LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION

April 2, 2003

TO: Honorable George "Buddy" West, Chair, House Committee on Energy Resources

FROM: John Keel, Director, Legislative Budget Board

IN RE: **HB2020** by Farabee (Relating to financial security requirements for certain persons performing operations within the jurisdiction of the Railroad Commission of Texas.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB2020, As Introduced: an impact of $0 through the biennium ending August 31, 2005.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2004	$0
2005	$0
2006	$0
2007	$0
2008	$0

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue Gain from *OIL-FIELD CLEANUP ACCT* 145	Probable (Cost) from *OIL-FIELD CLEANUP ACCT* 145
2004	$3,408,443	($3,408,443)
2005	$5,507,918	($5,507,918)
2006	$5,016,118	($5,016,118)
2007	$4,773,818	($4,773,818)
2008	$4,773,818	($4,773,818)

Fiscal Analysis

The bill would extend the nonrefundable annual fee of $1,000 for persons with acceptable records of compliance with the Railroad Commission as an alternate form or financial security to all qualified operators. The bill also changes the calculation of a second nonrefundable annual fee option based on the percentage of a bond that would otherwise be required (currently 12.5 percent) to the lesser of 12 percent or 4 percent plus the prime interest rate.

Effective January 1, 2006, the nonrefundable annual fee of $1,000 for persons with acceptable records of compliance would change to a fee equal to the amount of the bond that would otherwise be required multiplied by the lesser of the sum of 1 percent plus the prime interest rate or 10 percent. The second option for nonrefundable annual fees would remain at the lesser of 12 percent or 4 percent plus the prime interest rate.

The bill would create six levels of blanket bond financial assurance for well operators instead of three levels under current law. This would lower the blanket bond financial assurance requirements for operators with 25 or fewer wells and for operators with 100 to 199 wells. The bill would require operators of 200 or more wells to file supplemental bonds, if the inactive to active well ratio is 0.75 or greater. The bill would allow the Railroad Commission to increase the bond amount for those with over 200 wells by multiplying the base bond requirement by the sum of a low production factor, a compliance factor and an inactive well number factor.

Beginning on September 1, 2004, the blanket bond option would no longer apply to non-well operators. Instead, non-well operators would be required to file a bond, letter of credit, or cash deposit equal to $250,000 or a lesser amount based on risk as determined by the Commission.

Methodology

This estimate is based on projections provided by the Railroad Commission.

The changes in the calculation of the nonrefundable annual fee option based on the percentage of a bond that would otherwise be required from 12.5 percent to the lesser of 12 percent or 4 percent plus the prime interest rate is expected to result in decreased revenues to the Oil Field Cleanup Fund No. 145. It is expected that the changes to the fees for blanket bond financial assurance also would reduce revenues to the Oil Field Cleanup Account No. 145.

Upon passage of the bill, operators not in compliance with Railroad Commission standards or with no record of compliance would be able to pay a nonrefundable fee based on the lesser of 4 percent plus prime or 12 percent of the bond amount otherwise required. It is expected that operators currently denied a permit to operate would have an opportunity to obtain permit approval upon passage of the bill, thereby increasing revenues. Additionally, some bonded operators would switch from what is considered a more expensive option to the non-bonded, $1,000 annual nonrefundable fee option. Those operators who switched and those that become eligible for approval would be required to pay an annual $300 fee for each inactive well plugging extension after a well has been inactive for 36 months, resulting in increased revenues.

Effective January 1, 2006, the annual $1,000 fee would be replaced with a nonrefundable fee based on the lesser of 1 percent plus prime, capped at 10 percent for operators with good compliance record. Operators without a compliance history or not in compliance would pay the same fee in lieu of a bond at the lesser of 4 percent plus prime, capped at 12 percent. Both compliance categories of operators would continue to pay the annual $300 well plugging extension fee. This would provide for a revenue stream that would not exist under current law.

In fiscal year 2004, the increase in those opting to pay the $1,000 fee in lieu of bonding are expected to generate an additional $2.9 million in revenue. The resulting increase in operators paying the $300 well plugging extension fee is expected to increase revenues by $2.5 million that same year. The change in the calculation of the nonrefundable annual fee option would result in a projected loss of $2.0 million in 2004, for an overall revenue increase of $3.4 million.

In fiscal year 2005, the $1,000 fee in lieu of bonding option would generate an additional $3.0 million, while the related increase in well plugging extension fees would total $2.5 million, for an overall increase of $5.5 million. In fiscal year 2006, the change from the $1,000 fee in lieu of bonding to a fee equal to the amount of the bond that would otherwise be required multiplied by the lesser of the sum of 1 percent plus the prime interest rate or 10 percent is expected to generate an additional $2.5 million, with related well plugging extension permits continuing to generate $2.5 million for a total increase in revenues of $5.0 million. In fiscal years 2007-08, the overall revenue increase is expected to be slightly less, since non-well operators would no longer be eligible for the 1 percent plus prime option.

This estimate assumes all additional revenues to the Oil Field Cleanup Account. No. 145 would be spent by the Railroad Commission on cleanups and well pluggings, since demand for such activities currently exceeds funding availability. In addition, demand for Oil Field Cleanup Account No. 145 funds could actually increase as a result of the bill's passage. Since the bill removes the universal bonding requirement that otherwise would have gone into effect in January 2004, the number of sites eligible for state cleanup could increase, depending on the number of operators that would choose to operate without bonding and would abandon their operations during 2004-08.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts, 455 Railroad Commission
LBB Staff: JK, JO, CL, TL