

SUBJECT: Redirecting gas utility taxes to the oil and gas regulation and cleanup fund

COMMITTEE: Energy Resources — committee substitute recommended

VOTE: 11 ayes — Darby, C. Anderson, G. Bonnen, Canales, Clardy, Guerra, Isaac, P. King, Lambert, Landgraf, Schubert

0 nays

2 absent — Craddick, Walle

WITNESSES: For — (*Registered, but did not testify*: Adrian Acevedo, Anadarko Petroleum; Mark Harmon, Chesapeake Energy; Julie Williams, Chevron; Teddy Carter, Devon Energy; Christina Wisdom, Occidental Petroleum Corporation; Katherine Carmichael, Panhandle Producers and Royalty Owners Association; Ben Sebree, Permian Basin Petroleum Association; Mark Gipson, Pioneer Natural Resources; Bill Stevens, Texas Alliance of Energy Producers; Jason Skaggs, Texas and Southwestern Cattle Raisers Association; Stephen Minick, Texas Association of Business; Ed Longanecker, Texas Independent Producers and Royalty Owners Association; Laura Buchanan, Texas Land and Mineral Owners Association; Todd Staples, Texas Oil and Gas Association; Tricia Davis, Texas Royalty Council)

Against — None

On — Wei Wang, Railroad Commission; Lon Burnam; (*Registered, but did not testify*: Cyrus Reed, Lone Star Chapter Sierra Club; Carol Birch, Public Citizen Texas)

BACKGROUND: Natural Resources Code, sec. 81.067 governs the oil and gas regulation and cleanup fund. Sec. 81.068 allows the Railroad Commission of Texas (RRC) to use money in the fund for any purpose related to the regulation of oil and gas development, including oil and gas monitoring and inspections, well plugging, and other specified activities.

Utilities Code, ch. 122 governs the gas utility pipeline tax, which is a 0.5 percent tax on the gross income of natural gas utilities. This tax must be paid to the RRC but made payable to the comptroller. It is deposited into the general revenue fund.

DIGEST: CSHB 2715 would require gas utility pipeline taxes, as well as penalties for failure to report or pay and interest from delinquent taxes, to be deposited to the credit of the oil and gas regulation and cleanup fund. The tax, penalties, and interest would be deposited to the fund until September 1, 2029. The bill also would allow the oil and gas regulation and cleanup fund to be used for any purpose related to the regulation of the rates and services of gas utilities and the administration of surface mining regulatory programs.

The bill would take effect on September 1, 2017, and would prevail over other legislation passed by the 85th Legislature relating to nonsubstantive additions and corrections to enacted codes.

SUPPORTERS SAY: CSHB 2715 would deposit revenue raised by the Railroad Commission of Texas (RRC) through gas utility pipeline taxes, which is currently swept into general revenue, into the oil and gas regulation and cleanup fund. The RRC is primarily a fee-based agency, which is beneficial when the industry is doing well but is detrimental when the industry lulls. Since 2015, falling oil prices have curtailed fee revenue, causing the RRC to operate at a deficit of roughly 20 percent. Dedicating revenue from the gas utility pipeline tax to the oil and gas regulation and cleanup fund would provide certainty to the RRC and enable it to fully carry out its duties.

OPPONENTS SAY: The RRC would be better served by receiving an appropriation in the amount of the tax, rather than having the tax dedicated to the oil and gas regulation and cleanup fund. Dedicating the tax would not necessarily give the RRC more funds, but it would limit the Legislature's discretion over those funds in the future.

OTHER OPPONENTS CSHB 2715 would be a good first step, but more is required to achieve the right balance of funding. While it is clear that the RRC needs more

SAY: funding, the Legislature should carefully review current permit fees, bonding levels, and fines assessed by the commission.

NOTES: According to the Legislative Budget Board's fiscal note, CSHB 2715 would have a negative impact of \$51.7 million dollars to general revenue and a positive impact of \$51.7 million dollars to the oil and gas regulation and cleanup fund through fiscal 2018-19.