

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 82ND LEGISLATIVE REGULAR SESSION

April 11, 2011

TO: Honorable Jim Keffer, Chair, House Committee on Energy Resources

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

IN RE: HB2087 by Craddick (Relating to the allocation of production from a horizontal drainhole oil or gas well to an owner of a nonparticipating royalty interest in production from the well.),
Committee Report 1st House, Substituted

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| <p>No significant fiscal implication to the State is anticipated.</p> |
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The bill would provide that a payee that owns a non-participating royalty interest in a tract that has been penetrated by a horizontal drainhole well as defined by the Railroad Commission, for oil or gas, or both, but who has not ratified a lease or pooling agreement covering such tract, is entitled to be paid its allocated share of production proceeds from such horizontal drainhole well based on the ratio of the length of the horizontal drainhole across the payee's tract between the first take point and last take point to the total length of the horizontal drainhole between the first take point and the last take point.

The bill would allow the Railroad Commission to establish an alternate method of allocation by showing clear and convincing evidence that the alternate method is more accurate than the method provided in the bill. The bill would not apply to pooled units as defined in in Natural Resources Code, Chapter 102. The bill would also allow a payor or payee affected by the bill to appeal the allocation method used by the Railroad Commission and request a hearing.

Although the Railroad Commission estimates that the bill would result in an additional 20 cases each fiscal year and would require an additional hearings examiner to handle the additional cases resulting from passage of the bill, this estimate assumes that such costs could be absorbed within the agency's existing budget.

Although there could be some impact on state revenues, because in some cases the state might have to pay royalty interests and in some cases the state might be the recipient of royalty interests upon passage of the bill, the General Land Office reports that any revenue impact would not be significant.

Local Government Impact

No significant fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts, 305 General Land Office and Veterans' Land Board, 455 Railroad Commission

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