlog of regulatory reports, have already been discussed, but other consequences, such as delayed responses to public complaints, a reduced level of enforcement, and potential undetected wellbore integrity issues, could be on the horizon without the additional staff to keep up with the ever growing workload. The OGCC staff strives to respond to complaints within 24 hours. This quick response time is an important public service, especially for people with drilling activity on their property. A less responsive state regulatory agency, that does not appear to enforce its rules and foster balanced development, would lose public confidence and ultimately be detrimental to a thriving sector of the state's economy.

Impact to Other State Government Agency:
The Department of Personnel and Administration, State Fleet, will be impacted by the four State-owned vehicles included in this request.

Current Statutory Authority or Needed Statutory Change:

This request will *not* necessitate a statutory change. The following statutes give the OGCC broad authority to request these additional resources:

CRS 34-60-102(1): Oil and Gas Conservation Act – declares it is to be in the public interest to foster the responsible, balanced development, production, and utilization of the natural resources of oil and gas in the state of Colorado in a manner consistent with protection of public health, safety, and welfare, including protection of the environment and wildlife resources…

CRS 34-60-106(2)(d): The commission has the authority to regulate…Oil and gas operations so as to prevent and mitigate significant adverse environmental impacts on any air, water, soil, or biological resource resulting from oil and gas operations to the extent necessary to protect public health, safety, and welfare, including protection of the environment and wildlife resources, taking into consideration cost-effectiveness and technical feasibility.

Cash Fund Projections:
The Oil and Gas Conservation and Environmental Response Fund (Fund 170) is capable of funding this request without a mill levy increase, under current production and product price projections. Table 1 below shows the agency's projections through FY 2014-15. The projections include this request.

Cash Fund Name	Cash Fund Number	FY 2011-12 Expenditures	FY 2011-12 End of Year Cash Balance	FY 2012-13 End of Year Cash Balance Estimate	FY 2013-14 End of Year Cash Balance Estimate	FY 2014-15 End of Year Cash Balance Estimate
Oil and Gas Conserva-tion and Emergency Response Fund	170	$5,977,000	$9,000,000	$7,500,000	$6,100,000	$4,750,000

Calculation Assumptions:

Personal Services -- Based on the Department of Personnel and Administration's August 2011 Annual Compensation Survey Report, a [POSITION] at the [BOTTOM, MIDDLE, OR TOP] of the pay range will require a monthly salary of $#,###.

Operating Expenses -- Base operating expenses are included per FTE for $500 per year. In addition, for regular FTE, annual telephone costs assume base charges of $450 per year.

Standard Capital Purchases -- Each additional employee necessitates the purchase of a Personal Computer ($900), Office Suite Software ($330), and office furniture ($3,473).

General Fund FTE -- New full-time General Fund positions are reflected in FY 2012-13 as 0.9166 FTE to account for the pay-date shift.

Expenditure Detail		FY 2013-14		FY 2014-15	
Personal Services:		FTE	$	FTE	
	Monthly Salary				
Fld Inspctr-Eng/PhysSciTech II	$ 4,864	3.0	175,104	3.0	175,104
PERA			17,773		17,773
AED			6,304		7,004
SAED			5,691		6,566
Medicare			2,539		2,539
STD			310		310
Health-Life-Dental			13,263		13,263
Subtotal Position 1, 3.0 FTE		3.0	**$ 220,984**	3.0	**$ 222,559**
	Monthly Salary				
Prof. Eng I	$ 7,100	1.0	85,200	1.0	85,200
PERA			8,648		8,648
AED			3,067		3,408
SAED			2,769		3,195
Medicare			1,235		1,235
STD			151		151
Health-Life-Dental			4,421		4,421
Subtotal Position 2, 1.0 FTE		1.0	**$ 105,491**	1.0	**$ 106,258**
	Monthly Salary				
Envro. Prot. Specialist II	$ 6,200	1.0	74,400	1.0	74,400
PERA			7,552		7,552
AED			2,678		2,976
SAED			2,418		2,790
Medicare			1,079		1,079
STD			132		132
Health-Life-Dental			4,421		4,421
Subtotal Position 3, 1.0 FTE		1.0	**$ 92,680**	1.0	**$ 93,350**

Operating Expenses						
Fld Inspctr-Eng/PhysSciTech II	500	3.0	1,500	3.0		1,500
Telephone Expenses	450	3.0	1,350	3.0		1,350
PC, One-Time	1,230	-	-	-		-
Office Furniture, One-Time	3,473	3.0	10,419	-		-
Add'l home office phone/fax/ Internet (in excess of base)	1,307	3.0	3,921	3.0		3,921
Office Suite Software	330	3.0	990	-		-
Cell Phones	374	3.0	1,121	3.0		1,121
Laptop	2,100	3.0	6,300	-		-
Vehicle Mileage	5,829	3.0	17,487	3.0		17,487
Vehicle Rental	265	3.0	795	-		-
Field & Safety Equip-$250 yr 2	1,000	3.0	3,000	3.0		750
Travel Expenses	1,700	3.0	5,100	3.0		5,100
Subtotal Position 1, 3.0 FTE			**$ 51,983**		**$**	**31,229**
Prof. Eng I	500	1.0	500	1.0		500
Telephone Expenses	450	1.0	450	1.0		450
PC, One-Time	1,230	-	-	-		-
Office Furniture, One-Time	3,473	1.0	3,473	-		-
Office Suite Software	330	1.0	330	-		-
Laptop	2,100	1.0	2,100	-		-
Travel Expenses	500	1.0	500	1.0		500
Subtotal Position 2, 1.0 FTE			**$ 7,353**		**$**	**1,450**
Envro. Prot. Specialist II	500	1.0	500	1.0		500
Telephone Expenses	450	1.0	450	1.0		450
PC, One-Time	1,230	-	-	-		-
Office Furniture, One-Time	3,473	1.0	3,473	-		-
Add'l home office phone/fax/	1,307	1.0	1,307	1.0		1,307
Office Suite Software	330	1.0	330	-		-
Cell Phones	374	1.0	374	1.0		374
Laptop	2,100	1.0	2,100	-		-
Vehicle Mileage	3,504	1.0	3,504	1.0		3,504
Vehicle Rental	265	1.0	265	-		-
Field & Safety Equip-$250 yr 2	1,000	1.0	1,000	1.0		250
Travel Expenses	1,700	1.0	1,700	1.0		1,700
Subtotal Position 3, 1.0 FTE			**$ 15,003**		**$**	**8,085**
Subtotal Operating Expenses			**$ 74,339**		**$**	**40,764**

TOTAL REQUEST	5.0	**$ 493,494**	5.0	**$ 462,932**
General Fund:				
Cash funds:	*5.0*	*$ 493,494*	*5.0*	*462,932*
Reappropriated Funds:				
Federal Funds:				

Department of Natural Resources

FY 2013-14 Funding Request

November 1, 2012

Appendix A for Decision Item #1 – OGCC – Additional Field, Environmental, Engineering FTE

In this Appendix, the Department attempts to address questions that may arise during the evaluation of this decision item.

If the OGCC plans to fund this request with 100% OGCERF, will this require a mill levy increase?

Based on recent production and commodity price projections, as well as OGCC's anticipated spending patterns, such as the continued minimal use of the $1 million Emergency Response line item, it is unlikely that this request would drive a rate increase. The current rate of 0.7 mills, which is well below the statutory maximum of 1.7 mills, has allowed the OGCC to add some staff and weather price fluctuations fairly well over the last five years. The OGCC ended FY 2011-12 with a $9 million cash fund balance, exceeding the $4 million statutory cap by $5 million. Assuming the request for 8.0 FTE is funded, and the agency fully expends all line items in fiscal years 2012-13 and 2013-14, with the exception of Emergency Response, the fund balance on June 30, 2014 would be about $6.1 million. A significant drop in oil and gas prices and/or legislation with fiscal impact would reduce this forecast, however.

How does Colorado compare to other states in terms of the number wells per inspector?

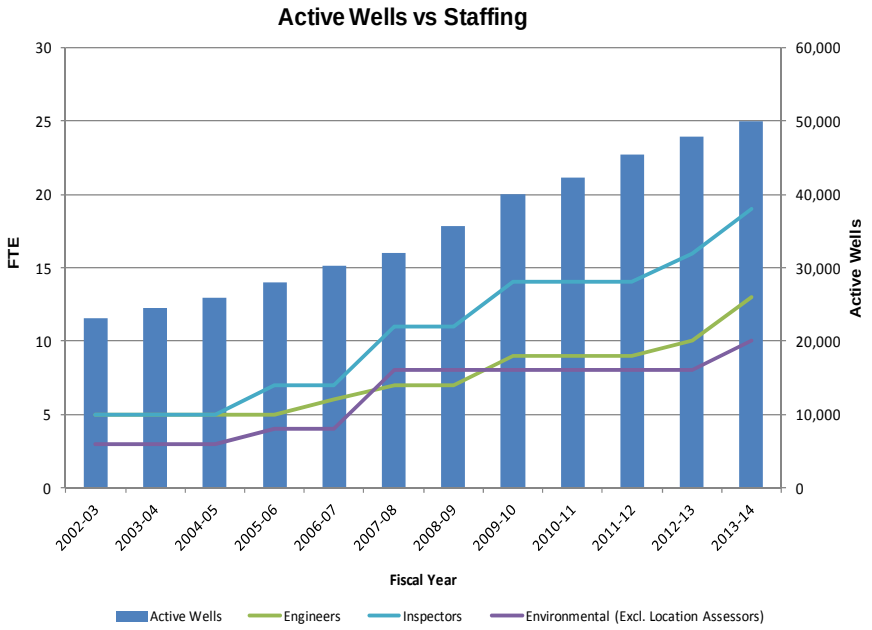
OGCC has contacted various states for information, but discovered that the definition of an "inspector" and the type of wells included in the ratio were inconsistent. More significant, however, in comparing this ratio to that of other states, are the differences in state rules. States with less comprehensive rules should, conceivably, assign more wells per inspector than states with the most comprehensive rules, such as Colorado.

The OGCC received 7 FTE last year and now wants 5 more, when does this stop?

The OGCC does not anticipate any sudden end to its need for additional FTE. As long as the active well count continues to grow, particularly in urban interface areas, the need for additional resources will persist. Otherwise, large backlogs of work will develop and public service will diminish. Additionally, the OGCC is always cautious in requesting additional FTE. When a new workload issue arises, due to increased drilling activity or a new policy or rule, the agency typically hires temporary staff for a couple of years while waiting to see the full ramifications of changes and ensure the additional workload is permanent and unavoidable.

The chart below shows the growth in the number of active wells over the last ten years, as well as the growth in engineering, inspection, and environmental staff. Their workload is closely tied to the number of active wells to such an extent that every plateau in staffing has been accompanied by large backlogs that were costly to get under control. The OGCC continues to enhance its IT capabilities to improve the agency's efficiency, and, in fact, won a national award, recently, from the Council of State Governments for its electronic permitting system.

Software developments such as these have minimized the OGCC's FTE requests, but they are not expected to eliminate them in the foreseeable future.



The general assembly approved 2.0 field inspectors and 1.0 environmental specialist for FY 2012-13. Why are you requesting those positions again?

Field Inspectors: The number of field inspectors must grow in parallel to the growth of active wells, or complaint response time and well inspection frequency will quickly decline.

Environmental Protection Specialist: The new EPS approved for FY 2012-13 is a Denver office-based specialist who will maintain, routinely review, and help the agency proactively respond to: 1) analytical data sets from sampling thousands of water wells, oil and gas wells, springs, monitoring wells, other fluids, or other sources of water or gas that are the subject of OGCC regulations, investigations or baseline studies; 2) results of formation pressure tests; and 3) analytical and geographical information about gas seeps around the state. The EPS requested for FY 2013-14 will be a field-based "boots on the ground" environmental specialist who will respond to complaints and spills; review remediation plans and follow-up reports; conduct environmental inspections of old abandoned well sites in Washington, Morgan, and Logan counties; and conduct investigations of alleged environmental impacts that were discovered by field inspectors, landowner, or other stakeholder.

In total, this request appears to be for 4 pairs of "boots on the ground" and 1 pair of "boots in the office." Why does the OGCC need more boots in the office?

The "boots on the ground" generate a lot of work for the boots in the office. As they discover issues, the field-based employees need support from various groups, such as engineering, environmental, and hearings officers for technical expertise, follow-up investigations, and to pursue enforcement matters. The additional set of eyes in

the field that the agency receives with each new field inspector results in more work for the rest of the staff. The engineering staff will frequently respond to field inspectors' requests for technical analysis on production equipment setup and configuration in the field. The Engineers will monitor completion and drilling operations in the field both as a learning experience and as a regulatory monitor. The presence of the engineers and environmental professionals in the field is an important support role for the field inspectors, to prevent the latter from getting tied up in projects and monitoring programs that reduce their ability to conduct inspections.

Permitting has slowed, why doesn't the OGCC redirect some of its permit staff?

The permit staff is a great example of the OGCC's measured approach to staffing increases. The agency does not request additional permanent staff in response to workload increases created by every upturn in industry activity. Nor does it lay off staff members during every industry downturn. To avoid the cycle of frequent additions and reductions to OGCC staff, new full-time positions are requested only when it is clear that the increased workload is long term, beyond four to five years. To manage these problematic workload fluctuations before higher and more permanent workload thresholds are confirmed, the OGCC relies on contract staff to continue the processing of permits and other regulatory reports in a timely manner to prevent serious backlogs. In the past, the Permit Group alone has hired as many as six contractors to assist with workload. Had the OGCC requested full-time positions several years ago to staff to that particular peak of industry activity, it would have an oversized permit staff today. By FY 2011-12, two contractors, working nearly full-time, appeared to be adequate. In FY 2012-13, the OGCC is managing the workload with just one contractor, but because the permit staff's workload is also impacted by the total well count, which continuously increases, it is unlikely the OGCC will be able to eliminate the remaining contractor and redirect a permit FTE in the foreseeable future.