

SUBJECT: TERRA fund transfers and uses

COMMITTEE: Energy Resources — favorable, without amendment

VOTE: 9 ayes — Holzheuser, Hawley, Davis, Driver, Merritt, Moffat, Smithee,
Torres, Wilson

0 nays

WITNESSES: For — None

Against — None

On — Barry Williamson, Railroad Commission

BACKGROUND : The 74th Legislature in 1995 enacted HB 2731 by Craddick, establishing the Texas Experimental Research and Recovery Activity (TERRA) program. Under TERRA, the Texas Railroad Commission (TRC) maintains abandoned, mechanically sound, non-polluting well bores already drilled for oil, gas or geothermal exploration. The abandoned wellbores are held in TERRA for future licensing to gather data, perform production tests, and develop and test new recovery techniques or for eventual plugging if not reused. A well may be placed in the program with the consent of owners holding 50 percent of the mineral interests in the well.

The TRC can sell material and equipment salvaged during well-plugging efforts. Under current law, this salvage money can be transferred into the TERRA fund on January 1 of each year. Money in the TERRA fund may be used by TRC only for TERRA purposes, including administrative costs. The commission may use up to 75 percent of the annual interest earned on the fund money for other program costs related to oil and gas activities, so long as the unobligated money in the fund exceeds the total estimated cost of plugging all TERRA wells.

DIGEST: HB 3490 would amend the Natural Resource Code to provide that the commission could request the comptroller to transfer into the TERRA fund salvage money earned from well plugging efforts on or after January 1 of each year. The bill would allow TRC to use more than 75 percent of the

annual interest earned on the TERRA fund for other purposes so long as the fund balance was at least twice the estimated cost for plugging all the wells in the program. The commission could not use TERRA funds for other purposes if the fund balance was less than the total estimated costs of plugging all TERRA wellbores.

HB 3490 also would allow wells to be transferred from the state-funded plugging program over to TERRA without a TERRA agreement. Wells transferred in this manner could not be used for research purposes unless the owners of the required mineral interests executed a TERRA agreement.

HB 3490 would take effect September 1, 1997.

**SUPPORTERS
SAY:**

HB 3490 would make necessary adjustments in the TERRA program to address problems that have arisen since its enactment. For example, under current law, salvage money earned from well plugging efforts can only be transferred into the TERRA fund on January 1, a legal holiday. It is impossible to comply with this provision, since all state offices are closed on that day.

HB 3490 also would give the Railroad Commission flexibility to use excess TERRA interest for administrative purposes. It is reasonable to keep the money within the agency in case of future need so that it could easily be funneled into the fund. If these monies were allowed to collect in the state treasury, they easily could be appropriated for another purpose and be lost forever, jeopardizing this important new program.

Since the TERRA fund is a revolving rather than a dedicated fund, there are no legal issues involved in allowing the commission flexibility to use the interest. Furthermore, the bill would offer more than adequate safeguards by prohibiting the use of the TERRA fund for general purposes unless it contained more than twice the amount of money needed to plug all TERRA wells.

HB 3490 also would save the commission considerable expense in researching and tracking down elusive mineral interest owners when transferring wells into the TERRA program. Owners of mineral interests in these cases are hard to find — the wells have been abandoned. But their

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interests would still be protected because HB 3490 would prohibit TERRA wells from being licensed and used for research purposes without the consent of 50 percent of the mineral interest owners.

OPPONENTS
SAY:

Allowing the Railroad Commission to remove excess money from the TERRA fund and use it for general administrative purposes would go against the general intent of the Legislature when it enacted HB 2731.

NOTES:

The companion bill, SB 1713 by Bivins, passed the Senate on April 11. SB 1713 incorporates provisions of HB 1999 by Merritt, which passed the House on second reading yesterday.