LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 84TH LEGISLATIVE REGULAR SESSION
Revision 1

April 6, 2015

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

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **HB1552** by Craddick (Relating to oil and gas wells that traverse multiple tracts.), **As Introduced**

An indeterminate and significant negative fiscal impact to the revenue streams of certain state endowment funds. The fiscal impact would depend on how agreements made under the provisions of the bill would effect oil and gas production, royalties, and the extent to which land currently leased and owned by the state could be developed.

The bill would amend the Natural Resources Code to allow operators or lessees with the right to drill wells on multiple tracts to traverse those tracts and to then allocate revenues based on methods the operator or lessee reasonably determines. It would also allow the operator or lessee to determine production allocation and the extent to which a tract would be fully developed in the absence of specific agreements with landowners.

Estimates were solicited from The University of Texas (UT) System Administration, the General Land Office (GLO), and the Railroad Commission (RRC). Based on information provided by The University of Texas (UT) System Administration, the provisions of the bill would affect acreage of Permanent University Fund (PUF) lands which are currently leased. According to UT System, the provisions of the bill would allow certain oil and gas operators and lessees the ability to make mineral and surface ownership decisions without UT System agreement. These provisions could impair the ability of UT System to fully develop acreage of PUF lands, which could result in significant revenue losses from decreasing oil and gas development. The bill would also allow lessees to determine the allocation of production and pay royalties on that basis on applicable PUF lands without UT System input, which could result in additional revenue loss to the PUF. The UT System estimates the provisions of the bill could result in a revenue loss of $390 million per fiscal year to the PUF.

There could be some loss of revenue to the Permanent School Fund (PSF) under the provisions of the bill. The General Land Office indicates the bill could adversely impact the production from the affected mineral leases on state property and the lease and royalty revenue contributed to the PSF, resulting in a potential loss of $100 million in PSF revenues per fiscal year. The loss would depend on whether allocation wells would result in reduced oil and gas development under existing lease agreements with the state.

RRC indicates the bill will have no fiscal impact on their agency operations.

The bill would take effect immediately upon receiving a two-thirds majority vote in both houses;

otherwise, the bill would take effect September 1, 2015.

Local Government Impact

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

Source Agencies: 305 General Land Office and Veterans' Land Board, 455 Railroad Commission, 720 The University of Texas System Administration

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