



LEGISLATIVE BUDGET BOARD

Railroad Commission Funding Overview

PRESENTED TO HOUSE COMMITTEE ON ENERGY RESOURCES

LEGISLATIVE BUDGET BOARD STAFF

FEBRUARY 2019

Presentation Overview

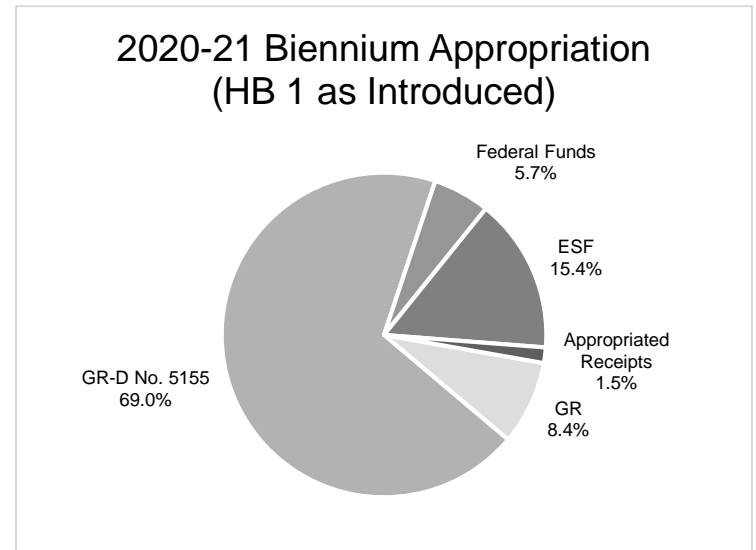
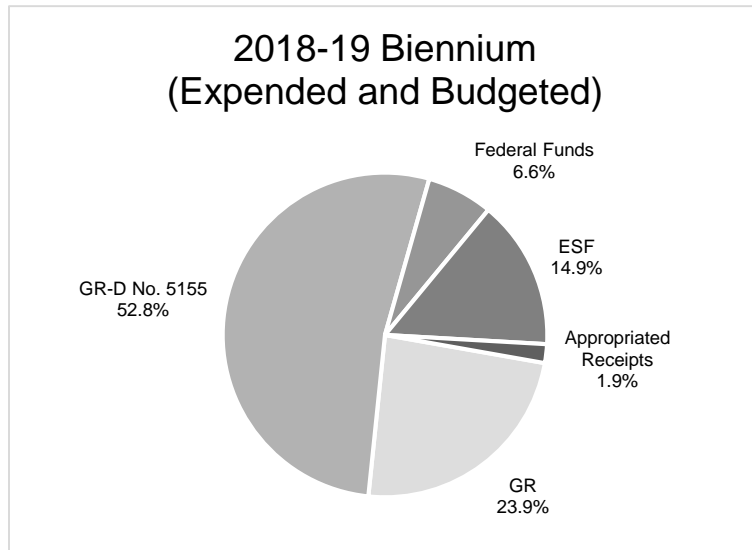
The House Committee on Energy Resources requested a presentation regarding the Railroad Commission's budget in House Bill 1, as introduced, including:

1. The overall budget for the agency
2. How the agency is funded
3. The agency's exceptional item requests
4. Orphaned well plugging activities

Railroad Commission Budget

House Bill 1, as introduced, includes \$253.4 million in All Funds for the Railroad Commission in the 2020-21 biennium. This is a decrease of \$2.6 million, or 1.0 percent, from 2018-19 biennial expenditure levels. The appropriations for the commission in the 2020-21 biennium include:

- \$21.2 million in General Revenue Funds (GR), a decrease of \$39.9 million, or 65.3 percent.
- \$174.8 million in General Revenue-Dedicated Oil and Gas Regulation and Cleanup Account No. 5155 (GR-D No. 5155), an increase of \$39.7 million, or 29.3 percent.
- \$43.0 million in Other Funds, including \$39.1 million in Economic Stabilization Funds, an increase of \$31,624, or 0.1 percent.
- \$14.4 million in Federal Funds, a decrease of \$2.5 million, or 14.6 percent.
- 827.1 Full-Time Equivalent positions (FTEs), reflecting no change from the 2018-19 biennium.



Significant Funding Changes

Economic Stabilization Fund

- House Bill 1, as introduced, provides \$39.1 million in Economic Stabilization Fund (ESF) for oil and gas well plugging and site remediation, an increase of \$0.9 million, or 2.4 percent. The Eighty-fifth Legislature, 2017, provided \$38.2 million in ESF for the same purpose in the 2018-19 biennium. The Railroad Commission utilized these funds in the 2018-19 biennium on contractors throughout the state to plug on-shore orphaned oil and gas wells. The agency has indicated the funding included in House Bill 1, as introduced, would be used to plug more high-risk, bay, and offshore wells in the 2020-21 biennium.

Operational Stability Funding

- House Bill 1, as introduced, replaces \$39.7 million in GR for operational stability with GR-D No. 5155. The GR was provided by the Eighty-fifth Legislature, 2017, to create a stable base of funding for oil and gas regulation and cleanup activities amidst anticipated revenue shortfalls in GR-D No. 5155. The \$39.7 appropriation in 2018-19 was from Gas Utility Pipeline Tax revenue deposited into GR. The Gas Utility Pipeline Tax, authorized by Utilities Code §122.051, is a tax imposed on each intrastate gas utility at a rate of one-half of one percent of gross income of the gas utility.
- Revenue projections for GR-D No. 5155 reflected in House Bill 1, as introduced, were made prior to publication of the Comptroller of Public Accounts' Biennial Revenue Estimate.

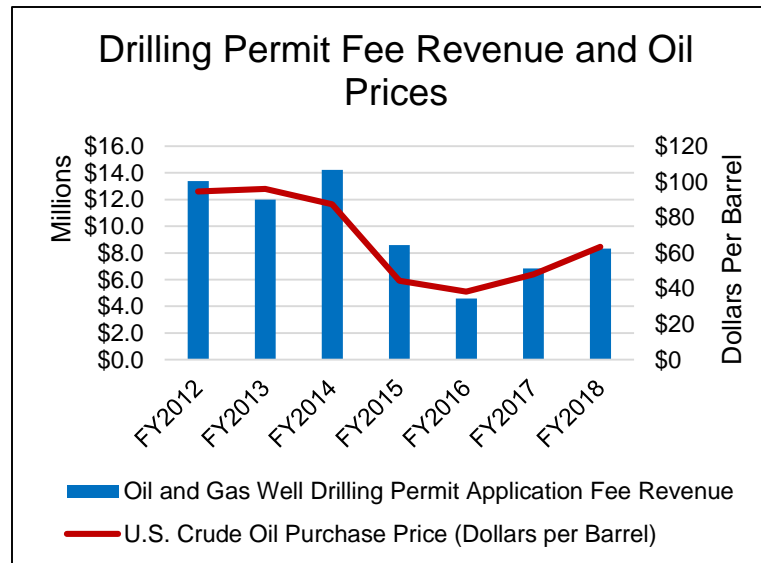
Federal Funds and Appropriated Receipts

- House Bill 1, as introduced, reflects the Railroad Commission's anticipated collections of Federal Funds and Appropriated Receipts in the 2020-21 biennium.

GR-D No. 5155

The Railroad Commission is primarily funded through revenue and balances in GR-D No. 5155. The account is largely made up of revenue from production taxes and permitting fees paid by the oil and gas industry.

- Revenues are heavily dependent on the oil and gas market because the revenue is driven by industry activity; oil price declines result in decreased revenue.
- Technology is affecting revenue collections. According to the agency, rapid advances in technology have enabled drillers to extract oil and gas more efficiently, resulting in fewer permits and applications.
- The Comptroller of Public Accounts' Biennial Revenue Estimated projects \$159.3 million in revenue for the account in the 2020-21 biennium.



Railroad Commission Exceptional Items

- 1. Mainframe Transformation:** \$9.8 million in capital budget authority and reallocation of \$9.8 million in GR-D No. 5155 from oil and gas well plugging activities for the new Mainframe Transformation capital Information Technology project.
- 2. Rider 14, Operational Stability Contingency:** Amend Rider 14 to increase the contingency from \$10.0 million in each fiscal year of the 2020-21 biennium to \$39.7 million for the entire biennium.
- 3. Inspector FTEs:** \$2.7 million in GR-D No. 5155 for the biennium and 22.0 inspector FTEs in each fiscal year of the 2020-21 biennium. The item includes 12.0 FTE to perform oil and gas compliance inspections and 10.0 FTEs for pipeline safety inspections.

Orphaned Well Plugging

Orphaned wells are have been inactive a minimum of 12 months and the responsible operator has been delinquent for greater than 12 months in filling the necessary form (Organizational Report, Form P-5). The Railroad Commission administers the plugging of orphaned oil and gas wells with state funds if the operator is unable to plug the well.

As of August 31, 2017, the Railroad Commission's inventory of orphaned wells contained 5,687 oil and gas wells with 1,103 approved for plugging with state funds. The agency estimates there are approximately 6,500 known orphaned wells and, as of August 31, 2018, there are 1,836 wells approved for plugging with state funds. The agency plugged 917 wells in fiscal year 2017 and 1,364 wells in fiscal year 2018. Its performance target for each fiscal year of the 2018-19 biennium is to plug 979 wells. According to the agency's LAR, the Commission set a target of plugging 1,500 wells in each fiscal year of the 2018-19 biennium due to the appropriation of ESF. House Bill 1, as introduced, increases the agency's performance target to plug 1,400 wells in each fiscal year of the 2020-21 biennium.



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