HOUSE
RESEARCH
ORGANIZATION bill analysis 5/1/2003

HB 1575
Ritter
(CSHB 1575 by Jones)

SUBJECT:	Revising GLO program for selling state oil and gas to public buyers
COMMITTEE:	Energy Resources — committee substitute recommended
VOTE:	4 ayes — Farabee, Canales, Crabb, B. Keffer 0 nays 3 absent — Delisi, E. Jones, West
WITNESSES:	For — Jerry Patterson, General Land Office; (*Registered but did not testify:*) Kinnan Golemon, Devron Energy Against — (*Registered but did not testify:*) Shayne Woodard, Duke Energy On — Richard Bone, Jr., General Land Office; Larry Borella, General Land Office

BACKGROUND: Utilities Code, sec. 35.102 authorizes the General Land Office (GLO) commissioner, acting on behalf of the state, to sell or convey power generated from state royalties taken in kind — oil and gas — directly to a public retail customer. Sec. 35.101 defines public retail customer as a retail customer that is an agency of this state, a state institution of higher education, a public school district, or a political subdivision of this state. The Permanent School Fund receives the proceeds of these and other sales and leases of state resources.

Sec. 104.2545 requires a utility to provide certain services, at a rate provided by written contract negotiated between the utility and the GLO, to a service site so long as the utility has pipeline capacity on its existing facility and is not prohibited from doing so by other law. The required service includes:

- the sale of gas; and
- the transportation of an annual average of 10 million British thermal units (BTUs) or more each day of gas that is taken as a royalty in kind and owned by the state or managed by a marketing program operated by the state or by a state agency; or

- a combination of these services.

Service site means facilities or buildings operated by a school district, or a group of adjacent facilities or buildings operated by a school district, within one contiguous geographical area. If the utility and the GLO cannot agree to a contract rate, a fair and reasonable rate may be determined for the school district by the Railroad Commission.

DIGEST:

CSHB 1575 would amend Utilities Code, sec. 104.2545 to replace all references to "school district" with "public retail customer," as defined in sec. 35.101. It would change the required service language to stipulate the transportation of an annual average of 25 million BTUs or more each day, instead of the current requirement of 10 million BTUs.

This bill would take immediate effect if finally passed by a two-thirds record vote of the membership of each house. Otherwise, it would take effect September 1, 2003.

SUPPORTERS SAY:

CSHB 1575 would simplify administration of a very successful program administered by GLO. Since 1983, GLO began taking oil and gas royalties in-kind and selling them directly to political subdivisions. In bypassing the market for these commodities, GLO sells oil and gas to political subdivisions for greater than the market price available to sellers, while government buys the commodities for less than the market price available to buyers. As a result, the Permanent School Fund receives more revenue while government buyers accrue savings, neither of which would happen if they dealt in the open market for these commodities. GLO sold more than 19.1 billion cubic feet of gas and nearly 700,000 barrels of oil to government and others in fiscal year 2002.

The bill would simplify the negotiation of agreements with utilities in delivering oil and gas to political subdivisions. Currently, GLO must negotiate a separate "rate" for utility service (i.e., the sale and transportation of state oil and gas) to each government buyer, or "class of service." This bill merely would allow GLO and a utility to negotiate one rate for all buyers, including state agencies, institutions of higher education, and public school districts. CSHB 1575 also would also specify 25 BTUs because a buyer of only 10 BTUs is too small to participate efficiently.

OPPONENTS SAY:

The GLO marketing program for selling state oil and gas to public buyers precludes private energy dealers from selling energy to state agencies, school districts, and others. The state should not be allowed to monopolize this part of the market and instead should sell its in-kind royalties on the open market or receive the royalties as cash payments.

NOTES:

The committee substitute differs from the bill as introduced by changing the number of BTUs contemplated by GLO agreements with utilities from 10 to 25.