

**LEGISLATIVE BUDGET BOARD**  
**Austin, Texas**

**FISCAL NOTE, 83RD LEGISLATIVE REGULAR SESSION**

**May 6, 2013**

**TO:** Honorable Troy Fraser, Chair, Senate Committee on Natural Resources

**FROM:** Ursula Parks, Director, Legislative Budget Board

**IN RE:** SB1462 by Duncan (Relating to the power of the Railroad Commission of Texas to adopt and enforce safety standards and practices applicable to the transportation by pipeline of certain substances and to certain pipeline facilities.), **As Introduced**

**Estimated Two-year Net Impact to General Revenue Related Funds** for SB1462, As Introduced: a negative impact of (\$2,298,498) through the biennium ending August 31, 2015.

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
2014	(\$1,694,109)
2015	(\$604,389)
2016	(\$604,389)
2017	(\$604,389)
2018	(\$604,389)

**All Funds, Five-Year Impact:**

Fiscal Year	Probable Savings/(Cost) from <i>General Revenue Fund</i> 1	Probable Revenue Gain/(Loss) from <i>General Revenue Fund</i> 1
2014	(\$2,927,109)	\$1,233,000
2015	(\$1,837,389)	\$1,233,000
2016	(\$1,837,389)	\$1,233,000
2017	(\$1,837,389)	\$1,233,000
2018	(\$1,837,389)	\$1,233,000

<b>Fiscal Year</b>	<b>Change in Number of State Employees from FY 2013</b>
2014	25.0
2015	25.0
2016	25.0
2017	25.0
2018	25.0

## **Fiscal Analysis**

The bill would amend Natural Resources Code, Chapter 117, and Utilities Code, Chapter 121, to provide authority to the Railroad Commission to regulate the safety of Class 1 or rural gathering lines, which under current federal safety regulations, is not regulated. The Railroad Commission would be required to determine, through rulemaking, which facilities should be regulated. Factors to be considered would include: the date of installation of the pipeline or facility; the environment surrounding the pipeline or facility; the age of the pipe or facility; the pipe material, grade, and specified minimum yield strength; operating characteristics of the pipeline or facility; the composition of the fluid being transported; and the distance between the pipeline or a facility and other specified locations.

## **Methodology**

According to the Railroad Commission, there are currently approximately 154,225 miles of unregulated gathering lines, as compared to 167,987 miles of regulated pipeline. The Railroad Commission projects that approximately 77,000 miles, or about 50 percent of the unregulated total, would become regulated upon enactment of the bill. The actual number could be higher or lower, and it would be based on the factors considered by the Railroad Commission, as provided by the bill, to determine by rule which pipeline segments would fall under the agency's safety regulation authority. This estimate assumes that number would remain constant over the next five years.

The Railroad Commission reports that one inspector can handle inspections and monitoring for approximately 3,500 miles of pipeline per year. Therefore, implementation of the bill would require 22.0 additional pipeline safety inspectors. An additional 3.0 administrative assistants would be needed to support the additional inspectors. Ongoing costs associated with the 25.0 additional FTEs are estimated at \$1,837,389 per fiscal year. Initial start up costs would include vehicles, computers, cell phones, cameras, and other related equipment. In addition, programming changes would be needed to incorporate the additional pipelines into the agency's Pipeline Evaluation System (PES). Total start up costs are estimated at \$860,200 in fiscal year 2014 only and are included in the table above.

The Railroad Commission's Pipeline Safety program is funded through a mix of General Revenue and Federal Funds. However, the agency reports that because the additional pipelines proposed by the bill for regulation are not required to be regulated under federal law, the additional costs associated with these pipelines would not be eligible for Federal Funds. This estimate therefore assumes all costs associated with the bill would come from General Revenue.

Because the Railroad Commission has authority to increase the pipeline safety fee rate to cover costs associated with the program, this estimate assumes that the rate would be increased to a level to generate revenue sufficient to cover the costs of the new program. However, because the

Pipeline Safety Fee has a statutory cap of \$1 per line, the Commission would be limited in its ability to cover the additional costs. The existing rate assessed by the Railroad Commission is \$0.75, and according to the Comptroller's Biennial Revenue Estimate for 2014-15, this fee rate is expected to generate \$3.7 million per fiscal year during 2014-15. This estimate assumes that upon passage of the bill the Railroad Commission would increase the pipeline safety fee to the statutory maximum of \$1 per line, which is estimated to generate \$1.2 million per year in additional revenue. Therefore, only a portion of the additional costs associated with the bill would be covered by new revenues. It should also be noted that any other appropriations increases out of the Pipeline Safety Fee revenue stream contemplated by the 83rd Legislature would be competing for the \$1.2 million in potential additional revenue a fee increase could generate under current law.

### **Technology**

To ensure that all Class 1 and rural gathering systems identified as jurisdictional to the pipeline safety program would be included in the agency's PES, additional programming would be required. The Railroad Commission estimates 2,328 hours of contractor time to implement changes resulting from the bill's passage at a cost of \$229,520 in fiscal year 2014. These amounts are included in the table above.

### **Local Government Impact**

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

**Source Agencies:** 455 Railroad Commission

**LBB Staff:** UP, SZ, ZS, TL