



2015 LEGISLATIVE REPORT



**TEXAS INDEPENDENT PRODUCERS &
ROYALTY OWNERS ASSOCIATION**

**DEDICATED TO PROTECTING THE
ABILITY TO EXPLORE FOR
AND PRODUCE
OIL AND NATURAL GAS**



A MESSAGE FROM TIPRO'S PRESIDENT ED LONGANECKER

On Monday, June 1, 2015, the 84th Texas Legislature adjourned Sine Die. During session, a wide variety of critical issues required the attention of lawmakers and the Texas Independent Producers & Royalty Owners Association (TIPRO), including a dominant legislative theme related to municipal authority and the development of oil and natural gas. More than 6,200 bills were filed for consideration in 2015 - including over 4,200 in the Texas House of Representatives and 2,069 in the Texas Senate. Of these, TIPRO tracked nearly 400 pieces of legislation which pertained to members of the Texas oil and gas industry.



Most significantly, Representative Drew Darby, chairman of the House Committee on Energy Resources, and Senator Troy Fraser, chairman of the Senate Committee on Natural Resources and Economic Development, championed landmark preemption legislation, under House Bill 40, that affirmed the state's exclusive jurisdiction over oil and natural gas development. House Bill 40, which was one of multiple local control bills filed, passed both the House and Senate with a two-thirds majority and was signed by Governor Greg Abbott on May 18th, 2015. This new law will provide much needed clarity regarding the rights and limitations of municipalities as it relates to oil and natural gas development. Most importantly, it will offer the regulatory certainty our industry requires in day-to-day operations.

During the 140 days of session, TIPRO was able to successfully advocate on behalf of the state's independent producers and royalty owners on numerous legislative priorities. In addition to measures related to local control, TIPRO worked on issues concerning water conservation, tax relief, transportation funding, oil field theft and crude oil exports, to name a few examples. Since the association's inception nearly 70 years ago, TIPRO has consistently provided policymakers with essential information that allows them to understand the impact of their decisions on the oil and gas industry. Our ongoing efforts have proven to be instrumental in helping to block onerous bills, promoting beneficial legislation, and ultimately creating a regulatory environment that is conducive to economic growth and the responsible exploration and production of oil and natural gas.

Since 1946, TIPRO has proudly served as the leading voice for the Texas oil and gas industry. As one of the nation's largest statewide associations serving both independent producers and royalty owners, members of the association include small family businesses, the largest, publicly-traded independent producers, and mineral owners, estates, and trusts. Members of TIPRO are responsible for producing more than 85 percent of the natural gas and 70 percent of the oil within Texas, and own mineral interests in millions of acres across the state.

I hope you find value in reviewing TIPRO's End of Session Report as we strive to keep you informed of relevant legislative developments and the many accomplishments of our organization and industry. If you are not directly engaged in our advocacy efforts, I encourage you to join one of our many policy committees. There is strength in numbers. Your participation and support greatly enhances our ability to effectively represent our industry at the state and federal level.

If you have any questions, please do not hesitate to contact me directly. Thank you.

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BUDGET

GENERAL APPROPRIATIONS BILL (HB 1):

AUTHOR: REP. OTTO | SPONSOR: SENATOR NELSON

Analysis: HB 1 appropriates \$209.4 billion for the 2016-2017 biennium, a 3.6 percent increase from the last biennium. Funding is not limited to, but includes the following key budget items:

- **Foundation School Program:** \$35.5 billion in General Revenue Funds and \$42.3 billion in All Funds. An increase of \$3.8 billion in General Revenue Funds and an increase of \$2.7 billion in All Funds compared to the 2014-2015 biennium.
- **Texas Department of Transportation:** \$23.1 billion in All Funds.
- **Texas Commission on Environmental Quality:** \$236.3 million from the General Revenue—Dedicated Texas Emissions Reductions Plan (TERP) Account to fund TERP for the 2016–17 biennium, \$81.0 million above 2014–15 biennial levels.
- **Texas Water Development Board** intends to fund \$700.0 million in State Water Plan projects each fiscal year of the 2016–17 biennium using the financing mechanism created within the State Water Implementation Fund for Texas (SWIFT). Note: Funding through HB 1 reflected a decrease of \$2.0 billion out of the Economic Stabilization Fund for a one-time appropriation to SWIFT in fiscal year 2014.
- **Texas Railroad Commission:** \$87 million, including 820 Full-Time Equivalents (FTEs) and the exceptional items noted below.
 - o \$2.8 million in addition to the base budget;
 - o 20 additional FTEs and \$2.2M for safety inspections; and
 - o \$150,000 to replace microfiche readers.
- **Department of Public Safety:** \$241,600 in fiscal year 2016 and \$199,800 in fiscal year 2017 in General Revenue Funds for two dedicated oil and natural gas analysts within the Department of Public Safety’s Joint Crime Information Center for the purpose of analyzing threats, criminal activity and industry information to produce actionable intelligence to support law enforcement, emergency management, and industry operations.

Note: No appropriations from the Economic Stabilization Fund (ESF) are included in the 2016–17 biennium. The balance of the fund is estimated to be **\$11.1 billion** at the end of fiscal year 2017.

TIPRO Efforts: TIPRO actively supported HB 1. Specifically, TIPRO worked with budget conferees to make certain the Railroad Commission and the Texas Commission on Environmental Quality received all necessary appropriations.

Bill Status/Effective Date: HB 1 was signed by the Governor on June 20, 2015, and will take effect on September 1, 2015. The following contingency riders were vetoed by the Governor: HB 14, HB 1552 and SB 12.

SUPPLEMENTAL APPROPRIATIONS BILL (HB 2):

AUTHOR: REP. OTTO | SPONSOR: SENATOR NELSON

Analysis: HB 2 provides direction and adjustment authority regarding appropriations. This session, several legislators including Rep. Darby, Rep. Crownover and Rep. Anchia worked to move forward additional appropriations on seismic research. In addition to the amounts previously appropriated for the biennium ending in August 2015, HB 2 appropriated \$4,471,800 out of the General Revenue Fund to the University of Texas at Austin Bureau for Economic Geology for a two year period beginning immediately.



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HB 2 CONTINUED:

Analysis: Funding through the legislation is intended to be used for the purchase and deployment of:

- seismic equipment (22 monitors, fixed and mobile);
- maintenance of seismic networks;
- modeling of reservoir behavior for systems of wells in the vicinity of faults; and
- establishment of a technical advisory committee. The committee will be composed of 9 members appointed by the Governor, at least two of whom represent higher education institutions and have seismic or reservoir modeling experience, at least two of whom are experts in the oil and gas industry and at least one that is a Railroad Commission seismologist. The committee is responsible for advising the Governor and the House Committee on Energy Resources regarding the use of the money appropriated.

TIPRO Efforts: TIPRO supported HB 2 and lobbied accordingly.

Bill Status/Effective Date: HB 2 was signed by the Governor on June 20, 2015, and takes effect immediately.

UNSPENT DEDICATED REVENUE (HB 7):

AUTHOR: REP. DARBY | SPONSOR: SENATOR NELSON

Analysis: HB 7 seeks to address the growth of unspent dedicated revenue within the General Revenue Fund. Over the course of the past 20 years, unspent dedicated revenue has increased and has been used to count toward the state's overall budget certification. Due to concerns with the rapid increase, HB 7 was put forth to address the amounts, availability and use of certain statutorily dedicated revenue.

Pertaining to the Railroad Commission, HB 7 amends the Natural Resources Code to redirect pipeline safety inspection fee revenue, oil and gas disposal well permit fee revenue, and oil and gas regulation tax receipts from the General Revenue Fund to the Oil and Gas Regulation and Cleanup Fund totaling an addition of \$13,453,000 for the 2016-2017 biennium.

Additionally, on the Senate floor, a notable amendment relating to the allocation of oil and gas production was added to HB 7 by Senator Seliger. The amendment provided for a fee associated with allocation permits, allowed a permit holder to allocate production with reasonable probability and required the Railroad Commission to adopt rules that provided for extensive notice to all affected parties.

TIPRO Efforts: TIPRO supported the allocation amendment and worked with the appropriate legislative offices in an effort to keep the amendment included in the language. Additionally, TIPRO supported the Railroad Commission funding as included in HB 7.

Bill Status/Effective Date: The allocation amendment was stripped from HB 7 in conference committee. HB 7 was signed by the Governor and will take effect on September 1, 2015.

LOCAL ISSUES

LOCAL OIL AND GAS REGULATION PREEMPTION (HB 40):

AUTHOR: REP. DARBY | SPONSOR: SENATOR FRASER

Analysis: HB 40 provides exclusive jurisdiction of subsurface regulations to the state and preempts the authority of a municipality or other political subdivision to regulate oil and gas operations except in limited instances.

HB 40 allows municipalities or other political subdivisions to regulate aboveground activity related to oil and gas operations including fire and emergency response, traffic, lights, noise, imposing notices or reasonable setback requirements as long as they are commercially reasonable, does not effectively prohibit an oil and gas operation conducted by a reasonably prudent operator and is not preempted by state or federal law.

TIPRO Efforts: HB 40 was TIPRO's highest priority this legislative session. TIPRO testified in favor of the legislation in its respective committees and lobbied the House and Senate prior to a floor vote. The industry as a whole coalesced around this issue and was instrumental in advocating its passage.

Bill Status/Effective Date: HB 40 has been signed by the Governor and is now in effect.

MUNICIPAL REGULATION ON OIL AND NATURAL GAS (HB 539):

AUTHOR: REP. PHIL KING

Analysis: HB 539 would have required municipalities to:

- request a fiscal note and an equalized education funding impact statement from the Legislative Budget Board for a measure related to oil and gas;
- remit funds to state for loss of funds due to a measure; and
- include the fiscal impact and notice to voters when a proposal is placed on a ballot.

TIPRO Efforts: TIPRO supported HB 539 and testified in favor of the bill when it received a hearing in the House Committee on Energy Resources.

Bill Status/Effective Date: HB 539 failed to receive a vote in the House Committee on Energy Resources.

ATTORNEY GENERAL REVIEW OF OIL AND NATURAL GAS PETITIONS (HB 540):

AUTHOR: REP. PHIL KING

Analysis: HB 540 would have required municipalities to submit a petition to either enact or repeal an ordinance to the Attorney General. Upon submission, the Attorney General would have been required to determine whether the measure violated the Texas or U.S. Constitution, a state statute, or a rule within 90 days. If the measure was determined to have violated any of the above, it would have been prohibited from moving forward on the petition.

TIPRO Efforts: TIPRO testified in favor of HB 540 in the House Committee on State Affairs.

Bill Status/Effective Date: HB 540 failed to receive a vote in the House Committee on State Affairs.



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MUNICIPAL SETBACK WAIVERS (HB 2991):

AUTHOR: REP. PADDIE

Analysis: HB 2991 would have required that an established proximity by a municipality, between mineral exploration and development activities and identified markers, must be applied uniformly to subsequent development of identified markers relating to existing mineral development within its boundaries.

Through the bill, an identified marker was defined as a school, regular place of religious worship, residence, residential neighborhood, public park, or other specified land use that the governing body of a municipality identified as a marker from which mineral exploration and development must maintain a maximum proximity.

HB 2991 would have allowed a property owner or lessee wanting to build or utilize the area created by a proximity allowance to petition the municipality for a waiver. If the waiver was granted, the municipality was then required to record in the county records that:

- the property owner or lessee was aware of the maximum proximity allowance for mineral exploration and development and an identified marker; and
- the property owner or lessee voluntarily sought a waiver of the allowance limit.

TIPRO Efforts: TIPRO staff met with legislative offices advocating for the bill's passage, and submitted a card in support of the bill when it received a hearing in the House Committee on Energy Resources.

Bill Status/Effective Date: HB 2991 failed to make it to the floor once placed on the General State Calendar.

MUNICIPAL SETBACK REVISIONS (HB 2993):

AUTHOR: REP. PADDIE

Analysis: Similar to HB 2991, HB 2993 would have required the maximum proximity allowance between mineral exploration and development activities and an "identified marker" to be applied uniformly.

Furthermore, it would have required a property owner or lessee who wants to build or use the area within the proximity allowance to ask the city for a waiver. If a city were to approve a waiver, the approval would have been seen as a revision of the maximum proximity allowance between the identified marker and exploration and development of minerals.

TIPRO Efforts: HB 2993 was one of several bills relating to local jurisdiction that TIPRO supported. TIPRO submitted a card in support of the bill when it received a hearing in the House Committee on Energy Resources.

Bill Status/Effective Date: HB 2993 failed to receive a vote in the House Committee on Energy Resources.

MUNICIPAL INITIATIVE AND REFERENDUM (HB 2595):

AUTHOR: REP. KEFFER | SPONSOR: SENATOR FRASER

Analysis: HB 2595 sought to address concerns with initiative and referendum procedures at the municipal level that could obstruct the rights of private property owners.

HB 2595 CONTINUED:

Analysis: HB 2595 would have added a section to the Local Government Code prohibiting a home-rule city from:

- accepting for approval a petition requesting enactment or repeal of an ordinance or provision if the enactment or repeal would restrict the right of any person to use or access the person's private property for economic gain; and
- holding an election proposed by petition on the proposed enactment or repeal of an ordinance or provision noted above.

Additionally, HB 2595 would have allowed an individual whose rights were affected by a violation of this section to file suit for injunctive relief.

TIPRO Efforts: TIPRO actively supported HB 2595 throughout the legislative process in conjunction with a number of other pieces of legislation addressing the rights of mineral interest and property owners across the state.

Bill Status/Effective Date: HB 2595 passed the House but failed in the Senate Committee on Natural Resources and Economic Development.

TAXES

FRANCHISE TAX (HB 32):

AUTHOR: REP. BONNEN | **SPONSOR:** SENATOR NELSON

Analysis: HB 32 provides approximately \$2.56 billion in tax relief for businesses. As passed, the bill:

- permanently reduces the franchise tax by 25 percent;
- reduces the E-Z tax rate from 0.575 percent to 0.331 percent; and
- increases the availability of the E-Z calculation to businesses with total revenue of \$20 million or less.

Additionally, HB 32 requires the Comptroller to conduct a comprehensive study, no later than September 30, 2016, to identify the effects of economic growth on future state revenues.

TIPRO Efforts: TIPRO was a part of a broad coalition of trade organizations supporting tax relief in the form of sales, franchise and property tax reductions. TIPRO also participated in numerous stakeholder meetings on tax relief reform and worked closely with multiple legislators advocating support for HB 32.

Bill Status/Effective Date: HB 32 passed and will take effect on January 1, 2016.

PROPERTY TAX REDUCTION (SB 1):

AUTHOR: SENATOR NELSON | **SPONSOR:** REP. BONNEN

Analysis: SB 1 increases the amount of the residence homestead exemption from property taxation by a school district from \$15,000 to \$25,000. With the increased exemption, it is anticipated the average homeowner will see a cost savings of \$120 annually. The implementation of SB 1 is contingent upon the approval of the accompanying constitutional amendment SJR 1. The constitutional amendment will be on the November 2015 ballot.



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SB 1 CONTINUED:

TIPRO Efforts: TIPRO supported multiple forms of tax cuts this session. With oil and gas production severance taxes accounting for nearly \$11 billion in the state's Economic Stabilization Fund, it was important to TIPRO's membership to make certain negotiations included business tax relief. Nevertheless, TIPRO was also supportive of efforts to increase property tax exemptions.

Bill Status/Effective Date: SB 1 was signed by the Governor but will not take effect until passage of SJR 1 in November 2015.

ENVIRONMENTAL ISSUES

TEXAS EMISSIONS REDUCTION PLAN (HB 14):

AUTHOR: REP. MORRISON | **SPONSOR:** SENATOR WATSON

Analysis: HB 14 sought to simplify the Texas Emissions Reduction Plan (TERP) programs and extended the program to 2023. The legislation would have added Bell, McLennan and Webb counties to the list of affected areas eligible for TERP grants. Additionally, HB 14 would have expanded projects under the New Technology Implementation Grant Program to include technology projects that reduce emissions from upstream and midstream oil and gas production, completions, gathering, storage, processing, and transmission activities through:

- the replacement, repower, or retrofit of stationary compressor engines; or
- the installation of systems to reduce or eliminate the loss of gas, flaring of gas, or burning of gas using other combustion control devices.

TIPRO Efforts: Throughout the legislative session, TIPRO worked to educate lawmakers on the importance of the TERP program to the oil and gas industry. With EPA scheduled to lower ozone standards in October 2015, it's more pertinent than ever to utilize the funds available in the TERP program. TIPRO supported HB 14 in the House Committee on Environmental Regulation, the Senate Committee on Natural Resources and Economic Development and the Calendars Committee.

Bill Status/Effective Date: The House refused to concur with Senate amendments. HB 14 failed in Conference Committee.

ALTERNATIVE FUELS FOR GOVERNMENT FLEETS (SB 12):

AUTHOR: SENATOR URESTI | **SPONSOR:** REP. LANDGRAF

Analysis: SB 12 would have required the establishment of a governmental alternative fuel fleet grant program for state agencies, counties and cities. The primary intent of the program was to encourage the conversion of state government vehicle fleets to cleaner-burning natural gas, making more use of a Texas product while at the same time reducing air pollution. Grants for the program would have come from the accumulated balance in the Texas Emissions Reduction Plan (TERP). The appropriations request for the program was \$30 million a year, which was to be used to purchase or lease a new motor vehicle that use an alternative fuel and has a dedicated system, dual-fuel system or bi-fuel system with a range of at least 125 miles. Additionally, the grants were eligible to be used to purchase and install refueling infrastructure equipment.

SB 12 CONTINUED:

TIPRO Efforts: TIPRO actively supported SB 12 throughout the legislative process and, in collaboration with other trade organizations, helped with the development and distribution of materials advocating for the legislation. Additionally, TIPRO met with the appropriate legislators and expressed the need to utilize funds in the TERP balance for emissions reductions in preparation for the EPA's decision to lower ozone standards.

Bill Status/Effective Date: SB 12 failed in Calendars Committee.

TEXAS EMISSIONS REDUCTION FUND TITLE FEE REALLOCATION (SB 321):

AUTHOR: SENATOR HINOJOSA | **SPONSOR:** REP. PICKETT

Analysis: SB 321 would have reallocated the \$15 title fee that is collected from attainment counties, from the Texas Emissions Reduction Plan fund (TERP) to the Texas Mobility Fund. The reallocation would have been a revenue loss of approximately \$25 million a year for the TERP.

TIPRO Efforts: Because the bill diverted a substantial portion of TERP's revenue stream, TIPRO opposed SB 321 in both the Senate Committee on Transportation and the House Committee on Transportation. TIPRO met with the author and sponsor's office to discuss the reasons for the opposition and helped prevent the bill from being set on a House Calendar and successfully stopped passage of the bill.

Bill Status/Effective Date: SB 321 failed to receive a vote in the House of Representatives.

CONTESTED CASE HEARINGS (SB 709):

AUTHOR: SENATOR FRASER | **SPONSOR:** REP. MORRISON

Analysis: SB 709 codifies recent Texas court decisions that affirm the Texas Commission on Environmental Quality's (TCEQ) discretion to determine who is an affected party in a contested case. The bill establishes that the starting place for a contested case hearing is a presumption that a draft permit issued by the TCEQ meets all legal and technical requirements and is protective of public health and the environment. TCEQ is legally obligated to thoroughly review permit applications and only issue a draft permit that meets this standard. The bill requires that only a person or group that has openly participated in the TCEQ permitting process may trigger a contested case hearing on a permit.

TIPRO Efforts: TIPRO joined other trade associations in developing and distributing information to the legislature touting the benefits of SB 709. TIPRO also worked with members in both chambers in preparation for the bill's respective committee hearings and before floor debates.

Bill Status/Effective Date: SB 709 passed and has been signed by the Governor. SB 709 takes effect on September 1, 2015.



TRANSPORTATION

TXDOT RIGHT-OF-WAY (HB 1633):

AUTHOR: REP. ROMERO | SPONSOR: SENATOR URESTI

Analysis: HB 1633 instructs the Railroad Commission to adopt rules to require that an application for a permit to drill an oil or gas well include an affirmation that the well is or is not located within an easement held by Texas Department of Transportation (TXDOT) or within 50 yards of an easement held by TXDOT. Furthermore, if the location is within an easement or 50 yards from an easement, the Railroad Commission is required to transmit the permit application to TXDOT within 14 days. This legislation seeks to address a gap in communication between the two state agencies to help TXDOT plan for future transportation projects. The bill expressly does not grant to TXDOT any authority regarding the approval of an application for a permit to drill an oil or gas well.

TIPRO Efforts: TIPRO discussed an amendment to this legislation with Rep. Romero's office that would have clarified a timeline for a TXDOT district office to respond to an operator's inquiry regarding the proximity of a proposed well to a TXDOT easement. The amendment would have alleviated any concerns regarding an operator's obligation to disclose whether a well is within the defined vicinity of an easement if TXDOT personnel did not respond to their inquiry in an appropriate timeframe. However, Rep. Romero requested to keep the language clean. Due to the exclusion of the amendment, TIPRO maintained a neutral position on the bill.

Bill Status/Effective Date: HB 1633 was vetoed by the Governor.

MINERAL INTERESTS UNDER COUNTY ROADS (HB 2521):

AUTHOR: REP. COLEMAN | SPONSOR: SENATOR URESTI

Analysis: HB 2521 requires the Comptroller or an operator to remit to the county payments from the leasing of oil and gas under lands owned by the state that were or may be acquired by a county to construct a county road.

The bill creates a county road oil and gas trust fund outside the state treasury and is instructed to disburse the funds to counties at least twice each fiscal year.

The payments sent to counties must be deposited in the county road and bridge fund and may be used solely for road maintenance purposes.

TIPRO Efforts: TIPRO supported HB 2521 in the Senate Committee on Finance.

Bill Status/Effective Date: HB 2521 was signed by the Governor on June 19, 2015, and will take effect on September 1, 2017.

COUNTY ENERGY TRANSPORTATION REINVESTMENT ZONES (HB 4025):

AUTHOR: REP. COLEMAN | **SPONSOR:** SENATOR URESTI

Analysis: HB 4025 permits a county with a County Energy Transportation Reinvestment Zone (CETRZ) to use money in the tax increment account to provide funding for transportation infrastructure projects throughout the county. In addition, the legislation permits a Commissioner's Court to enter into an agreement with the Texas Department of Transportation to designate a CETRZ involving a state highway located in the county.

The bill revises the criteria for transportation grants by:

- mandating that weight tolerance permits must be related to oil and gas activities when being used to factor grant rewards;
- weighing horizontal wells higher than vertical wells due to the fact that horizontal wells can require more than five times the number of trucks in the drilling process; and
- gauging the number of sites under the criteria for volume to more accurately measure truck traffic.

TIPRO Efforts: TIPRO submitted cards in support of HB 4025 and met with legislative members and staff to express support for transportation funding in energy sector areas.

Bill Status/Effective Date: HB 4025 was vetoed by the Governor.

TRANSPORTATION INFRASTRUCTURE CONSTITUTIONAL AMENDMENT (SJR 5):

AUTHOR: SENATOR NICHOLS | **SPONSOR:** REP. PICKETT

Analysis: SJR 5 is a constitutional amendment that will require \$2.5 billion to be transferred annually from sales tax revenue (which includes the sale use or rental of a motor vehicle) to the State Highway Fund beginning in 2018, if the sales tax revenue to the state exceeds \$28 billion. Traditionally, these funds are deposited to the credit of the General Revenue Fund. Beginning in fiscal year 2020, the Comptroller is required to deposit 35 percent of all net revenue exceeding \$5 billion derived from the state motor vehicle sales tax to the State Highway Fund.

TIPRO Efforts: TIPRO actively supported SJR 5 and worked all the appropriate committees accordingly.

Bill Status/Effective Date: SJR 5 was signed by both chambers and has been filed with the Secretary of State. The proposition will be placed on the November 3, 2015, ballot.



REGULATORY

SALT WATER PIPELINE FACILITIES (HB 497):

AUTHOR: REP. WU | SPONSOR: SENATOR URESTI

Analysis: HB 497 amends SB 514 as passed during the 83rd Legislative Session. SB 514 addressed the installation, maintenance, operation and relocation of saltwater pipeline facilities, and helped to set standards for the placement of a saltwater pipeline on a right-of-way. HB 497 expanded the law by defining a "saltwater pipeline facility" to include liquid that is brought to production sites to be used for drilling or operating a well. As originally passed, the definition of "saltwater pipeline facility" only pertained to liquid being transported from a production site to a disposal site. The intent behind this legislation is to reduce the volume of heavy truck traffic on county roads related to oil and gas production and disposal operations.

TIPRO Efforts: TIPRO supported HB 497 in the House Committee on Energy Resources and in the Senate Committee on Natural Resources and Economic Development. TIPRO was also intricately involved with the passage of SB 514 last session and with the workgroup that helped develop the rulemaking with Texas Department of Transportation on salt water disposal lines within the state's right-of-way as required in SB 514.

Bill Status/Effective Date: HB 497 was signed by the Governor and will take effect on January 1, 2016.

RAILROAD COMMISSION NAME CHANGE (HB 1106 AND HJR 76):

AUTHOR: REP. PHILLIPS

Analysis: HB 1106 would have renamed the Texas Railroad Commission as the "Texas Energy Commission." The name change would have only been effective after approval from voters through a constitutional amendment. House Joint Resolution (HJR) 76 was the accompanying constitutional amendment to change the name of the Railroad Commission.

TIPRO Efforts: As a result of differing opinions within the association's membership, TIPRO maintained a neutral position on HB 1106. However, our organization did advocate that if a name change was to move forward, it would be imperative to have an associated constitutional amendment.

Bill Status/Effective Date: HB 1106 was voted out of the House Committee on Energy Resources with a vote of 10–3 but failed in the Calendars Committee.

DRILL CUTTINGS (HB 1331):

AUTHOR: REP. PHIL KING | SPONSOR: SENATOR FRASER

Analysis: HB 1331 transfers the ownership of drill cuttings. With energy development continuing to thrive in Texas, companies are consistently searching for ways to recycle waste from the production of oil and gas. HB 1331 clarifies that once an operator has transferred the drill cuttings to a third party for subsequent beneficial use, the operator can no longer be held liable in tort for a consequence of the subsequent use.

HB 1331 CONTINUED:

TIPRO Efforts: TIPRO supported HB 1331 in the House Committee on Energy Resources and the Senate Committee on Natural Resources and Economic Development.

Bill Status/Effective Date: HB 1331 passed and has been signed by the Governor. It will take effect on September 1, 2015.

CENOZOIC ERA UNITIZATION (HB 1392):

AUTHOR: REP. BELL

Analysis: HB 1392 would have defined a unitization plan as an agreement between working interest owners and royalty owners in a common source of supply or part of a common source of supply in which unit operations may be conducted to enhance the production of oil and gas from the common source of supply to greater volumes than would otherwise be produced by primary recovery operations. As filed, HB 1392:

- provided an exemption from the proposed unitization process for lands owned by the state or lands in which the state has a direct or indirect interest;
- provided an application procedure for unitization and detailed items that must be submitted with an application;
- detailed hearing/notice requirements and procedures;
- provided findings that must be satisfied at the Railroad Commission in order for the agency to approve an application, including requirements for "plan of unitization";
- required the Railroad Commission to determine if a plan of unitization is fair, reasonable and equitable;
- provided that an order of the Commission creating a unit and prescribing the plan of unitization would take effect only when the proposed plan of unitization had been approved in writing by:
 - o the owners, on a unit participation basis, of a supermajority consisting of at least 70 percent of the aggregate unit working interests; and
 - o a supermajority consisting of at least 70 percent of the owners, on a unit participation basis, of the aggregate unit royalty interests that complete and return an approval or ratification together with a ballot as prescribed in the legislation.
- applied only to tertiary recovery from a Cenozoic Era common source of supply.

TIPRO Efforts: Compulsory unitization, even for legislation in a specific part of the state, is consistently a divisive issue. TIPRO's membership falls on various sides of the debate. That in mind, TIPRO opted for the association to maintain a position of neutrality on the bill.

Bill Status/Effective Date: HB 1392 failed to receive a vote in the House Committee on Energy Resources.



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ALLOCATION WELLS (HB 1552):

AUTHOR: REP. CRADDICK

Analysis: HB 1552 would have allowed an operator or lessee, under a permit issued by the Railroad Commission, to drill, operate or produce oil and gas from a well that traverses multiple tracts in order to prevent waste, promote conservation and protect correlative rights. Additionally, this legislation would have permitted an operator to reasonably determine how production should be allocated if there is not an existing agreement between the operator or lessee and affected mineral interest owners. Furthermore, the bill required an operator to send written notice of the production allocation to each affected royalty owner. After notice and opportunity for a hearing, HB 1552 would have allowed the Railroad Commission to determine whether the production allocation:

- would have harmed the correlative rights of working or royalty interest owners;
- would have been necessary to prevent waste or adequately protect the correlative rights of the affected owners; and
- accurately attributed to each affected interest owner its fair share of aggregated production.

TIPRO Efforts: TIPRO met with legislators and their staff to relay our support, answer questions and address concerns on this significant topic. TIPRO supported HB 1552 in the House Committee on Energy Resources. In addition, TIPRO held a meeting with the Energy Caucus staff members to provide an overview of and discuss the differences between allocation wells and unitization. TIPRO maintained consistent support and advocated for HB 1552 throughout the legislative session.

Bill Status/Effective Date: HB 1552 failed in the House Committee on Energy Resources.

QUALIFIED SUBDIVISIONS (HB 2003):

AUTHOR: REP. RAYMOND

Analysis: HB 2003 would have expanded the definition of a "qualified subdivision" to mean a tract of land of not more than 640 acres that is located in a county with a population of more than 100,000 or on a barrier island. Current law allows for qualified subdivisions in urban counties where surface locations may be difficult to find. As originally adopted, this applied in 10 counties, all of which had a population of 400,000 or more. Because Texas' population has increased but the limits of the statute have not, this now applies in 21 counties. If HB 2003 were enacted into law, this process would apply in 44 counties.

TIPRO Efforts: Due to associated burden of cost and time by expanding the qualified subdivision process, TIPRO opposed HB 2003. TIPRO met with multiple stakeholders throughout the legislative session to discuss the reasons for our opposition and testified in opposition in the House Committee on Energy Resources.

Bill Status/Effective Date: HB 2003 failed in the House Committee on Energy Resources.

UNCLAIMED MINERAL PROCEEDS (SB 1589):

AUTHOR: SENATOR ZAFFIRINI | SPONSOR: REP. GUILLEN

Analysis: SB 1589 requires a holder of mineral proceeds to include in the property report for the proceeds:

- the lease, property and well name;
- any lease, property, or well identification number used to identify the lease, property, or well; and
- the county in which the lease, property, or well is located.

The information sent to the Comptroller will remain confidential and will not be subject to disclosure under an open records request.

TIPRO Efforts: TIPRO worked with the author of the bill to include language on the confidentiality of the information provided and helped to reduce the administrative burden by recommending eliminations of the submission of information already filed by operators via a W-1 at the Railroad Commission. TIPRO ultimately removed its opposition after the author agreed to include the recommended amendments.

Bill Status/Effective Date: SB 1589 was signed by the Governor and will take effect on January 1, 2016.

WATER

BRACKISH GROUNDWATER STUDY (HB 30):

AUTHOR: REP. LARSON | SPONSOR: SENATOR PERRY

Analysis: HB 30 requires regional water planning groups to include opportunities for and the benefits of developing large-scale desalination facilities for brackish groundwater. Additionally, it requires the Texas Water Development Board (TWDB) to identify and designate brackish groundwater production zones in areas of the state with moderate-to-high availability and productivity of brackish groundwater and mandated the TWDB to include findings in a biennial progress report. HB 30 prohibits the designation of production zones located in:

- the jurisdiction of the Edwards Aquifer Authority;
- the boundaries of the Barton Springs-Edwards Aquifer Conservation District, Harris-Galveston Subsidence District, or Fort Bend Subsidence District;
- an aquifer or geologic stratum that has an average total dissolved solids level of more than 1,000 milligrams per liter and was serving as a significant source of water supply for municipal, domestic, or agricultural purposes at the time of designation of the zones; or
- an area if a geologic stratum designated or used for wastewater injection.

TIPRO Efforts: As filed, HB 30 would have created a regulatory process for the use of brackish groundwater. TIPRO took part in multiple stakeholder meetings and developed amendments to ensure the designation of brackish groundwater production zones would not affect industry's current use of brackish water. However, the final version of HB 30 primarily emphasized requirements for the TWDB to study the use of brackish groundwater. As passed, it did not create regulatory scheme for the use of brackish water.

Bill Status/Effective Date: HB 30 was signed by the Governor on June 19, and immediately takes effect.



2015 END-OF-SESSION LEGISLATIVE REPORT

CONTESTED CASE HEARINGS FOR GROUNDWATER CONSERVATION DISTRICTS (HB 2179):

AUTHOR: REP. LUCIO III | SPONSOR: SENATOR PERRY

Analysis: HB 2179 requires a Groundwater Conservation District (GCD) to hold a public hearing on an application for a permit. If there is no protest on the hearing, HB 2179 allows a GCD Board to expedite taking action on the permit. If the permit is protested, the GCD must schedule a preliminary hearing to determine the appropriate parties for the contested case hearing. The hearing may be conducted by a quorum, a designated individual, or the State Office of Administrative Hearings (SOAH).

This legislation mandates that an applicant may call for a contested case hearing no later than 20 days after the board grants the application. A proposal for decision must be submitted no later than 30 days after the evidentiary hearing is concluded. The GCD Board shall consider the proposal for decision at a final hearing, and no additional evidence may be provided at the final hearing. A SOAH judge who conducts a contested case hearing is required to consider groundwater rules but the groundwater district may not oversee the administrative law judge.

A groundwater district board may change a finding of fact or conclusion of law made by administrative law judge if the board determines that the administrative law judge did not properly apply or interpret applicable laws or a technical error is found.

TIPRO Efforts: TIPRO monitored HB 2179 to make certain the bill was not amended to address groundwater permits for oil and gas development.

Bill Status/Effective Date: HB 2179 was signed by the Governor and is now effective.

MISCELLANEOUS

FORECLOSURE LEASES (HB 2207):

AUTHOR: REP. KEFFER | SPONSOR: SENATOR ELTIFE

Analysis: HB 2207 addresses the sale of property subject to an oil and gas lease. The bill provides that an existing oil and gas lease remains in effect upon the foreclosure of a security interest if the lease has not terminated or expired on its own terms, and:

- it was executed and recorded in the real property records of the county before the foreclosure sale.
- if the lease and mortgage is sold in a foreclosure sale under the mortgage, the foreclosure sale will terminate any rights granted to the lessee to use the surface.

Any royalty payments which become due after the date of the foreclosure shall pass to the purchaser of the foreclosed property. A subordination agreement between the lessee of an oil and gas lease and the mortgagee or between the lessee and the purchaser of the foreclosed real property shall control over any conflicting provision.

TIPRO Efforts: TIPRO supported HB 2207 and visited with legislative offices accordingly. TIPRO was also included in the support materials for this legislation.

Bill Status/Effective Date: HB 2207 was signed by the Governor and will take effect on January 1, 2016.

OIL THEFT PREVENTION (HB 3291):

AUTHOR: REP. RAYMOND | SPONSOR: SENATOR ZAFFIRINI

Analysis: HB 3291 increases the penalties associated with unauthorized activities related to crude oil, gas or condensate. HB 3291 makes the following acts, without the appropriate authorization from the Railroad Commission, a second degree felony:

- recklessly possessing,
- transporting or delivering,
- removing or accepting, or
- purchasing or selling oil, gas or condensate.

A second degree felony has a penalty of two to 20 years in prison and an optional fine of up to \$10,000.

TIPRO Efforts: TIPRO supported HB 3291 in both the House and the Senate committee hearings. TIPRO also put together a one-pager in support of an appropriation for two oil and natural gas analysts within the Department of Public Safety's Joint Crime Information Center for the purposes of analyzing threats.

Bill Status/Effective Date: HB 3291 was vetoed by the Governor.

CRUDE OIL EXPORTS (SCR 13):

AUTHOR: SENATOR SELIGER | SPONSOR: REP. ANCHIA

Analysis: SCR 13 is a concurrent resolution urging the United States Congress and the President to take the appropriate steps to eliminate the ban on crude oil exports. Proponents of lifting the ban indicate that finding more purchasers for U.S. crude would prompt more activity. Additionally, supporters note that with domestic supply high and oil prices low, now is an appropriate time to enter the global market. With over 100 co-authors on the resolution, nearly all House and Senate members voted to support this legislation.

TIPRO Efforts: TIPRO strongly supported the passage of SCR 13 and lobbied for the resolution accordingly.

Bill Status/Effective Date: SCR 13 was signed by the Governor on May 28, 2015.

NATURAL GAS EXPORTS (SCR 32):

AUTHOR: SENATOR BETTENCOURT | SPONSOR: REP. WU

Analysis: SCR 32 is a constitutional amendment urging the United States Congress to expedite natural gas exports.

TIPRO Efforts: TIPRO supported SCR 32 and advocated the importance of its passage to the Calendars Committee.

Bill Status/Effective Date: SCR 32 was signed by the Governor on May 28, 2015.



**THE LEADING VOICE FOR
INDEPENDENT PRODUCERS AND ROYALTY OWNERS
IN THE LONE STAR STATE**

For over 69 years, the Texas Independent Producers & Royalty Owners Association (TIPRO) has stood strong to protect the ability to explore and produce oil and natural gas in Texas. Representing more than 2,800 independent oil and gas producers and royalty owners, TIPRO proudly works with elected officials in the Texas Legislature, U.S. Congress and regulatory agencies to advocate for increased development of natural resources.

For more information or to learn how you can join, visit www.tipro.org.

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