

## BILL ANALYSIS

Senate Research Center  
80R13670 SMH-F

H.B. 1920  
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Natural Resources  
5/16/2007  
Engrossed

### AUTHOR'S / SPONSOR'S STATEMENT OF INTENT

In Texas, there has been an increasingly common practice of natural gas gatherers, pipelines, and processors requiring natural gas producers to accept burdensome deductions for "lost or unaccounted for gas" or LUG. Many Texas producers are faced with contracts anticipating between five percent and 15 percent line loss, and in some cases as high as 20 percent. These deductions are often unexplained and unsubstantiated.

H.B. 1920 creates a process by which natural gas producers may obtain information from someone who gathers or transports their gas to determine what happened to the natural gas while the natural gas was in the custody of the gatherer. The process would make the information necessary to determine what caused the loss of the natural gas and to determine whether some portion of any unaccounted for gas belongs to the producer. Every cubic foot of gas that is recovered translates into additional severance tax and royalty being paid.

### RULEMAKING AUTHORITY

This bill does not expressly grant any additional rulemaking authority to any state officer, institution, or agency.

### SECTION BY SECTION ANALYSIS

SECTION 1. Amends Subchapter C, Chapter 85, Natural Resources Code, by adding Section 85.065, as follows:

Sec. 85.065. INFORMAL COMPLAINT PROCESS REGARDING LOSS OF OR INABILITY TO ACCOUNT FOR NATURAL GAS GATHERED OR TRANSPORTED. (a) Authorizes a producer to submit a written request to a person who gathers or transports gas for the producer for an explanation of any loss of or inability to account for the gas tendered to the person by the producer. Authorizes the request to ask the person to provide any or all of the information that would be required to be included in an accounting under Subsection (c). Requires the person, not later than the 30th day after the date the person receives the request from the producer, to provide the producer a written explanation of any loss of or inability to account for the gas tendered to the person by the producer. Requires the response to include any relevant information requested by the producer that is available to the person and that would be required to be included in an accounting under Subsection (c).

(b) Authorizes a producer to file with the Railroad Commission of Texas (commission) an informal complaint against the person if the producer submits a request under Subsection (a) to a person who gathers or transports gas for the producer and the person provides an inadequate explanation of any loss of or inability to account for the gas, or fails to provide any explanation of any loss of or inability to account for the gas by the deadline provided by that subsection. Requires certain information to be included in the complaint.

(c) Requires the person who gathered or transported the gas to provide to the producer and the commission an accounting of the gas during the production period covered by the complaint, not later than the 14th day after the date the complaint is filed. Authorizes the accounting to be provided on a thousand cubic feet or a million British thermal unit basis, as applicable, and requires that the

accounting include the information the commission determines to be necessary to resolve an informal complaint under this section. Authorizes certain information to be included in the accounting of the gas during the production period covered by the complaint.

(d) Authorizes the commission to grant an extension of time to the person who gathered or transported the gas to provide the accounting required by Subsection (c). Prohibits an extension from permitting the accounting to be provided later than the 45th day after the date the informal complaint was filed.

(e) Requires the person, if the person who gathered or transported the gas does not have the information necessary to provide the accounting required by Subsection (c), to provide to the producer and to the commission a written explanation of the reason the person does not have the information.

(f) Provides that if the person who gathered or transported the gas fails to provide the accounting required by Subsection (c) or the explanation required by Subsection (e), the informal complaint filed by the producer is considered to be valid.

(g) Authorizes the commission, if Subsection (f) applies or the commission determines that the person who gathered or transported the gas committed waste, to take any action it considers appropriate, including issuing an order in a formal proceeding to prevent waste by the person who gathered or transported the gas.

(h) Provides that this subsection applies only to a producer and a person who gathers or transports gas for the producer under a contract between the producer and that person entered into or renewed on or after September 1, 2007. Entitles the producer, on written request, to audit the books and records of the person that pertain to the contract between the producer and the person for the purpose of verifying whether any gas tendered to the person by the producer that the person has lost or is unable to account for has been allocated to the volume of gas tendered to the person by the producer as required by the contract. Provides that a producer is not entitled to conducting an audit under this subsection more frequently than annually.

SECTION 2. Makes application of Section 85.065, Natural Resources Code, as added by this Act, prospective.

SECTION 3. Effective date: September 1, 2007.