

Ben Shepperd

Testimony of

Ben Shepperd, President, Permian Basin Petroleum Association

before the Texas Sunset Advisory Commission hearing on the Railroad Commission of Texas.

August 22, 2016.

Mr. Chairman and Members of the Sunset Commission:

My name is Ben Shepperd and I am the President of the Permian Basin Petroleum Association (PBPA) based in Midland, Texas. The PBPA represents the oil and gas industry in Permian Basin region of west Texas and southeast New Mexico. The PBPA is dedicated to promoting the safe and responsible production of our natural resources in the Permian Basin and I appreciate the opportunity to comment today.

We appreciate the hard work of the Sunset Commission staff and the Commission. This Sunset process has been going on for almost eight years now and we hope the 2017 Session will be the year where the Sunset bill is passed. The Railroad Commission is a different place than it was in 2011 or 2013. Today, the Commission is a strong and effective regulatory entity. In our view, the leadership and staff are totally committed to fulfilling their responsibilities to the people of the State of Texas.

Texas is the number one producing oil and gas state in the nation. Over half of the rigs running in the U.S. are in Texas and two-thirds of those are in the Permian Basin. Over 60 percent of Texas oil is produced in the Permian. The Permian Basin is now considered by many to be the most important oil producing region in the world.

Accordingly, the Railroad Commission, which has regulated oil and gas in Texas and the Permian for 100 years, is considered the most important oil and gas regulator in the world. A title the Commission takes very seriously.

PBPA strongly supports the Sunset Commission's staff recommendation to continue the Railroad Commission and its primary functions for another 12 years. The Railroad Commission has evolved with the changing times and technologies as well as the continually changing demands in a commodity driven industry. The Commission is recognized world-wide as the authority in oil and gas regulation.

Texas needs a strong oil and gas regulator and it has it in the Railroad Commission. PBPA believes the need to reauthorize the Railroad Commission is clear and we would hope that you would consider leaving the more controversial provisions out of the Sunset Bill itself and allow those recommendations to be brought forward as separate legislation or not at all.

While we disagree with several of the staff recommendations, others we support. For example, we believe the Commission has an effective, well established hearings process that ensures fairness to all

parties. We believe this to be a core function of the Commission and do not believe they should be moved to the State Office of Administrative Hearings.

We support several aspects of Recommendation 3, regarding improving monitoring and enforcement. However, we believe that these are already Commission responsibilities and no legislative action should be necessary. A robust monitoring and enforcement program is the hallmark of any effective regulator and we believe the Commission does a good job. We also recognize that improvements could be made in some areas. We support several aspects of Recommendation 3 and we understand the Commission is currently hard at work making improvements in these areas.

With respect to Recommendation number 4, we respectfully disagree with this recommendation. While we agree that plugging more wells which have no responsible operator is a priority, this recommendation would not improve the Commission's ability to do so and would, in fact lead to the abandonment of more wells.

Thank you for the opportunity to comment today.

**From:** [Sunset Advisory Commission](#)  
**To:** [Janet Wood](#)  
**Subject:** FW: Public Input Form for Agencies Under Review (Public/After Publication)  
**Date:** Friday, May 13, 2016 2:48:30 PM

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-----Original Message-----

From: sundrupal@capitol.local [<mailto:sundrupal@capitol.local>]  
Sent: Friday, May 13, 2016 2:20 PM  
To: Sunset Advisory Commission  
Subject: Public Input Form for Agencies Under Review (Public/After Publication)

Agency: RAILROAD COMMISSION TEXAS RRC

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Your Comments About the Staff Report, Including Recommendations Supported or Opposed:

Permian Basin Petroleum Association Comments Sunset Advisory Commission Railroad Commission Recommendations May 13, 2016

1. Continue the Railroad Commission of Texas for 12 Years with a Name That Reflects the Agency's Important Functions.

Key Recommendations

1.1 Change the name of the Railroad Commission of Texas to the Texas Energy Resources Commission and continue the agency for 12 years.

PBPA strongly supports the continuation of the agency for 12 more years.

PBPA does not support changing the name of the agency at this time.

2. Contested Hearings and Gas Utility Oversight Are Not Core Commission Functions and Should Be Transferred to Other Agencies to Promote Efficiency, Effectiveness, Transparency, and Fairness.

Key Recommendations

2.1 Require use of the State Office of Administrative Hearings for contested gas utility cases.

PBPA is opposed to moving contested gas utility hearings to SOAH.

2.2 Require the Railroad Commission to use the State Office of Administrative

Hearings for all other contested case hearings.

PBPA is strongly opposed to moving contested case hearings to SOAH. PBPA believes the RRC has an effective, well-established hearings process that ensures fairness to all parties.

2.3 Transfer gas utility regulation from the Railroad Commission to the Public Utility Commission of Texas (PUCT.)

PBPA is opposed to moving gas utility hearings to the PUCT.

3. Oil and Gas Monitoring and Enforcement Need Improvements to Effectively Ensure Public Safety and Environmental Protection.

Key Recommendations

3.1 Require the Railroad Commission to develop a strategic plan for the Oil and Gas Division that tracks and measures the effectiveness of monitoring and enforcement.

PBPA believes the Commission already has processes in place to track and measure its enforcement efforts. However, any effort that would improve this process should be encouraged.

3.2 Require the Railroad Commission to develop in rule a process for issuing expedited penalties for minor violations.

PBPA opposes 3.2. PBPA believes the Commission's process for tracking and resolving minor violations is working appropriately. Most of these violations are currently resolved in an expedited manner.

3.3 Direct the Railroad Commission to accurately track and report the number of oil and gas violations annually.

PBPA is not opposed to 3.3. The Commission currently tracks and reports the number of oil and gas violations quarterly and annually. Efforts to improve the current system would be welcomed. Specifically, identifying the differences between "minor," administrative violations and more significant violations with safety or environmental consequences.

3.4 Direct the Railroad Commission to systematically track major violations.

PBPA is not opposed to 3.4

3.5 Direct the Railroad Commission to develop a definition of repeat violations in rule and report the number of repeat violations on its website.

PBPA is not opposed to 3.5.

3.6 Direct the Railroad Commission to audit a sample of oil and natural gas production reports and transportation reports.

PBPA supports 3.6.

3.7 Direct the Railroad Commission to develop a policy to require production reports to be filed electronically.

PBPA supports 3.7.

3.8 Direct the Railroad Commission to expand its risk matrix for oil and gas inspections.

PBPA is supports 3.8. Modifying the Commission's risk matrix could increase effectiveness.

4. Insufficient and Inequitable Statutory Bonding Requirements Contribute to the Large Backlog of Abandoned Wells.

Key Recommendations

4.1 Amend blanket bond requirements in statute to better reflect risk and increase equitability.

PBPA opposes 4.1. PBPA believes the current statutory bonding requirements are meant to be utilized as a component in financing the plugging of orphaned wells in the care of the state. These financial assurances are part of a larger system in place at the RRC to ensure operators remediate their sites, plug abandoned wells and that the RRC has resources to use should operators orphan their wells. In addition to the Bonding requirements, additional financial security requirements and operator actions are required for inactive wells. Inactive wells are the precursors to orphaned wells. PBPA does not believe a change in bonding requirements is necessary.

5. Improved Oversight of Texas' Pipeline Infrastructure Would Help Further Ensure Public Safety.

Key Recommendations

5.1 Authorize the Railroad Commission to enforce damage prevention requirements for interstate pipelines.

PBPA supports 5.1.

5.2 Authorize the Railroad Commission to create a pipeline permit fee.

PBPA supports 5.2.

5.3 Modify language in the General Appropriations Act to further ensure that the Railroad Commission collects, and is appropriated back, fee amounts to offset the costs of administering its Pipeline Safety program, including administration costs.

PBPA supports 5.3

6. The Railroad Commission's Contracting Procedures Are Improving, but Continued Attention Is Needed.

Key Recommendations

6.1 Direct the Railroad Commission to centralize all contract administration functions by September 1, 2016.

PBPA is opposed to 6.1 with respect to state funded cleanup and plugging activities. These efforts often require the utilization of small, local contractors with specialized equipment and/or personnel. Prior attempts to procure these localized services through statewide efforts were not successful and increased costs to the Commission.

6.2 Direct the Railroad Commission to implement and keep updated contracting best practices as outlined by recent legislation and the comptroller.

PBPA supports 6.2.

6.3 Direct the Railroad Commission's executive director to report quarterly to the commissioners at their open meetings regarding the status of contracting improvements.

PBPA supports 6.3.

7. The Railroad Commission's Statute Does Not Reflect Standard Elements of Sunset Reviews.

Key Recommendations

7.1 Apply the Sunset across-the-board recommendation regarding alternative

dispute resolution to the Railroad Commission.

PBPA is opposed to 7.1.

7.2 Allow the Oil and Gas Regulation and Cleanup Fund Advisory Committee to expire.

PBPA has no position on 7.2.

7.3 Continue requiring the Railroad Commission to submit its report on the Oil and Gas Regulation and Cleanup Fund to the Legislature.

PBPA supports 7.3

Any Alternative or New Recommendations on This Agency: The members of the Permian Basin Petroleum Association recommend the legislature re-examine existing funding mechanisms for the Railroad Commission of Texas to ensure the Agency is adequately funded.

My Comment Will Be Made Public: I agree