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

**FISCAL NOTE, 88TH LEGISLATIVE REGULAR SESSION**

**April 2, 2023**

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

**FROM:** Jerry McGinty, Director, Legislative Budget Board

**IN RE:** **HB4046** by Guillen (Relating to the reduction and plugging of orphaned oil and gas wells; providing for the imposition of a fee and an exemption from certain taxes and fees.), **As Introduced**

**Estimated Two-year Net Impact to General Revenue Related Funds** for HB4046, As Introduced : a negative impact of ($945,943) through the biennium ending August 31, 2025.

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*** |
|---|---|
| 2024 | ($788,286) |
| 2025 | ($157,657) |
| 2026 | ($118,243) |
| 2027 | ($78,829) |
| 2028 | ($78,829) |

## All Funds, Five-Year Impact:

| *Fiscal Year* | **Probable (Cost) from** ***General Revenue Fund*** **1** | **Probable (Cost) from** ***Oil & Gas Regulation*** **5155** | *Change in Number of State Employees from FY 2023* |
|---|---|---|---|
| 2024 | ($788,286) | ($78,310) | 1.0 |
| 2025 | ($157,657) | ($82,265) | 1.0 |
| 2026 | ($118,243) | ($82,265) | 1.0 |
| 2027 | ($78,829) | ($82,265) | 1.0 |
| 2028 | ($78,829) | ($82,265) | 1.0 |

## Fiscal Analysis

The bill would provide that fees collected under the bill's provisions related to Operators Designated Beginning in 2024 to revenues deposited to the General Revenue-Dedicated Oil and Gas Regulation and Cleanup Account No. 5155 (GR-D 5155).

The bill would direct the Railroad Commission (RRC) to designate an operator as the operator of an orphaned well if the operator files certain required documents and pays a nonrefundable fee of $250 to be deposited to the credit GR-D 5155. The RRC would be required to issue a certificate of compliance and transportation authority or similar authorization showing the assumption of control of the well for plugging. The bill would specify that the designated operator would in turn receive a nontransferable exemption from oil severance taxes for production from the orphaned well, a nontransferable exemption from oil-field cleanup regulatory fees on oil and gas production for five years from the designation date, and a payment from the RRC from GR-D 5155 not to exceed $500,000 based on a percent of either the documented well-plugging costs or the average cost incurred by the RRC for plugging similar wells during a certain timeframe. The bill specifies that operators are entitled to this payment only if the well is plugged in accordance with RRC rules or is conditioned as a fresh water well in accordance with RRC rules within one year of the designation date and that a request for reimbursement must be submitted before a certain date with proper documents of the plugging costs. The bill provisions would specify that the designated operator may not receive more than one payment for the same well or the cumulative payment amount cannot exceed the amount of bond, letter of credit, or cash deposit the operator filed with RRC. The bill would require RRC to include wells plugged by these operators in the well-plugging performance metrics and monthly well-plugging activity reports produced by the agency.

## Methodology

Based upon information provided by the RRC, this cost analysis reflects the assumption that the agency will need to adopt rules, update forms to implement this bill, and would need one FTE to carry out provisions of the bill. The All Funds biennial cost for these needs total $1,106,518. The analysis does not reflect estimated reimbursements from the RRC to operators or revenue impacts to oil severance tax and regulatory fee revenues; however, the Comptroller of Public Accounts anticipates that revenue impacts would not be significant. The extent of the fiscal impact of reimbursements paid to operators cannot be determined at this time.

The RRC anticipates that the rules adopted would be structured similarly to other tax incentive rules. The needed FTE, a License and Permit Specialist II, would determine that the production of orphan wells meets the tax exemption criteria, issue certifications, and manage and administer the Reimbursement to Surface Owners workflow. Estimated salary and benefit costs to the General Revenue-Dedicated Oil and Gas Regulation and Cleanup Account No. 5155 (GR-D 5155) for this FTE would total $63,310 in fiscal year 2024 and $67,265 each fiscal year after. Estimated operating costs are $15,000 per fiscal year from GR-D 5155. The agency estimates that the cost to General Revenue for changes to the Oil and Gas technology platform (LoneSTAR) necessary to carry out provisions of the bill would be $788,286 in fiscal year 2024; $157,657 in fiscal year 2025; $118,243 in fiscal year 2026; $78,829 in fiscal year 2027; and $78,829 in fiscal year 2028.

## Technology

The RRC anticipates that additional functionality would be needed in the Oil Field Cleanup application that allows staff to enter and track wells plugged by a landowner or an operator that took over abandoned the well, track the associated costs, and produce reports on this data. The agency estimates that the cost of adding these functionalities to the Oil and Gas technology platform (LoneSTAR) would be $788,286 in fiscal year 2024; $157,657 in fiscal year 2025; $118,243 in fiscal year 2026; $78,829 in fiscal year 2027; and $78,829 in fiscal year 2028. This cost is based on estimates provided by the vendor for applications with similar functionality.

## Local Government Impact

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

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

**LBB Staff:** JMc, AF, MW, EJ