

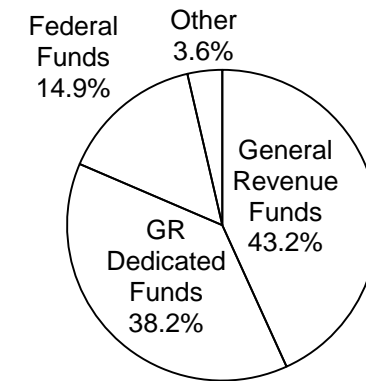
**Railroad Commission
Summary of Recommendations - Senate**

John Tintera, Executive Director

Tom Lambert, LBB Analyst

Method of Financing	2010-11 Appropriations	2010-11 Base	2012-13 Recommended	Biennial Change	% Change
General Revenue Funds	\$59,786,972	\$56,797,623	\$50,782,433	(\$6,015,190)	(10.6%)
GR Dedicated Funds	\$65,444,790	\$57,009,274	\$44,935,330	(\$12,073,944)	(21.2%)
<i>Total GR-Related Funds</i>	<i>\$125,231,762</i>	<i>\$113,806,897</i>	<i>\$95,717,763</i>	<i>(\$18,089,134)</i>	<i>(15.9%)</i>
Federal Funds	\$14,040,280	\$22,223,992	\$17,550,233	(\$4,673,759)	(21.0%)
Other	\$4,158,980	\$19,096,197	\$4,247,930	(\$14,848,267)	(77.8%)
All Funds	\$143,431,022	\$155,127,086	\$117,515,926	(\$37,611,160)	(24.2%)

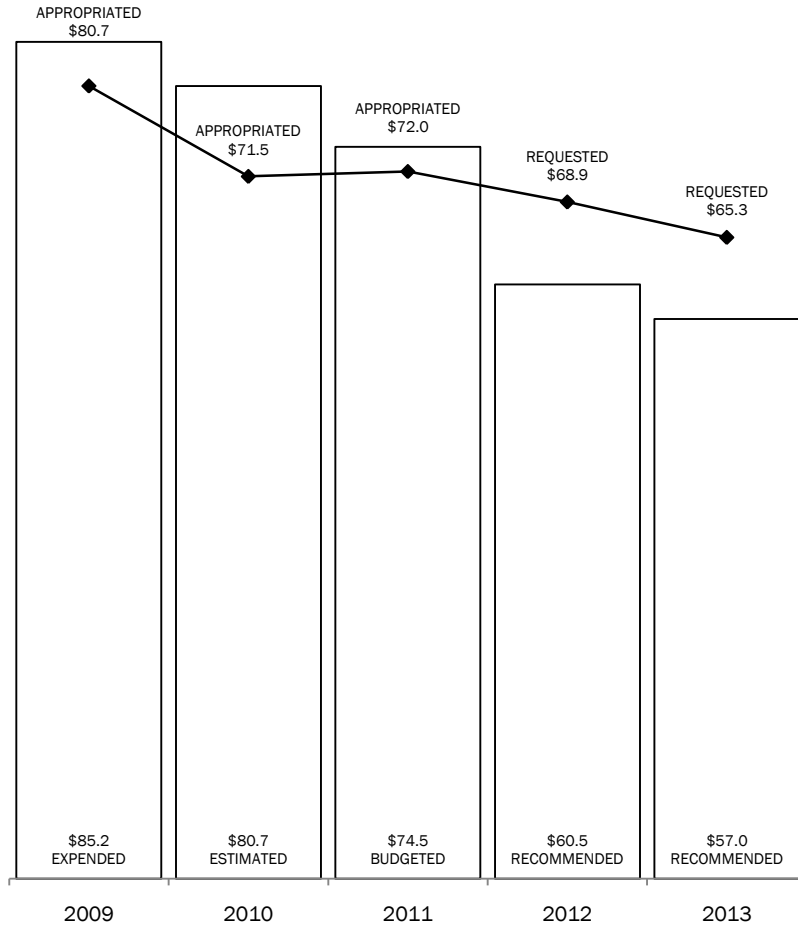
RECOMMENDED FUNDING
BY METHOD OF FINANCING



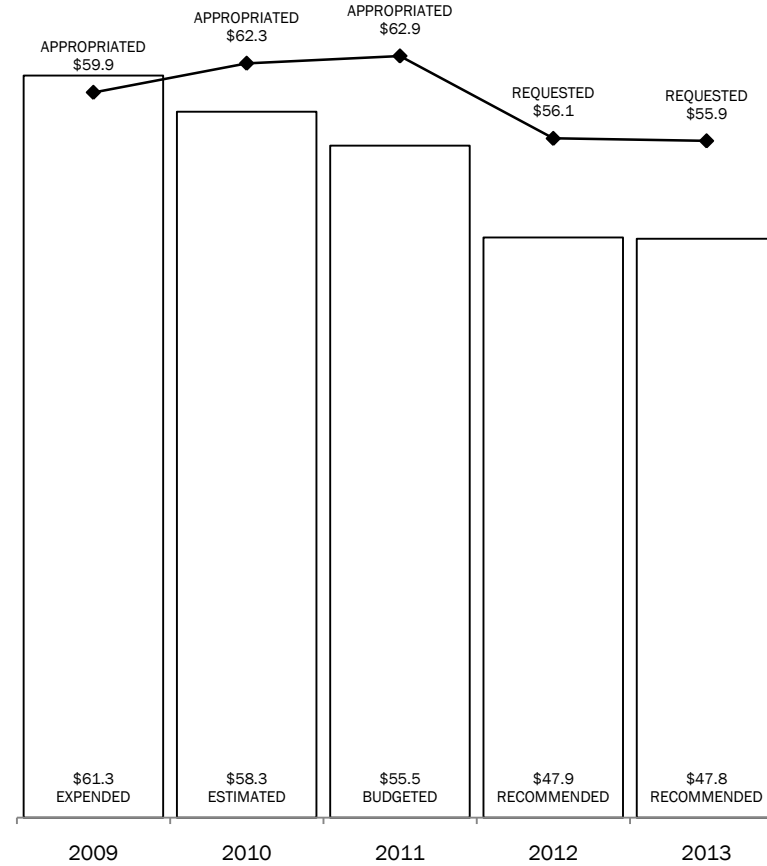
	FY 2011 Appropriations	FY 2011 Budgeted	FY 2013 Recommended	Biennial Change	% Change
FTEs	743.6	705.6	652.4	(53.2)	(7.5%)

The bill pattern for this agency (2012-13 Recommended) represents an estimated 100% of the agency's estimated total available funds for the 2012-13 biennium.

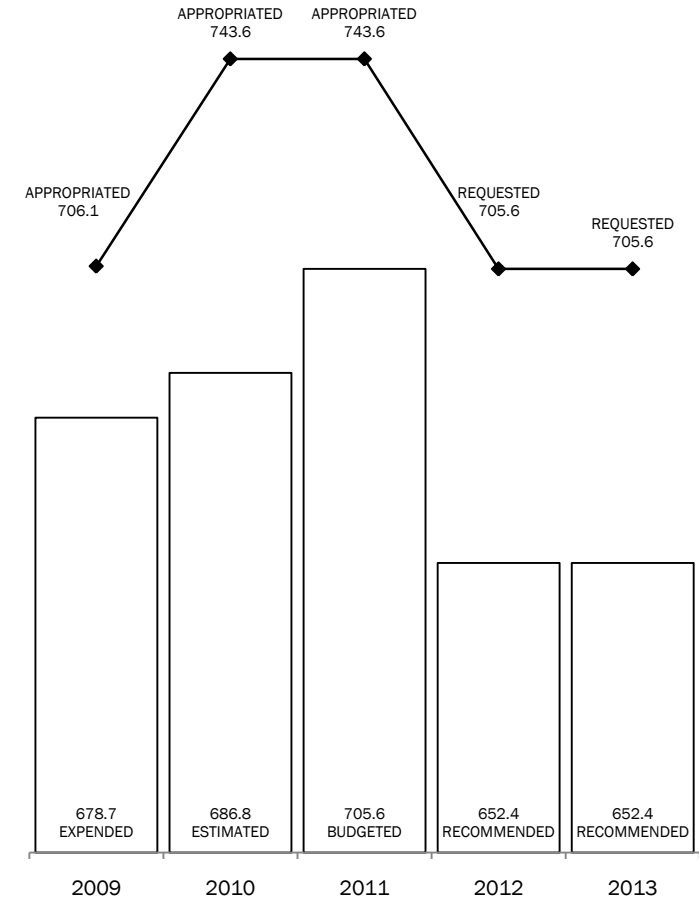
ALL FUNDS



**GENERAL REVENUE AND
 GENERAL REVENUE-DEDICATED FUNDS**



FULL-TIME-EQUIVALENT POSITIONS



Section 2

Railroad Commission
Summary of Recommendations, By Method of Finance, Senate -- ALL FUNDS

Strategy/Goal	2010-11 Base	2012-13 Recommended	Biennial Change	% Change	Comments (Optional)
ENERGY RESOURCE DEVELOPMENT A.1.1	\$11,721,417	\$11,371,318	(\$350,099)	(3.0%)	The Introduced Bill includes a decrease of \$0.5 million in General Revenue and a decrease of \$0.1 million in General Revenue-Dedicated Oil Field Cleanup Account No. 145 funding, reflecting a 5 percent administrative reduction (7.1 FTEs) for permitting and administrative compliance activities. Offsetting the General Revenue decrease is an increase of \$0.5 million for an Online Filing of Annual Well Test Capital Budget Project, the funds for which were moved from Strategy C.1.1, Oil and Gas Monitoring and Inspections, upon completion of the District Field Operations Reporting and Management System Capital Budget Project in 2010-11.
GAS UTILITY COMPLIANCE A.2.1	\$3,687,556	\$3,393,151	(\$294,405)	(8.0%)	The Introduced Bill includes a decrease of \$0.2 million in General Revenue, reflecting a 12.5 percent reduction (or 90 day delay) in Gas Services Market Oversight activities and a 5 percent administrative reduction for Gas Services Audit activities (3.1 FTEs).
PROMOTE ALTERNATIVE ENERGY RESOURCE A.3.1	\$26,660,413	\$7,316,258	(\$19,344,155)	(72.6%)	The Introduced Bill includes a decrease of \$0.3 million in General Revenue and a decrease of \$0.6 million in General Revenue-Dedicated Alternative Fuels Research and Education Account No. 101, reflecting a 50 percent reduction in marketing and education programs for alternative energy resources (4.8 FTEs). Also included is a decrease of \$3.7 million in Federal Funds for a one-time ARRA grant from the U.S. Department of Energy for the Texas Propane Fleet Pilot Program, which provides assistance in the purchase of propane vehicles and propane refueling stations for schools and public agencies in 2010-11; and a decrease of \$14.8 million in Interagency Contracts (Other Funds) because of a one-time Texas Emissions Reduction Plan grant for propane equipment rebates in 2010-11 (\$11.7 million); and a Transportation Energy Efficiency grant from the State Energy Conservation Office (\$3.1 million), which provides assistance in the purchase of propane vehicles for schools.

Section 2

Railroad Commission
Summary of Recommendations, By Method of Finance, Senate -- ALL FUNDS

Strategy/Goal	2010-11 Base	2012-13 Recommended	Biennial Change	% Change	Comments (Optional)
DISTRIBUTE LP-GAS REBATES A.3.2	\$1,893,507	\$947,238	(\$946,269)	(50.0%)	The Introduced Bill includes a 50 percent reduction in funding from the General Revenue-Dedicated Alternative Fuels Research and Education Account No. 101, resulting in 50 percent fewer propane rebate payments in 2012-13 as compared to 2010-11.
REGULATE ALT ENERGY RESOURCES A.3.3	\$2,792,625	\$2,702,852	(\$89,773)	(3.2%)	The Introduced Bill includes a decrease of \$0.1 million in General Revenue, reflecting a 5 percent administrative reduction in the Liquid Propane Gas regulation program (1.2 FTEs).
Total, Goal A, ENERGY RESOURCES	\$46,755,518	\$25,730,817	(\$21,024,701)	(45.0%)	
PIPELINE SAFETY B.1.1	\$8,715,029	\$8,677,523	(\$37,506)	(0.4%)	
PIPELINE DAMAGE PREVENTION B.1.2	\$1,927,140	\$1,878,063	(\$49,077)	(2.5%)	
Total, Goal B, PIPELINE SAFETY PROGRAMS	\$10,642,169	\$10,555,586	(\$86,583)	(0.8%)	
OIL/GAS MONITOR & INSPECTIONS C.1.1	\$26,565,593	\$22,791,340	(\$3,774,253)	(14.2%)	The Introduced Bill includes a decrease of \$2.9 million in General Revenue and \$0.2 million out of the General Revenue-Dedicated Oil Field Cleanup Account No. 145, reflecting a 12.5 percent reduction in Field Operations and Enforcement programs (35.4 FTEs), resulting in an expected average 90 day delay in activities over the biennium. Also included is a \$0.6 million decrease in General Revenue resulting from the completion of the District Field Operations Reporting and Management System Capital Budget project and the transfer of a portion of that funding to Strategy A.1.1, Energy Resource Development.
SURFACE MINING MONITORING/INSPECT C.1.2	\$6,491,868	\$5,510,184	(\$981,684)	(15.1%)	The Introduced Bill includes a decrease of \$0.6 million out of the General Revenue Fund, reflecting a 12.5 percent reduction to the Surface Mining Inspections and Enforcement and Applications and Permits programs (4.1 FTEs), and resulting in an expected average 90-day delay in permit processing and enforcement. Also included is a decrease of \$0.4 million in Federal Funds, reflecting the estimated loss in matching funds resulting from the General

Section 2

Railroad Commission
Summary of Recommendations, By Method of Finance, Senate -- ALL FUNDS

Strategy/Goal	2010-11 Base	2012-13 Recommended	Biennial Change	% Change	Comments (Optional)
OIL AND GAS REMEDIATION C.2.1	\$11,287,162	\$8,714,076	(\$2,573,086)	(22.8%)	The Introduced Bill includes a decrease of \$0.2 million in General Revenue and a decrease of \$2.3 million out of the General Revenue-Dedicated Oil Field Cleanup Account No. 145, reflecting: a 25 percent reduction in the State Managed Cleanup program (3.9 FTEs), which is expected to result in an average six month delay in cleanups; and a 12.5 percent reduction to the Operator Cleanup Assistance Program (0.9 FTE), which is expected to result in an average 90 day delay in projects.
OIL AND GAS WELL PLUGGING C.2.2	\$41,781,773	\$31,236,492	(\$10,545,281)	(25.2%)	The Introduced Bill includes a decrease of \$0.6 million in General Revenue and a decrease of \$9.6 million out of the General Revenue-Dedicated Oil Field Cleanup Account No. 145, reflecting a 25 percent reduction in funding as compared to 2010-11 funding levels (9.7 FTEs), which is expected to result in an average six month delay in well plugging projects. Also included is a decrease of \$0.4 million in Federal Funds because of a one-time grant from the National Parks Service in 2010 to plug wells in the Neches River.
SURFACE MINING RECLAMATION C.2.3	\$6,376,761	\$6,416,600	\$39,839	0.6%	Recommendations reflect a slight increase in Federal Funds for surface mining reclamation.
Total, Goal C, ENVIRONMENTAL PROTECTION	\$92,503,157	\$74,668,692	(\$17,834,465)	(19.3%)	
GIS AND WELL MAPPING D.1.1	\$1,473,587	\$1,336,820	(\$136,767)	(9.3%)	The Introduced Bill includes a decrease of \$0.1 million in General Revenue reflecting a 12.5 reduction. (1.4 FTEs).
PUBLIC INFORMATION AND SERVICES D.1.2	\$3,752,655	\$3,314,994	(\$437,661)	(11.7%)	The Introduced Bill includes a decrease of \$0.3 million in General Revenue, reflecting a 12.5 percent reduction in funding as compared to 2010-11 funding levels. Also included is a decrease of \$0.1 million in Federal Funds because of a one-time National Historical Publications and Records Grant received in 2010 (2.7 FTEs).
Total, Goal D, PUBLIC ACCESS TO INFO AND SERVICES	\$5,226,242	\$4,651,814	(\$574,428)	(11.0%)	
Grand Total, All Strategies	\$155,127,086	\$115,606,909	(\$39,520,177)	(25.5%)	

Section 3

Railroad Commission Selected Fiscal and Policy Issues

1. **AFRED**—The Introduced Bill includes a 50 percent reduction in funding for Alternative Energy Resource Marketing and Public Education (AFRED) and for the Distribution of Liquid Propane (LP) Gas Rebates as compared to the 2010-11 biennium expended/budgeted amounts, resulting in a total savings of \$1.9 million in General Revenue-Related Funds for the biennium. The reductions to these self-funded programs (paid from fees on the delivery of propane) are expected to result in approximately one-half fewer marketing and education activities, as well 50 percent fewer grants/rebates to promote the use of LP Gas.
2. **Remediations, Cleanups, and Pluggings**—The Introduced Bill includes a 25 percent reduction in funding for State Managed Cleanups in the Oil and Gas Remediation area and in Oil and Gas Well Plugging, resulting in a savings of \$12.6 million in General Revenue-Related Funds as compared to 2010-11 expended/budgeted amounts. These reductions are expected to result in an average of a six month delay in state-managed site cleanups and well plugging.
3. **Twelve-and-a-half Percent Reductions**—The Introduced Bill includes a 12.5 percent reduction totaling \$4.3 million in General Revenue-Related Funds as compared to expended/budgeted amounts in the 2010-11 biennium in the following programs:
 - Gas Services Market Oversight, which includes the oversight of rate setting and compliance to rate structures for natural gas;
 - Field Operations, which includes oil and gas monitoring and inspections;
 - Enforcement, which includes the enforcement of agency rules for oil and gas well operators;
 - Surface Mining Inspection and Enforcement, which includes the inspection of coal mines to ensure compliance with permits and state laws;
 - Surface Mining Applications and Permits, which includes the processing of applications and issuance of permits for coal mines;
 - Operator Cleanup Assistance, or assistance for operator-initiated corrective action at well sites;
 - Geographic Information Systems (GIS) Mapping, which includes maintaining well mapping data and providing public access to that data; and
 - Public Information, which includes the maintenance of oil and gas data and providing public access to that data.

In the case of Gas Services Market Oversight, the reduction is expected to result in an average 90 day delay in rate cases over the 2012-13 biennium, and with respect to Field Operations, Enforcement, Surface Mining Inspection, and Enforcement, and Surface Mining Applications and Permits, an average 90-day delay in inspection, application, and enforcement activity is anticipated. With respect to Operator Cleanup Assistance, it is expected that the reductions would result in 12.5 percent fewer individuals being assisted with cleanups over the 2012-13 biennium. In the case of GIS Mapping and Public Information, it is expected that the reductions would result in lower level of customer service and some delays in the agency responding to customer requests. None of these reductions are expected to have a significant impact on revenues.

4. **Five Percent Reductions**—The Introduced Bill includes reductions totaling \$0.9 million in General Revenue-Related funds as compared to expended/budgeted amounts for the 2010-11 biennium based on the agency's proposed reductions for the first 5 percent in its 10 Percent Biennial Base Reduction Options schedule for the following programs:
 - Technical Permitting, which includes permitting activities for oil and gas well sites;

Section 3

- Administrative Compliance, which includes the issuance of production limits and ensuring appropriate taxes are paid for oil and gas producers;
- Seminars;
- Carbon Capture, which includes the regulation and permitting of anthropogenic carbon dioxide storage wells ;
- Gas Services Audits, or audits of gas utilities by the agency, which can result in the identification of the underpayment of taxes,
- Liquid Propane Gas Regulation, including the regulation of the sale and use of LP Gas; and
- Uranium Mining Regulation, which includes issuing permits and conducting inspections of uranium mines.

These reductions are expected to generally be achieved through administrative savings, with a limited effect on services provided and revenues collected by the agency.

5. **Funding Equal to 2010-11 Levels**—The Introduced Bill includes funding equal to the 2010-11 biennial expended/budgeted amounts:
 - Alternative Energy Resources Training because the program is self-funded and has no General Revenue-Related funds;
 - Alternative Fuel Research and Education Licensing because the program is self-funded;
 - Pipeline Safety because of the potential threat to health and safety of citizens that could result from decreased inspection activity;
 - Pipeline Damage Prevention because of the potential threat to health and safety of citizens that could result from decreased response; and
 - Voluntary Cleanups for Brownfields because the program has a minimal amount of General Revenue-Dedicated funds and only 1.2 FTEs.
6. **Sunset Review**—The Sunset Advisory Commission conducted a review of the functions of the Railroad Commission during 2010-11. Commission recommendations with a significant budgetary impact include the following:
 - Changing the commission to a single elected commissioner starting on September 1, 2011, eliminating the need for an executive director and support staff, resulting in an estimated reduction of 13.0 FTEs and \$1.2 million in General Revenue savings;
 - Creation of a new General Revenue-Dedicated account to replace the General Revenue-Dedicated Oil Field Cleanup Account No. 145 and provide for a funding source for oil and gas regulation activities, as well as oil field cleanups, remediation, and well plugging, and estimated to result in a savings of \$23.4 million to the General Revenue Fund; and
 - Elimination of the Propane Marketing program (AFRED), which is expected to result in a reduction of 10.0 FTEs and \$600,000 in General Revenue savings the elimination of AFRED-related fees and expenditures.

Section 3

**Railroad Commission
FTE Highlights**

Full-Time-Equivalent Positions	Expended 2009	Actual 2010	Budgeted 2011	Recommended 2012	Recommended 2013
Cap	706.1	743.6	743.6	652.4*	652.4*
Actual/Budgeted	678.7	686.8	705.6	NA	NA

* Recommended FTE levels for 2012-13 includes 21.0 FTEs in Rider 6 contingent on revenues in excess of the Comptroller's Biennial Revenue Estimate (BRE) for 2012-13 to reduce permitting times and prevent backlogs. Absent these additional FTEs, the recommended FTE cap is 631.4 FTEs, or a decrease of 74.2 FTEs as compared to 2011 budgeted levels, which is 53.2 FTEs below the agency's 2010 annual average.

The following is a listing of recommended FTE reductions by strategy as compared to 2011 budgeted levels (without FTEs contingent on revenues in excess of the BRE):

Strategy	FTEs
Strategy A.1.1, Energy Resources Development	7.0
Strategy A.2.1, Gas Utility Compliance	3.1
Strategy A.3.1, Promote Alternative Energy	4.8
Strategy A.3.3, Regulate ALT Energy Resources	1.2
Strategy C.1.1, Oil and Gas Monitoring and Inspections	35.4
Strategy C.1.2, Surface Mining Monitoring and Inspections	4.1
Strategy C.2.1, Oil and Gas Remediation	4.8
Strategy C.2.2, Oil and Gas Well Plugging	9.7
Strategy D.1.1, GIS and Well Mapping	1.4
Strategy D.1.2, Public Information and Services	2.7
Total	74.2

Section 3

**Railroad Commission
Performance Measure Highlights**

	Expended 2009	Actual 2010	Budgeted 2011	Recommended 2012	Recommended 2013
<ul style="list-style-type: none"> • <i>Average Number of Wells Monitored Per Analyst</i> <p><i>The workload per analyst has increased as a result of the 5 percent reductions made in 2010-11 and is expected to increase in 2012-13 as a result of an additional 5 percent reduction to Energy Resource Development</i></p>	28,682	29,280	29,538	34,000	34,000
<ul style="list-style-type: none"> • <i>Number of Rebate and Incentive Applications Handled</i> <p><i>The number rebates and incentives is declining because of the 5 percent reductions in 2010-11 and a further 50 percent reduction in funding for 2012-13.</i></p>	4,596	2,473	3,147	1,574	1,574
<ul style="list-style-type: none"> • <i>Number of Oil and Gas Environmental Permit Applications and Reports Processed</i> <p><i>The number of applications and reports will drop significantly as a result of the 12.5 percent reduction in the Field Operations budget as the agency is expected to maintain oil and gas facility inspections as its main priority.</i></p>	110,970	107,035	100,000	43,000	42,000
<ul style="list-style-type: none"> • <i>Number of Orphaned Wells Plugged with the Use of State Funds</i> <p><i>The expected impact of a 26 percent reduction in the agency well plugging budget is expected to result in over a 20 percent reduction in the number of wells plugged in 2012-13 as compared to 2010-11.</i></p>	1,460	1,182	1,325	1,055	1,055

Section 5

Railroad Commission Rider Highlights

3. (Former) **Unexpended Balance and Estimated Appropriation Authority: Alternative Fuels Research and Education Account**—Delete rider because stating the portion of the appropriations from the General Revenue-Dedicated Alternative Fuels Research and Education (AFRED) Account No. 101 that are derived from balances in the account is not necessary. In addition, deletion of the rider removes authority for the agency to spend revenues to the AFRED Account No. 101 that are in excess of the Comptroller's Biennial Revenue (BRE) estimate, thereby saving any revenue that might be received in excess of the BRE for future biennia.
5. **Appropriations Limited to Revenue Collections and Contingent Revenue: LPG/CNG/LNG Fees**—Update amounts in rider to account for reductions based on agency's 5 percent reduction schedule for Gas Services Audits and Liquid Propane Gas Regulation; update references to strategies; and delete language in rider that appropriates revenue from LPG/CNG/LNG fees that are in excess of the BRE to the agency, thereby saving any additional revenue that might be collected for future biennia.
6. **Unexpended Balances and Estimated Appropriations Authority: Oil Field Cleanup Account**—Update amounts in rider and reduce amount of appropriations from the General Revenue-Dedicated Oil Field Cleanup Account No. 145 in excess of the Comptroller's Biennial Revenue Estimate (BRE) for 2012-13 from a maximum of \$10.0 million for the biennium to \$991,762 in fiscal year 2012 and \$917,255 in fiscal year 2013, limiting the additional appropriations to the amounts necessary to increase staffing levels in the oil and gas permitting programs to reduce permitting times and prevent permitting backlogs. By limiting the appropriation in excess of the BRE, this recommendation would preserve any additional revenue for future biennia.
9. **Appropriations Limited to Revenue Collections: Surface Mining Permits and Contingency Appropriation for Fee Increase**—Update amounts in rider to account for 12.5 percent reduction in the Surface Mining Applications and Permits program; delete language in the rider relating to the agency raising surface mining fees because the agency has already implemented the fee increases; and delete language appropriating revenue from surface mining permit fees that are in excess of the BRE to the agency, thereby saving any additional revenue that might be collected for future biennia.
10. **Appropriation for Pipeline Safety Fees**—Update amounts and strategy references and delete language in the rider that appropriates revenue from pipeline safety fees that are in excess of the BRE for 2012-13, thereby saving any additional revenue that might be collected for future biennia.
12. **Appropriation: Uranium Mining Regulatory Program**: update amounts in rider to reflect reduction to program based on agency's proposed 10 percent reduction option schedule (first 5 percent, which was included in the baseline bill).
13. **Appropriation: Anthropogenic Carbon Dioxide Storage Trust Fund Revenues in Excess of the Biennial Revenue Estimate**—Add new rider appropriating revenues to the Anthropogenic Carbon Dioxide Storage Trust Fund No. 827 (Other Funds) received in 2012-13. The program and

Section 5

account were created by Senate Bill 1387, 81st Legislature, Regular Session, but no permit applications have yet been received, and no revenues have accrued to the account to date. The new rider would allow the agency to access funds to perform permitting and enforcement activities using funds that would be assessed to permit applicants for such purposes.

14. **Sunset Contingency:** New rider providing that funds appropriated for 2013 are contingent upon the agency being continued by the 82st Legislature, and that funds appropriated for 2012 would be used to phase out agency operations, if the agency were not continued.
14. (Former) **Contingency Appropriation: Pipeline Safety Fees**—Delete contingency rider because Senate Bill 1658, 81st Legislature, Regular Session, passed, increasing the maximum pipeline safety fee rate. The agency subsequently increased the rate, and the additional funds are now included in the agency's baseline budget.

Section 6

**Railroad Commission
Items not Included in Recommendations**

	2012-13 Biennial Total			
	GR & GR- Dedicated	All Funds		
<p>1. Restore 2012-13 reductions for oil and gas-related activities--The agency requests restoration of funding reductions to oil and gas-related programs contingent upon passage of legislation as recommended by the Sunset Advisory Commission that would make the agency's oil and gas program self-supporting and result in an estimated \$50.6 million in new revenues during the 2012-13 biennium being deposited to a newly-created General Revenue-Dedicated Account that would replace the Oil Field Cleanup Account No. 145. The request would also result in an increase of 59.6 FTEs. Because the appropriations would be offset by new revenues, the item would not result in a cost to the bill. The following strategies would be restored in the following biennial amounts and are listed in the agency's priority order:</p> <p style="padding-left: 20px;">Strategy C.1.1, Oil and Gas Monitoring and Inspections--\$3,195,486 and 35.4 FTEs</p> <p style="padding-left: 20px;">Strategy A.1.1, Energy Resource Development--\$595,472 and 7.0 FTEs</p> <p style="padding-left: 20px;">Strategy C.2.2, Oil and Gas Well Plugging--\$8,857,098 and 9.7 FTEs</p> <p style="padding-left: 20px;">Strategy C.2.1, Oil and Gas Remediation--\$2,012,028 and 4.8 FTEs</p> <p style="padding-left: 20px;">Strategy D.1.2, Public Information--\$301,602 and 2.7 FTEs</p>	\$	14,961,686	\$	14,961,686
<p>2. Restore rider language in Rider No. 5, Appropriations Limited to Revenue Collections and Contingent Revenue: LPG/CNG/LNG Fees--LBB recommendations removed the estimated appropriations authority the agency has had for fees related to liquid propane gas, compressed natural gas, and liquified natural gas received in excess of the Biennial Revenue Estimate. The agency is asking for restoration of this rider appropriation which would not result in a cost to the appropriations bill. (See Rider Highlights, No. 5.)</p>	\$	-	\$	-
<p>3. Restore rider language in Rider No. 9, Appropriations Limited to Revenue Collections: Surface Mining Permits and Contingency Appropriation for Fee Increase--LBB recommendations removed the estimated appropriations authority the agency has had for revenues in excess of the Biennial Revenue Estimate related to fee increases. The agency is asking for restoration of this rider appropriation which would not result in a cost to the appropriations bill. (See Rider Highlights, No. 9.)</p>	\$	-	\$	-

Section 6

**Railroad Commission
Items not Included in Recommendations**

	2012-13 Biennial Total	
	GR & GR- Dedicated	All Funds
<p>4. Restore rider language in Rider No. 10-, Appropriation for Pipeline Safety Fees--LBB recommendations removed the estimated appropriations authority the agency has had for revenues from pipeline safety fees received in excess of the Biennial Revenue Estimate. The agency is asking for restoration of this rider appropriation which would not result in a cost to the appropriations bill. (See Rider Highlights, No. 10.)</p>	\$ -	\$ -
<p>5. Restore Capital Budget Authority for Personal Computers, Vehicles, and Information Technology Upgrades-- \$ The agency requests restoration of Capital Budget authority for the following projects, which would not result in a cost to the bill because the agency would use existing appropriations to fund these items:</p> <ul style="list-style-type: none"> a. Infrastructure Upgrade--\$199,755 b. Personal Computer (PC) Refresh (for leased PCs)--\$294,910 c. Vehicle Replacements (Lease or Purchase)--\$1,101,872 	\$ -	\$ -
Total, Items Not Included in the Recommendations	\$ 14,961,686	\$ 14,961,686