



SIERRA CLUB

LONE STAR CHAPTER

To: Legislative Budget Board and Governor's Office
Re: Legislative Appropriations Request, 26-27, Railroad Commission of Texas
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The Lone Star Chapter of the Sierra Club is pleased to offer these brief comments on the Railroad Commission's LAR for 26-27. The Sierra Club has approximately 30,000 members in Texas and has long been engaged at rulemakings and efforts to improve the agency. In particular, we have long called for improvements in their public transparency, enforcement and information sharing. We have been pleased with the investment made in recent years by the Legislature in upgrading the databases and IT at the agency, and the recent improvements in providing the public with additional information on enforcement and inspections, hearings and cases and geographic information. We do support the \$3,000,000 IT improvements in this proposed budget, including Phase 5, which would add Texas Damage Reporting Form to the new system, as well as mainframe upgrades, which will cost some \$21,475,647 over the biennium..

We are very appreciative of Rider 19 from the last budget which assures that additional information related to enforcement is provided quarterly on specific company violations, complaints, and resolution of complaints, and agree that directing the agency to produce a quarterly report on enforcement, to go along with its annual enforcement report would be an improvement. We believe the legislature could consider also adding pipeline inspection and enforcement as part of the same report.

In terms of the LAR itself, we are largely supportive of the agency's LAR and exceptional requests. We would note there is a decrease proposed in the base budget compared to 2024-2025 of approximately \$50 million, from roughly \$500 million to \$455 million. We recognize that part of this decrease is due to less money available from the federal government for activities like well plugging and pipeline safety improvements,

but we are supportive of most of the 11 exceptional item requests which help bring the total request to \$490 million less than the \$500 million from last year.

This is an agency that is still struggling to hire enough people, update its technology, procure enough vehicles, and inspect enough wells and pipelines. The 26-27 base proposal and exceptional items would help get us further along. In particular we are in strong support of the requests related to the Mainframe Transformation (\$21.5 million), Inspection/Enforcement Tracking and Reporting System (\$3 million), and majority of the exceptional items (\$35 million). We also recognized in the last two years the Commission began a new division related to buttressing its efforts to weatherize and modernize its infrastructure and the Sierra Club very much supported the extra resources needed to inspect critical infrastructure to assure our gas supply is available during climate extremes. We noted that the budget for this effort has been lowered in the LAR so we hope that the needed weatherization will continue to occur.

Opinions on Exceptional Items

Produced Water and Injection Data Reporting System

The increase in oil production in Texas over the last 15 years has led to a great increase in the amount of produced water from well sites. The oil and gas industry sees value in recycling the water and turning it into a resource rather than a waste product. Disposing of produced water by injecting it into deep geologic strata increases risks associated with overpressure such as surface breakouts that increase the drilling costs. The Railroad Commission proposes development of a new system that would collect produced water and injection data and make it available to industry, state regulators, and other interested parties. RRC requests 2 FTEs and \$7,685,824 for development of this system.

As a member of the Produced Water Consortium, we believe that making information on water volume and perhaps basic quality parameters is key to looking for new beneficial uses of this waste product, including both recycling within the oilfield and uses like cotton or alfalfa growing if found to be safe. We also think the RRC should consider requiring monthly reporting on discharge permits to have more realtime information on water volumes. Pilot programs have been an important development to look at other uses of the water.

Oil and Gas Authorized Pit Registration System

The Oil and Gas Environmental Permits and Support Unit needs a new system for operators to provide more information about pits used to store or manage oil field fluids and oil and gas waste. The new system will allow operators to provide more complete

information about the size, location, and uses than is currently collected. The Commission will inspect pits as part of its inspection process to ensure no oil and gas activities pollute surface or subsurface waters. The new system will also allow the data to be available online to the public. RRC requested 2 FTEs and \$2,748,000 for development of this system.

We are supportive of this effort. The RRC is looking at new rules for waste pits and other waste management methods and having a registration system to improve inspections and compliance makes sense.

Oversight and Safety Regulatory Filing and Permitting Systems

The Railroad Commission collects multiple reports with large amounts of data from natural gas utilities related to the sale of natural gas. The Commission uses this data to audit utility companies and ensure that the collected Natural Gas Utility Taxes are accurate. A new online filing system would make reporting easier for the utility companies and enhance the auditing capabilities of the Commission. Likewise, the Alternative Fuels Online System (AFOS) needs enhancements to streamline the permitting process for operators. RRC requests \$6,288,068 for these systems.

The Sierra Club supports this request.

Site Remediation Program Support

The Oil and Gas Site Remediation Program needs two additional FTEs to review complex cleanup projects and respond to public information requests about cleanup activities. The RRC requests \$342,140 for the biennium for the salaries and operating costs for these FTEs.

The Sierra Club supports this request.

New Kilgore District Office Building

The Railroad Commission requests \$3 million for the construction of a new 8,800 square foot building in Kilgore. The District Office has temporarily moved into leased space in Henderson. The previous building was not cost effective to renovate due to black mold, asbestos, and structural concerns.

The Sierra Club is neutral on this request.

GIS Cloud Upgrade

The Railroad Commission uses a geographic information system (GIS) extensively across the agency to effectively regulate the oil and gas industry and ensure critical infrastructure is prepared for weather emergencies. The RRC Public GIS Map Viewer allows the public to access this important data. The migration from the current GIS platform to a cloud-based platform offers more detailed reporting, faster data access, increased uptime, and new analytical tools for users and the general public. RRC requests \$2,142,778 for the system migration.

The Sierra Club supports this request.

Microfilm Digitization

The Railroad Commission continues to make all oil and gas records available digitally online to the public for greater transparency. Records held at the district offices should be completely digitized by the end of fiscal year 2025. This project would digitize existing microfilm records in Austin for inclusion with existing digital resources available from the RRC website. RRC requests \$907,496 for this project.

We support this request.

Vehicle Replacements

During the 2026-27 biennium, the Commission will need to replace 82 trucks for field staff. The Railroad Commission replace vehicles in accordance with the guidelines of the Texas State Vehicle Fleet Management Plan from the Comptroller's Office of Vehicle Fleet Management. Vehicle replacements for the 2024-25 biennium were funded by the supplemental appropriations bill (SB 30, 88th Legislature, Regular Session, 2023). RRC requests \$4,889,831 for these new vehicles.

The Commission is requesting more vehicles for their inspectors and field staff and the Sierra Club has no objection. However, given the significant amount of federal funds (and state funds) now available for electric vehicle charging, alternatively-fueled vehicles including natural gas, hydrogen, fuel cell and electric vehicles, we believe that the Commission should be directed to study the potential to consider purchases of alternatively-fueled vehicles, including electric. Such vehicles generally have lower maintenance and fuel costs, and there may be federal funding to lower the cost to the state of Texas, while helping to support jobs and clean our air.

Data Center Services Adjustment

RRC requests an additional \$7.7M for Data Center Services (DCS) cost for the biennium. The latest forecast from the Department of Information Resources (DIR) for RRC's DCS cost is \$23M which is a 50.5% increase from the \$15.2M appropriated in

the 2024-25 biennium. DIR's forecast is based on the current services that RRC receives as well as additional licenses and server cost necessary in the statewide data center for the next biennium.

The Sierra Club has no objection to this request.

Well Plugging Must Remain a High Priority

We would note specifically our support for the federal funding resulting from the IIJA to buttress both the orphan well plugging program as well as brownfield cleanup. We would support some flexibility to allow the RRC to take advantage of performance bonuses that may be available in both programs, particularly if other states do not use their full allotment of federal funding. Texas received \$25,000,000 in Initial Grant funds in August 2022. With this funding, along with salvage revenue gained from plugging activities, the Commission plugged 737 wells across the state. Texas received \$79,673,757 in the first allocation of Formula Grant funds in January 2024. The state could receive up to \$119.5 million Phase II of Formula Grant funding.

While we agree with the Commission that the DOI monies have come with certain strings attached that make it harder to plug wells as quickly as the state program, we continue to support the need to take advantage of this money. There are still two remaining pots of money that Texas could take advantage of if they meet certain rules. In all, there is potential to get up to \$348 million in federal dollars to help plug thousands of wells. We support the need for the Commission to staff up with compliance experts to ensure the federally funded plugging reaches a pace necessary to expand the grant funds by the expiration of the federal appropriations on September 30, 2030.

We would note that the provisions of the federal orphan well program are clear that federal dollars should not be used to replace state-led efforts. We would support adding a performance efficiency measure on well plugging for federally-funded programs. Thus, given the federal funding becoming available, the goal to plug 1,700 wells per year is actually low and perhaps showing state-managed plugging and federal-funded state-managed plugging should both be shown.

Indeed, the state must do even more to locate and plug wells irregardless of the new federal IIJA monies. The RRC should be directed to create a latitude and longitude geocoded databases of abandoned and orphaned wells, and be directed to monitor plugged wells. We would ask for exceptional funding to accomplish this task.

Increase funding at the OGCRF

Sierra Club continues to believe that the Legislature should continue to make progress on moving the Commission to a self-funded agency, and we would support statutory reform to increase funding to the Oil and Gas Cleanup and Regulatory Fund. Overall, about \$189 million dollars is slated to be utilized from general revenues, including \$129 million for the goals associated with Goals 3.1.1 - Oil/Gas Monitors and Inspections - and \$29.5 million for Goal 3.2.1 - Oil&Gas Well Plugging & Remediation.

Specifically, while outside the provisions of this LAR, we believe that the legislature should consider removing or raising caps related to administrative fines, permit fees and bonding amounts, and then allowing that money to flow into the OGCRF. Moving some administrative fines into the RRC base budget would allow money industry is paying to support more inspectors and more enforcement. Fees and fines are still too low at the agency. As an example, bonding fees were set in 1989 and only cover approximately 16 percent of the costs of capping and plugging wells, administrative fines were set in 1983 and about a tenth of administrative fines at the EPA, and some permit fees are incredibly low given staff time reviewing complex permits. Raising or removing caps would allow either additional funding to be made available to the Commission, or lower the amount of General Revenues that is proposed in the LAR.

Let's go big.. On inspections

The proposed budget for oil and gas monitoring and inspections is actually decreased from roughly \$77 million to \$70 million over the biennium, in line with the Governor's request to keep budgets flat. However, there continues to be a need for more oil and gas inspectors and field staff. Thus, in addition to the need to monitor wells that have been plugged, the agency is still in need of more basic oil and gas inspectors. In their enforcement strategy, the agency has set a goal to inspect every oil and gas well every four to five years, though in reality under the improved budgets, the RRC had been managing to inspect wells once every three years. The Sierra Club believes the legislature should set a goal of inspecting all wells once every two years, or covering 50 percent of the wells each year. Thus, we would be supportive of adding an exceptional item to inspect more wells, and a specific exceptional item for monitoring plugged wells, which we believe could utilize federal funding.

We would support an additional \$10 to \$15 million in Strategy 3.1.1 to cover a larger percentage of oil and gas wells and associated facilities.

Air pollution is also important. We need to consider a System to Find Violations of the New Federal Methane Rule and help industry comply.

We would also note that the Commission has continued to face examples of operators that flare and vent methane without seeking permits, or bust through their permit exceptions. Thus, we would encourage the Legislature to make inspections with fly-overs, and hand-held thermal imaging cameras to be a priority of the Commission. We believe these efforts could be coordinated with the EPA and the TCEQ since there is joint authority over air pollution.

Recently, the federal government issued a new methane standard which will be challenging to meet and assuming it survives legal challenges,

UT-Austin began working with industry and other partners to implement methane sensors throughout the Permian to locate fugitive emissions, poor flaring and vents. This effort is supported with federal funding and support from the university and partners. The Sierra Club would support expanding these sensors to utilize in conjunction with the TCEQ and RRC to help identify problems in the oil and gas fields throughout Texas. In the same way that we have a network of seismic or hydrology networks to help identify problems, we could create a network of methane sensors/monitors. We believe that this could be housed either through the TCEQ or RRC.

Implementing HB 2263 properly may require more staff and engagement

House Bill 2263 establishes the opportunity for local distribution companies (LDC) to develop programs to increase efficiency of gas services and reduce statewide consumption. These efforts are paramount to building resiliency and reliability to our homes and businesses across the state. Recently the RRC adopted rules for the program, and several entities including Texas One Gas and Centerpoint Energy have filed to establish statewide programs, which should be available soon for public comment and potential adoption. The Sierra Club supported the legislation.

We believe that the RRC would benefit from having either internally, or through a third-party, developing a Technical Resource Manual and an EMV “Evaluation, Measurement and Verification” process for the natural gas conservation programs. With the first applications this year, there will be a need to measure and evaluate these programs and make sure they are cost-effective and are providing real solutions to customers. Sierra Club would support additional funding to the RRC to create both a Technical Resource Manual and MEV process for gas conservation programs overseen by the RRC.

Conclusions

The Sierra Club supports the Commission's 26-27 LAR and exceptional item requests but would ask for more money for inspectors for active and plugged wells, additional performance standards for plugging wells, and special attention to air pollution and the potential for alternatively-fueled vehicles. In addition, we continue to call on the Legislature to bolster Fund 5155 (Oil and Gas Regulatory and Clean Up Fund) by raising caps in statutes so that the Commission relies less on general revenue. We also believe that the Legislature should explore creating a network of methane monitors to help meet tough new federal methane standards, and help the industry comply with the law by locating and fixing leaks. Finally, given the new law allowing for gas efficiency programs, we call on the Legislature to fund additional staff and a process to verify the savings for programs approved for gas LDC companies.

We look forward to working with the Governor and Legislature on implementing these changes and making the Commission more transparent, responsive to the public and fully enforce our laws.