

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 82ND LEGISLATIVE REGULAR SESSION

April 20, 2011

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

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

IN RE: HB3586 by Taylor, Van (Relating to unit operations for oil, gas, or oil and gas production or carbon dioxide storage.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB3586, As Introduced: an impact of \$0 through the biennium ending August 31, 2013.

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
2012	\$0
2013	\$0
2014	\$0
2015	\$0
2016	\$0

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue Gain from Permanent School Fund 44
2012	\$22,500,000
2013	\$22,500,000
2014	\$22,500,000
2015	\$22,500,000
2016	\$22,500,000

Fiscal Analysis

The bill would create the Texas Enhanced Recovery Unitization Act. The bill would define a unitization plan as an agreement between working interest owners and royalty owners in a common source of supply or part of a common source of supply in which unit operations may be conducted to enhance the production of oil, gas, or oil and gas from the common source of supply or part of the common source of supply to greater volumes than would otherwise be produced by primary recovery operations only.

The bill would require the Railroad Commission to adopt rules, enforce orders, and perform all required acts necessary to implement the new Act and determine whether a plan of unitization, including the participation formula, proposed for all or part of a common source of supply is fair, reasonable, and equitable for all interests concerned and necessary to carry out the purposes of the new

Act.

The bill would establish application procedures for the Railroad Commission to consider and approve unitization plans. Criteria for unitization plans would be created by the bill, and such plans could be proposed only to establish units and cooperative facilities necessary for unit operations that are reasonably anticipated to substantially increase the ultimate recovery of oil and/or gas to greater volumes than would be recovered by primary recovery alone.

The bill would require the Railroad Commission to hold a hearing on each application. The bill would require an applicant to pay to the Railroad Commission an amount equal to the costs the Commission incurs to hold the hearing, as determined by the Commission. After a hearing, the Railroad Commission would then make a determination as to whether the plan is fair and equitable, whether it would not harm other interest in the area, and that the plan complies with other provisions set out in the new Act for unitization plans. Upon finding that an application meets all relevant requirements, the Railroad Commission would be required to issue an order authorizing the unitization as set out in the plan. The bill also provides for plan amendments and unit area expansions.

The Railroad Commission would also be required to issue an order authorizing an operator of an enhanced recovery project to document geologic storage of anthropogenic carbon dioxide (CO₂), including anthropogenic CO₂ stored in conjunction with the injection of naturally sourced carbon dioxide, while continuing to perform enhanced recovery operations for oil and/or gas.

Methodology

Although passage of the bill is expected to result in additional contested case hearings that would need to be handled by the Railroad Commission, and it is likely that an additional hearing examiner would be required by the agency. This estimate assumes that any additional administrative costs to the agency could be absorbed using existing agency resources. This estimate also assumes that any revenues to the Railroad Commission for additional hearings would not be significant.

The General Land Office reports that the bill's passage is likely to increase royalty revenues to the Permanent School Fund (PSF) No. 44. Assuming that the bill's passage would result in 5 million barrels of oil equivalent (BOE) in additional production, and assuming the PSF's average net interest in oil produced from enhanced recovery units of 5 percent, the General Land Office estimates an estimated 250,000 BOE per fiscal year would be produced for the PSF. Assuming a BOE price of \$90, an estimated \$22.5 million in additional revenues per fiscal year is expected to accrue to the PSF No. 44.

The Comptroller reports that the revenue impact of this bill cannot be determined.

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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