

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

**FISCAL NOTE, 85TH LEGISLATIVE REGULAR SESSION**

**April 10, 2017**

**TO:** Honorable Craig Estes, Chair, Senate Committee on Natural Resources & Economic Development

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

**IN RE:** SB177 by Taylor, Van (Relating to unit operations for oil, gas, or oil and gas production from depleting reservoirs or carbon dioxide storage; authorizing a fee.), **As Introduced**

**Estimated Two-year Net Impact to General Revenue Related Funds** for SB177, As Introduced: an impact of \$0 through the biennium ending August 31, 2019.

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:**

<b>Fiscal Year</b>	<b>Probable Net Positive/(Negative) Impact to General Revenue Related Funds</b>
2018	\$0
2019	\$0
2020	\$0
2021	\$0
2022	\$0

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

<b>Fiscal Year</b>	<b>Probable Savings/(Cost) from Oil &amp; Gas Regulation 5155</b>	<b>Probable Revenue Gain/(Loss) from Oil &amp; Gas Regulation 5155</b>
2018	(\$365,468)	\$365,468
2019	(\$365,468)	\$365,468
2020	(\$365,468)	\$365,468
2021	(\$365,468)	\$365,468
2022	(\$365,468)	\$365,468

<b>Fiscal Year</b>	<b>Change in Number of State Employees from FY 2013</b>
2018	2.0
2019	2.0
2020	2.0
2021	2.0
2022	2.0

## **Fiscal Analysis**

The bill would add Chapter 104 to the Natural Resources Code, creating the Oil and Gas Majority Rights Protection Act for Secondary and Tertiary Recovery Operations. The bill would require the Railroad Commission to adopt rules, enforce orders, and perform all required acts necessary to implement Chapter 104 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 Chapter 104.

On receipt of an application for unitization, the bill would require the Railroad Commission to promptly set the matter for hearing and to cause notice to be given at least 31 days prior to the hearing to all working interest owners, operators, unleased mineral owners, and royalty owners in the unit area and to all offsets. In addition, notice would be required to be published once per week for four consecutive weeks in a newspaper of general circulation in the county in which the proposed unit would be located.

The bill would require the Railroad Commission to adopt rules necessary to regulate the geologic storage of carbon dioxide, requiring notice and hearing to amend involuntary unitization for enhanced recovery to convert to carbon dioxide storage and requiring notice and hearing to consider applications for carbon dioxide storage in areas not previously involuntarily unitized.

The bill would require the Railroad Commission to adopt rules to implement the legislation by January 1, 2018. In addition, the Railroad Commission would be required to adopt rules necessary to assess fees sufficient to recover the costs in implementing Chapter 104 of the Natural Resources Code by April 1, 2018.

The bill would take effect immediately upon receiving a two-thirds majority vote of all members in both houses; otherwise, the bill would take effect September 1, 2017.

## **Methodology**

This estimate assumes that the Railroad Commission would be required to conduct additional hearings requested for mandatory unitization for enhanced recovery and carbon sequestration. Although the number of such hearings that would be required is unknown, this estimate assumes there would be an average of 23 such hearings per fiscal year.

The Railroad Commission reports that the agency would need 2.0 FTEs, an administrative law judge and a legal assistant, to hear and process these additional cases. This would result in an increase in costs of \$223,098 for salaries, benefits and related operating costs.

In addition, it is expected that the Railroad Commission would incur costs in providing notice of hearing to all working interest, royalty interest, unleased mineral interests and (for sequestration)

surface interest owners within and adjacent to areas proposed for unitization. This estimate assumes there would be an average of 840 such interest owners in and around each proposed unit. Assuming a mailing cost of \$1.25 per person and three mailings per application, the average mailing costs would be \$3,150 per application, or a total of \$72,450 for all 23 potential hearings. In addition, the bill would require publishing notice four times for each hearing in a newspaper of general circulation. This estimate assumes each notice would cost an average of \$760 per publication. Mailing and publication costs thus are estimated at \$69,920 per fiscal year for four publications for each of the 23 potential hearings.

This estimate assumes that the Railroad Commission would assess fees sufficient to cover costs incurred in implementing Chapter 104 of the Natural Resources Code, as authorized by the bill. It is also assumed that fees collected to implement the provisions of the bill would be deposited to the General Revenue-Dedicated Oil and Gas Regulatory and Cleanup Account Fund 5155, and that the agency would receive appropriations out of the account equal to revenue collections.

Because the bill provides for the Railroad Commission's costs to be recovered through the assessment of fees to implement the newly-created chapter in the Natural Resources Code, the net impact of the bill is expected to be cost-neutral to the state.

### **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, 710 Texas A&M University System Administrative and General Offices, 720 The University of Texas System Administration

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