

BILL ANALYSIS

C.S.S.B. 1175
By: Armbrister
Energy Resources
Committee Report (Substituted)

BACKGROUND AND PURPOSE

Current Texas law, under Chapter 85 (Conservation of Oil and Gas), Natural Resources Code, mandates several types of determinations to be made by the Railroad Commission of Texas (commission) for the amount of oil and gas that may be produced from within the state. It includes mandates that require all oil and gas fields to have a monthly determination of the allowable production calculated and published by the commission. The commission has not prorated oil production based on market demand since 1977. This proposed amendment updates the statutes to reflect current market conditions and provide the commission with the ability to revise the process for setting allowables.

C.S.S.B. 1175 allows these permissive determinations if the commission finds they are necessary to prevent waste or discrimination.

RULEMAKING AUTHORITY

It is the committee's opinion that this bill does not expressly grant any additional rulemaking authority to a state officer, department, agency, or institution.

ANALYSIS

SECTION 1. Amends Section 85.043, Natural Resources Code, to authorize, rather than require, the Railroad Commission of Texas (commission) to determine whether or not specific conditions exist, and if it is shown that they do, authorizes, rather than requires, the commission to enlarge the rule or order to include the additional area.

SECTION 2. Amends Section 85.053(a), Natural Resources Code, as follows:

(a) Requires the commission, if a rule or order of the commission limits or fixes in a pool or portion of a pool the production of oil, or the production of gas from wells producing gas only, on written complaint by an affected party or on its own initiative and after notice and an opportunity for a hearing, to distribute, prorate, or otherwise apportion or allocate the allowable production among the various procedures on a reasonable basis, upon finding that action to be necessary to:

(1) prevent waste; or

(2) adjust the correlative rights and opportunities of each owner of oil or gas in a common reservoir to produce and use or sell the oil or gas as permitted in this chapter.

SECTION 3. Amends Sections 84.054(a) and (c), Natural Resources Code, as follows:

a) Authorizes the commission to allocate or apportion the allowable production of oil on a fair and reasonable basis among the various pools in the state, to prevent unreasonable discrimination in favor of one pool as against another, and on written complain and proof of such discrimination, or if the commission on its own initiative finds such an action to be necessary.

(c) Authorizes, rather than requires, the commission to determine the reasonable market demand of the respective pool as the basis for determining the allotments to be assigned to the respective pool so that discrimination can be prevented.

SECTION 4. Amends Sections 85.055(a) and (c), Natural Resources Code, as follows:

(a) Authorizes, rather than requires, the commission to inquire into the production and reasonable market demand for gas and requires them to determine the allowable production from the common source of supply, if full production from wells producing gas only from a common source of supply of gas in this state is in excess of the reasonable market demand.

(c) Authorizes, rather than requires, the commission to allocate, distribute, or apportion the allowable production from the common source of supply among the various producers on a reasonable basis and requires them to limit the production of each producer to the amount allocated or apportioned to the producer.

SECTION 5. Amends Section 85.058, Natural Resources Code, to authorize, rather than require, the commission to inquire into the production, storage, transportation, refining, reclaiming, treating, marketing, and processing of oil and gas, and the reasonable market demand for oil and gas, so that it can determine whether or not waste exists or is imminent or whether the oil and gas conservation laws of this state or the rules and orders of the commission promulgated under those laws are being violated.

EFFECTIVE DATE

Upon passage, or, if the Act does not receive the necessary vote, the Act takes effect September 1, 2005.

COMPARISON OF ORIGINAL TO SUBSTITUTE

SECTION 2. Section 85.053, Natural Resources Code, is amended to add the phrase “on written complaint by an affected party or on its own initiative and after notice and opportunity for hearing” and language requiring commission to prorate if commission determines action is necessary to prevent waste or protect correlative rights. Changes made to conform with intent and to parallel the language in Section 86.081(a).

SECTION 4. Subsections (a) - (c), Section 85.055, are amended to add the phrase “on written complaint by an affected party or on its own initiative, after notice and opportunity for hearing, the commission finds that” to clarify basis for commission action. Change “may” to “shall” to require prorationing if commission finds that gas supply exceeds demand. Adds the word “prorated” to subsections (b) and (c) to emphasize that those subsections only apply to prorated fields.