LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 79TH LEGISLATIVE REGULAR SESSION

May 9, 2005

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

FROM: John S. O'Brien, Deputy Director, Legislative Budget Board

IN RE: **HB2980** by West, George "Buddy" (Relating to incentives for operators to assume regulatory responsibility for orphaned oil or gas wells; providing penalties.), **Committee Report 1st House, Substituted**

Estimated Two-year Net Impact to General Revenue Related Funds for HB2980, Committee Report 1st House, Substituted: an impact of $0 through the biennium ending August 31, 2007.

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
2006	$0
2007	$0
2008	$0
2009	$0
2010	$0

All Funds, Five-Year Impact:

Fiscal Year	Probable (Cost) from *OIL-FIELD CLEANUP ACCT* 145
2006	($585,697)
2007	($562,387)
2008	$0
2009	$0
2010	$0

Fiscal Analysis

The bill would create the Orphaned Well Reduction Program (OWRP). The program would allow oil and gas operators to adopt orphaned wells, and thereby assume "operatorship" of such wells. The operator would be entitled to a payment of 50 cents per foot of well depth if the operator plugged the well or brought the well back into continuous service, defined as a well producing 10 barrels of oil or 100 million cubic feet of gas for at least three consecutive months. The bill would limit the annual payments, which would be made out of the Oil Field Cleanup Account No. 145, to $500,000 per fiscal year.

A person designated by the Railroad Commission as an operator of an orphaned well would be entitled to a non-transferable crude oil and natural gas severance tax exemption for all future production from the orphaned well.

Designation of a person as the operator of an orphaned well in the OWRP program could only occur between January 1, 2006 and December 31, 2007.

Methodology

Assuming the Railroad Commission would receive valid nominations for certification in the OWRP program for approximately 350 wells in each fiscal year 2006 and fiscal year 2007, and assuming an average well depth of approximately 2,850 feet, the bill would result in the payment by the Railroad Commission of the full $500,000 authorized by the bill annually in each fiscal year of the 2006-07 biennium.

The Railroad Commission reports that removing these orphaned wells from the inventory of orphaned wells could reduce the liability of the Oil Field Cleanup Account No. 145 to plug such wells by $2.5 million in each fiscal year of the 2006-07 biennium. However, this estimate does not assume that this amount would be a realized savings to the state, since demand for funds in the Oil Field Cleanup Account No. 145 to plug wells in each fiscal year would exceed the amount available in the account by more than $2.5 million per year.

Administrative costs associated with the Railroad Commission relating to accepting nominations, issuing certifications, and tracking the status of wells and operators joining the OWRP would result in the agency needing one additional FTE and related costs in fiscal years 2006 and 2007 only. These costs would be paid out of the Oil Field Cleanup Account No. 145.

No significant loss to the state is expected as a result of the bill's provision exempting from severance taxes wells in the OWRP program, since this estimate assumes that absent the exemption, the wells otherwise would not be producing oil and gas and thus would not be contributing to severance tax revenues.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 302 Office of the Attorney General, 455 Railroad Commission, 304 Comptroller of Public Accounts

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