

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 84TH LEGISLATIVE REGULAR SESSION

April 12, 2015

TO: Honorable Drew Darby, Chair, House Committee on Energy Resources

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: HB1392 by Bell (Relating to the recovery of stranded oil, gas, or oil and gas from depleting Cenozoic Era reservoirs.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB1392, As Introduced: an impact of \$0 through the biennium ending August 31, 2017.

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
2016	\$0
2017	\$0
2018	\$0
2019	\$0
2020	\$0

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from Oil & Gas Regulation 5155	Change in Number of State Employees from FY 2015
2016	(\$206,136)	2.0
2017	(\$206,136)	2.0
2018	(\$206,136)	2.0
2019	(\$206,136)	2.0
2020	(\$206,136)	2.0

Fiscal Analysis

The bill would amend the Natural Resources Code relating to the recovery of stranded hydrocarbons from depleting Cenozoic Era reservoirs. The bill would prescribe a unitization process to combine mineral interests, leased or unleased, of a common reservoir to form a single unit of operation and conduct a unit-wide enhanced oil recovery (EOR) process. The Railroad Commission (RRC) would adopt rules by January 1, 2016, issue orders, and perform all required acts to carry out the bill's provisions.

The bill would provide the RRC authority to issue a unitization order if a certain minimum threshold of approvals from the working and royalty interest owners has been achieved. However, unitization involving the state's mineral interests would require the state's consent. Any unleased mineral interest in the unit would be unitized as if it were leased with a royalty interest of one-sixth and a working interest of five-sixths. In sharing the costs of unit operation, the nonpaying working interest owner's production proceeds may be withheld to pay up to 300 percent of that owner's share of unit costs.

The RRC would collect fees to cover the costs incurred to hold hearings on a unitization application. The bill would provide that a person affected by an order of the Commission would be entitled to judicial review in a Travis County court.

The bill would take effect immediately upon enactment, assuming that it received the requisite two-thirds majority votes in both houses of the Legislature. Otherwise, it would take effect September 1, 2015.

Methodology

The Comptroller indicates that because the extent of oil and natural gas production increases related to EOR projects are unknown, the fiscal impact cannot be estimated. Collections from the hearing fee, to be set by RRC, would likely be insignificant.

The RRC indicates that because the bill make it easier for applicants to receive approval for compulsory pooling and it will expand the types of qualifying units, the agency believes its Hearings Division will likely see at least 12 highly contentious multi-day hearings a year, with protests from numerous parties. The RRC anticipates needing an additional two positions to implement the provisions of the bill which are reflected in the table above.

Salaries and benefits for one attorney and one engineering specialist would be \$191,540 each fiscal year to run the hearing, analyze evidence, drafting proposals for decisions, and presenting recommendations and handling matters upon any appeal. Other operating costs, other personnel related costs, and equipment would be \$14,596 per year.

Local Government Impact

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

Source Agencies: 212 Office of Court Administration, Texas Judicial Council, 304 Comptroller of Public Accounts, 305 General Land Office and Veterans' Land Board, 455 Railroad Commission, 720 The University of Texas System Administration

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