LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 87TH LEGISLATIVE REGULAR SESSION

April 9, 2021

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

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: **HB3409** by Goldman (Relating to the duty of a lessee or other agent in control of certain state land to drill an offset well, pay compensatory royalty, or otherwise protect the land from drainage of oil or gas by a horizontal drainhole well located on certain land.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB3409, As Introduced : an impact of $0 through the biennium ending August 31, 2023.

However, there is estimated to be a loss of ($24,671,000) to the Permanent University Fund in the 2022-23 biennium.

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	$0
2023	$0
2024	$0
2025	$0
2026	$0

All Funds, Five-Year Impact:

Fiscal Year	**Probable Revenue (Loss) from** ***Public University Fund*** **0045**
2022	($7,698,000)
2023	($16,973,000)
2024	($23,013,000)
2025	($27,330,000)
2026	($30,583,000)

Fiscal Analysis

The bill would amend the Education Code and the Natural Resource Code to add definitions of a horizontal drain hole, take point, and unconventional fracture treated field.

The bill would restrict a lease relating to university land from requiring a lessee to drill an offset well, pay compensatory royalty, or protect the leased premises or acreage pooled from drainage by a horizontal drain hole well located in an unconventional fracture treated field if no take point is located closer to the leased premises than the applicable lease-line spacing distance currently required.

The bill would exempt a horizontal drain hole well producing oil and gas in commercial quantities located within 1,000 feet of certain state lands from being considered a draining well unless any take point is located closer to the state land than the applicable lease-line spacing distance currently required.

The bill would take effect on September 1, 2021.

Methodology

Based on information provided by the Comptroller of Public Accounts (CPA) and the General Land Office (GLO), most offset drilling obligations occur on university lands and the compensatory royalty payments are deposited into the Permanent University Fund (PUF). According to CPA, under the provisions of the bill as many as 60 wells would not be drilled that would have otherwise been drilled under current law. This analysis assumes one such well coming online per month with potential revenue totaling $3.5 million over the life of the well, resulting in potential revenue loss of $7.7 million in fiscal year 2022 and $17.0 million in fiscal year 2023 to the PUF. Potential revenue losses to PUF would impact allocations to the Available University Fund (AUF), the Texas A&M University Available Fund, and the Prairie View A&M University Available Fund.

According to the University of Texas System Administration (UT System), the fiscal implications of the bill cannot be determined, but based on an evaluation of 1.4 million acres of university lands currently under oil and gas leases and measuring the undrilled lease line perimeter footage between fee acreage and PUF leases, combined with a historical analysis of offset well claims over the past five fiscal years, revenues to the PUF could decrease in an amount somewhere between $75.0 million and $225.0 million over the next five fiscal years and decrease revenues to the AUF in an amount somewhere between $5.0 million and $15.0 million over the same period. The projected revenue decreases to the PUF may also reduce the amount of available PUF bonds used to fund capital projects at both the University of Texas and Texas A&M System campuses by between $22.5 million and $67.5 million.

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

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, 455 Railroad Commission, 720 UT Sys Admin

LBB Staff: JMc, AJL, MW, DA, SD