

Program Budget Comparison

The following table summarizes the total executive budget for the program by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
FTE	21.50	21.50	21.50	21.50	21.50	21.50	0.00	0.00%
Personal Services	1,092,278	1,310,775	1,344,748	1,344,367	2,403,053	2,689,115	286,062	11.90%
Operating Expenses	494,829	3,757,299	671,072	553,205	4,252,128	1,224,277	(3,027,851)	(71.21%)
Equipment & Intangible Assets	52,729	48,075	58,729	58,729	100,804	117,458	16,654	16.52%
Transfers	0	0	0	0	0	0	0	n/a
Total Costs	\$1,639,836	\$5,116,149	\$2,074,549	\$1,956,301	\$6,755,985	\$4,030,850	(\$2,725,135)	(40.34%)
State Special	1,532,366	5,008,598	1,963,079	1,844,831	6,540,964	3,807,910	(2,733,054)	(41.78%)
Federal Special	107,470	107,551	111,470	111,470	215,021	222,940	7,919	3.68%
Total Funds	\$1,639,836	\$5,116,149	\$2,074,549	\$1,956,301	\$6,755,985	\$4,030,850	(\$2,725,135)	(40.34%)

Program Description

The Oil and Gas Conservation Division administers the Montana oil and gas conservation laws to promote conservation and prevent waste in the recovery of these resources through regulation of exploration and production of oil and gas. The division's responsibilities include the following:

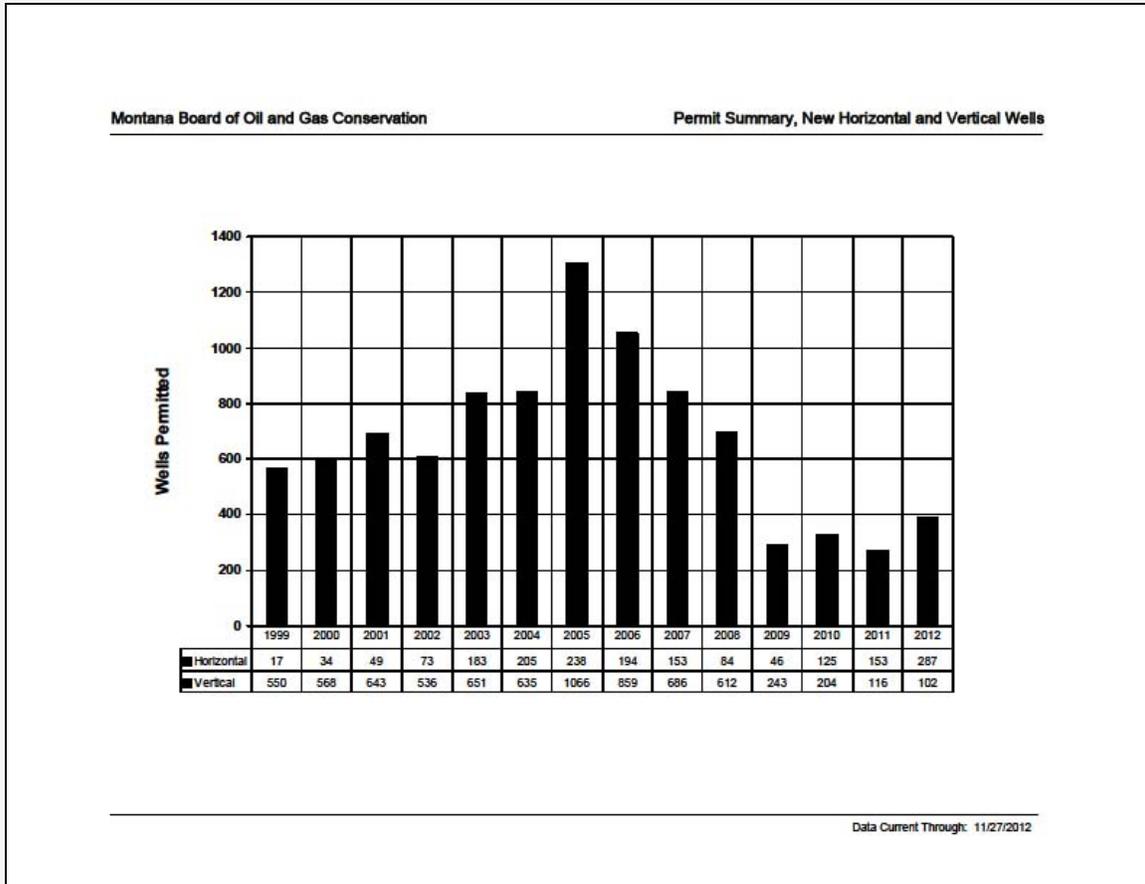
- Issue drilling permits
- Classify wells
- Establish well spacing units and pooling orders
- Inspect drilling, production, and seismic operations
- Investigate complaints
- Perform engineering studies
- Determine incremental production for enhanced recovery and horizontal wells to implement the tax incentive program for those projects
- Operate the underground injection control program
- Plug orphan wells
- Collect and maintain complete well data and production information

Program Highlights

Oil and Gas Conservation Division Major Budget Highlights
<ul style="list-style-type: none"> ◆ The executive proposes to decrease this program's budget by 40.3% from the previous biennium primarily because the approved \$3.0 million restricted biennial appropriation to fund educational research activities of the Board of Oil and Gas per 82-11-111(7), (MCA) in FY 2013 is not recommended for the 2015 biennium by the executive

Program Narrative

LFD ISSUE Potential Impact of Increased Oil and Gas Activity
 The Oil and Gas Regulatory Program regulates the exploration and production of oil and gas in the State of Montana. As part of its duties, the board permits both vertical and horizontal wells. Recent and anticipated continuing increases in permit applications and wells have increased the board’s workload. The following shows the wells permitted by the board since 1999.



The staff of the board would not change under the executive’s proposal. The current and anticipated workload on board staff is expected to continue to increase, given that horizontal well permits have increased by 134, or 88%, since 2011.

The legislature may wish to discuss the board’s ability to thoroughly administer Montana’s oil and gas statutes with the increased workload at current staff levels.

LFD COMMENT During the 2011 session, the legislature approved HB 604, which transferred \$12 million from the Board of Oil and Gas Conservation account to the guarantee account, which is used for distribution to school districts through school equalization aid. The fund is estimated to have a beginning balance of approximately \$725,000 at the beginning of FY 2014.

**LFD
COMMENT**

The 2011 Legislature approved a \$3.0 million appropriation for the education and research program operated by the board. As of this writing, of that amount, \$827,082 has been spent on studies through Montana Tech: an engineering feasibility study, field inspection manual, and teachers workshop. Approximately \$2.2 million remains. According to the board, it took FY 2012 just to negotiate contracts. The division had submitted requests for continuing funding on two contracts and the executive did not recommend those requests.

Funding

The following table shows program funding, by source for the 2015 biennium as recommended by the Governor.

Total Dept Of Natural Resources & Conservation Funding by Source of Authority 2015 Biennium Budget - Oil & Gas Conservation Div.							
Funds	HB 2	Non- Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	MCA Reference	Statutory Category
State Special Total	\$3,807,910	\$0	\$0	\$3,807,910	94.5%		
02432 Oil & Gas Era	\$3,807,910	\$0	\$0	\$3,807,910	94.5%		
Federal Special Total	\$222,940	\$0	\$0	\$222,940	5.5%		
Total All Funds	\$4,030,850	\$0	\$0	\$4,030,850	100.0%		
Percent - Total All Sources	100.0%	0.0%	0.0%				

The division is funded through taxes levied on oil and gas wells and the class II annual operating fee. By statute (15-36-331, MCA), a percentage of oil production taxes and natural gas taxes are deposited to the account for the board's use. The Board of Oil and Gas Conservation (BOGC) is authorized by statute (82-11-131, MCA) to set privilege and license taxes up to 3/10 of 1% of the market value of each barrel of crude petroleum produced and of each 10,000 cubic feet of natural gas produced to comply with 15-36-331, MCA. The privilege and license tax is currently set at 30% of the maximum allowed by statute. Section 82-11-137, MCA provides for a maximum \$300 annual operating fee for each class II injection well. The board set the fee at \$200.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	0	0	0	0.00%	1,639,836	1,639,836	3,279,672	81.36%
Statewide PL Adjustments	0	0	0	0.00%	245,667	247,327	492,994	12.23%
Other PL Adjustments	0	0	0	0.00%	188,490	68,582	257,072	6.38%
New Proposals	0	0	0	0.00%	556	556	1,112	0.03%
Total Budget	\$0	\$0	\$0		\$2,074,549	\$1,956,301	\$4,030,850	

Present Law Adjustments

The "Present Law Adjustments" table shows the changes to the adjusted base budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	-----Fiscal 2014-----					-----Fiscal 2015-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					300,427					300,028
Vacancy Savings					(55,457)					(55,439)
Inflation/Deflation					(2,851)					(880)
Fixed Costs					3,548					3,618
Total Statewide Present Law Adjustments		\$0	\$241,667	\$4,000	\$245,667		\$0	\$243,327	\$4,000	\$247,327
DP 2201 - BOGC Regulatory Program Adjustments	0.00	0	40,360	0	40,360	0.00	0	40,452	0	40,452
DP 2202 - BOGC UIC Program Adjustments	0.00	0	28,130	0	28,130	0.00	0	28,130	0	28,130
DP 2204 - Proc Manual & Field Inspections Sys (OTO/BIEN/RST)	0.00	0	120,000	0	120,000	0.00	0	0	0	0
Total Other Present Law Adjustments	0.00	\$0	\$188,490	\$0	\$188,490	0.00	\$0	\$68,582	\$0	\$68,582
Grand Total All Present Law Adjustments	0.00	\$0	\$430,157	\$4,000	\$434,157	0.00	\$0	\$311,909	\$4,000	\$315,909

DP 2201 - BOGC Regulatory Program Adjustments – The executive requests state special revenue for board member per diem, legal services, rent, janitorial services, property tax increases, and increased vehicle purchase costs.

DP 2202 - BOGC UIC Program Adjustments - The executive requests state special revenue for board member per diem; legal services, janitorial services, rent, and property tax increases; an engineering contract for specialized Underground Injection Control (UIC) analyses; and increased vehicle purchase costs.

LFD COMMENT	The Underground Injection Control (UIC) program is administered by the board through an agreement with the U.S. Environmental Protection Agency (EPA). The goal of the UIC program is to protect underground sources of drinking water from contamination due to improper disposal of liquid oil field wastes.
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DP 2204 - Proc Manual & Field Inspections Sys (OTO/BIEN/RST) - The executive requests state special revenue for a biennial, one-time-only restricted appropriation to continue the development of a field inspection procedures manual and inspection system as suggested in a legislative audit of the Oil and Gas Division. Montana Tech would perform the work and did a scoping study of the project in FY 2012. Work would continue through the 2015 biennium.

LFD COMMENT	This request was funded in the 2013 biennium with a restricted/biennium appropriation of \$3.0 million, discussed above. This request is to continue the contract currently in place in order to complete the manual.
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New Proposal

New Proposals											
-----Fiscal 2014-----Fiscal 2015-----											
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
DP 6101 - Professional Development Center Fee Allocation	22	0.00	0	556	0	556	0.00	0	556	0	556
Total	0.00	\$0	\$556	\$0	\$556	0.00	\$0	\$556	\$0	\$556	

DP 6101 - Professional Development Center Fee Allocation -The executive requests an increase for training services purchased from the Professional Development Center (PDC) of the Department of Administration. This request reflects the difference between the amount paid in the base for PDC services and a fixed cost allocation based on agency FTE counts. Starting in the 2015 biennium and beyond, the executive recommends funding the PDC as a fixed cost item. For a further discussion, see the narrative for the Department of Administration.