

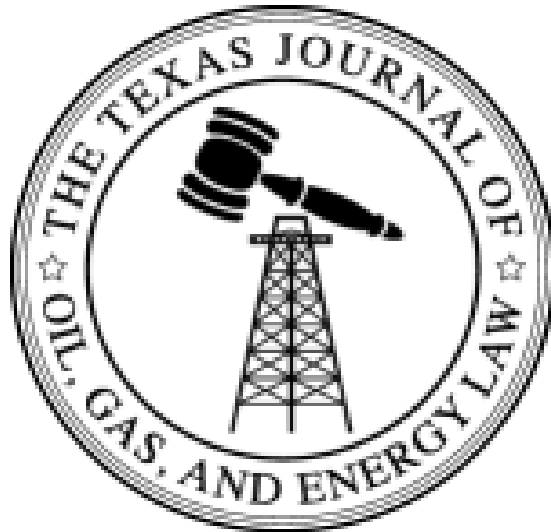
Legislative Update: Summaries of Key Oil and Legislation

85th (2017) TEXAS REGULAR SESSION

Ben Sebree

The Sebree Law Firm

ben@thesebreefirm.com



This presentation
provides zero ethics
credits because my
subject matter is, after
all...

Politics and the Texas Legislature



To understand the legislative session, and oil and gas issues within it, you need to start at the beginning...

1836 Election for President of the Republic of Texas



- Gen. Sam Houston
- Henry Smith
- Stephen F Austin

What was the Big Fight about
this past Session?





Texas

Bathroom Bill



Sanctuary Cities and Immigration

A green highway sign with white text. The sign is rectangular with rounded corners and a white border. It is mounted on three metal posts. The text on the sign is arranged in four lines, centered horizontally. The background of the sign is a solid green color, and the text is in a bold, white, sans-serif font. The sign is set against a clear blue sky with some faint clouds. In the bottom right corner, there is a small portion of a tree with green leaves.

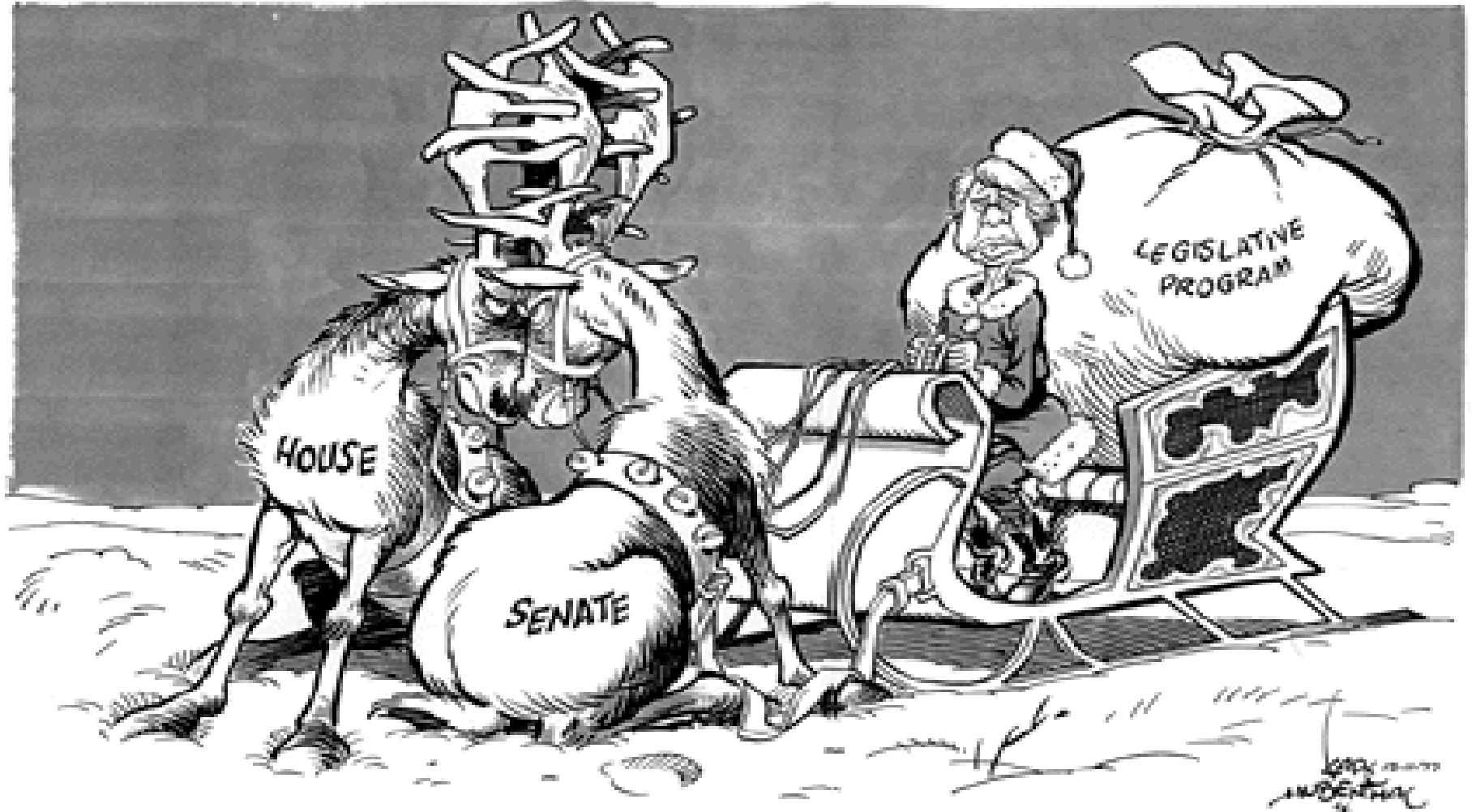
Welcome Illegal
Immigrants
Sanctuary City
Next Exit

Property Tax Reform and Relief!



Senate & House Legislative Priorities

DONDER AND BLITZEN



Oil and Gas and the 85th Texas Legislature



2017 Oil and Gas Major Issues

- **Railroad Commission Sunset and Funding**
- **Exploration & Production**
- **Eminent Domain & Pipelines**
- **Tax**
- **Water**
- **Transportation**

What Did Pass?



I. Railroad Commission of Texas



HB 1818 RRC Sunset

I. Continuation. Continues the RRC until September 1, 2029.

II. Alternative Dispute Resolution. Requires the RRC to develop and implement a policy to "encourage" the use of appropriate alternative dispute resolution procedures to assist in the resolution of internal and external disputes under the commission's jurisdiction.

HB 1818 RRC Sunset

Requires the commission to collect and maintain information that accurately shows the effectiveness of the commission's oil and gas monitoring and enforcement activities. Requires the commission to prepare an annual report which must include data regarding violations of statutes or commission rules that relate to oil and gas, including:

(1) the number, type, and severity of:

(A) violations the commission found to have occurred;

(B) violations the commission referred for enforcement to the section of the commission responsible for enforcement; and

(C) violations for which the commission imposed a penalty or took other enforcement action;

HB 1818 RRC Sunset

(2) the number of major violations for which the commission imposed a penalty or took other enforcement action; and

(3) the number of repeat violations, categorized by individual oil or gas lease, if applicable; and

(4) the number of repeat major violations, categorized by individual oil and gas lease, if applicable.

HB 1818 RRC Sunset

III. Pipeline and Regulatory Fees. Allows the commission to establish by rule pipeline and regulatory fees to be assessed for permits or registrations for pipelines under the jurisdiction of the commission's pipeline safety and regulatory program.

Requires that the fees be in amounts that in the aggregate are sufficient to support all pipeline safety and regulatory program costs.

Adds these fees to list of revenue sources that are included in the Oil and Gas Regulation and Cleanup Fund.

HB 1818 RRC Sunset

VI. E-Verify Program. Prohibits the commission from awarding a contract for goods or services in this state unless the contractor and any subcontractor register with and participate in the E-Verify program to verify employee information.

VII. Abolishes the Oil and Gas Regulation and Cleanup Fund Advisory Committee.

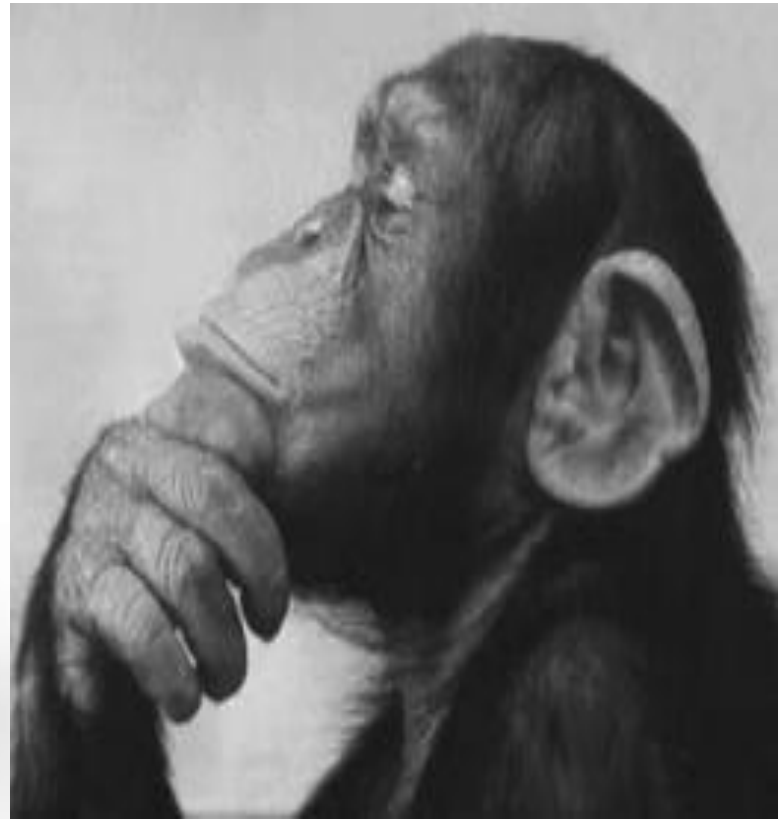
SB 1 General Appropriations Bill

RRC Budget

As filed, the budget of the Railroad Commission would have been slashed by nearly 8 percent to \$162.7 million.

After significant efforts to help the Commission, as finally passed, the General Appropriations Bill was successfully amended to increase the RRC budget to \$256.1 million. This results in a biennial **increase of \$79.7 million or a 45.2% increase.**

What does it mean?



State Budget and RRC Budget

Summary – The total budget adopted for the state was \$216.7579-Billion.

This is an increase of just \$359.4 million or just **0.2% (2/10ths of one percent)**.

The fact that we were able to achieve a significant increase (**45.2%**) in the budget of the Railroad Commission in such a historically conservative state budget cannot be overstated.

II. Exploration and Production



HB 1643 Prohibited Drone Flights

In general, makes it illegal to fly a drone over an oil and gas or chemical facility. Specifically, adds the following to the list of critical infrastructure facilities over which one cannot fly a drone:

1. an oil or gas drilling site;
2. a group of tanks used to store crude oil, such as a tank battery;
3. an oil, gas, or chemical production facility;
4. an oil or gas wellhead; and
5. an oil and gas facility that has an active flare.

HB 2819 Advisory Committee for TexNet Monitoring Program

Creates the "TexNet Advisory Committee" to watch over the "TexNet Seismic Monitoring Program" which is the program administered by the Texas Bureau of Economic Geology which oversees an array of equipment for a seismic network to study seismic events in Texas.

Provides that the "TexNet Advisory Committee" is composed of ten members as follows:

- A. three to be appointed by the Governor,
- B. three to be appointed by the Lieutenant Governor,
- C. three to be appointed by the Speaker of the House, and
- D. **one to be an employee of the Texas Railroad Commission** who specializes in seismology, geomechanical engineering, reservoir engineering or another related field and is appointed by the Executive Director of the Texas Railroad Commission.

Requires that at least **one appointment each from the Governor, Lieutenant Governor, and Speaker must be from the oil and gas industry.**

(Responsibilities of Advisory Committee outlined in Paper)

SB 1541 Environmental Responsibility for Recycled Drill Cuttings

For the purpose of "treating" drill cuttings for a subsequent beneficial use, defines "treatment" to mean "a manufacturing, mechanical, thermal, or chemical process other than sizing, shaping, diluting, or sorting."

In order to be considered a beneficial use, requires that the drill cuttings be used:

1. in the construction of oil and gas lease pads or oil and gas lease roads; or
2. as part of a legitimate commercial product.

Requires the Railroad Commission of Texas ["RRC"] to define "legitimate commercial product."

SB 1541 Environmental Responsibility for Recycled Drill Cuttings

Requires the RRC to adopt criteria for beneficial uses to ensure that a beneficial use of recycled drill cuttings is at least as protective as public health, public safety, and the environment as the use of an equivalent product made without recycled drill cuttings.

Requires that rules, permits, and orders of the RRC regarding the treatment and beneficial use of drill cuttings must be at least as protective of public health, public safety, and the environment as the rules, permits, and orders regarding the disposal of drill cuttings.

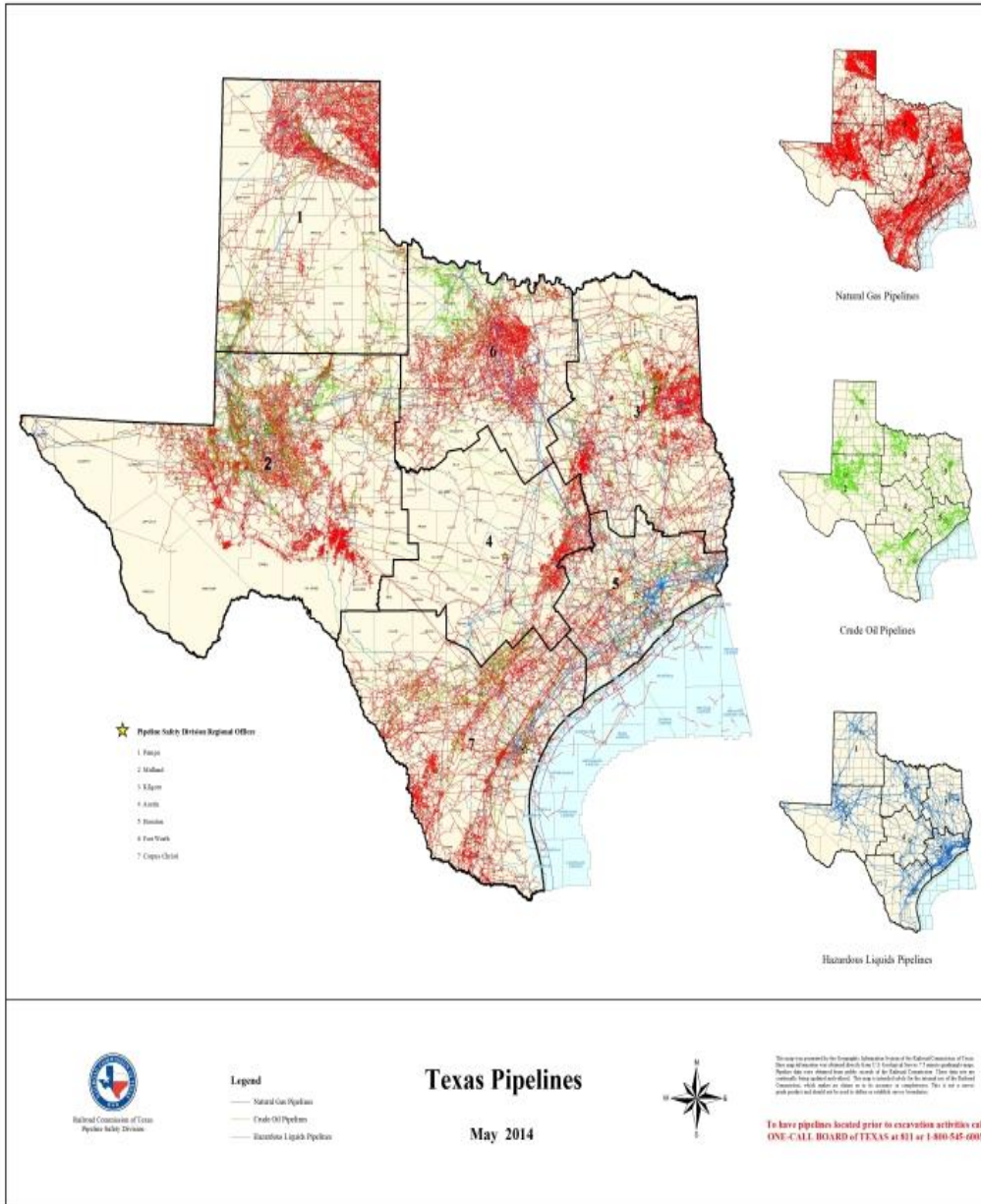
SB 1871 Oilfield Theft

Creates specific offenses for the unlawful appropriation of petroleum products as follows:

- (1) a state jail felony if the total value of the petroleum product appropriated is less than \$10,000;
- (2) a felony of the third degree if the total value of the petroleum product appropriated is \$10,000 or more but less than \$100,000;
- (3) a felony of the second degree if the total value of the petroleum product appropriated is \$100,000 or more but less than \$300,000; and
- (4) a felony of the first degree if the total value of the petroleum product or oil and gas equipment appropriated is \$300,000 or more.

Unlawful appropriation is defined to mean without the owner's effective consent.

III. Eminent Domain



Eminent Domain

- The Eminent Domain debate is more about Governmental Authorities than pipelines but common carrier pipelines are caught up in it anyway.
- Over 35 separate eminent domain bills filed and almost every one of them would have been damaging to pipeline operations.
- Main bills were SB 740 by Senator Lois Kolkorst and HB 2684 by Representative DeWayne Burns.
- These (as filed) and many other bills were pro-plaintiff lawyer bills.
- Would have required attorneys' fees be paid to trial lawyers who prevailed at court if they achieved an award of at least 20% more than the final offer.
- Would have dramatically driven up the costs and time involved in eminent domain proceedings.

Eminent Domain

- The bill sponsors agreed to remove the provisions awarding attorneys' fees.
- This caused the property owners coalition (Texans for Property Rights) to send a letter to the entire Legislature which was very critical of their own legislative sponsors wherein they not only removed their support for SB 740 and HB 2684 but actually stated that they would oppose those bills.
- As a consequence, much of the legislative motivation to pass eminent domain reform evaporated and every one of the eminent domain bills died.
- This issue will be back next session.

IV. Tax



HB 2277 Fixing the Median Cost of High-Cost Gas Wells

The high-cost natural gas tax incentive provides a reduced severance tax rate if certified by the Railroad Commission of Texas as a high-cost natural gas well. The magnitude of the rate reduction is based in part on the median drilling and completion ["D&C"] costs from all high-cost gas wells in the previous fiscal year, as reported to the Texas comptroller of public accounts ["Comptroller"].

Under existing law, there was confusion regarding whether the D&C cost variable should be recalculated when amended reports come in after the close of the tax year.

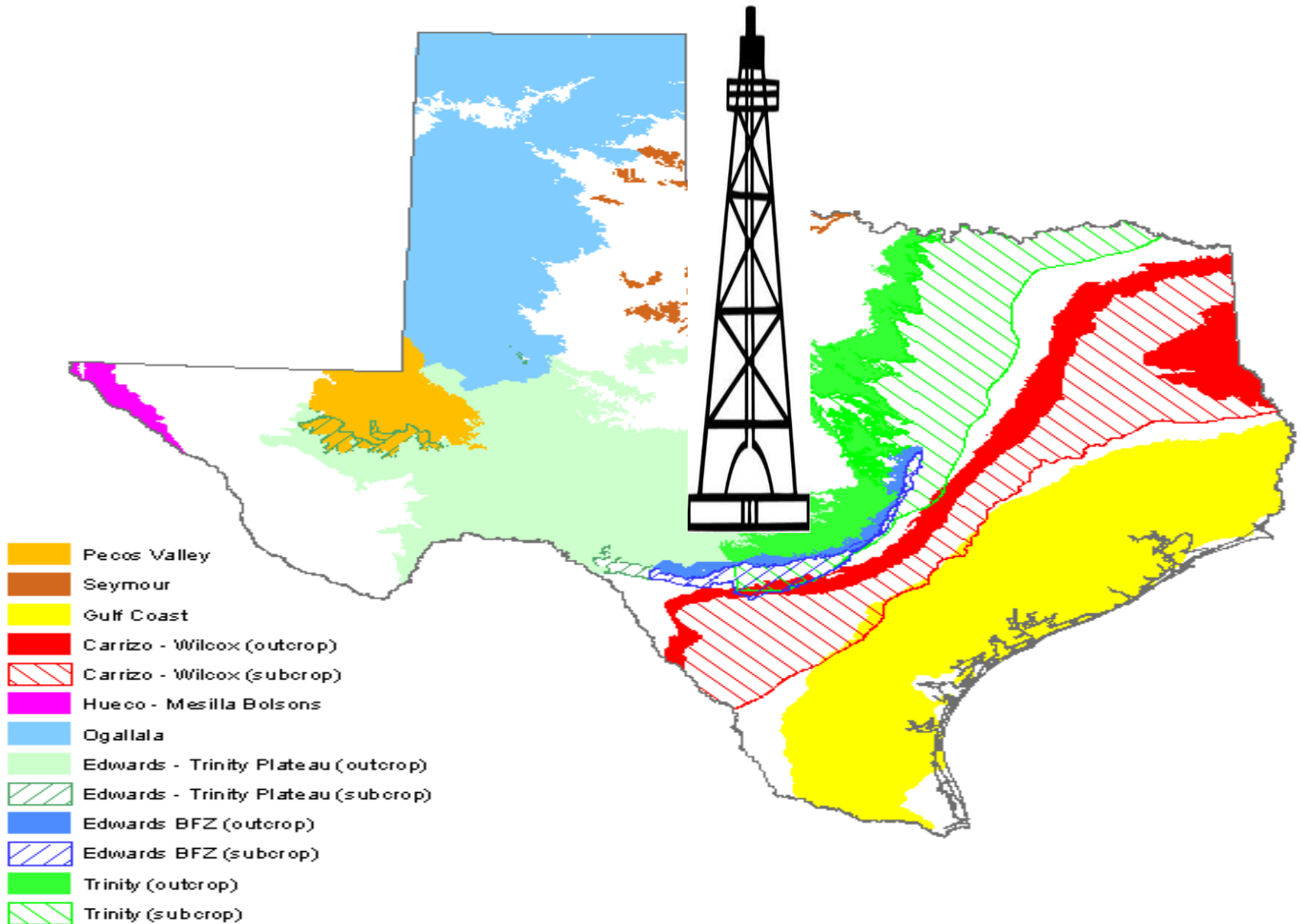
This bill provides that the Comptroller's annual determination of the median drilling and completion costs used to calculate the reduced tax rate is final. Requires that the deadline for submitting the drilling and completion costs for individual wells is March 1 of the following year.

HB 3232 Exception to 5% Penalty for Delinquent O&G Taxes

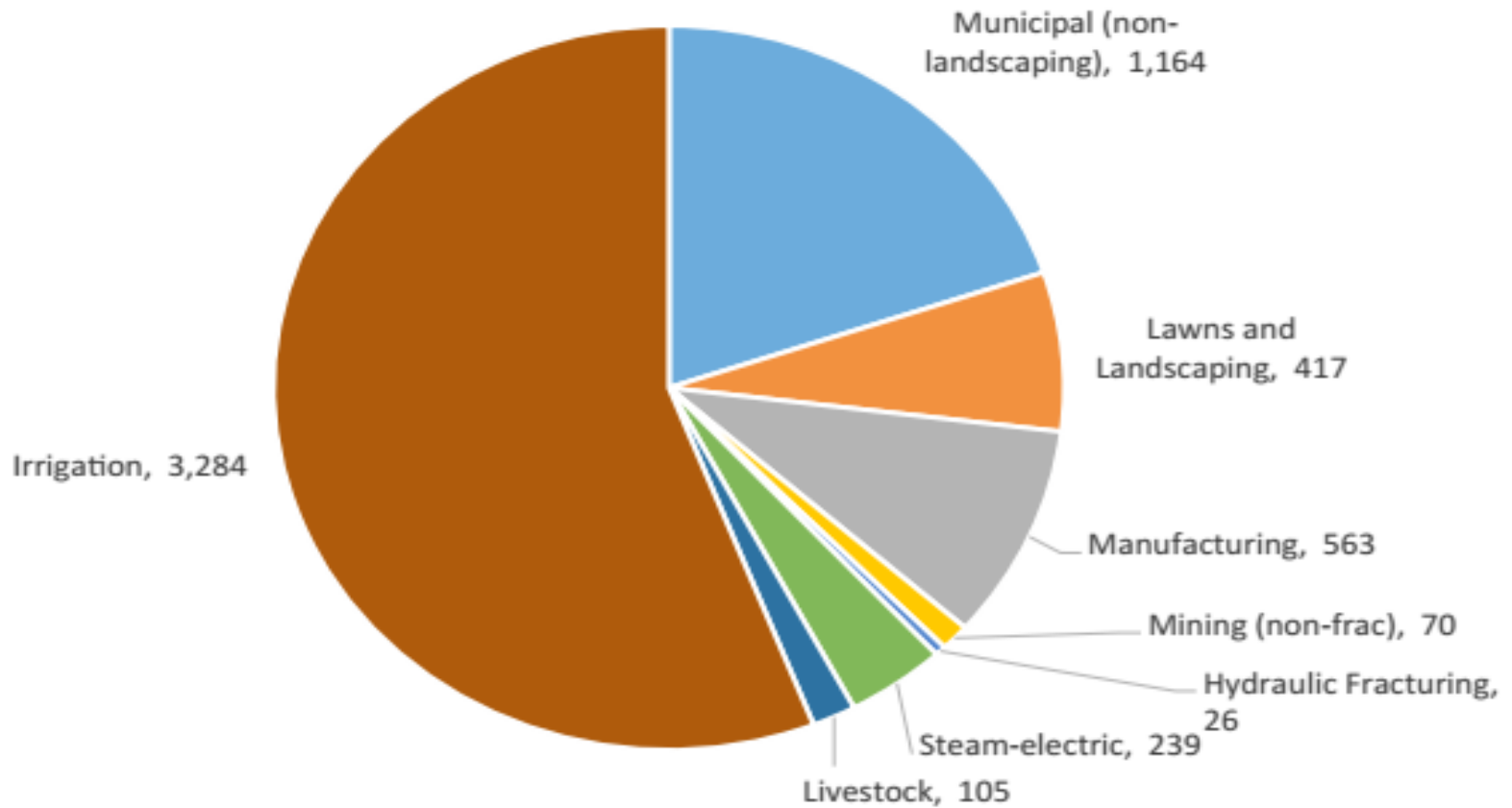
Provides an exception to the 5% penalty for delinquent (including unintentionally delinquent) payment of oil and gas severance taxes for a taxpayer if:

- (1) the delinquency results from the filing of an amended report with the Comptroller for a timely filed original report;
- (2) the taxpayer paid the full amount of tax due as indicated in the original report;
- (3) the total amount of additional tax due as a result of the amended report does not exceed 25 percent of the amount of tax due as indicated in the original report;
- (4) the taxpayer resolves all errors identified by the Comptroller on the amended or original report by the 60th day after the date on which the amended or original report is filed; and
- (5) the taxpayer files the amended report not later than the 730th day after the date on which the original report was due and remits the full amount of the additional tax due with the amended report.

V. Water and Oil & Gas



Oil & Gas E&P Industry Uses less than 1% of all ground water used statewide.



HB 2377 - Development of Brackish Groundwater

Encourages development of brackish groundwater; protects oil and gas industry.

Upon receipt of a petition from a person with a legally defined interest in groundwater in a groundwater conservation district ["GCD"], requires the GCD to adopt rules for the withdrawal of brackish groundwater that will be treated to drinking water standards.

Provides that a person may obtain a permit under the rules for the following projects:

(1) a municipal project designed to treat brackish groundwater to drinking water standards for the purpose of providing a public source of drinking water; and

(2) an electric generation project to treat brackish groundwater to water quality standards sufficient for the project needs.

SB 1525 – Study of Water Needs and Availability in Texas

Requires the Texas Water Development Board ["TWDB"] to conduct a study of water needs and availability in Texas and to produce a comprehensive water resources map.

Among other things, requires TWDB to consider the reuse of water associated with oil and gas operations.

Requires TWDB to conduct studies of aquifer storage and recovery projects including a statewide survey of the most favorable areas for aquifer storage and recovery.

Also requires TWDB to consider desalinated marine seawater and brackish groundwater.

VI. Transportation



HB 62 Hands-Free Driving

In general, prohibits the use of a portable wireless communication device to read, write, and/or send an electronic message while operating a motor vehicle unless the vehicle is stopped.

SB 1305 Repeal of County Energy Transportation Reinvestment Zones

Repeals the Transportation Infrastructure Fund, established by SB 1747, 2013 legislative session.

Repeals the sections of Chapter 222 of the Transportation Code that authorize County Energy Transportation Reinvestment Zones.

SB 1731 Extension of Texas Emission Reduction Plan

Generally extends the expiration dates under the Texas Emission Reduction Plan [“TERP”] to the end of the fiscal year in which the state reaches attainment for ozone under the national ambient air quality standards.

Most likely, this means that it is an effective extension in perpetuity.

SB 1731 Extension of Texas Emission Reduction Plan

Expansion of Clean Transportation Zone.

Expands the counties in the Clean Transportation Zone beyond the triangle of counties connecting Houston, San Antonio, Dallas and Fort Worth to also include:

(A) counties containing connecting San Antonio, Corpus Christi, Laredo and Houston; and

(B) counties in this state all or part of which are included in a nonattainment area.

Requires the TCEQ to provide for strategically placed fueling facilities in the clean transportation zone to enable an alternative fueled vehicle to travel in those areas solely on alternative fuels.

Requires the TCEQ to establish additional eligibility and prioritization criteria for alternative fueling facility grants.

SB 1731 Extension of Texas Emission Reduction Plan

Governmental Alternative Fleet Program.

Requires the TCEQ to develop a governmental alternative fleet program to assist state agency and political subdivisions with a fleet of more than 15 vehicles to operate primarily on compressed natural gas, liquefied natural gas, or liquefied petroleum gas, hydrogen fuel cells, or electricity including plug-in hybrid motor vehicles.

"Knowledge speaks, but wisdom
listens."

Jimi Hendrix

