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Texas Independent Producers & Royalty Owners Association.
TIPRO is one of the oldest and largest oil and natural gas advocacy non-profit organizations
in the state of Texas. TIPRO's nearly 3,000 members include small family-owned

oil and gas businesses and the largest publicly traded independent producers, in addition to large and small mineral estates and trusts.

The association's mission is to preserve the ability to explore and produce oil and natural gas and to promote the general welfare of its members.

For what many expected to be a more targeted legislative cycle due to the coronavirus (COVID-19) pandemic, strong momentum remained by Texas lawmakers committed to advancing their policy priorities during the 87th Regular Legislative Session. Altogether, 7,148 bills and constitutional amendments were ultimately filed by Texas legislators, of which 1,081, or about 15 percent, passed. Pursuant to Article IV, Section 14, of the Texas Constitution, Governor Greg Abbott exercised his authority and vetoed a total of 21 bills. Within this volume of legislation put forth by lawmakers this year, TIPRO tracked more than 300 bills of relevance to the oil and natural gas industry and took formal positions on 87.

The association's focus once again encompassed a broad range of issues this year, with particular attention on finding a long-term solution to infrastructure funding, supporting appropriation requests from key state agencies, protecting the state's pro-regulatory environment, advocating for tax relief, advancing meaningful reforms to the eminent domain process and generally opposing all onerous policies specifically targeting the oil and natural gas industry. TIPRO's team participated in regular meetings with elected officials throughout session to voice the association's support or concerns over legislation under consideration by the 87th Legislature, while simultaneously conducting weekly meetings with TIPRO committees and providing frequent communication with our full membership to keep them apprised of the status of our policy agenda.

In addition to lawmakers working diligently to conduct their business during a pandemic, Winter Storm Uri dramatically changed the trajectory and focus of session in both chambers this year, resulting in a multitude of bills being filed to address failures in our state's energy system. The disruptions and missteps experienced during the storm in February proved to be devastating, endangering the health and well-being of Texas residents, while causing billions in property damages. Immediately following the storm, over 80 hours of testimony were taken across a week of legislative hearings and more than 40 bills were filed to resolve issues presented from the weather emergency, including new approaches to the governance of ERCOT, infrastructure weatherization, emergency communication, securitization, and stabilization of the electricity market.

TIPRO commends our state elected officials in the House and Senate for addressing an extremely complex, and at times heavily politicized, set of issues and for achieving meaningful reforms, while avoiding unidentified consequences that could have negatively impacted thousands of oil and natural gas producers in our state. Throughout this process, TIPRO closely monitored these issues and voiced the consensus of our membership to every legislative office in the House and Senate on bills of particular importance, including Senate Bill 3, which is described in greater detail later in this report.

Many other themes emerged over the 140 days of session, including an increase in pro-oil and natural gas legislative proposals, countered by a higher number of bills that TIPRO successfully advocated against on behalf of our membership compared to last session. As an example, the legislature showed bi-partisan support for House Bill 17, legislation to preempt a trend emerging in cities across the country seeking to restrict or ban natural gas hookups in new buildings and construction, with some cities in Texas considering similar proposals. As signed into law by Governor Greg Abbott, House Bill 17 amends the Utilities Code to prevent Texas cities and towns from blocking natural gas

300 bills tracked by TIPRO during the 87th Legislative Session

hookups or incentivizing a particular type of utility connection in new construction. TIPRO was proud to support House Bill 17 since its inception and throughout the legislative process. This is an excellent example of the Texas legislature taking action to protect consumers against politically driven policy measures taking aim on the oil and natural gas industry.

In addition to TIPRO's focused advocacy efforts in 2021, the association continued with the dissemination of data and analysis through our research-oriented reports to quantify and reinforce the significant economic contributions of the oil and gas industry, which ties directly into our legislative work advising the broader implications of policy actions not only for oil and natural gas, but the Texas state economy at large. Our association's collective efforts, encompassing lobbying, a targeted communication strategy, leading data and industry research, have proven to be instrumental in promoting beneficial legislation, helping to block onerous bills, and ultimately creating a policy environment conducive to economic growth supported by the responsible development of oil and natural gas.

This year TIPRO also announced the integration of Texans for Natural Gas (TNG) into the association's platform. The combined entities have created the most comprehensive statewide oil and natural gas campaign in Texas, comprised of data, analysis, grassroots engagement and rapid response capabilities designed to provide accurate and timely information about the industry and its unprecedented contributions, including vital facts used by legislators working on new laws for the energy industry. These resources will continue to be imperative to TIPRO's work to counter poorly conceived policies and campaigns targeting our industry at all levels of government and to help educate the general public about oil and natural gas.

Finally, this year has marked an important milestone for TIPRO, with the association celebrating its 75th anniversary of continuous service. Chartered in March of 1946, TIPRO was established for "the purpose of uniting individual producers and royalty owners under one banner to protect themselves against legislative or regulatory threats to their existence." TIPRO's formation stemmed from the pending ratification by the U.S. Senate of the Anglo-American Oil Treaty, which had been signed in London in 1945 and would have set oil and gas production quotas for North and South American countries. The proposal was being supported by some independent oil and gas associations of the day, but strenuously objected to by a group of Texas independents, who organized TIPRO to resist what they perceived to be international control of Texas production. Their successful intervention helped kill ratification of the Treaty and led to TIPRO's perpetuation as an organization dedicated to the protection of the rights of independent producers and royalty owners in Texas. That mission has remained unchanged for 75 years.

As the state's leading association serving both independent producers and royalty owners, members of TIPRO include small family businesses, the largest, publicly-traded independent producers and mineral owners, estates, and trusts. Collectively, TIPRO members produce nearly 90 percent of the oil and natural gas in Texas and own mineral interests in millions of acres across the state. Our strong and diverse membership is vital in our ability to protect and promote the Texas oil and natural gas industry. I hope you find value in reviewing TIPRO's 2021 Legislative Report as we strive to keep members informed of significant policy developments in Texas and share the many achievements of our organization and industry, another common theme over the past seven decades.

A special thanks to TIPRO's tremendous policy team for their work during the 87th Legislative Session and to all of our supportive members.

If you have any questions regarding this report or other legislative issues in Texas, please do not hesitate to contact me directly.

Thank you,

Edwin Inganed

TIPRO's 87th End-of-Session State Legislative Report

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HOUSE BILL 17/HOUSE BILL 1282/SENATE BILL 1262

HOUSE BILL 1501

HOUSE BILL 1284/SENATE BILL 450

SENATE BILL 1258/HOUSE BILL 3409

SENATE BILL 1260/HOUSE BILL 3381

HOUSE BILL 1683/SENATE BILL 1734

HOUSE BILL 2957

HOUSE BILL 964

HOUSE BILL 2201/SENATE BILL 772

SENATE BILL 1261

SENATE BILL 900/HOUSE BILL 2730

HOUSE BILL 1820

HOUSE BILL 960

SENATE BILL 211

HOUSE BILL 969

HOUSE BILL 2659

HOUSE BILL 3477

HOUSE BILL 632/SENATE BILL 1213

SENATE BILL 1582/HOUSE BILL 4382

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TIPRO REPORT - REGULATORY ISSUES

PREEMPTING LOCAL GOVERNMENTS FROM IMPLEMENTING A NATURAL GAS BAN (HOUSE BILL 17/HOUSE BILL 1282/SENATE BILL 1262)

AUTHOR: REP. DESHOTEL/SENATOR BIRDWELL

ANALYSIS: House Bill 17 prohibits a regulatory authority, planning authority or political subdivision from adopting or enforcing an ordinance, resolution, regulation, code, order, policy or other measure that has the purpose, intent, or effect of directly or indirectly banning, limiting, restricting, discriminating against, or prohibiting the connection or reconnection of a utility service or the construction, maintenance, or installation of residential, commercial or other public or private infrastructure for a utility service based on the type or source of energy to be delivered to the end-use customer. Those same entities may not impose any additional charge or pricing difference on a development or building permit applicant for utility infrastructure that encourages or discourages those constructing homes, buildings or other structural improvements to connect to a utility service based on the type or source of energy to be delivered to the end-use customer.

TIPRO EFFORTS: The TIPRO State Issues Voting Committee was a very early supporter of House Bill 17. TIPRO was engaged in the creation of literature and materials distributed to all members of the legislature explaining the importance of the bill. TIPRO also supported the bill before both the House and Senate committees and advocated on behalf of the bill to members of the legislature and the governor's office.

BILL STATUS/EFFECTIVE DATE: House Bill 17 was passed by the House and the Senate and signed by the governor on May 18, 2021. The bill became effective immediately.

PROHIBITING A GOVERNMENTAL ENTITY FROM RESTRICTING NATURAL GAS OR PROPANE (HOUSE BILL 1501)

AUTHOR: REP. DEAN

ANALYSIS: House Bill 1501 would have prohibited a governmental entity from enforcing a rule, charter provision, ordinance, order or other regulation that restricts the use of natural gas or propane or the connection to any utility provider in the construction, renovation, maintenance, or alteration of a residential or commercial building.

TIPRO EFFORTS: The TIPRO State Issues Voting Committee voted to support House Bill 1501. TIPRO supported the bill in both the House and Senate and advocated on behalf of the bill to members of the legislature.

BILL STATUS/EFFECTIVE DATE: House Bill 1501 made it through both the House and Senate, however, the Senate added a similar amendment to the bill. The amendment required the bill to go back to the House for the House to approve the amendment. A parliamentary maneuver called a 'point of order' was called by Representative Erin Zweiner (D-Dripping Springs) objecting to consideration of the bill because the amendment was not germane to the original language of the bill. The point of order was sustained, and the bill was remanded back to the Senate to address the perceived issues in the bill. This action, however, was done in the final days of the legislative session and the bill ultimately died due to mandatory legislative deadlines.

CLASS VI WELL BILL (HOUSE BILL 1284/SENATE BILL 450)

AUTHOR: REP. PADDIE/ SENATOR HANCOCK

ANALYSIS: House Bill 1284 pertains to the consolidation of jurisdiction over the underground injection control program for Class VI wells in Texas. The bill makes clear that Class VI injection wells fall under the regulatory authority of the Railroad Commission (RRC) alone and directs the RRC to seek primacy over Class VI injection wells.



REGULATORY ISSUES

CLASS VI WELL BILL (HOUSE BILL 1284/SENATE BILL 450)

ANALYSIS CONTINUED: In the past, there has been confusion over jurisdiction between the RRC and the Texas Commission of Environmental Quality (TCEQ) over these types of wells. TCEQ was supportive of the clarification and the placement of the sole regulatory authority at the RRC.

TIPRO EFFORTS: The TIPRO State Issues Voting Committee was a very earlier supporter of House Bill 1284. TIPRO spoke with both the RRC and the TCEQ about the bill and engaged in the creation of literature distributed to all members of the legislature explaining the importance of the bill. TIPRO also supported the bill before committees in both the House and Senate and advocated on behalf of the bill to members of the legislature. TIPRO worked as part of a strike force to converse with key members at key moments in the legislative process to ensure the bill's passage. Finally, TIPRO conveyed our support of the legislation to the governor's office.

BILL STATUS/EFFECTIVE DATE: House Bill 1284 was passed by the House and the Senate, and sent to the governor on May 25, 2021. The bill was signed by the governor on June 9, 2021, and will take effect September 1, 2021.

OFFSET WELL REQUIREMENT REFORM (SENATE BILL 1258/HOUSE BILL 3409)

AUTHOR: SENATOR BIRDWELL/REP. GOLDMAN

ANALYSIS: House Bill 1258 amends an outdated Texas statute that required an operator producing oil from state land that is overseen the General Land Office (GLO) to drill an offset well if a well or wells are drilled on GLO lands within 1,000 feet of the premises or are otherwise draining on state lands managed by GLO leased to the operator.

The requirement to drill an offset well does not make sense in the context of more modern production methods, otherwise known as horizontal drilling and fracking. This is because natural porosity and permeability are not at issue with modern horizontal drilling and hydraulic fracturing in tight shale formations with low permeability.

House Bill 1258 changes the requirement to drill an offset well when an operator drills a horizontal well to the greater of the applicable lease-line spacing distance requirement of the RRC, or a perpendicular distance of 330 feet for GLO-managed lands.

House Bill 1258 amends current law relating to the duty of a lessee or other agent in control of GLO managed state land to drill an offset well, pay compensatory royalty, or otherwise protect the land from drainage of oil or gas by a horizontal drainhole well located on certain land.

TIPRO EFFORTS: The TIPRO State Issues Voting Committee was a very earlier supporter of Senate Bill 1258. TIPRO engaged in the creation of literature distributed to all members of the legislature explaining the importance of the bill. TIPRO also supported the bill before both the House and Senate and advocated on behalf of the bill to members of the legislature. TIPRO also worked as part of a strike force to converse with key members at key moments in the legislative process to ensure the bill's passage. TIPRO also conveyed our support of the legislation to the governor's office.

BILL STATUS/EFFECTIVE DATE: Senate Bill 1258 was passed by the House and the Senate and sent to the governor on May 26, 2021. The governor signed Senate Bill 1258 on June 7, 2021. The bill becomes effective on September 1, 2021.



REGULATORY ISSUES

RRC OILFIELD WASTE CONTRACTING BILL (SENATE BILL 1260/HOUSE BILL 3381)

AUTHOR: SENATOR BIRDWELL/REP. LEMAN

ANALYSIS: Senate Bill 1260 authorizes the RRC's state managed cleanup program to engage with contractors for the purpose of recycling oilfield waste – specifically drill cuttings – at abandoned sites where large volumes of drill cuttings have been stockpiled. Through this change, RRC would pay a contractor to come to an abandoned waste site and treat the waste for subsequent beneficial reuse. Lastly, House Bill 3381 authorizes the RRC to sell the recycled waste materials for beneficial reuse, such as road base for roadway construction. Any proceeds earned through the sale of recycled materials would be credited to the Oil and Gas Regulation and Cleanup Fund (OGRC) administered by the RRC.

Senate Bill 1260 offers four benefits to RRC's state-managed cleanup program. First, the bill expands the remediation options available to RRC's site remediation program. Current requirements limit the program to hauling waste off-site and disposing the material at another landfill. This bill broadens the agency's remediation options to include on-site recycling. Second, Senate Bill 1260 offers cheaper options for the program's disposition of waste at disposal sites. Recycling waste materials on site can cost 50 percent less than the most common option of hauling waste to another permitted landfill. Authorizing on-site recycling of drill cuttings at waste sites could lessen the total cleanup costs for the agency. Third, House Bill 3381 offers an avenue for the state-managed cleanup program to divert waste from landfills, lessening the impact on available fill space in Texas. Lastly, authorizing the RRC to sell recycled drill cuttings could establish a new revenue stream for OGRC.

TIPRO EFFORTS: TIPRO first sat down with the RRC to walk through the details of the legislation. The TIPRO Voting State Issues Committee later voted to support Senate Bill 1260. TIPRO supported the bill before both the House and Senate and advocated on behalf of the bill to members of the legislature. TIPRO remained in constant communication with the RRC on the status of the bill and worked with members of the legislature to facilitate an understanding of the benefits of the bill.

BILL STATUS/EFFECTIVE DATE: Senate Bill 1260 was passed by the House and the Senate and signed by the governor on May 18, 2021. The bill became effective immediately.

STATE PREEMPTION OF OIL AND GAS REGULATION (HOUSE BILL 1683/SENATE BILL 1734) AUTHOR: REP. LANDGRAF/SENATOR SPRINGER

ANALYSIS: House Bill 1683 would have prohibited Texas state agencies, political subdivisions and officials from implementing or enforcing any overreaching federal statute order, rule, or regulation regarding oil and gas production that does not already exist in the laws of this state.

TIPRO EFFORTS: The TIPRO State Issues Voting Committee voted to support House Bill 1683. TIPRO communicated with the office of the bill's author about the legislation and supported the bill in the House Committee on Energy Resources.

BILL STATUS/EFFECTIVE DATE: House Bill 1683, and its Senate companion Senate Bill 1734, were unable to make it through the legislative process due to missed parliamentary deadlines.



REGULATORY ISSUES

RRC INPECTIONS BY DRONE (HOUSE BILL 2957)

AUTHOR: REP. GEREN

ANALYSIS: HB 2957 would have amended state law regarding unmanned aircrafts to allow for drone inspections and examinations by the RRC of an oil or gas site or facility, including a well, tank, or disposal or injection site; a pipeline facility; or a surface mining site.

TIPRO EFFORTS: Prior to supporting House Bill 2957, TIPRO had in-depth conversations with the RRC about what sort of notice would be provided to operators in advance of drones flying over their facilities. TIPRO was assured that there would be no change from the current inspection process. A RRC inspector with identification in a marked RRC truck would be onsite if a drone were to be used for inspection at a site. Given these assurances, the TIPRO State Issues Voting Committee voted to support HB 2957. TIPRO spoke with the author of the bill in addition to members of the House and Senate committees considering the policy regarding our support. TIPRO also issued support on the public record for the bills before committees in the House and Senate.

BILL STATUS/EFFECTIVE DATE: House Bill 2957, and its Senate companion Senate Bill 1583, were unable to make it through the legislative process due to missed parliamentary deadlines.

EXTENSION OF TORT LIABILITES FOR THE TREATMENT, RECYCLING FOR BENEFICIAL USE, OR DISPOSAL OF DRILL CUTTINGS (HOUSE BILL 964)

AUTHOR: REP. DARBY

ANALYSIS: House Bill 964 would have amended the Natural Resources Code to remove a provision that exempted a person who generates drill cuttings and transfers the drill cuttings to a permit holder with the contractual understanding that the drill cuttings were being used in connection with road building or another beneficial use from liability in tort for a consequence of the subsequent use of the drill cuttings by the permit holder or by another person. The bill replaced that provision with a provision that, unless otherwise provided by a contract or other written agreement, exempted a person who generates drill cuttings and transfers the drill cuttings in an arm's length transaction to an unaffiliated third-party permit holder under a contract that requires that the drill cuttings be used in connection with road building or another beneficial use or disposed of from liability in tort for a consequence of the subsequent use or disposal of the drill cuttings by the permit holder or by another person under the following conditions:

- the person who generates the drill cuttings has the legal and contractual right to transfer the drill cuttings to the permit holder;
- the method and location of the use or disposal are not prohibited by law, contract, or other written agreement; and;
- the consequence was caused solely by the permit holder.

House Bill 964 included as a permit holder for purposes of provisions relating to the treatment and recycling for beneficial use of drill cuttings a person who holds a permit from the RRC to operate a commercial oil and gas waste disposal facility. The bill included as drill cuttings any associated sand, silt, drilling fluid, spent completion fluid, workover fluid, debris, water, brine, oil scum, paraffin, or other material cleaned out of the wellbore.

TIPRO EFFORTS: TIPRO had detailed discussions with the author of House Bill 964. The Voting State Issues Committee carefully analyzed the legislation and voted to remain neutral and continue to monitor the bill with the understanding that it would be altered through a committee substitute and additional changes were likely throughout the legislative process.



REGULATORY ISSUES

EXTENSION OF TORT LIABILITES FOR THE TREATMENT, RECYCLING FOR BENEFICIAL USE, OR DISPOSAL OF DRILL CUTTINGS (HOUSE BILL 964)

BILL STATUS/EFFECTIVE DATE: House Bill 964 made it through committees in both the House and Senate and was placed on the local and consent/uncontested calendar in both chambers. The bill, however, was never brought up for a vote on the Senate local and uncontested calendar, and ultimately died due to mandatory legislative deadlines.

RRC CONSIDERATION OF FLOODING IN FLOODPLAINS (HOUSE BILL 2201/SENATE BILL 772) AUTHOR: REP. ASHBY/SENATOR NICHOLS

ANALYSIS: The RRC by rule prohibits the construction of an oil and gas disposal pit inside a 100-year floodplain. The commission also has routinely considered recent flood history when making a determination on a proposed pit site but the authors of House Bill 2201/Senate Bill 772 were interested in formalizing this practice by including it in the commission's statewide rules.

House Bill 2201 requires the RRC to establish by rule standards governing permissible locations for commercial oil and gas disposal facilities. Rules must consider the history of flooding in the 10 years preceding the construction of the pit as a factor in determining whether the proposed location of a pit is permissible. The RRC already does this. This bill seeks to formalize and include the process in the commission's statewide rules.

TIPRO EFFORTS: First, TIPRO spoke with the authors of the bills to ascertain the intent of the legislation. TIPRO then spoke with the RRC and found that the RRC already does what the bill would require and would be unaffected by the language being included in their rules and statute. Realizing the minimal impact of the bill, the TIPRO State Issues Voting Committee voted to remain neutral on House Bill 2201/Senate Bill 722.

BILL STATUS/EFFECTIVE DATE: House Bill 2201 passed through the committees of both the House and the Senate unopposed and was also passed out of both chambers. The bill was sent to the governor on May 31, 2021, and was signed on June 15, 2021. The bill becomes effective on September 1, 2021.

STATE PREEMTION OF LOCAL REGULATION OF GREENHOUSE GAS EMISSIONS (SENATE BILL 1261)

AUTHOR: SENATOR BIRDWELL

ANALYSIS: Senate Bill 1261 would have provided that to the extent not preempted by federal law, the state has exclusive jurisdiction over the regulation of greenhouse gas emissions in the state of Texas. The bill would further clarify that a municipality or other political subdivision may not enact or enforce an ordinance or other measure that directly regulates greenhouse gas emissions.

TIPRO EFFORTS: Recognizing the proliferation of cities enacting city specific regulations creating a patchwork of environmental rules and regulatory uncertainty across states, the TIPRO State Issues Voting Committee acted early in supporting Senate Bill 1261. TIPRO spoke with the author of the bill, indicated our support and offered to assist as needed. TIPRO supported Senate Bill 1261 in both the House and Senate committees for the public record.

BILL STATUS/EFFECTIVE DATE: Senate Bill 1261 passed both the House and Senate Committees in addition to passing through the Senate as a whole. Senate Bill 1261 was heard in the House, postponed due to issues with the bill as it moved through the legislative process, per parliamentary procedure. The issues failed to be resolved prior to a mandatory legislative deadline and the bill ultimately died on the floor of the House.



REGULATORY ISSUES

BULK STORAGE PERFORMANCE STANDARDS (SENATE BILL 900/HOUSE BILL 2730)

AUTHOR: SENATOR ALVARADO/REP. PEREZ

ANALYSIS: Senate Bill 900 directs the TCEQ to establish the Bulk Storage Vessel Performance Standards program. It requires the TCEQ to create and enforce safety requirements to protect ground and surface water and mitigate potential safety hazards and minimize catastrophic incidents in the event of an accident or natural disaster. The program incorporates all critical safety elements from federal statutes, regulations and national consensus standards that are applicable and necessary to provide protection in the event of an incident. These include standards for the construction of new tanks and standards for existing tanks.

TIPRO EFFORTS: TIPRO met with the authors of Senate Bill 900 and discussed details of the legislation and the desired intent. TIPRO concluded that the bill did not impact upstream oil and gas storage vessels and that downstream vessels were already adhering to, if not exceeding, current federal storage vessel standards. Given the lack of impact to industry, the TIPRO Voting State Issues Committee elected to take the position of neutral on the bill.

BILL STATUS/EFFECTIVE DATE: Senate Bill 900 passed through the committees of both the House and the Senate unopposed and was also approved by both chambers of the legislature. The bill was sent to the governor on May 29, 2021, and signed on June 8, 2021. The bill becomes effective on September 1, 2021.

PENALTY INCREASE FOR TCEQ VIOLATIONS (HOUSE BILL 1820)

AUTHOR: REP. ZWEINER

ANALYSIS: House Bill 1820 would have amended the stae Water Code to authorize the TCEQ to increase the amount of an administrative penalty by an amount not to exceed 50 percent of the maximum authorized penalty if the alleged violator has a history of previous violations. The bill required the TCEQ to annually compute and publish a dollar amount to reflect inflation for the specified penalty amounts, set out related provisions, including a provision authorizing the TCEQ to adopt necessary rules and makes related changes.

House Bill 1820 would have also required the amount of the civil penalty for knowingly disclosing false information or negligently failing to disclose a hazard as required by the *Manufacturing Facility Community Right-To-Know Act* or the *Public Employer Community Right-To-Know Act* to be tripled if a first responder who is not employed at the facility that is the subject of the penalty, or who does not participate in a shared service agreement with another facility, is injured as a result of exposure to hazardous material while responding to an incident at the facility. The bill required the amount of a penalty against a facility operator who violated those acts or the *Non-Manufacturing Facilities Community Right-To-Know Act*, or a rule adopted or order issued under those acts, to be tripled under that same condition.

House Bill 1820, effective September 1, 2023, would have raised from \$25,000 to \$50,000, or the inflation-adjusted amount as provided for by the bill, the cap on the daily penalty for each violation within TCEQ jurisdiction to enforce that is not otherwise specified in provisions relating to maximum penalties. The bill increased from not less than \$50 nor greater than \$25,000 to not less than \$100 nor greater than \$50,000, or to the inflation-adjusted amount as provided for by the bill, the daily civil penalty assessed against a person who causes, suffers, allows, or permits certain violations of a statute, rule, order, or permit relating to certain matters within TCEQ jurisdiction to enforce.

House Bill 1820 increased from not less than \$100 nor greater than \$25,000 to not less than \$200 nor greater than \$50,000, or to the inflation-adjusted amount as provided for by the bill, the civil penalty assessed against a defendant for whom it is shown on the trial has previously been assessed a civil penalty for a violation of a statute within TCEQ jurisdiction or a rule adopted or an order or a permit issued under such a statute within the year before the date on which the violation being tried occurred.



REGULATORY ISSUES

PENALTY INCREASE FOR TCEQ VIOLATIONS (HOUSE BILL 1820)

ANALYSIS CONTINUED: House Bill 1820 would have modified the Health and Safety Code to require the TCEQ to conduct a study under the Texas Clean Air Act on the efficacy of imposing on the owner or operator of a regulated entity that reports an emissions event a penalty of not less than \$1 per pound of each applicable pollutant released that exceeds an authorized emission limit for the pollutant or that is not authorized by any permit, permit by rule, or regulation. The bill required the TCEQ to assess which pollutants to include in the penalty based on risks posed to the following:

- · human health;
- · public safety; and
- · environmental health.

The bill requires TCEQ to examine the potential effects of the penalty, including the following:

- the potential to improve compliance amongst operators; and
- anticipated costs to facilities as a result of the penalty.

The bill required the TCEQ, not later than March 1, 2022, to prepare and submit to the governor, the lieutenant governor and the legislature a report on the study's findings. These provisions would expire on September 1, 2027. House Bill 1820 specified that the location of a regulated entity that is included in the entity's report to TCEQ regarding an emissions event be expressed in terms of longitude and latitude.

TIPRO EFFORTS: The TIPRO Voting State Issues Committee voted to actively oppose House Bill 1820 from its inception. TIPRO opposed House Bill 1820 in the House Committee on Energy Resources and actively worked members of the calendars committee against setting House Bill 1820 on a calendar for consideration.

TIPRO also joined with other partners in pointing out that the industry not only supports appropriate penalties for bad actors and extraordinary events, but is a staunch advocate for ensuring robust monitoring and investigations through full funding TCEQ. In addition, TIPRO distributed a one pager to all members of the legislature highlighting the following flaws with House Bill 1820:

- TCEQ already revised the agency's penalty policy in January 2021 which increased penalties by 10-20 percent or more. The commission has said it plans on a rulemaking process to handle compliance history in which industry plans to be an active stakeholder to ensure that bad actors are penalized appropriately. We support the changes to the penalty policy and would like to see the most recent revisions continue before additional changes are made.
- The bill assessed a 50 percent additional penalty for a history of previous violations, which would penalize good actors that have complex facilities, even when those facilities are well-operated.
- The TCEQ has the authority and flexibility to adjust penalties if needed—in a targeted approach—that would better address "bad actors" without unnecessarily increasing the burden on good actors that are diligently trying to comply with environmental regulations. There is NO proof that enhancing penalties improves compliance.

When House Bill 1820 finally failed to be heard and died in the House of Representatives before a key deadline, Ed Longanecker, president of TIPRO, issued the following statement that was picked up in a number of news outlets: "The TCEQ already has the authority to adjust penalties for bad actors in a targeted manner, without unnecessarily increasing the burden on companies that diligently are trying to comply with environmental regulations. House Bill 1820 would have discouraged economic investment in Texas, driving away potential businesses to other states due to overly burdensome penalties. TIPRO supports appropriate penalties when necessary and a fully funded TCEQ to ensure the agency has the resources to effectively monitor activity and conduct thorough investigations. This bill would have harmed the state's ability to attract and retain businesses, while providing no real benefit to improving compliance."



REGULATORY ISSUES

PENALTY INCREASE FOR TCEQ VIOLATIONS (HOUSE BILL 1820)

BILL STATUS/EFFECTIVE DATE: House Bill 1820 was placed at the very end of the last General State Calendar for the Texas House of Representatives. Due to its placement on the calendar, it was never heard and died as a result of mandatory legislative deadlines.

PUBLIC MEETING REQUIREMENTS FOR TCEQ PERMITS (HOUSE BILL 960)

AUTHOR: REP. ALLEN

ANALYSIS: Currently, local public meetings to discuss certain waste facility permits, including permits for the construction of a new facility, are not strictly required to be held in the state House District in which a facility is or will be located, even if that district's state representative requested the meeting. House Bill 960 sought to require the meeting to be held in the House District where the facility is located or proposed to be located.

TIPRO EFFORTS: TIPRO originally was concerned that the bill could result in unexpected, unnecessary costs for one of the industry's main regulatory agencies. TIPRO spoke with the TCEQ on this matter, which indicated that the bill would not impose a significant impact to the agency. As a result, the TIPRO State Issues Voting Committee voted to remain neutral on the bill but continued to monitor it for potential negative amendments.

BILL STATUS/EFFECTIVE DATE: House Bill 960 was voted out of the House Committee on Environmental Regulation unanimously, but was not placed on a calendar for consideration by the full House of Representatives and died.

ALIGNING JUDICIAL REVIEW ACTS TIMELINES WITH TCEQ (SENATE BILL 211)

AUTHOR: SENATOR ZAFFIRINI

ANALYSIS: The legislature passed House Bill 3177 in the 85th Regular Session, relating to the delegation of matters to the executive director of the TCEQ, to address a problem encountered by persons seeking judicial review of commission actions on matters delegated to the executive director. Prior to enactment of this legislation, persons appealing many decisions delegated to the executive director were required to file two separate petitions for judicial review in district court. The law at that time required the first petition to be filed within 30 days of the effective date of the decision, while the person simultaneously exhausted administrative remedies through the motion to overturn process. A second petition then would be filed after any motion to overturn had either been denied by the commission or overruled by operation of law. House Bill 3177 sought to remedy this confusing and duplicative set of circumstances by delaying the requirement for petition filing until after the commission had acted on any timely filed motion to overturn.

While House Bill 3177 sought to create a more efficient and fair process, it inadvertently resulted in confusion as to which judicial appeals processes were governed by the new procedure. Senate Bill 211 sought to clarify that the judicial review timeline established by Section 5.351, Texas Water Code, applies to permitting matters under Chapters 361 and 382 of the Texas Health and Safety Code (the Solid Waste Disposal Act and Clean Air Act, respectively).

TIPRO EFFORTS: After speaking with both the author of the bill and the TCEQ (which had originally drafted the bill), the TIPRO State Issues Voting Committee elected to take the position of neutral on Senate Bill 211 but continued to monitor it through the legislative process.

BILL STATUS/EFFECTIVE DATE: Senate Bill 211 made it through both the House and Senate committees with unanimous support and was placed on the local and consent/uncontested calendar in both chambers. The bill was signed by the governor on May 30, 2021, and will become effective September 1, 2021.

EXPANDING AFFECTED PERSONS IN CONTESTED CASE HEARINGS (HOUSE BILL 969)

AUTHOR: REP. DUTTON

ANALYSIS: House Bill 969 focused on modifying applications for environmental permits presented to the TCEQ as a result of a contested case hearing. The bill would have made the senator and representative of the area where the facility would be located "affected persons" for the purpose of the contested case. This bill was filed in the House and the Senate last session but was not heard.

Affected persons is described in current statute as "a person who has a personal justiciable interest related to a legal right, duty, privilege, power, or economic interest affected by the administrative hearing. An interest common to members of the general public does not qualify as a personal justiciable interest."

TIPRO EFFORTS: The TIPRO State Issues Voting Committee voted to oppose House Bill 969. Expanding the definition of affected persons in contested case hearings can add delays to hearings and politicize the process. TIPRO articulated concerns with members of the House Committee on Environmental Regulation and issued opposition to the bill before the committee for public record.

BILL STATUS/EFFECTIVE DATE: House Bill 969 was scheduled for a public hearing and presented in the House Committee on Environmental Regulation late in the legislative session. No further action was taken by the committee on the bill. Thus, the bill ultimately died in committee.

INCREASED REPORTING REQUIREMENTS FOR ACCIDENTAL SPILLS (HOUSE BILL 2659) AUTHOR: REP. ROSENTHAL

ANALYSIS: House Bill 2659 would have required a facility with an accidental spill that requires reporting to the Texas Natural Resource Conservation Commission (now TCEQ) within 24 hours to also report the spill to the county judge of the county where spill occurred within 24 hours. This bill was filed in both the House and the Senate in the 86th Legislative Session but was never heard.

TIPRO EFFORTS: The TIPRO State Issues Voting Committee voted to oppose House Bill 2659. TIPRO articulated concerns with members of the House Committee on Environmental Regulation and issued opposition to the bill before the committee for public record.

BILL STATUS/EFFECTIVE DATE: House Bill 2659 was scheduled for a public hearing and presented in the House Committee on Environmental Regulation late in the legislative session. No further action was taken by the committee on the bill. Thus, the bill died in committee.

TERMINATING CORPORATE STATUS FOR REGULATORY VIOLATIONS (HOUSE BILL 3477) AUTHOR: REP. ROSE

ANALYSIS: House Bill 3477 allowed for the termination of corporate privileges if the TCEQ determined that a company was responsible for an environmental disaster. The bill defined "environmental disaster" as a violation of law under the jurisdiction of the TCEQ resulting in significant harm to human life.

TIPRO EFFORTS: While TIPRO supports appropriate penalties for bad actors and extraordinary events and is a staunch advocate for ensuring robust monitoring and investigations by fully funding regulatory agencies, the approach taken by House Bill 3477 was incorrect. In addition to 14th Amendment due process concerns, if passed and a corporation responsible for a disaster was terminated, the bill could impede the ability of the company to remediate and make improvements to their operations due to being terminated under the provisions in this bill.

TERMINATING CORPORATE STATUS FOR REGULATORY VIOLATIONS (HOUSE BILL 3477)

BILL STATUS/EFFECTIVE DATE: House Bill 3477 was scheduled for a public hearing and presented in the House Committee on Environmental Regulation late in the legislative session. The bill passed out of committee and was placed on the House General State Calendar. The bill was heard before the House chamber on the last possible day. The Texas House rejected House Bill 3477 and the bill died.

THE TEXNET ADVISORY COMMITTEE (HOUSE BILL 632/SENATE BILL 1213)

AUTHOR: REP. DARBY/SENATOR SELIGER

ANALYSIS: House Bill 632 reestablishes the TexNet Technical Advisory Committee at The University of Texas Bureau of Economic Geology (BEG). The TexNet Technical Advisory Committee is made up of nine members, all appointed by the governor. These include a representative of the RRC, and at least three representatives from the oil and gas industry. The director of the bureau is to serve as a non-voting member of the committee. The advisory committee's role is to develop recommendations that will assist the program and its research efforts; review and approve or reject expenditures; prepare and approve an annual budget for appropriated funds, provide oversight on new and existing program equipment, ensure transmission of data collected by seismic equipment to the Incorporated Research Institutions for Seismology database; and get quarterly updates from the bureau on progress of the program. The bill requires the TexNet Committee to submit a report to the governor, lieutenant governor, and speaker of the House by December 1st of each even numbered year that includes a review of the use of funds appropriated, an accounting of all research funded through the program, and recommendations for the ongoing operations and requirements of the program.

TIPRO EFFORTS: The TIPRO State Issues Voting Committee voted to support House Bill 632. TIPRO discussed the bill with both the BEG and the bill's author. TIPRO supported the bill in committee for the public record.

BILL STATUS/EFFECTIVE DATE: House Bill 632 passed the House and Senate committees unopposed and was approved through both chambers on their local and consent/uncontested calendars. The bill was sent to the governor on May 25, 2021, and signed on June 9, 2021. The bill takes effect September 1, 2021.

STREAMLINING LICENSURE FOR CNG AND LNG REGISTRANTS (SENATE BILL 1582/HOUSE BILL 4382) AUTHOR: SENATOR HUGHES/REP. WHITE

ANALYSIS: Senate Bill 1582 strikes the requirement that a testing service company must collect an examination fee from a liquefied petroleum gas (LPG) certification applicant. The certification applicant would simply be required to pay that fee, which is already required by statute, to RRC. Senate Bill 1582 also allows proctoring services to administer LPG, liquefied natural gas (LNG), and compressed natural gas (CNG) examinations. This change allows other types of testing providers, including on-line providers, to offer RRC certification examinations. Senate Bill 1582 provides the RRC with the flexibility needed to utilize third-party testing services, including online proctoring services, for administering certification examinations for propane, LNG and CNG certifications. The changes in SB 1582 will enable RRC to contract with testing service or proctoring companies that provides the best value to the state. This change would allow RRC to offer LPG, LNG, and CNG certification examination options online, or at testing service locations outside of RRC offices. These changes will improve the efficiency of RRC's LPG, LNG, and CNG certification program while offering greater convenience to those individuals seeking and LPG, LNG, or CNG certification.

TIPRO EFFORTS: TIPRO first sat down with the RRC to walk through the details of the legislation. The TIPRO Voting State Issues Committee later voted to support Senate Bill 1582. TIPRO supported the bill before both the House and Senate committees and advocated on behalf of the bill to members of the legislature. TIPRO remained in constant communication with the RRC on the status of the bill and worked with members of the legislature to facilitate an understanding of the benefits of the bill.

STREAMLINING LICENSURE FOR CNG AND LNG REGISTRANTS (SENATE BILL 1582/HOUSE BILL 4382)

BILL STATUS/EFFECTIVE DATE: Senate Bill 1582 passed the House and Senate Committees unopposed and was passed through both chambers. The bill was sent to the governor on May 27, 2021 and, with the governor's signature, is slated to take effect on September 1, 2021.

REQUIRED DISCLOSURE OF A BLOWOUT AT AN ADJACENT WELL (SENATE BILL 367) AUTHOR: SENATOR MILES

ANALYSIS: Senate Bill 367 was originally drafted to establish requirements for drilling permits at a site adjacent to a well blowout site. Specifically, the bill would have required the RRC to require an applicant for a permit to drill an oil or gas well in a county with a population of more than 750,000 to disclose if they were the operator of a well located at a site adjacent to the proposed well and they drilled through or into the same formation as the proposed well and an uncontrolled release of a subterranean fluid containing oil, gas, or condensate or of a well

fluid that was caused by a loss of control occurred while the applicant operated the well.

TIPRO EFFORTS: The TIPRO State Issues Voting Committee voted to oppose Senate Bill 367. The bill was directed at a specific entity and redundant. The RRC in considering permits would already have access to the information required by Senate Bill 367. TIPRO opposed the legislation before both the House and Senate committees and continued to monitor the bill through the legislative session. During the process, an amendment was added to the bill addressing an allocation well issue raised in *Opiela v. RRC*. The amendment stated that unless expressly prohibited by a lease, deed, or other contract, an operator or lessee with the right to drill an oil or gas well on or produce or develop oil or gas from each tract independently may, under a permit issued by the commission, drill, operate, and produce oil or gas from an oil or gas well, whether or not adjacent to a well blowout site described in the bill that traverses multiple tracts. The language would have addressed any ambiguity with regard to the authority of the RRC to issue allocation well permits. TIPRO made sure that despite the association's opposition to the bill, members of the organization were aware of the amendment and its implications.

BILL STATUS/EFFECTIVE DATE: Senate Bill 367 was passed out of both the House and Senate committees and approved by the Senate on its Local and Uncontested Calendar. The bill was amended in the House to address the allocation well issue raised in *Opiela v. RRC* and passed late in session. The bill ultimately died due to mandatory legislative deadlines.

LONG-TERM SOLUTION TO RRC REVENUE VOLITILTY (HOUSE BILL 3973)

AUTHOR: REP. WALLE

ANALYSIS: As originally introduced, House Bill 3973 sought to create a long-term solution to the revenue volatility that affects the RRC regulatory effectiveness. This bill aimed to improve funding stability for the commission and Oil and Gas Regulation and Clean Up Fund (OGRC) through four significant changes.

First, House Bill 3973 would have exempted OGRC funds from the requirement that they be used to pay employee benefits or benefit-related costs. Under this change, employee benefits or benefit-related costs would be paid through the General Revenue Fund (GR), and not OGRC. This change would have ensured that more OGRC dollars could be used for core agency functions, such as conducting inspections, processing permits and cleaning up sites. The RRC estimated that this change would result in a \$13 million per year in savings to the OGRC as these expenses are paid by GR. The net effect of this change to the state is cost neutral. There is precedence for this exemption: currently the Historic Site Account Fund administered by the Texas Historical Commission is exempted by law from paying benefit-related costs.



REGULATORY ISSUES

LONG-TERM SOLUTION TO RRC REVENUE VOLITILTY (HOUSE BILL 3973)

ANALYSIS CONTINUED: Second, House Bill 3973 would allow the OGRC to retain the interest earned on the fund. This change creates a new revenue stream for OGRC, one that could accrue upwards of \$3 million per year for the fund when the interest rates reach pre-pandemic levels. Interest earned on OGRC could then be deposited in the OGRC account. Again, there is statutory precedence for making this change. In 2013, the legislature redirected interest earned on accounts within GR to be deposited into GR rather than the earning account. The bill exempted two accounts when implemented. Since then additional state funds – including those administered by the Texas Parks and Wildlife Department and the GLO – have been exempted from this section of the Government Code allowing the funds to retain accrued interest.

Additionally, House Bill 3973 would have clarified that all administrative, civil and criminal penalties collected by the RRC would have to be deposited into OGRC. Existing statute dedicates some penalties and fees in to OGRC, others into GR. The law also dedicates some of these revenues to the now-defunct Oil Field Cleanup Fund which was abolished in 2011. Nonetheless, these administrative penalties that were once allocated to the Oil Field Cleanup Fund are now deposited within GR, and not OGRC. House Bill 3973 fixes these antiquated references by requiring that all penalties collected by the RRC be deposited into OGRC. This clarification would contribute approximately \$1 million more to OGRC each fiscal year.

Lastly, House Bill 3973 would have consolidated RRC's fund administration by transferring the Anthropogenic Carbon Dioxide Storage Trust Fund into OGRC. This trust fund was created for the collection of fees and penalties associated with the underground storage of man-made carbon dioxide. Since its creation, the fund has received limited revenue, and is not used to fund RRC activities associated with carbon dioxide storage. House Bill 3973 was designed to be cost neutral to the state and help the RRC by providing greater, long-term funding stability, giving the agency needed financial tools to provide regulatory certainty in the face of fiscal volatility.

Unfortunately, in the final days of the legislative session, the Senate sponsor of the bill, Senator Nichols, laid out a complete substitute to House Bill 3973 that altered the bill in its entirety. The substitute creates a joint interim committee to study abandoned oil and gas wells in this state and the use of the oil and gas regulation and cleanup fund. The committee would be required to study matters related to abandoned oil and gas wells inclusive of the costs associated with plugging abandoned wells and bonding requirements. The committee would not include the RRC but would consist of five members from the House and five members from the Senate and would require the RRC to provide data related to their fine and fee structure in addition to other information.

TIPRO EFFORTS: TIPRO first met with the RRC to discuss House Bill 3973 and the agency's need for the bill. The TIPRO State Issues Voting Committee then voted to support House Bill 3973 and articulated support to the RRC. TIPRO supported the bill before the House Committee on Appropriations for the public record. TIPRO was also present at the Senate Finance Committee where Senator Nichols substituted completely new language onto the bill. As a result of the changes, TIPRO opposed the bill before the Senate Committee for the public record. TIPRO was the only entity to oppose the bill before the committee. Lastly, TIPRO spoke with the office of the governor to discuss the negative consequences of the substitute to House Bill 3973 and the reasons for TIPRO's opposition to the legislation.

BILL STATUS/EFFECTIVE DATE: House Bill 3973 passed the House Committee on Appropriations with a single "no" vote and was overwhelmingly passed by the Texas House of Representatives. The bill was then passed unanimously out of the Senate Committee on Finance and by the entire Senate due to an agreement between the chairmen of the two committees, the House author and the Senate sponsor. The bill was sent to the governor on June 1, 2021, and signed into law on June 18, 2021. The bill becomes effective on September 1, 2021.



REGULATORY ISSUES

ONEROUS REGULATION OIL AND GAS WASTE (HOUSE BILL 4442)

AUTHOR: REP. RAYMOND

ANALYSIS: House Bill 4442 would have required an applicant for a permit to submit an additional non-refundable fee of \$200 for any well that will utilize a reserve pit for disposal of oil field wastes on the well site. The bill would have required the RRC to offer oil and gas well operators incentives for oil and gas waste reduction and minimization through the use of solids control equipment and closed loop drilling systems at the well site. House Bill 4442 would have also allowed the RRC to use money in the oil and gas regulation and cleanup fund for any oil and gas wastes including those that are disposed of or stored on a well site using a reserve pit, an above ground tank, or other means.

Per the bill, the RRC would have been directed to require that a notice of non-commercial surface disposal, including a legal description of the exact location of the non-commercial surface disposal, be filed with the county clerk in the county where the disposal occurs. Owners and operators of oil and gas well would be required to keep records of the volume and type of oil and gas wastes generated at the well site and the primary method of disposal for such wastes. Additionally, the RRC would have been required to provide written notice to the surface owner when a permit was issued as well as information about any on-site reserve pits expected to be used to permanently dispose of oil and gas waste on the surface owner's property, including the estimate volume and types of waste to be disposed of at the well site. Finally, the bill would have exempted tangible personal property or equipment used to process, reuse or recycle oil and gas wastes, including solids control equipment and closed-loop drilling systems from taxation.

TIPRO EFFORTS: The TIPRO State Issues Voting Committee voted to oppose House Bill 4442. In the statute being amended by House Bill 4442, the RRC already incentivizes oil and gas waste reduction and minimization techniques. This bill removed any other techniques including future, potentially better techniques, and required the incentivization of just one 'closed loop system' technique. Further, the RRC is able to achieve what the bill dictates without this legislation. The legislation would have gone even further to require fees, onerous notice provisions, additional record-keeping for operators and filing requirements, including notice to the surface owner with operational details and filing legal descriptions of reserve pits with the county clerk. This administrative burden would substantially impact smaller to mid-sized operators.

In addition to opposing the bill before the House Committee on Energy Resources for the public record, TIPRO distributed one-pagers identifying the flaws of the bill and the oil and gas industry's opposition to it. One-pagers were distributed to all members of the legislature.

BILL STATUS/EFFECTIVE DATE: House Bill 4442 was passed out of the House Committee on Energy Resources and the House Committee on Calendars, but was placed towards the end of the General State Calendar. Due to the bill's placement on the calendar and mandatory legislative deadlines, the Texas House of Representatives never got to approve of House Bill 4442, and the bill died.



WINTER STORM URI

OMNIBUS ELECTRIC GENERATION WEATHERIZATION (SENATE BILL 3)

AUTHOR: SENATOR SCHWERTNER

ANALYSIS: Senate Bill 3 is the omnibus winter storm weatherization bill, which was deemed a priority by both Texas Governor Greg Abbott and the legislature in response to Winter Storm Uri. The bill:

- Requires the Texas Department of Public Safety (DPS) to implement a statewide alert that can be activated when an energy emergency alert is issued;
- Requires the Texas Division of Emergency Management (TDEM) to develop a system to categorize winter storms according to predicted severity, and create a list of actions for agencies to prepare for such storms;
- Formalizes the Texas Energy Reliability Council (TERC), responsible for ensuring that high priority needs are met in the event of a necessary curtailment of natural gas distribution or supply;
- Requires the RRC to ensure that gas well and gas pipeline facility operators implement measures to prepare wells to operate during a weather emergency;
- Requires retail electric providers, municipally-owned utilities and coops to collaborate and communicate the process for implementing rolling blackouts and the types of customers who are considered critical customers or critical load;
- Requires the Public Utility Commission of Texas (PUC) to ensure municipally owned utilities, electric coops, qualifying facilities, power generation companies and exempt wholesale generators who provide generation service in the Electric Reliability Council of Texas (ERCOT) region implement weatherization measures that would ensure adequate generation service during a winter weather emergency; and
- Requires retail public utilities and districts that furnish retail water or sewer utility service to defer collection of full payment of bills due during an emergency.

TIPRO EFFORTS: Recognizing the significant impact that Senate Bill 3 could have on the energy industry, TIPRO was very involved with Senate Bill 3 from its inception. TIPRO supported many aspects of the bill as it was originally drafted. There was, however, a section that required all gas facilities to weatherize or face up to a \$1 million penalty per day of violation that TIPRO adamantly opposed. Only about 20 percent of Texas' natural gas facilities are involved in electric generation. Requiring all facilities to weatherize was unnecessarily onerous especially for small and mid-sized producers.

TIPRO spoke with the author of the bill and members of the Senate Committee on Jurisprudence about the issue, but did not take a public position on the bill given the many moving parts of the introduced version of the bill. TIPRO, along with industry partners, distributed a one-pager supporting the positive aspects of the bill, noting, however, that across-the-board weatherization of gas facilities was unnecessary. In fact, "an independent analysis confirmed that power outages, which originated at electric generation units, were the principle factor for natural gas production and transportation reductions or shutdowns during Winter Storm Uri."

The bill passed the Senate Committee on Jurisprudence and the entire Senate body without addressing industry concerns. TIPRO then focused its efforts on the House and making sure the House understood the issues that existed in the bill. TIPRO spoke with the House sponsor of the bill, the chairman of the House Committee on State Affairs and the members of the committee. The committee laid out the bill as it was passed out of the Senate in order to receive feedback on the bill as it was passed by the Senate. TIPRO was the only oil and gas trade association to go on the record in opposition of the bill as it was passed out of the Senate. The House Committee on State Affairs left the bill pending in order to make necessary changes based on public feedback. The committee later voted out a substitute version of the bill that required the weatherization of only gas facilities deemed critical to electric generation in the state. TIPRO contacted committee members, including the chairman and the sponsor of the bill indicating the association's support.

TIPRO then began work educating members of the legislature about components of the bill and the need to keep weatherization of gas facilities to those deemed critical to electric generation.

WINTER STORM URI

OMNIBUS ELECTRIC GENERATION WEATHERIZATION (SENATE BILL 3)

TIPRO EFFORTS CONTINUED: TIPRO monitored the bill as it was heard on the House floor for potential changes and amendments. Nearly 30 amendments were heard and 12 were accepted all of which were analyzed by TIPRO for their impact to the industry. Once the bill passed the House and was sent back to the Senate, TIPRO engaged the original author again making the case to keep weatherization of gas facilities limited. The author ultimately agreed, the bill was passed with weatherization limited to gas facilities deemed critical to electric generation, and sent to the governor. TIPRO spoke with the governor's office to ensure they were aware of the association's support of the final version of the bill as passed. Moving forward, TIPRO will engage with the RRC as they work to develop rules to determine which producing entities are deemed critical.

BILL STATUS/EFFECTIVE DATE: Senate Bill 3 was sent to the governor on June 1, 2021, and was signed on June 8, 2021. Due to the support of two-thirds or more of both chambers, the bill becomes effective immediately.

THE TEXAS ENERGY DISASTER RELIABILITY COUNCIL (HOUSE BILL 13)

AUTHOR: REP. PADDIE

ANALYSIS: House Bill 13 would have established the Texas Energy Disaster Reliability Council to help prevent interruptions in electric service lasting more than 24 hours caused by a disaster.

TIPRO EFFORTS: The TIPRO State Issues Voting Committee voted to support House Bill 13. TIPRO articulated its support for House Bill 13 to the bill's author and before both the House and Senate committees for the public record.

BILL STATUS/EFFECTIVE DATE: House Bill 13 was passed out of the House Committee on State Affairs and passed by of the Texas House of Representatives. The bill was also heard in the Sente Committee on Jurisprudence where it was left pending. No further action was taken on House Bill 13 and the bill died. The Texas Energy Disaster Reliability Council created in House Bill 13, however, was included in the omnibus electric generation weatherization bill, Senate Bill 3, which passed.

ESTABLISHING THE TEXAS ELECTRICITY SUPPLY CHAIN MAPPING COMMITTEE (HOUSE BILL 14)

AUTHOR: REP. GOLDMAN

ANALYSIS: House Bill 14 created the Texas Electricity Supply Chain Mapping Committee to map the state's electricity supply chain; identify critical infrastructure sources along the electricity supply chain; make recommendations on measures to prepare facilities that provide electric and gas service to maintain service in an extreme weather event; and designate priority service needs in extreme weather events. The committee would be made up of the executive director of the RRC, the executive director of PUC, president of ERCOT and the chief of the TDEM. The committee would be required under House Bill 14 to produce a report based on the above criteria to the governor, lieutenant governor, speaker of the House and the legislature.

TIPRO EFFORTS: The TIPRO State Issues Voting Committee voted to support House Bill 14. TIPRO articulated its support for House Bill 14 to the bill's author and to both the House and Senate committees for the public record.

BILL STATUS/EFFECTIVE DATE: House Bill 14 was passed out of the House Committee on Energy Resources unanimously and was passed by the Texas House of Representatives. House Bill 14 was heard in the Sente Committee on Jurisprudence where it was left pending. No further action was taken on House Bill 14 and the bill died.

WINTER STORM URI

ESTABLISHING THE TEXAS ELECTRICITY SUPPLY CHAIN MAPPING COMMITTEE (HOUSE BILL 14)

BILL STATUS/EFFECTIVE DATE CONTINUED: The Texas Electricity Supply Chain Mapping Committee created in House Bill 14 was, however, included in the omnibus electric generation weatherization bill, Senate Bill 3, which passed.

CRITICAL LOAD DESIGNATION FOR ELECTRIC GENERATION RELATED FACILITIES (HOUSE BILL 3915) AUTHOR: REP. GOLDMAN

ANALYSIS: House Bill 3915 would have required the PUC to establish a process for determining prioritization and eligibility requirements for a transmission and distribution utility to designate a premise as critical load. The bill required the eligibility requirements under the bill to include premises for upstream natural gas production, midstream natural gas transportation, fuel production, nitrogen supply, hydrogen supply, water supply, and telecommunications.

TIPRO EFFORTS: The TIPRO State Issues Voting Committee voted to support House Bill 3915. TIPRO articulated its support for House Bill 3915 to the bill's author and before the House Committee on Energy Resources for the public record.

Resources unanimously and passed by the Texas House of Representatives. The bill was referred to the Senate Committee on Business and Commerce, though it never received a hearing. No further action was taken on House Bill 3915 and the bill died. The critical load designation created in House Bill 3915, however, was included in the omnibus electric generation weatherization bill, Senate Bill 3, which passed.

REQUIRED CRITICAL LOAD DESIGNATION (HOUSE BILL 3648/SENATE BILL 1749) AUTHOR: REP. GEREN/SENATOR HANCOCK

ANALYSIS: House Bill 3648 requires the PUC to work with the RRC and directed each agency to adopt rules to designate certain natural gas facilities and entities associated with providing natural gas in this state critical during an energy emergency.

TIPRO EFFORTS: The TIPRO State Issues Voting Committee voted to support House Bill 3648. TIPRO supported the bill in both the House and Senate committees for the public record and monitored the bill.

BILL STATUS/EFFECTIVE DATE: House Bill 3648 passed both the House and Senate committees and the House and Senate chambers. The bill was sent to the governor for his approval on June 1, 2021, and was signed on June 18, 2021. The bill took effect immediately.

MANDATORY POWER GENERATION FOR HYDROCARBON STORAGE FACILITIES (HOUSE BILL 3539) AUTHOR: REP. ZWEINER

ANALYSIS: House Bill 3539 would have required that all underground hydrocarbon storage facilities maintain onsite power generation necessary to pump gas from the facility for a minimum of 12 hours.

TIPRO EFFORTS: The TIPRO State Issues Voting Committee voted to oppose House Bill 3539. TIPRO articulated its opposition to members of the House Committee on Energy Resources and opposed the bill before the committee for the public record.

BILL STATUS/EFFECTIVE DATE: House Bill 3539 was heard in the House Committee on Energy Resources, but no further action was taken. House Bill 3539 died in committee.



BUDGET

THE TEXAS STATE BUDGET FOR FISCAL YEAR 2022-2023 (SENATE BILL 1/HOUSE BILL 2) AUTHOR: SENATOR NELSON AND REP. BONNEN

ANALYSIS: The most important item on any session agenda, the State Budget Bill, this session filed as Senate Bill 1, was finalized on May 25, 2021. The roughly \$248 billion 2022-23 budget, and House Bill 2, the supplemental appropriations bill to close out the current state budget, in addition to federal funds, approximately \$16 billion of which remain to be committed, have covered all gaps in the budget and left Texas flush for further spending during the interim. The budget addressed the needs of the state without a tax increase or any other changes that could ultimately cost taxpayers.

As passed by the legislature, the bill spends over \$116 billion in General Revenue and stops short of tapping into the state's Economic Stabilization Fund. The approved \$248 billion in All Funds and \$116 billion in General Revenue represents about 5.5 percent growth in General Revenue from the 2020-21 budget cycle, which is well within population and inflation estimates.

Some highlights of the budget include:

- Funding for the full Foundation School Program entitlement, reflecting changes made last session to the school finance formula;
- Combined projected funding of \$8.4 billion for mental health across 25 state agencies;
- \$123.5 million for increased reimbursement rates for rural hospitals;
- 100 percent appropriation of estimated available Sporting Goods Sales Tax;
- \$400 million to support state parks and historical sites;
- \$200 million to continue protecting the Gulf Coast from natural disasters; and
- Over \$30 billion to address the state's transportation needs, including \$26.5 billion dedicated for highway planning, design, construction, and maintenance.

Both the RRC and TCEQ received full funding requested through their Legislative Appropriations Request at the beginning of the budgeting process. A breakdown of these funding appropriations is as follows.

RRC Funding: The RRC received approximately \$124.2 million for Fiscal Year 2022 and \$123.6 million for Fiscal Year 2023, as well as 870 full-time equivalent employees (FTEs) for the biennium. The funding includes capital budget authority for the continuation of two critical IT projects: \$21.4 million for Phase Two of the commission's Mainframe Transformation Project; and \$3 million for Phase Three of the Inspection and Enforcement Tracking and Reporting Project.

The agency also received \$7.1 million in exceptional items for Oil Waste Site Cleanup & Remediation sites; and \$2.2 million for vehicle replacements.

The RRC's budget included two unanticipated riders: A study on the Oil and Gas Regulation and Cleanup Fund revenue streams, as well as expected revenues going forward through 2025 based on its existing fee and fine structure, and review both of the agency's rules and statutory caps that determine the amount of those fees and fines (report due September 1, 2022); and a strategic plan on flaring data, requiring the agency to evaluate natural gas flaring data reported to the commission and available data from the TCEQ, and evaluation of solutions to clarify the discrepancy in flaring data.

TCEQ Funding: The TCEQ received approximately \$334.3 million in funding and 2,792 FTEs for Fiscal Year 2022, and \$312.6 million and 2,802 FTEs for Fiscal Year 2023, which is 16 percent below the Fiscal Year 2020/2021 budget due to the Texas Emissions Reduction Plan (TERP) program being funded by a trust outside of the appropriations process.



THE TEXAS STATE BUDGET FOR FISCAL YEAR 2022-2023 (SENATE BILL 1/HOUSE BILL 2)

ANALYSIS CONTINUED:

TCEQ Funding: The funding approved for TCEQ in the state budget includes a \$3.7 million increase for emergency response activities; \$1.6 million for the Clean Rivers Program; \$2.25 million for the expedited processing of air permit applications; \$500,000 and 4 FTES for air monitoring staff in order to operate the agency's mobile air monitoring units; \$12.1 million for IT projects such as development of an Air and Water Monitoring Data Management System, CAPPS, and modernization of critical legacy systems; and \$2.1 million for agency regional facility improvements.

The agency also received \$5.8 million in exceptional items for targeted salary increases for investigators, enforcement coordinators, engineers, permit specialists and attorneys in order to retain and train staff appropriately.

TIPRO EFFORTS: Prior to the 87th Legislative Session, the Texas Comptroller issued a revenue estimate indicating a substantial revenue shortfall for state budgetary purposes. Understanding that state spending would have to be trimmed, TIPRO made the full funding of the oil and gas industry's regulatory agencies a priority.

Early in session, TIPRO met with the TCEQ, the RRC, and the BEG to understand their needs and legislative appropriations requests. TCEQ Commissioner Emily Lindley, RRC Chairman Christi Craddick, and BEG Director Dr. Scott Tinker joined a number of TIPRO meetings to outline their funding requests and answer questions.

TIPRO articulated to budget writers and the office of the governor that the full funding of the oil and gas industry's regulatory agencies and the BEG was a priority to the organization. TIPRO closely monitored the budget process with specific focus on Articles VI (Natural Resources), VII (Business and Commerce), and VIII (Regulatory).

BILL STATUS/EFFECTIVE DATE: As noted in the analysis above, revenue estimates improved during the legislative cycle, leaving budget writers adequate funds to support complete appropriations of the oil and gas industry's regulatory agencies and the BEG. The State Budget, Senate Bill 1, was passed by the House and the Senate, and sent to the comptroller for his certification on June 1, 2021. Following certification, Senate Bill 1 was sent to the governor on June 8, 2021, for his approval and was signed by the governor on June 18, 2021. The budget bill becomes effective on September 1, 2021.

Of note, the governor did elect to veto all of Article X which funds the legislature and its ancillary services.

House Bill 2, the Supplemental Appropriations Bill, was passed by the House and Senate, and sent to the comptroller for his certification on May 29, 2021. Following certification, House Bill 2 was sent to the governor on June 2, 2021, for his approval. The governor signed House Bill 2 on June 18 and it became effective immediately.



THE TEXAS PRODUCED WATER CONSORTIUM (SENATE BILL 601/HOUSE BILL 3096) AUTHOR: SENATOR PERRY/REP. BURROWS

ANALYSIS: The bill creates the Texas Produced Water Consortium hosted by Texas Tech University (TTU) to gather "information resources to study the economics of and technology related to beneficial uses of produced water." Not later than September 1, 2022, the consortium will produce a report that includes: (1) suggested changes to law to better enable beneficial uses of produced water; (2) an economically feasible pilot project for state participation in a produced water facility; and (3) an economic model for using produced water in an economic and efficient way. The bill will be led by a stakeholder advisory council, and a technical and economic steering committee composed of members appointed by TTU to provide technical, economic, and scientific expertise. The stakeholder advisory council is composed of representatives of the oil and gas industry; agricultural and industrial water users; environmental interests; fluid oil and gas waste recycling operators; public water utilities; landowners and owners of groundwater rights; commercial water recyclers and midstream water companies; and other appropriate interests or industries.

TIPRO EFFORTS: The TIPRO State Issues Voting Committee voted to support the creation of the Texas Produced Water Consortium. TIPRO discussed the legislation with the bill's author and participated in a number of stakeholder meetings aimed at addressing minor stakeholder concerns and perfecting the bill language. TIPRO supported the bill on the public record in both the House and Senate committees.

BILL STATUS/EFFECTIVE DATE: Senate Bill 601 was sent to the governor for his approval on June 1, 2021. The governor signed the bill on June 18, 2021. The bill became effective immediately.

PERMITTING MOBILE WASTEWATER TREATMENT AT OIL AND GAS DRILLING SITES (HOUSE BILL 4066)

AUTHOR: REP. LUCIO III

ANALYSIS: House Bill 4066 would have required the RRC to adopt a permit by rule for the beneficial recycling of treated domestic wastewater and mobile drinking water treatment system wastewater generated from oil and gas drilling sites.

TIPRO EFFORTS: The concept for House Bill 4066 was brought to TIPRO in the interim prior to the 87th Legislative Session by a TIPRO member. TIPRO facilitated meetings on the issue with the RRC. TIPRO also discussed the concept before TIPRO's Regulatory Committee and the proposal received positive feedback from members. Next, TIPRO held meetings with members of the legislature and assisted in securing an author to carry the bill. Once the bill was filed, TIPRO met with the chairmen of the House and Senate committees where the bill was to be heard to discuss the benefits of the legislation. TIPRO remained in constant contact with the RRC regarding the status of the bill and assisted in moving the bill through the House Committee on Natural Resources, where it passed unanimously, and the House Committee on Calendars. The bill was passed by the entire House of Representatives with overwhelming support and sent to the Senate Committee on Water, Agriculture, and Rural Affairs with limited time remaining in the legislative session. With time winding down, the RRC agreed to work in good faith to address the issue through the rulemaking process over the interim.

BILL STATUS/EFFECTIVE DATE: House Bill 4406 passed unanimously out of the House Committee on Natural Resources and was passed by the entire House of Representatives with overwhelming support. The bill was then sent to the Senate Committee on Water, Agriculture, and Rural Affairs where time ran out to have the bill heard. The bill died, however, the TIPRO will work with the RRC over the interim to address the issue through rulemaking.



TEXAS ECONOMIC DEVELOPMENT ACT EXTENSION (HOUSE BILL 4242)

AUTHOR: REP. MEYER

ANALYSIS: House Bill 4242 would have provided a simple two-year extension to Chapter 313 of the Texas Tax Code, otherwise known as the Texas Economic Development Act. The Texas Economic Development Act allows school districts to agree to temporary abatements, or limitations, of property tax in exchange for businesses using property in the district for certain projects, including manufacturing, research and development, energy projects, computer centers and projects on which the business has committed to expend or allocate a qualified investment of more than \$1 billion, known as a "Texas priority project."

TIPRO EFFORTS: The TIPRO State Issues Voting Committee voted to support House Bill 4242. TIPRO supported the bill for the public record in both the House and Senate committees.

BILL STATUS/EFFECTIVE DATE: House Bill 4242 passed both the House and Senate committees with little opposition. The bill also passed the Texas House. House Bill 4242 was placed on the Senate Calendar but was never brought up for a vote due to Senate members deliberating controversial transparency aspects of the bill and mandatory legislative deadlines. As a result, the bill died, and the Texas Economic Development Act will expire on December 1, 2022. The program is expected to be repackaged and presented by stakeholders once again next legislative session.

EXPANSION OF PROJECTS UNDER THE TEXAS EMISSIONS REDUCTION PROGRAM (HOUSE BILL 4472)

AUTHOR: REP. LANDGRAF

ANALYSIS: In 2001, the 77th Legislature created TERP to provide financial incentives to eligible individuals, businesses, and government entities to reduce emissions from vehicles and equipment and help the state achieve federal Environmental Protection Agency (EPA) air quality standards, or "attainment." House Bill 4472 would expand projects receiving grants to: up to \$10 million for air monitoring equipment; up to \$10 million for fee-based contracts for the purchase of reductions in nitrogen oxides (NOx) emissions; and up to \$5 million for the energy efficiency loan guarantee program.

House Bill 4472 would also revise allocations from the TERP fund from percentages to specific dollar amounts. The bill changes allocations from: \$3 million, instead of 4 percent, for the clean school bus program; \$5 million, instead of 3 percent, for the new technology implementation grant program; \$4 million, instead of 5 percent, for the Texas Clean Fleet program; \$8 million, instead of 10 percent, for the Texas Natural Gas Vehicle Grant program; \$1 million, instead of \$750,000, to support research related to air quality; \$5 million, instead of 6 percent, for the Seaport and Rail Yard Areas Emissions Reduction program; and \$4 million, instead of 5 percent, for the Light-Duty Motor Vehicle Purchase Or Lease Incentive program.

The bill would also amend the TERP fund to allow a part of the balance of the fund to be used by TCEQ for funding research at the Texas A&M Transportation Institute to determine the cost effectiveness of existing emissions reduction programs and cost-effective programs not currently authorized under TERP. The bill allows TCEQ to use \$5 million to conduct research and other activities associated with making demonstrations to the EPA to account for the impact of foreign emissions or an exceptional event. The bill also makes changes to the way motor vehicle title fees are directed between the Texas Mobility Fund the State Highway Fund and the TERP Fund. The bill also amends eligibility requirements for the diesel emissions reduction incentive program grant within TERP; creates a new motorcycle incentive under TERP's light-duty motor vehicle incentive program; expands the list of projects TCEQ would have to give preference to in awarding grants under the new technology implementation grant program to including projects that reduced flaring emissions and other site emissions; and amends the Natural Gas Vehicle Program under TERP.



EXPANSION OF PROJECTS UNDER THE TEXAS EMISSIONS REDUCTION PROGRAM (HOUSE BILL 4472)

TIPRO EFFORTS: House Bill 4472 was an omnibus bill addressing many aspects of TERP. TIPRO spoke with the author of the bill who acknowledged that the filed bill and even the bill being heard in committee were incomplete and would be changing throughout the legislative process. Due to lack of clarity in what the final piece of legislation would look like, the TIPRO State Issues Voting Committee took the position of neutral on HB 4472.

BILL STATUS/EFFECTIVE DATE: House Bill 4472 was first substituted with new language in the House Committee on Environmental Regulation and passed unanimously. The bill was then amended five times on the House floor and passed to the Senate. The bill passed the Senate Committee Natural Resources and Economic Development and then was again amended in the Senate and ultimately passed. The bill was sent to the governor on June 1, 2021, and signed on June 18, 2021. The bill becomes effective on September 1, 2021.

NEW TECHNOLOGY IMPLEMENTATION GRANT PROGRAM ENHANCEMENTS (HOUSE BILL 2361) AUTHOR: REP. LANDGRAF

ANALYSIS: House Bill 2361 amends the new technology implementation grant program to include projects that reduce flaring emissions and other site emissions among the projects for which the TCEQ is required to give preference in awarding grants under the new technology implementation grant program. The bill also removes the grant eligibility requirement that mandates reductions in flaring emissions and other site emissions be utilized to capture waste heat to generate electricity solely for on-site service and therefore simply allows for the installation of systems that reduce flaring emissions and other site emissions. Finally, the bill allows for grants to be used for the lease of new technology projects and allows grant recipients to use the grant for the costs of operating and maintaining the emissions-reducing equipment.

TIPRO EFFORTS: The TIPRO State Issues Voting Committee voted to support House Bill 2361. TIPRO discussed the legislation with the bill's author and articulated support to both his office and the House and Senate committees for the public record.

BILL STATUS/EFFECTIVE DATE: House Bill 2361 was voted out of the House and Senate committees unanimously. The bill was placed on the House and Senate local and consent/uncontested calendars and passed with overwhelming support. The bill was sent to the governor on May 25, 2021, and signed on June 15, 2021. The bill becomes effective on September 1, 2021.

REFUNDS FOR SEVERANCE TAX OVERPAYMENTS (SENATE BILL 833/HOUSE BILL 1346) AUTHOR: SENATOR CAMPBELL/REP. PADDIE

ANALYSIS: Senate Bill 833 amends the Texas Tax Code to authorize a person who files an oil or gas production tax first purchaser's or producer's report and who does not hold a permit under the Limited Sales, Excise, and Use Tax Act to obtain a refund for sales and use taxes paid in error to a person who holds such a permit by filing a claim for refund with the comptroller of public accounts within the limitation period specified by law. The bill authorizes the comptroller by rule to provide additional procedures for claiming such a refund. This concept was supported by industry in the 85th Legislative Session (House Bill 3471).

TIPRO EFFORTS: Senate Bill 833 has been an initiative supported by the oil and gas industry for some time. TIPRO last supported the bill in the 85th Legislative Session as House Bill 3471. Prior to taking action, TIPRO spoke with the author of the bill to ensure the intent of the legislation. The TIPRO State Issues Voting Committee then voted to support Senate Bill 833 and the association supported the bill in both the House and Senate committees for the public record.

REFUNDS FOR SEVERANCE TAX OVERPAYMENTS (SENATE BILL 833/HOUSE BILL 1346)

BILL STATUS/EFFECTIVE DATE: Senate Bill 833 and House Bill 1346 both passed their respective committees in the legislature. Senate Bill 833 was moving faster through the legislative process and was voted out of the Senate on April 19, 2021. Chairman Paddie, author of House Bill 1346, tabled his version of the bill and instead heard the faster-moving Senate Bill 833. The House passed Senate Bill 833 and the bill was sent to the governor on May 19, 2021, and signed on May 30, 2021. The bill becomes effective on September 1, 2021.

ALLOWING TERP FUNDING FOR SUPERCRITICAL CO2 PROJECTS (HOUSE BILL 2994/SENATE BILL 2083

AUTHOR: REP. LOPEZ/SENATOR MENENDEZ

ANALYSIS: House Bill 2994 allows TERP funds to be used on projects that reduce emissions through improvements in energy production efficiency using supercritical carbon dioxide (CO2). Supercritical CO2 is CO2 compressed to a pressure where it acts like a liquid. Supercritical CO2 is a state of CO2 that is used to inject for enhanced oil recovery (EOR) and saline storage, and it is also the state in which CO2 is put so it can be transported in pipelines and trucks. House Bill 2994 provides money for technologies that improve air quality and would include Supercritical CO2 if it reduces criterial pollutants under the Clean Air Act.

TIPRO EFFORTS: The TIPRO State Issues Voting Committee voted to support House Bill 2994 and the association issued support for the bill to the committee for the public record.

BILL STATUS/EFFECTIVE DATE: House Bill 2994 was heard in the House Committee on Environmental Regulation, but no further action was taken and the bill died.

AMENDING OIL AND GAS AD VALOREM TAXES CALCULATIONS (HOUSE BILL 2292)

AUTHOR: REP. LANDGRAF

ANALYSIS: House Bill 2292 would have amended Chapter 23 of the Tax Code, regarding property taxation, to require that ad valorem (property) tax appraisers use an average of the monthly oil and natural gas prices over the most recent two calendar years as the price for each year in any income appraisal and removes the price adjustment factor.

TIPRO EFFORTS: Prior to the filing of House Bill 2292, TIPRO had been working on concepts to address ad valorem taxation as it pertained to market volatility and in particular severe market downturns. TIPRO even had legislation drafted aimed addressing the issue. Rep. Landgraf already was working on the issue as well and filed House Bill 2292.

When the bill was filed, TIPRO first spoke to members and tax experts about House Bill 2292. TIPRO then articulated to the author of the bill that the legislation would not address present-day volatility. Using prior year averages as a proxy for pricing in an appraisal would not be a good idea, no matter how many years you go back. The biggest issue in the recent market downturn was that many were using the Annual Energy Outlook (AEO) report by the from the U.S. Energy Information Administration (EIA) as a basis for the Price Adjustment Factor. If this were switched to the Short-Term Energy Outlook (STEO) from the EIA, it would be more responsive to the future pricing and satisfy a lot of what the current problem is with Tax Code Section 23.175. The STEO is released monthly so it is much more responsive to current trends in pricing than the AEO, which is released once per year. Using two years of historical data could be even worse than one year of historical data. Real change would be to use the STEO, versus the AEO. Even it would not have caught what happened to the industry in 2020. With a lien date of January 1, industry is really supposed to project on that day what it knows and does not know. The January STEO is released in mid-January and would be the best market indicator for a projection.

AMENDING OIL AND GAS AD VALOREM TAXES CALCULATIONS (HOUSE BILL 2292)

TIPRO EFFORTS CONTINUED: TIPRO also offered modifications to House Bill 2292 based on one of TIPRO's two previously drafted concepts of how to address ad valorem taxation during market downturns that would actually help the downside risk of price. TIPRO shared with the author's office that Texas Tax Code §23.175 states that appraisals of oil or gas interests use the average price of the oil or gas from the interest for the preceding calendar year multiplied by a price adjustment factor to adjust for the current year. The price adjustment factor is informed by EIA data on the spot price of West Texas Intermediate (WTI) crude oil and the spot price of natural gas at the Henry Hub. Chief appraisers either use the AEO report or, if the annual outlook was not available, the STEO report from January. Given the extreme market volatility of oil and gas, this calculation of taxation can result in an unnecessary financial burden to producers struggling to stay afloat during unprecedented and unexpected market downturns.

The Kansas Supreme Court in Bankoff recognized that the valuation of oil and gas leases is based on the present value of the lease's future production. The court recognized that oil and gas leases are valued as of January 1 (K.S.A. 79-301) but allowed data from the next following quarter to be used to value the property. [Board of Ness County Comm'rs v. Bankoff Oil Co., 265 Kan. 525, Syl. ¶ 5, 960 P.2d 1279 (1998)]. While the facts in Bankoff pertain to the valuation of a mineral leasehold by the county appraiser, the underlying intent of the court should not be lost. Recognizing the recent trends in the first quarter of 2020 should not be overlooked when making every effort to truly determine the fair market value of oil leases. With that in mind, TIPRO's draft concept recommended amending Texas Tax Code §23.175 to allow the Texas Comptroller to (may) adjust the taxation level of oil and gas to account for future production (based off Q1) during excessively volatile market swings. The use of concept would limit the use of Q1 data to only if there is a 30 percent or more change in valuations compared to the previous fiscal year calculation.

With an interest of getting the bill moving in a timely fashion and believing that, if nothing else, it would simplify the ad valorem process of industry, Rep. Landgraf moved forward with the original language of House Bill 2292. Due to concerns from TIPRO members and the fact that the bill would not address the core issue of ad valorem tax prices during periods of volatility, TIPRO took the position of the neutral on House Bill 2292 with the intention of working with the author to improve the bill.

BILL STATUS/EFFECTIVE DATE: House Bill 2292 was heard in the House Committee on Ways and Means on April 19, 2021, but no further action was taken, and the bill died.



ROYALTY OWNER ISSUES

ALLOWING SUIT FOR BAD FAITH WASHOUT OF AN INVIDUAL'S OVERRIDING ROYALTY INTEREST (HOUSE BILL 4218)

AUTHOR: REP. CRADDICK

ANALYSIS: House Bill 4218 would have allowed an individual to bring suit for a bad faith washout of an individual's overriding royalty interest. An owner of an overriding royalty interest who prevailed in an action related to a washout of their interest would be eligible to recover actual damages; enforcement of a constructive trust on the oil and gas lease or mineral estate acquired to accomplish the washout of the overriding royalty interest; and court costs and attorney's fees. The statute of limitation on an action would be two years after the date the washout occurs.

TIPRO EFFORTS: TIPRO first spoke with members of the industry and royalty owners about House Bill 4218. Then, the TIPRO State Issues Voting Committee originally took the position of neutral on the bill as a result of controversial language with the understanding that the author of the bill would work with TIPRO to adjust the language. The controversial language would have resulted in increased litigation within the industry. Rep. Craddick amended the language in a committee substitute in a way that satisfied all interested parties. Following the modifications, TIPRO changed positions from neutral to supportive of the bill.

BILL STATUS/EFFECTIVE DATE: House Bill 4218 passed both the House and Senate committees as well as both chambers of the legislature. The bill was sent to the governor for his approval on May 31, 2021, although the governor vetoed House Bill 4218 on June 18, 2021. The governor vetoed the legislation because it would have allowed for "a remarkable intrusion by the state into the contractual relationship between overriding royalty interest-holders and oil-and-gas lessees." Governor Abbott noted that "Texas prizes the freedom of parties to enter into private contracts and have their bargains enforced."

ROYALTY SUSPENSE (SENATE BILL 1259/HOUSE BILL 3262)

AUTHOR: SENATOR BIRDWELL/REP. SMITH

ANALYSIS: Senate Bill 1259 relates to causes of action for withholding payments of the proceeds from the sale of oil and gas production also known as royalty suspense. When a natural gas and oil company learns of disputes to ownership of a royalty interest, the company will hold payments until the ownership issue is resolved. Once ownership is resolved, the correct royalty owner is paid in full.

The Texas Natural Resources Code has long provided a safe harbor for payments while these disputes are pending. However, a Texas Supreme Court case upset this reliance by noting that because the statute did not explicitly mention "breach of contract claims," the statute needed "clear language from the legislature" to confirm the intent to allow temporarily holding payment until the dispute is resolved. The language in Senate Bill 1259 clarifies the safe harbor for this long-standing practice of holding payments in suspense to avoid the expense and inconvenience of interpleader lawsuits.

TIPRO EFFORTS: TIPRO first spoke with the association's royalty owner members and members of the industry impacted the Supreme Court case and facilitated conversations between the two parties. TIPRO worked with producers and royalty owner groups to find amenable language, which helped to address concerns and remove opposition to the bill. TIPRO and its members spoke with Senator Birdwell, the author of the legislation, to ensure the bill met the needs of both industry and royalty owners. Senator Birdwell amended the bill to address both parties concerns through a committee substitute. The TIPRO State Issues Voting Committee voted to support both Senate Bill 1259 and House Bill 3262.

BILL STATUS/EFFECTIVE DATE: Senate Bill 1259 passed both the House and Senate committees with no opposition. The bill was passed by both chambers and was sent to the governor on May 12, 2021. Senate Bill 1259 was one of the first bills signed into law by the governor on May 24, 2021, effective immediately.



GENERATE RECURRING WEALTH FOR TEXAS "GROW" FUND (HOUSE JOINT RESOLUTION 82) AUTHOR: REP. CRADDICK

ANALYSIS: House Joint Resolution 82 would have created the Generate Recurring Oil Wealth for Texas Fund, or "GROW" Texas Fund. This fund would not create or raise taxes, but rather, would secure the existing state revenue paid by oil and gas severance taxes for specific re-investment in the Texas oil patch. The money could be used for roads, education, broadband, law enforcement and many other required needs in these energy communities in Texas.

House Joint Resolution 82 was a constitutional amendment allowing the creation of the GROW Fund in the Texas Constitution that, if passed by voters, would direct 12 percent of the general revenue currently sent to the Economic Stabilization Fund to the GROW Texas Fund, not to exceed \$250 million per biennium. GROW funds could only be used for use in areas of the state from which oil and gas are produced and would only address infrastructure needs in the manner provided by general law in areas of the state determined by the legislature to be significantly affected by oil and gas production. The bill would bring state money generated by oil and gas production back to the Permian Basin and other energy-producing hotbeds.

TIPRO EFFORTS: TIPRO has long supported a long-term funding solution to the energy sector's transportation infrastructure needs and believes House Joint Resolution 82 would provide an excellent way to address such challenges. The TIPRO State Issues Voting Committee, like last session, voted to support House Joint Resolution 82. TIPRO spoke with Rep. Craddick's office, articulated support and offered assistance in moving the bill. TIPRO President Ed Longanecker also spoke before the House Committee on Appropriations in support of House Joint Resolution 82.

BILL STATUS/EFFECTIVE DATE: House Joint Resolution 82 was once again voted out of the House Committee on Appropriations and the Texas House of Representative with overwhelming support. The bill was then referred to the Senate Committee on Finance, where it did not receive a hearing and died for the second straight session.

EASING REQUIREMENTS FOR CTIF GRANT FUNDING (SENATE BILL 160/HOUSE BILL 1122) AUTHOR: SENATOR PERRY/REP. DARBY

ANALYSIS: Senate Bill 160 removes the requirement of a county to submit the previous year's road condition report in order to apply for County Transportation Infrastructure Fund (CTIF) Grant Program funds. Currently, the CTIF application process does not consider the road condition report when evaluating CTIF applications. Additionally, the Texas Department of Transportation does not use this report for any other purpose.

TIPRO EFFORTS: The TIPRO State Issues Voting Committee voted to remain neutral on Senate Bill 160.

BILL STATUS/EFFECTIVE DATE: Senate Bill 160 passed both the House and Senate committees unanimously and passed their respective legislative chambers with overwhelming support. The bill was sent to the governor on May 29, 2021, and signed on June 14, 2021. Because the bill received over two-thirds support in both legislative chambers, the bill becomes effective immediately.

COMMERCIAL VEHICLE SAFETY ENFORCEMENT ASSISTANCE IN THE PERMIAN (SENATE BILL 901/HOUSE BILL 523)

AUTHOR: SENATOR PERRY/REP. LANDGRAF

ANALYSIS: Senate Bill 901 allows for a county sheriff or deputy to apply for certification to enforce commercial motor vehicle safety standards in counties within 30 miles of New Mexico.



COMMERCIAL VEHICLE SAFETY ENFORCEMENT ASSISTANCE IN THE PERMIAN (SENATE BILL 901/HOUSE BILL 523)

TIPRO EFFORTS: The TIPRO State Issues Voting Committee voted to support Senate Bill 901. TIPRO articulated the association's support to the bill's authors, the Senate Committee on Transportation, and the House Committee on Transportation for the public record.

BILL STATUS/EFFECTIVE DATE: Senate Bill 901 passed both the House and Senate committees unopposed and was placed on both chamber's local and consent/uncontested calendar. The bill passed without incident and was sent to the governor on May 29, 2021, and signed into law on June 8, 2021. The bill becomes effective on September 1, 2021.

EXPANSION OF THE TEXAS NATURAL GAS VEHICLE PROGRAM (HOUSE BILL 963/SENATE BILL 645)

AUTHOR: REP. LOZANO/SENATOR ZAFFIRINI

ANALYSIS: House Bill 963 expands the Texas Natural Gas Vehicle Grant program's qualifying vehicles to include used natural gas vehicles that are model year 2017 or later and not more than six years older than the current model year at the time of grant application. The grant awarded for a qualifying used natural gas vehicle may not be less than 80 percent of the incremental cost of the vehicle purchase, lease or other commercial finance.

TIPRO EFFORTS: The TIPRO State Issues Voting Committee voted to support House Bill 963. TIPRO spoke with both of the author's of the companion bills to insure intent and articulate support. TIPRO supported the bill in the House Committee on Environmental Regulation for the public record.

BILL STATUS/EFFECTIVE DATE: House Bill 963 passed both the House and Senate committees unopposed and was placed on both chamber's local and consent/uncontested calendar. The bill passed with a minor clarifying amendment by the bill's author and was sent to the governor on May 25, 2021, and signed into law on June 9, 2021. Because the bill received over two-thirds support in both legislative chambers, the bill becomes effective immediately.

COMMERCIAL VEHICLE LITIGATION BILL (HOUSE BILL 19)

AUTHOR: REP. LEACH

ANALYSIS: House Bill 19 is the commercial vehicle litigation bill drafted by Texans for Lawsuit Reform, the Texas Trucking Association and the Texas Civil Justice League. There are six fundamental elements of House Bill 19 that pertain to commercial vehicle lawsuits. The bill allows photos and videos of physical damage to be admissible in legal disputes involving commercial vehicles; it calls for provider engagement to be discoverable; allows for future damages to be paid in the future; it requires a safety record to have causal link; if a respondent superior is available, the bill enables torts to be dismissed unless an employer is found grossly negligent; and the bill allows for gross negligence and punitive damages to be bifurcated.

TIPRO EFFORTS: TIPRO became aware of the House Bill 19 concept early in the legislative session. Recognizing a problem, TIPRO reached out Texans for Lawsuit Reform, the Texas Trucking Association and the Texas Civil Justice League and joined the Keep Texas Trucking Coalition - a group dedicated to developing legislative remedies to address the lawsuit abuse that has plagued not only the oil and gas industry, but all industries with commercial motor vehicles.

The TIPRO State Issues Voting Committee voted to support House Bill 19 as it was drafted and proceeded to help advance the legislation. TIPRO distributed one-pagers highlighting the components of and need for the bill to members of the legislature.

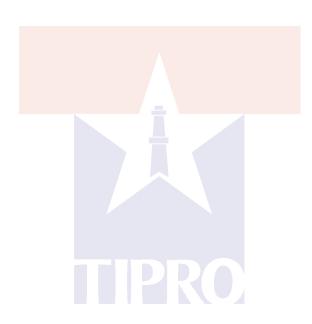


TIPRO REPORT 👆 TRANSPORTATION

COMMERCIAL VEHICLE LITIGATION BILL (HOUSE BILL 19)

TIPRO EFFORTS CONTINUED: TIPRO supported the bill in both the House and Senate committees for the public record and served as a resource to members of the legislature as the bill moved through the legislative process.

BILL STATUS/EFFECTIVE DATE: House Bill 19 passed both the House and Senate committees and both the House and Senate as a whole. The bill was sent to the governor for his approval on June 1, 2021, and signed on June 14, 2021. The bill becomes effective on September 1, 2021.





ENVIRONMENTAL ISSUES

ORPHAN WELL REDUCTION BILL (HOUSE BILL 4367)

AUTHOR: REP. GUILLEN

ANALYSIS: In summary, the Orphan Well Reduction Bill is the next step in the overall effort to reduce not only inactive wells in Texas, but also lower the number of orphan wells in the state, which directly impacts RRC resources. Last session, the RRC received an extra ~\$38 million dollars dedicated exclusively to plugging orphan wells. This bill proposal represented an effort to maximize those dollars and help reduce the orphan well inventory for less, allowing the RRC to focus time and money on other needs within the agency.

The orphan well issue has been raised a number times during each of the RRC's past three sunset reviews. In each of those reviews, concerns about the orphan well issue arose from legislative members, environmental groups and even members of the industry.

The state previously had orphan well legislation in law that offered tax reduction incentives to operators that either plugged or took over orphan wells. That legislation, however, had expiration dates that terminated a few years ago.

House Bill 4367 would allow an operator to take control of, through the RRC, an orphaned well. The operator then would have two options:

1. The operator could plug the well for the RRC within a year. If the operator plugged the well within the year time period, the operator would be entitled to a reimbursement from the RRC in the amount of either half of the operator's plugging cost or half of the RRC's average plugging cost for similar wells in that area, whichever is lower. Essentially, the RRC will be able to plug an orphaned well that is on its books, that they would eventually have to be plugged anyway, at half the cost.

In a meeting with the RRC about this legislation, the agency noted that the average plugging cost per well was ~\$25,000. The proposed legislation limited funding for this purpose to \$500,000. Thus, without this bill, the RRC could only plug 20 wells at an average of \$25,000 a well for \$500,000. This bill would allow the commission to have industry plug 40 wells on the commission's behalf at the same level of funding.

2. If the operator were to take over an orphaned well from the commission and choose not to plug the well within the year, the operator then assumes normal ownership of that well and standard applicable laws apply.

Considering the recent commodity price environment, affected by OPEC and the COVID-19 pandemic, it seems very reasonable to assume a significant number of operators will be strained. They most likely will be adding wells to the orphan well count, further increasing the burden to the RRC orphan well plugging program. This bill proposal was a proactive approach to provide relief to a very real and looming issue.

TIPRO EFFORTS: Prior to the 87th Legislative Session, TIPRO met with the RRC to discuss the bill concept. Following the meeting and receipt of support of the concept from the RRC, TIPRO had the concept drafted into House Bill 4367. TIPRO then worked to secure an author for the bill and had the bill filed. The TIPRO State Issues Voting Committee voted to support House Bill 4367. TIPRO had follow-up meetings with the RRC in order to come to an agreement on the language, of which RRC legal council had concerns.

BILL STATUS/EFFECTIVE DATE: TIPRO and legal counsel for the RRC were unable to agree upon appropriate language for the bill prior to mandatory legislative deadlines. The RRC, however, agreed to work with TIPRO on the bill concept and language during the interim and before the next legislative session in anticipation of reaching an agreement on the bill for the 88th Texas Legislature to consider.



ENVIRONMENTAL ISSUES

IMPROVING RULES FOR FLUID OIL AND GAS WASTE (HOUSE BILL 3516/SENATE BILL 1335) AUTHOR: REP. KING/SENATOR PERRY

ANALYSIS: House Bill 3516 requires the RRC to adopt rules that encourage fluid oil and gas waste recycling for beneficial purposes and establish standards for the issuance of permits for commercial recycling of fluid oil and gas waste. The rules for the recycling of oil and gas waste must establish minimum siting standards for fluid recycling pits; uniform technical, construction, and placement standards; uniform standards for estimating closure costs; maximum bonding and financial security amounts; and standards for sampling and analysis of fluid oil and gas waste.

TIPRO EFFORTS: The TIPRO State Issues Voting Committee originally had minor concerns with the legislation as it was drafted by Rep. King and voted to remain neutral on the chairman's bill while issues were worked out. TIPRO met with both Chairman King and Chairman Perry regarding the committee's concerns. Chairman Perry's office proposed a new draft that addressed TIPRO's concerns. Chairman King amended his bill with Chairman Perry's language in a committee substitute. The change to the bill moved the association's position from neutral to support. TIPRO articulated its support to both Chairman King and Perry's office, as well as with members of the committees.

BILL STATUS/EFFECTIVE DATE: House Bill 3516 passed both the House and Senate committees as well as the House and Senate chambers. The bill was sent to the governor for his approval on May 26, 2021, and was signed into law on June 8, 2021. The bill takes effect September 1, 2021.





EMINENT DOMAIN

EMINENT DOMAIN REFORM BILL (HOUSE BILL 2370)

AUTHOR: REP. DESHOTEL

ANALYSIS: For the past several sessions, the Coalition for Critical Infrastructure (CCI) - of which TIPRO is a member - has collectively worked to reach a resolution on eminent domain reform. After years of intense negotiations, a consensus was reached on language which makes significant improvements to the eminent domain process for property owners while also ensuring the building of critical infrastructure continues to keep pace with the state's growing population and needs.

The legislation represents a delicate compromise among numerous stakeholders. House Bill 2730 includes the following provisions:

- The Landowner's Bill of Rights will remain at the Office of the Attorney General but will now require public input into its contents.
- The Landowner's Bill of Rights will include information notifying a property owner of the right to file a complaint for misconduct conducted by a certified easement or right-of-way agent.
- The Landowner's Bill of Rights will now include an addendum with a list of the easement terms required that may be included in an instrument of conveyance.
- Certified easement or right-of-way agents will be required to complete additional education/training in the area of property acquisition, including ethics.
- The condemning entities will be required to provide additional information with an initial offer, including a statement regarding damages to the remainder and an instrument that includes minimum easement terms.
- Inclusion of procedural timelines once a condemnation petition is filed, including timing of appointment of special commissioners.

TIPRO EFFORTS: TIPRO has been involved in amending the eminent domain process for the past three sessions. Each session, an agreement between landowners and entities with eminent domain authority has failed. TIPRO has been a member of the CCI for all three sessions. CCI is a diverse group of over 30 public and private entities with eminent domain authority joined by the goal of establishing an eminent domain process that compensates property owners fairly and fully for the value of their property without raising legal or litigation costs and uses eminent domain only to acquire property for infrastructure proposes that benefits the citizenry and is only used only as a last resort.

This session, TIPRO has been involved in several stakeholder meetings attempting to address concerns articulated by landowner groups over the last several sessions. TIPRO participated in developing a bill that fit the needs of both landowners and the state's critical infrastructure. TIPRO met with members of the legislature to pitch the drafted bill and advise the members of the steps the coalition had taken to reach the language of the bill. During session, the coalition and the coalition of landowner groups met to hash out differences between their differing bill drafts. Ultimately, all parties except the Cattle Raisers Association agreed upon acceptable bill language. TIPRO then began to engage members to pass the agreed upon language. In addition to member meetings, TIPRO distributed one-pagers explaining and supporting House Bill 2730 without amendments.

BILL STATUS/EFFECTIVE DATE: The agreed upon language for House Bill 2730 was substituted into the bill in the House Committee on Land and Resource Management. Efforts to move the legislation without amendment were successful in the House and the Senate. The bill passed the Senate Committee on Jurisprudence unanimously and was placed on the Senate Local and Uncontested Calendar. The bill was sent to the governor for his approval on June 1, 2021, and was signed on June 16, 2021. Rulemaking for the bill can begin immediately, however, the bill becomes effective January 1, 2022.



CLARIFYING MINERAL CONTRACTOR LIEN LANGUAGE (HOUSE BILL 1834)

AUTHOR: REP. LANDGRAF

ANALYSIS: House Bill 1834 would have allowed a mineral contractor or subcontractor to have a lien to secure payment for material, machinery, supplies, in addition to labor, or services related to the mineral activities, which is already in current law.

TIPRO EFFORTS: The TIPRO State Issues Voting Committee voted to support House Bill 1834.

BILL STATUS/EFFECTIVE DATE: House Bill 1834 was placed on the calendar to be heard by the House Committee on Energy Resources but was removed. The bill never received a hearing and died.

STATE DIVESTMENT FROM ENTITIES BOYCOTTERING TEXAS ENERGY (SENATE BILL 13/HOUSE BILL 2189)

AUTHOR: SENATOR BIRDWELL/REP. KING

ANALYSIS: Senate Bill 13 requires the comptroller to maintain a list of all companies that boycott energy companies or companies that invest, assist or do business with energy companies, and directs state government investment entities to prudently divest from those companies. When state agencies contract with or invest funds in companies that boycott fossil fuel-based energy companies, it has a direct and adverse effect on the Texas economy. Senate Bill 13 seeks to ensure that taxpayer dollars are not being used to promote an agenda that hurts the state's energy sector and economy as a whole by prohibiting investments by state entities in companies that boycott these energy companies.

TIPRO EFFORTS: The TIPRO State Issues Voting Committee voted to support Senate Bill 13. The bill, deemed a priority piece of legislation by the Senate, faced little resistance. TIPRO supported the legislation for the public record in both the House and Senate committees.

BILL STATUS/EFFECTIVE DATE: Senate Bill 13 passed both the House and Senate committees and the Senate and House legislative bodies. Senate Bill 13 was sent to the governor on June 1, 2021, for his approval and signed into law on June 14, 2021. The bill becomes effective September 1, 2021.

THE TEXAS LEIN ACT (HOUSE BILL 3794/SENATE BILL 1468)

AUTHOR: REP. GEREN/SENATOR HINOJOSA

ANALYSIS: House Bill 3794, the Texas Lien Act, repeals provisions of law that currently govern oil and gas liens and creates a new chapter of law that comprehensively governs oil and gas liens. The new language provides that in order to secure obligations of the first purchase to pay the sales price, each interest owner has an oil and gas lien to the extent of the interest owner's interest in oil and gas rights. The oil and gas lien exists as part of an incident to the ownership of oil and gas rights. An oil and gas lien exists and attaches to all oil and gas prior to severance; continues uninterrupted and without lapse in all oil and gas on and after severance; and continues uninterrupted and without lapse in and to all proceeds from the sale of the oil or gas. The lien exists until the interest owner or representative first entitled to receive the sales price has received the sales price for oil or gas.

House Bill 3794 provides for transfer of oil and gas rights and provides that the lien of an interest owner is perfected automatically without need to file a financing statement or any other type of documentation. The bill has language that covers instances where more than one oil and gas lien is commingled with other oil or gas in a manner that the identity of the specific oil or gas is lost, giving the commingled product priority over any security interest or other lien that is not an oil and gas lien, regardless of whether the security interest or other lien has been properly perfected.

THE TEXAS LEIN ACT (HOUSE BILL 3794/SENATE BILL 1468)

ANALYSIS CONTINUED: The bill covers the rights of purchasers - a purchaser takes free of any oil and gas lien if the purchaser is a buyer in the ordinary course of the first purchaser's business or has paid all consideration due to the first purchaser. The bill prohibits an interest owner from being required to waive or release an oil or gas lien other than on payment in full of sale price.

Actions to enforce an interest owner's lien must be brought no later than one year after the last day of the month after the date proceeds from the sale of oil or gas subject to the lien are required by law or contract to be paid to the interest owner. The bill also covers venue and jurisdiction for actions to enforce an interest owner's lien. Prevailing parties are entitled to court costs and reasonable attorney's fees. The rights set forward under this law are intended to be cumulative with all other rights an interest owner may have at law or in equity, including the right of the owner to maintain a personal action to recover the debt against any person liable for payment of the sales price of the oil or gas.

TIPRO EFFORTS: The TIPRO State Issues Voting Committee voted to support House Bill 3794. TIPRO met with the bill's author and participated in several stakeholder meetings to ensure that the bill addressed the concerns of all aspects of the oil and gas industry: upstream, midstream, downstream and royalty owners. TIPRO also supported the bill in both the House and Senate committees for the public record.

BILL STATUS/EFFECTIVE DATE: House Bill 3794 passed both the House and Senate committees and the House and Senate legislative bodies. House Bill 3794 was sent to the governor for his approval on May 22, 2021, and signed on June 4, 2021. The bill becomes effective September 1, 2021.

HOUSE RESOLUTION COMMEMORATING TIPRO'S 75TH ANNIVERSARY (HOUSE RESOLUTION 1311) AUTHOR: REP. ANDERSON

ANALYSIS: House Resolution 1311 commemorates the 75th anniversary of TIPRO. The resolution acknowledges TIPRO's history, its importance to the legislature and industry, and congratulates the association on its 75th anniversary. "For three-quarters of a century, TIPRO has been a champion for the independent producers and royalty owners of the Lone Star State's oil and gas industry, and its members may indeed take pride in its many achievements as they mark this impressive milestone in the association 's history; now, therefore, be it resolved, that the House of Representatives of the 87th Texas Legislature hereby commemorate the 75th anniversary of TIPRO and extend to its members and staff sincere best wishes for continued success," reads a portion of the resolution.

TIPRO EFFORTS: TIPRO worked closely with the office of Rep. Anderson all session, keeping the member apprised of relevant energy issues and the industry's positions. Rep. Anderson, former vice chair of the House Energy Resources Committee, recognized that this year marked TIPRO's 75th Anniversary and was pleased to author the resolution.

BILL STATUS/EFFECTIVE DATE: The resolution was heard and adopted in the Texas House of Representatives on May 26, 2021. The resolution was officially enrolled on May 31, 2021.

INCREASED BONDING REQUIREMENTS FOR WELLS IN TEXAS (HOUSE BILL 2868/SENATE BILL 954/SENATE BILL 2108)

AUTHOR: REP. LONGORIA/SENATOR HINOJOSA/SENATOR SCHWERTNER

ANALYSIS: House Bill 2868 would have increased the blanket bond amounts for wells as follows: a person who operates 10 or fewer wells shall file a \$35,000 [up from \$25,000] blanket bond; a person who operates more than 10 but not more than 20 [formerly 100] wells shall file a \$50,000 blanket bond; a person who operates more than 20 but not more than 35 wells shall file a \$75,000 blanket bond; a person who operates more than 35 but not more than 60 wells shall file a \$130,000 blanket bond; a person who operates more than 60 but fewer than 100 wells shall file a \$215,000 blanket bond. The bill would have also required the RRC to determine the average cost for each foot of well depth of plugging a well located in each oil and gas division district during the preceding state fiscal year.

TIPRO EFFORTS: The concept of increasing bonding is not new to the legislature. The TIPRO State Issues Voting Committee has voted to oppose such increases over the past several legislative sessions and during each RRC Sunset Review. This session was no different, and the TIPRO State Issues Voting Committee voted to oppose House Bill 2868. Ed Longanecker, president of TIPRO, testified in opposition to the bill before the House Energy Resources Committee to express the organization's concerns with House Bill 2868, which would disproportionately impact small producers by increasing bonding requirements for those operating fewer than 100 wells.

In the testimony, the committee was informed that for orphan wells under the jurisdiction or responsibility of the RRC, current statutory bonding requirements are meant to be utilized as just one of over 20 revenue sources to fund the plugging of those wells. According to TIPRO's previous calculations, in one year, approximately 80 percent of the funds used by the RRC to plug orphan wells came from the oilfield regulatory fee assessed from oil and gas production taxes, which is deposited in the oil and gas cleanup fund. And a much smaller percent came from financial securities or bonds. Longanecker further informed the committee that there are a limited number of surety companies in the state that offer the type of bonds required and that increasing the bonding requirements could ultimately decrease the number of operators that would qualify, which could result in fewer wells being drilled, less production, tax revenue and employment opportunities in our state.

BILL STATUS/EFFECTIVE DATE: House Bill 2868 was brought up once in the House Committee on Energy Resources, testimony was heard, and no further actions were taken on the bill. House Bill 2868 died in committee.



QUESTIONS?

PLEASE CONTACT TIPRO AT (512) 477-4452.