

Testimony of Robert W. Osborne
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Hearing on RRC before the Sunset Commission
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Good Morning Chairman Gonzalez, Members of the Sunset Commission –

I am here to recommend that you prepare and approve legislation recognizing that the Railroad Commission of Texas performs essential oil and gas regulation and meets its constitutionally mandated mission. Therefore, it should be continued for the next 12 years.

My name is Bob Osborne. I am from Wichita Falls. I am an owner and officer of Cobra Oil and Gas and have been working in the oil and gas industry for 40 plus years. I am also Chairman of the Texas Alliance of Energy Producers, the largest statewide trade association in the nation which represents only independent oil and gas producers. Its 3,000 members live and/or operate in all 12 RRC districts in the state. Independents drilled 96% of the wells in Texas last year and produced 92% of the crude oil and natural gas last year.

Stability is a key component to the success of any business, including the oil and gas industry. It is well known that oil and gas prices have been anything but stable.

Yet, the oil and gas industry remains critical to the economic health of the State of Texas and local communities from Amarillo to Brownsville.

Meanwhile, the industry is under attack from our federal government. The state through the Attorney General's office has sued that government approximately 30 times in recent months and years. Federal overreach will continue to create more volatility and uncertainty for the industry and have a

negative impact on Texas. By itself, the new methane reduction rule is estimated by EPA to add 3.8 million man hours annually in industry compliance.

We believe that the continuation of the Railroad Commission in its current form will add to the stability of the industry and prevent counterproductive federal overreach.

We believe our State policy makers should adopt a bill clean of controversial issues that have derailed the reauthorization of the Railroad Commission twice previously. Again we believe that stability in future regulation of the oil and gas industry is critical.

If members of the Legislature want to propose controversial changes, those changes should be proposed in separate legislation.

We oppose changes which result in increased regulation and costs to industry.

Stability is Key: A stable regulator with effective regulations is part of that stability. Continuation for the RRC is vital to maintaining that stability and continuity. The RRC has more than a century of historical performance. This is not just good for the industry but is also imperative for the health and safety of our citizens and the preservation of our environment.

Against increased penalties: The Alliance supports efforts to effectively monitor oil and gas activities for environment protection and to prevent waste -- however we believe current programs aimed to correct minor violations to ensure compliance do work. We oppose increased penalties for minor violations and any changes at the expense of small producers.

Against changes in bonding requirements: Not only are the increases and proposed changes not justified – but the Sunset recommendation fails to recognize history of bonding and that bonding is but one form of remedy the Railroad Commission has to deal with the issue of inactive wells. Actually, producers are allowed to put up a bond, letter of credit, or cash deposit to cover their financial

obligations. Letters of credit from banks are the used more frequently than the other two options.

I have attached a letter from a banker in Abilene that explains problems encountered by banks currently in providing the service to oil and gas operators.

There is no crisis. And the changes suggested could easily have unintended consequences. In this fragile business environment, the recommendations to dramatically increase the bonding level to certain operators by 50% - 250% may not be achievable by the banks, underwriters or operators. This action could precipitate the abandonment of more wells as these operators are unable to meet the new enhanced and unnecessary financial burdens.

The RRC priority system of plugging orphaned wells works. If a well is leaking or in an environmentally sensitive area, it is plugged. Wells which have future economic value, or do not impose a risk may be held in inventory until plugging is appropriate. The same remains true for remediation sites.

Since the inception of the Oilfield Cleanup Fund in 1984, the RRC has plugged more than 35,000 wells at a cost of \$350,000,000 of industry monies gathered from taxes, fees and performance bonds. It does not come from General Revenue. This has not been nor will be taxpayer monies.

In conclusion, I want to commend each of you for your service to the State of Texas in undertaking this difficult task. This is the third attempt to reauthorize the Commission within 6 years. Each time, a controversial issue or two have derailed legislation. There are still controversial issues – everything from the name, to the number of commissioners, to funding, to bonding of operators. The Alliance stands ready to debate these issues, but please keep them out of the reauthorization bill. I urge you adopt legislation reauthorizing the Railroad Commission in its current form, and let's deal with the other controversial issues in separate legislation.

Thank you for allowing me to make this presentation, and I would be delighted to answer any questions.