LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 87TH LEGISLATIVE REGULAR SESSION

March 28, 2021

TO: Honorable Craig Goldman, Chair, House Committee on Energy Resources

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: **HB2868** by Longoria (Relating to the financial security requirements for operators of oil and gas wells.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB2868, As Introduced : a positive impact of $10,000 through the biennium ending August 31, 2023.

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*
2022	$3,000
2023	$7,000
2024	$7,000
2025	$7,000
2026	$7,000

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue Gain from *General Revenue Fund* 1	Probable Revenue Gain from *Oil & Gas Regulation* 5155
2022	$3,000	$0
2023	$7,000	$0
2024	$7,000	$650,000
2025	$7,000	$1,300,000
2026	$7,000	$2,600,000

Fiscal Analysis

The bill would require the Railroad Commission at the beginning of each fiscal year to calculate the average well plugging cost per foot in each oil and gas division during the preceding fiscal year and would modify the financial security requirement for bonding using the new average cost calculation.

The bill would increase the blanket bond requirements from three to six tiers of well operations and the amount associated with each tier. The first tier would include an operation of ten wells or less and increase the bond amount from $25,000 to $35,000. The second tier would include an operation between 10 wells and 20 wells with a bond amount of $50,000. The third tier would include an operation of between 20 and 35 wells with a bond amount of $75,000. The fourth tier would include an operation of between 35 and 60 well with a bond amount of $130,000. The fifth tier would include an operation of between 60 and 100 wells with a bond amount of $215,000. The sixth tier would remain unchanged at $250,000 for an operation of 100 wells or more.

The bill would apply only to a person required to file a bond, letter of credit, or cash deposit on or after the effective date of the bill, or September 1, 2021.

Methodology

Chapter 91 of the Natural Resources Code requires any operator of a oil and gas well to file with the Railroad Commission (RRC) an individual bond, blanket bond, or letter of credit or cash deposit at the time of filing or renewing its organizational report to cover any well plugging and site remediation costs in the event a well is abandoned. An operator is required to renew its organizational report annually and may choose which method of finance to include based on market conditions at the time of renewal.

Cash bonds are deposited into General Revenue-Dedicated Oil and Gas Regulation and Cleanup Account No. 5155 (GR-D No. 5155) as Non-Revenue Comp Object 3791, Deposit of Cash Bonds to Security Liability, and held in escrow in the treasury unless there is an enforcement action taken against an operator by RRC or a well is abandoned. At which point, RRC is allowed to collect the cash bond proceeds as revenue for well plugging and/or site remediation purposes.

According to RRC, the updated financial security amounts under the provisions of the bill would be effective when an operator renews its organizational report during fiscal year 2022 and not on the effective date of the bill (September 1, 2021) and that increased revenue collections from bond forfeitures based on the updated financial security amounts would not be realized until fiscal year 2024.

Based on information provided by the Comptroller of Public Accounts (CPA), this analysis assumes revenue collected by RRC from bond forfeitures based on the updated financial security amounts to increase by $0.7 million in fiscal year 2024, $1.3 million in fiscal year 2025, and $2.6 million in fiscal year 2026.

Interest revenue collected from GR-D No. 5155 fund balances, including amounts held in escrow, are credited to the General Revenue Fund. Based on information provided by the CPA, this analysis assumes interest revenue from GR-D No. 5155 fund balances to increase by $3,000 in fiscal year 2022 and $7,000 in fiscal year 2023 due to an estimated increase in non-revenue cash bond deposits of $0.7 million in fiscal year 2022 and $1.5 million in fiscal year 2023 using a standard interest rate of 0.45 percent.

Based on information provided by the RRC, it is assumed that duties and responsibilities associated with implementing the provisions of the bill could be accomplished utilizing existing resources.

Technology

No significant technology costs are anticipated.

Local Government Impact

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

Source Agencies: 304 Comptroller of Public Accounts, 455 Railroad Commission

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