AGENCY STRATEGIC PLAN

for the Fiscal Years 2007 - 2011

Elizabeth A. Jones, Chairman
Michael L. Williams, Commissioner
Victor G. Carrillo, Commissioner

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by

RAILROAD COMMISSION OF TEXAS

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Texas State Government must be limited, efficient, and completely accountable. It should foster opportunity and economic prosperity, focus on critical priorities, and support the creation of strong family environments for our children. The stewards of the public trust must be men and women who administer state government in a fair, just, and responsible manner. To honor the public trust, state officials must seek new and innovative ways to meet state government priorities in a fiscally responsible manner.

Aim high…we are not here to achieve inconsequential things!

THE PHILOSOPHY OF TEXAS STATE GOVERNMENT

The task before all state public servants is to govern in a manner worthy of this great state. We are a great enterprise, and as an enterprise we will promote the following core principles.

First and foremost, Texas matters most. This is the overarching, guiding principle by which we will make decisions. Our state, and its future, is more important than party, politics, or individual recognition.

Government should be limited in size and mission, but it must be highly effective in performing the tasks it undertakes.

Decisions affecting individual Texans, in most instances, are best made by those individuals, their families, and the local government closest to their communities.

Competition is the greatest incentive for achievement and excellence. It inspires ingenuity and requires individuals to set their sights high. And just as competition inspires excellence, a sense of personal responsibility drives individual citizens to do more for their future, and the future of those they love.

Public administration must be open and honest, pursuing the high road rather than the expedient course. We must be accountable to taxpayers for our actions.

State government has a responsibility to safeguard taxpayer dollars by eliminating waste and abuse, and providing efficient and honest government.

Finally, state government should be humble, recognizing that all its power and authority is granted to it by the people of Texas, and those who make decisions wielding the power of the state should exercise their authority cautiously and fairly.

RELEVANT STATEWIDE GOALS AND BENCHMARKS

The Railroad Commission of Texas' responsibilities relate to the following statewide goals that have been established for Texas State Government:

Economic Development

To provide an attractive economic climate for current and emerging industries that fosters economic opportunity, job creation, capital investment, and infrastructure development by:

- **promoting a favorable and fair system to fund necessary state services;**
- **addressing transportation and housing needs; and**
- **developing a well trained, educated, and productive workforce.**

Benchmarks

Number of employees in targeted industry sectors	State and local taxes as a percent of personal income
Number of new small businesses created	Texas unemployment rate
Number of new non-government, non-farm jobs created	Median household income
Per capita gross state product	

RELEVANT STATEWIDE GOALS AND BENCHMARKS - continued

Public Safety and Criminal Justice

To protect Texans by:

- **enforcing laws quickly and fairly;**
- **maintaining state and local emergency, terrorism, and disaster preparedness and response plans;**
- **policing public highways; and**
- **confining, supervising, and rehabilitating offenders.**

Benchmarks

Percent of Texas Communities covered by current emergency and disaster prevention/recovery plans

RELEVANT STATEWIDE GOALS AND BENCHMARKS - continued

Natural Resources and Agriculture

To conserve and protect our state's natural resources (air, water, land, wildlife, and mineral resources) by:

- **providing leadership and policy guidance for state, federal, and local initiatives; and**
- **encouraging responsible, sustainable economic development.**

Benchmarks

Percent of nitrogen oxide and criteria pollutants reduced in the air	Percent of regulatory permits while ensuring appropriate public input
Amount of desalinated brackish and ocean water for Texas	Percent of environmental violations tracked and reported
Percent of water conservation through decreased water usage, increased water reuse, and increased brush control	Percent of land that is preserved and accessible through continuation of public and private natural and wildlife areas
Percent of Texas waters that meet or exceed safe water quality standards	Percent of renewable energy usage and production of domestic fuel sources
Percent of polluted site clean-ups to protect the environment and public health	Percent of implemented new technologies to provide efficient, effective, and value-added solutions for a balanced Texas ecosystem

RELEVANT STATEWIDE GOALS AND BENCHMARKS - continued

Regulatory

To ensure Texans are effectively and efficiently served by high-quality professionals and businesses by:

- **implementing clear standards;**
- **ensuring compliance;**
- **establishing market-based solutions; and**
- **reducing the regulatory burden on people and business.**

Benchmarks

Percent of state professional licensee population with no documented violations

Percent of new professional licensees as compared to the existing population

Percent of documented complaints to professional licensing agencies resolved within six months

Percent of individuals given a test for professional licensure who received a passing score

Percent of new and renewed professional licenses issued via Internet

Ratio of supply of electricity generation capacity to demand

Number of new business permits issued online

Percent increase in utilization of the state business portal

RELEVANT STATEWIDE GOALS AND BENCHMARKS - continued

General Government

To provide citizens with greater access to government services while reducing service delivery costs and protecting the fiscal resources for current and future taxpayers by:

- **supporting effective, efficient, and accountable state government operations;**
- **ensuring the state's bonds attain the highest possible bond rating; and**
- **conservatively managing the state's debt.**

Benchmarks

Total state taxes per capita

Total state spending per capita

Percent change in state spending, adjusted for population and inflation

State and local taxes per capita

Ratio of federal dollars received to federal tax dollars paid

Number of state employees per 10,000 population

Number of state services accessible by Internet

Savings realized in state spending by making reports/documents/processes available on the Internet

RAILROAD COMMISSION OF TEXAS

OUR MISSION

We serve Texas by our stewardship of natural resources and the environment,

our concern for personal and community safety,

and our support of enhanced development and economic vitality for the benefit of Texans.

OUR PHILOSOPHY

The Railroad Commission and its employees take pride in the services they perform for the people of Texas.

We will work to develop, protect and conserve for future generations of Texas their valuable natural resources.

We will oversee a safe, economical and efficient pipeline transportation system.

We will foster an atmosphere for growth and entrepreneurship that will improve opportunities for jobs, a clean safe environment, education and a better quality of life.

We will accomplish these goals by maintaining a work place that values a diverse work force, ethical management practices, public accountability, efficiency, teamwork and quality customer service for the people of Texas.

At all levels, we will demonstrate and exemplify leadership, responsibility, directness, innovative thinking, and responsiveness to public input.

We will strive to provide both financial and intrinsic rewards for individual contributions to these goals.

By maintaining an organization that promotes employee pride and commitment, we will build our future upon a legendary tradition of courteous, efficient and responsive public service to the people of Texas.

THE STRATEGIC PLANNING AND BUDGETING SYSTEM OF TEXAS

THE MISSION OF TEXAS STATE GOVERNMENT

Texas State Government must be limited, efficient, and completely accountable.

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OUR GOALS

Energy Resources
Support the development, management, and use of Texas' oil and gas energy resources to protect correlative rights, provide equal and fair energy access to all entities, ensure fair gas utility rates, and promote research and education on use of alternative fuels.

Safety Programs
Advance safety in the delivery and use of Texas petroleum products through training, monitoring and enforcement.

Environmental Protection
Assure that Texas fossil fuel energy production, storage, and delivery is conducted to minimize harmful effects on the state's environment and to preserve natural resources.

Public Access to Information and Services
Strive to maximize electronic government and to minimize paper transactions by developing technological enhancements that promote efficient regulatory programs and preserve and increase access to public information.

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EXTERNAL/INTERNAL ASSESSMENT

Part I. Overview of Agency Scope and Functions

Statutory Basis for Regulatory Functions

The Railroad Commission of Texas (RRC, Commission) is the state agency with primary regulatory jurisdiction over the oil and natural gas industry, pipeline transporters, natural gas and hazardous liquid pipeline industry, natural gas utilities, the LP-gas industry, and coal and uranium surface mining operations. It is also responsible for research and education to promote the use of LP-gas as an alternative fuel in Texas. The Commission exercises its statutory responsibilities under provisions of the Texas Constitution, the Texas Natural Resources Code, the Texas Water Code, the Texas Health and Safety Code, the Texas Utilities Code, the Coal and Uranium Surface Mining and Reclamation Acts, and the Pipeline Safety Acts. The Commission also has regulatory and enforcement responsibilities under federal law including the Surface Coal Mining Control and Reclamation Act, the Safe Drinking Water Act, the Pipeline Safety Acts, the Resource Conservation Recovery Act, and the Clean Water Act. Appendix G is a tabular listing of the citations to state and federal statutes that define the Commission's responsibilities.

Major State and Federal Laws for Which All or Partial Responsibility is Authorized to RRC

Texas Natural Resources Code
Texas Water Code
Texas Health and Safety Code
Texas Utilities Code
Texas Coal Surface Mining & Reclamation Act
Texas Uranium Surface Mining & Reclamation Act
Safe Drinking Water Act
Natural Gas Pipeline Safety Act
Hazardous Liquid Pipeline Safety Act
Surface Coal Mining Control & Reclamation Act
Resource Conservation Recovery Act
Clean Water Act

Historical Perspective

The Texas Legislature created the Texas Railroad Commission in 1891 when it was given jurisdiction over rates and operations of railroads, terminals, wharves, and express companies, hence the name of the Commission was established as Railroad Commission of Texas. In 1917, the Legislature declared pipelines to be common carriers, giving the Commission regulatory authority over them; it also gave the Railroad Commission jurisdiction and responsibility to administer conservation laws relating to oil and natural gas production. During the 1920's the Commission was given additional regulatory responsibility over motor carriers and natural gas utility companies. During the 1930's additional regulations over oil and natural gas production were enacted,

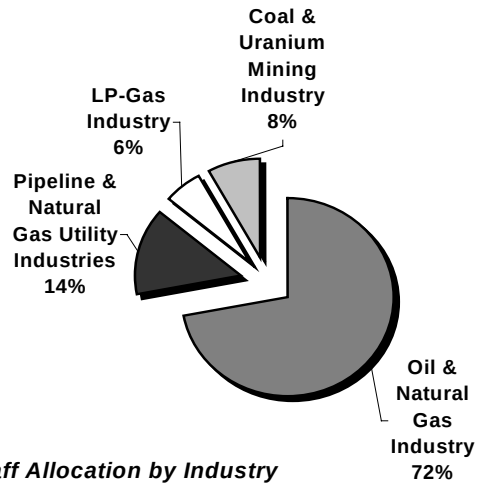
primarily to conserve natural resources and protect the correlative rights of mineral interest owners. The first pipeline safety regulations requiring the odorization of natural gas were adopted during that decade, as well.

During the 1950's and 1960's environmental concerns were addressed by the adoption of additional oil and gas operation regulations. Also during this period, safety authority over LP-gas products was delegated to the Commission. In the 1970's the Commission assumed authority over coal and uranium surface mining operations, and federal pipeline safety standards were adopted for natural gas pipelines. Throughout the 1980's and 1990's additional environmental and safety responsibilities in the oil and gas production, natural gas utility, hazardous liquids pipelines, LP-gas, and surface mining industries were delegated to the Commission. In 1994, the motor carrier industry was deregulated and the Commission's remaining motor carrier responsibilities were transferred to the Texas Department of Transportation (TxDOT). In 2005, the Commission's rail safety responsibilities were transferred to TxDOT. A chronological listing of significant Commission events is included in Appendix H.

HISTORY	
1891	Texas Railroad Commission created.
1917	Regulation of pipelines. Conservation laws relating to oil & natural gas production.
1920's	Regulation of motor carriers and natural gas utility companies.
1930's	Additional regulation over oil and natural gas production. Odorization of natural gas.
1950's & 60's	Environmental concerns. Safety authority over LP-gas products.
1970's	Authority over coal & uranium surface mining. Federal pipeline safety standards.
1980's	Additional environmental and safety responsibilities.
1990's	Research & education on alternative fuels. Transfer of motor carrier responsibilities to TxDOT.
2001	Sunset Review continued the Commission until September 1, 2014.
2005	Transfer of last rail function to TxDOT.

Affected Populations

With these changes over time, the current service responsibilities of the Commission are with five basic industry segments. They are: (1) oil and natural gas exploration and production, (2) natural gas and hazardous liquids pipeline operations, (3) natural gas utilities, (4) LP-gas service, and (5) coal and uranium mining. Today, the majority of the resources of the Commission are dedicated to the area of oil and natural gas exploration and production regulation. Approximately 72% of the staff (direct & indirect) is dedicated to the oil and natural gas industry, 14% to the pipeline and natural gas utility industries, 6% to the LP-gas industry, and the remaining 8% to the coal and uranium mining industry.



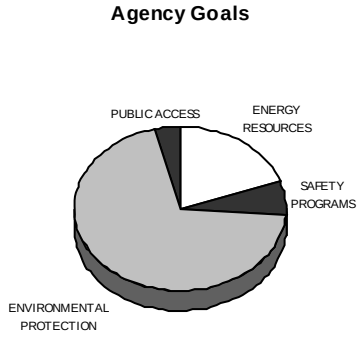
Staff Allocation by Industry

As a result of increasing public demands in the areas of pipeline and LP-gas safety and environmental protection in the oil and gas industry, it is expected that a greater distribution of Commission resources will be directed to these areas in the future. To address this public demand additional resources will be required. Technology advancement is a primary goal of the Commission and will satisfy some of these increasing demands, but technology alone cannot address all the concerns for monitoring, reviewing, and physically inspecting the facilities of the regulated industries.

The populations that are affected by actions of the Railroad Commission are not only those industries identified above, but also many of their ancillary industries and general public groups. A listing of affected populations includes the following: landowners, mineral interest owners, royalty owners, exploration and production operators, oil and gas transporters, oilfield waste disposal operators, natural gas distribution companies, natural gas consumers, electric utilities, LPG/LNG/CNG suppliers & marketers, LPG/LNG/CNG consumers, LPG equipment manufacturers, coal and uranium mining industries, environmental associations, safety associations, the Texas Legislature, other local, state and federal agencies, labor unions, legal practitioners, the general public, public school teachers and students, research and development organizations, industry organizations, professional organizations, the media, business consulting firms, information brokers, hydrocarbon storage operators, gas gathering and processing companies, commercial disposal facilities, and oil and gas service companies.

Main Functions

The main functions of the Commission are to protect the environment, protect public safety, protect the correlative rights of mineral interest owners, prevent waste of natural resources, and assure fair and equitable utility rates in those industries over which it has been granted authority. These functions are carried out through promulgating rules, registering organizations, maintaining financial assurance of operators, filings by operators, granting of permits and licenses, monitoring performance, inspection of facilities, maintaining records and maps, reviewing variance requests, investigating complaints, responding to emergencies, plugging abandoned wells, cleaning up abandoned sites, educating the public, researching and providing education concerning alternative fuels, providing public information, resolving disputes, conducting hearings on disputed matters, and rendering decisions.



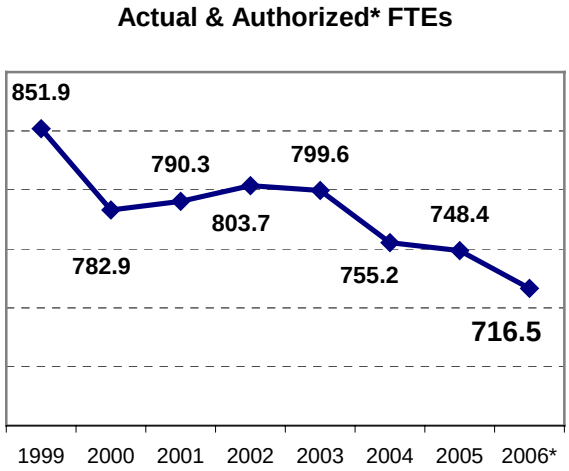
Public Perception

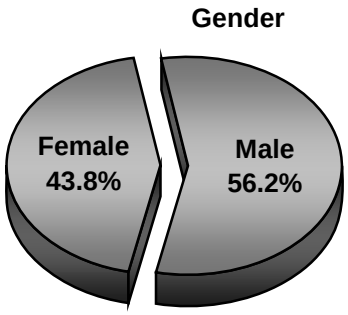
Because of its name, the general public's perception of the Railroad Commission is that it regulates the railroads. As of October 2005, all remaining authority the Commission had over the railroad industry (safety) was transferred to the Texas Department of Transportation. There is little recognition by the general public that the predominance of the Commission's responsibilities involves the energy industries of Texas. However, within the energy industry, the Railroad Commission is recognized throughout the United States and the world as a leader in developing workable regulation for the energy industry. While its primary responsibilities are directed toward protection of the environment and public safety, the Commission has also taken a balanced approach to maximize the development of Texas' important energy resources. In fact, one of the Commission's four goals is directed toward orderly and efficient development of the state's energy resources. This balanced approach has set the Railroad Commission apart from the normal model of a regulatory agency. In every decision that is made or rule that is adopted, the Commission not only looks at how this prospective change protects the environment or public safety, but also how it would affect the ultimate development and production of the State's natural energy resources.

Part II. Organizational Aspects

Size and Composition of Work Force

The Railroad Commission of Texas was given a legislative appropriations cap of 716.5 full-time equivalent (FTE) positions for FY 2006 and FY 2007. Over the last seven years, the Commission has eliminated 135.9 FTEs, a 16% reduction. In 1999-2000, a restructuring of the Commission reduced 69 FTEs and in 2003-2004 an Efficiency Review eliminated 44.4 FTEs. In 2006 the transfer of the rail safety program reduced 16.1 FTEs and a 2% statewide reduction eliminated 14.4 FTEs.



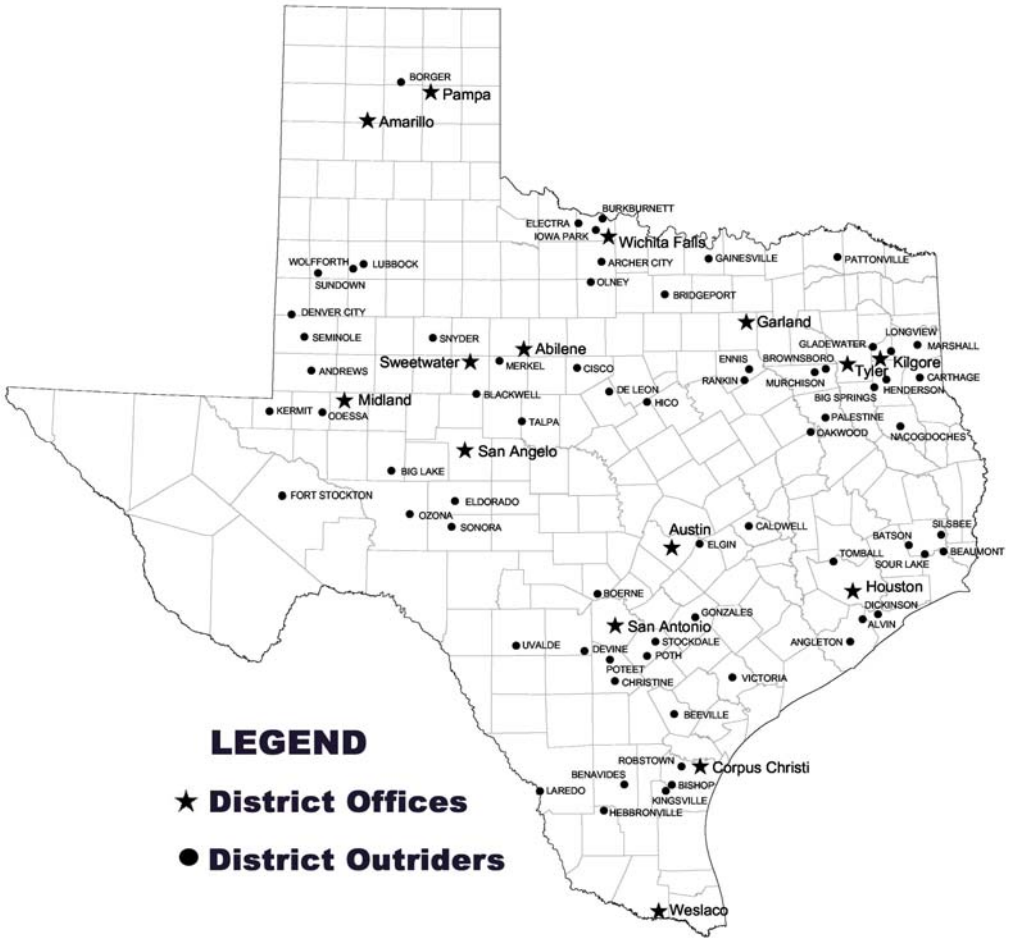


Despite continued recruiting challenges, the Commission remains committed to a diverse workforce with the participation of women and minorities. The current diversity profile at the Commission is: African American 7.5%, Hispanic 20.5%, and Women 43.8%. Appendix E – Workforce Plan provides additional workforce demographics, such as age, tenure, job category, and employee turnover.

Organizational Structure and Process

Three statewide officials elected to six-year, staggered terms lead the Commission. Serving at the discretion of the Commission is an Executive Director who implements policies and rules and manages the daily operations of the Railroad Commission. Supporting the Executive Director is a management team comprised of the Deputy Executive Director and Division Directors who oversee various aspects of the organization. The current organizational chart for the Railroad Commission can be found in Appendix B.

RRC District Offices and Outriders



Geographical Location of Agency

The Commission's central office is located in the Capitol Complex at the William B. Travis Building, 1701 North Congress, Austin, Texas. Approximately 61% of the Commission's staff is located in this headquarters office. The remaining staff is located throughout the state in Commission field offices. Much of the work of the Commission involves on-site inspection of facilities of regulated industries, thus maintenance of field locations is the most cost-effective means of carrying out this responsibility. In addition, many of the field locations are also public information portals for walk-in customers. As Internet information capabilities grow, the public information aspect of the field locations is expected to diminish.

The Commission has 14 field locations:

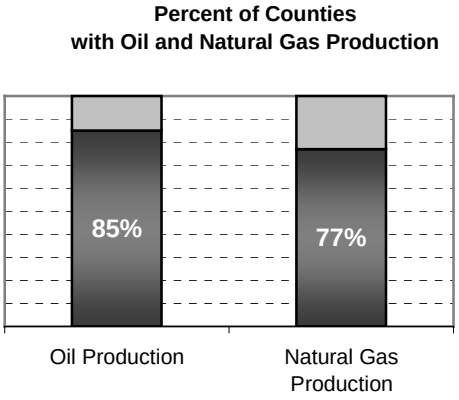
- Abilene
- Amarillo
- Corpus Christi
- Garland
- Houston
- Kilgore
- Midland
- Pampa
- San Angelo
- San Antonio
- Sweetwater
- Tyler
- Weslaco
- Wichita Falls

These offices contain various combinations of employees from the following functional areas: Oil and Gas, Pipeline/LP-gas Safety, Utility Audit, Surface Mining, and Alternative Fuels Research and Education.

Although these field offices are located in the proximity of the industries that they regulate, the Commission utilizes an "Outrider" concept to decrease the amount of time employees must use to travel to the areas they regulate. Ninety-nine field office employees, or 43% of the total field office personnel, do not commute to their assigned field office each day. Instead these employees travel directly to the field from their homes, in many instances drastically reducing the commute time each day. This "Outrider" concept increases the amount of time that can be spent inspecting field operations as well as investigating accidents and complaints. Inherent in the reduction of commute time is the lower cost for travel and decreased wear and tear on Commission vehicles.

Out-of-state travel to perform Commission regulatory responsibilities creates a budgetary problem as long as the out-of-state travel cap continues to be in place. Training for pipeline safety employees to maintain their required federal certification is only offered out-of-state. The pipeline courses are taught in Oklahoma City, which requires a significant amount of out-of-state travel annually. Out-of-state travel is also required in some instances to audit books and records of natural gas utilities and propane distributors that maintain their records in locations outside Texas. Out-of-state travel is further required to maintain input into national policy-setting organizations such as the Interstate Oil and Gas Compact Commission, Interstate Mining Compact Commission, the National Association of Regulatory Utility Commissions, National Association of Pipeline Safety Representatives, and the national Propane Education and Research Council. Maintenance of input into federal funding programs also requires out-of-state travel on occasion.

Location of Service Populations



The primary responsibility of the Railroad Commission involves the extensive oil and natural gas production industry that impacts almost all areas of the state. There are more than 355,000 oil and gas wells and related facilities throughout the state that are monitored by the Commission. More than 85% of Texas counties currently report oil production, and 77% of the counties produce natural gas at this time. This extensive industry is served through nine district offices located in Houston, San Antonio, Corpus Christi, Kilgore, Abilene, San Angelo, Midland, Wichita Falls, and Pampa. The Commission has actively sought to delegate increasing responsibility to these district offices to serve the needs of the public and the industry in these locations.

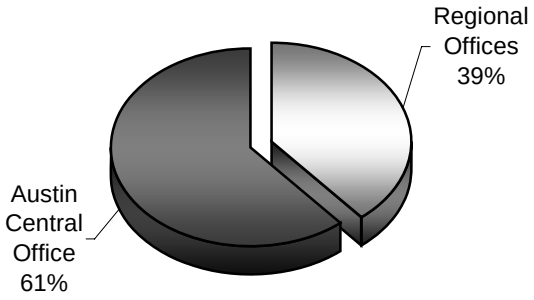
The next most widespread service population is the pipeline industry. Texas has more than 270,000 miles of pipeline systems within the state, 156,000 of which are under the direct safety oversight of the Railroad Commission. The remainder of the pipelines are either currently exempt from safety regulation (rural gathering lines), or they are interstate lines, which are regulated by the federal Office of Pipeline Safety. Of the 254 counties in Texas, 251 counties have some pipeline facility located within their boundaries. This population is served through field locations in Austin, Houston, Garland, Corpus Christi, Midland, Amarillo, and Kilgore.

The LP-gas industry is spread throughout the state, but is primarily located in rural areas. Every county in the state has some usage of propane, the primary LP-gas fuel. This population is served through various field offices.

The surface coal mining industry operates along the lignite resource belt that extends from northeast Texas towards Laredo. RRC Surface Mining Division personnel in the Tyler field location serve mining operations in the northeast. Central and southwest Texas mining operations are serviced out of the Austin headquarters.

Human Resource Strengths and Weaknesses

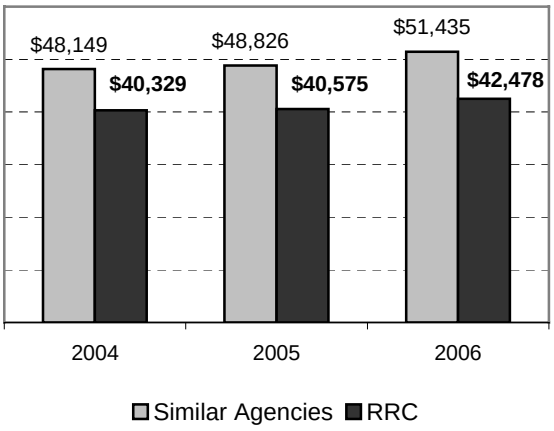
Location of Employees



The Commission's greatest assets are its employees. Staff personnel are the tools that implement the plans, policies, and decisions. The Commission must develop an environment that will allow it to retain, recruit, and develop quality employees. Consistently applied employment practices, training, access to resources, and advancement opportunities are necessary to develop this environment. This also means we must expect to pay more for quality work.

Results from the Survey of Organizational Excellence (Appendix F) indicate that our employees want to continue long-term employment, but non-competitive compensation is our employees' primary concern. Exit interview statistics re-confirm low pay as a motivator to change jobs and leave the Commission. Many leave state government for higher compensation, but a number go to other state or federal agencies for similar jobs posted in a higher salary group. The Commission's inability to retain critical staff is hampered by our inability to compete with other state agencies for talent. A comparison of pay to other agencies notes that we pay our employees 21% less than agencies with a similar scope.

Average Salaries



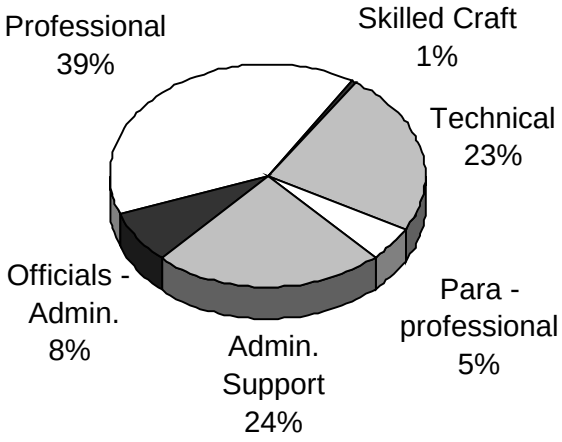
The core of the Commission's regulatory responsibilities relies on the skills of its engineering and scientific staff. Retention and recruitment of these professionals continues to be difficult. Many of these skilled professionals leave the agency for comparable positions at higher salaries within the private sector or the federal government.

Advancements in technology, including enhancements to maximize electronic government, ensure the continued importance of maintaining a stable and skilled Information Technology (IT) workforce. As the Commission modernizes its applications, the need to develop staff with the knowledge and skills to support these critical applications continues. The lack of adequate skilled staff, in both the legacy and the new technology environments, could jeopardize the ability of the Commission to accomplish key technology goals. It is therefore imperative that the Commission not only continue to aggressively recruit the necessary professional IT staff to meet its technology needs, but that it actively work to retain them, as well.

The Commission has an experienced, dedicated, and well-educated workforce. To support critical regulatory functions, we must be able to pay for good performance and retain existing staff. The RRC strongly supports the funding of a competitive salary base, and the continuation of bonus or incentive programs.

For more information see Appendix E – Workforce Plan.

Job Categories



Capital Asset Strengths and Weaknesses; and Capital Improvement Needs

In support of regulatory operations, the RRC established a solid technical foundation to build for internal connectivity and e-government application requirements through the Oil and Gas Migration (OGM) project. Additionally, the web-based architecture has been designed to support the growing demands of the RRC's stakeholders for web-based services, including federal and state agencies, industry representatives, the general public, and Commission staff.

The following technology initiatives and system enhancements have enabled the Commission to operate more efficiently and better serve stakeholders:

- **Web Foundation Module**
- **Production Data Query (PDQ) System**
- **Drilling Permit System**
- **Production Reporting System**
- **Geographic Information System (GIS) Viewer**

The **Web Foundation Module** established a security infrastructure that enables expanded electronic filing capability and allows users to update and maintain their user account information.

The **Production Data Query System (PDQ**) provides Internet access to valuable oil and gas production data from 1993 to the present. It is one of the Commission's most popular web-based applications receiving more than 2 million hits per month.

The **Drilling Permit System** enabled 33% of the 19,000 Drilling Permit Applications filed in FY 2005 to be filed online; the percentage of online filings had grown to more than 60% by March 2006.

When the **Production Reporting System** was deployed in February 2005, only 23% of the two million oil and gas production reports filed each year were filed electronically; by the end of March 2006, more than 70% of those reports were filed online or through EDI.

The **Geographic Information System (GIS) Viewer** allows users to locate mapped wells, permitted well locations, and pipelines on Commission maps, and drill down to more detailed information with the click of their mouse. As of March 2006 the GIS Viewer exceeded 1.3 million hits per month.

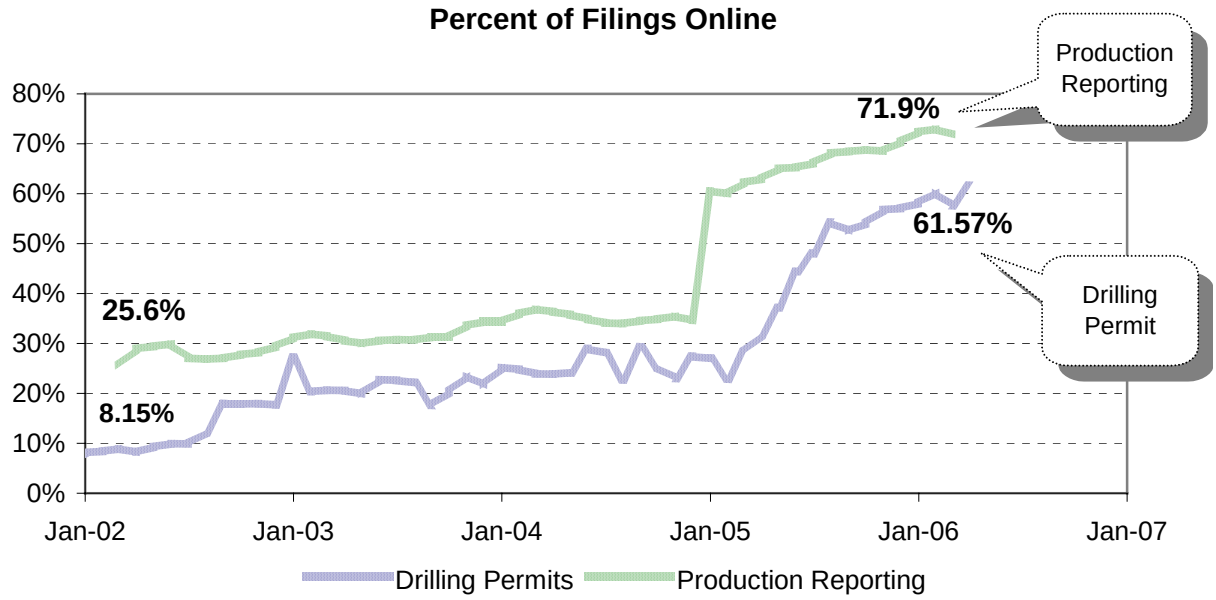
Implementation of these automated systems has increased the efficiency and accuracy of these processes, thereby strengthening the Commission's ability to carry out its regulatory responsibilities, achieve its goals, and better serve the public.

In FY 2005 the Commission requested capital authority to procure technical infrastructure equipment including PCs, printers, servers, network, and web infrastructure items. Statewide installation of the technology equipment is scheduled for completion by the end of FY 2006.

The RRC will continue its investment in technology in order to provide the best value in direct support of Commission and statewide goals.

The 79th Legislature (Regular Session) clearly set the new direction for technology management in state government through landmark legislation that maximizes technology infrastructure, allowing individual agencies to focus efforts on core business. The Commission is one of 27 state agencies directly impacted by HB 1516 creating the Data Center Consolidation (DCC). The DCC will consolidate equipment and jobs where duplication of effort exists among the agencies by outsourcing the functions and equipment to a service provider. The scope of the DCC effort includes the Commission's mainframe and server environments, making the selected service provider responsible for capital investments in those areas. The Commission will pay for services based on the amount of services consumed.

The DCC initiative provides the opportunity for the Commission to focus ITS resources on developing and enhancing core business applications that support mission critical operations and increase public access to information and services.



Mainframe Upgrade

The RRC mainframe is outdated and in need of upgrades to reduce risks inherent in maintaining outdated hardware and software. The necessary upgrades should be resolved through a future agreement with Department of Information Resources (DIR) for data center services, as directed by HB 1516.

Technology Infrastructure Refresh

Maintaining current end user computing infrastructure is essential for Commission regulatory operations. Capital funds will be needed to continue to acquire technology and to replace aging equipment as needed to support Commission staff in performing regulatory tasks.

Although the RRC was able to update staff PC's and printers, it will be necessary to ensure that the equipment does not again become outdated, and that it is replaced on a regular basis. Seat Management should be considered in the future for workstation and printer refresh to ensure that workstation needs of RRC staff are met and to shift funds usage from capital expenditure to operating funds for purchasing services.

HB 1516 also impacts the information technology environment through assessing technology in all state agencies to improve the efficiency and usage of capital assets**.**

Capitalized and controlled asset acquisitions are monitored and purchases are scrutinized to determine best value. Statewide contracts and outsourcing will continue to be used, as appropriate, to leverage purchasing discounts for procuring capital equipment, software, support, and services. The Commission will continue to maximize its use of statewide telecommunications technologies to realize maximum cost savings. These services are essential for improving the effectiveness of e-government and other Internet-based business solutions. In line with the state's strategic direction, the Commission will partner with other state agencies and councils to gain economies in technology purchases. The Commission will use these strategies to: 1) review the current infrastructure; 2) develop update or replacement plans; and 3) acquire technology updates for capital equipment.

Vehicles

Vehicle Replacement Goals As of February 28, 2006		
Vehicle Type	Authorized	Projected Number Exceeding Replacement Goals *
Sedans & Wagons	15	5
Trucks & Light Trucks	231	58
Passenger Vans/Suburbans	3	2
TOTAL	**249**	**65**

- Replacement Goals (Age or Mileage) are 6 years or 100,000 miles.

In further support of regulatory operations, the Commission is required to maintain a vehicle fleet of 249 vehicles. A significant part of the work of the Commission involves travel for emergency response, monitoring and inspection of regulated facilities, as well as industry training. This involves oil and gas facilities, pipelines, LP-gas systems, and surface mining locations. In addition, gas utility auditors and staff responsible for advancing propane usage are required to travel extensively throughout the state. This travel requirement necessitates an extensive fleet of vehicles for field employees. Much of this vehicle travel is in extreme conditions on minimally maintained roads encountered in the oilfield and along pipeline right-of-ways. The Commission has adopted a 100,000-miles/six years of age vehicle replacement schedule, consistent with the schedule adopted by the State Office of Fleet Vehicle Management (OFVM). The ability to maintain and replace vehicles under this regular schedule ensures the Commission's fleet is available to respond to emergency situations, minimizes employee downtime, and reduces maintenance costs. However, reduced vehicle replacement funding during the last two legislative sessions has limited the Commission's ability to maintain a regular vehicle replacement schedule. Sufficient budgeting to keep a regular replacement cycle of vehicles will, in the long run, minimize the cost of maintaining the required vehicle fleet.

By the end of fiscal year 2007, it is anticipated that the Commission will have approximately 65 vehicles or 26% of its fleet with mileage over 100,000. Vehicles with high mileage cost more to maintain than vehicles with fewer miles and age, and fuel efficiency decreases with older vehicles as well.

Agency Use of Historically Underutilized Businesses (HUBs)

The HUB Program promotes equal opportunity in the contract awards process for qualified businesses seeking contracting opportunities with state agencies. Each state agency is required to make a good faith effort to use HUBs in contracts for construction, services, and commodity procurements, and the Commission is extremely dedicated and committed to assisting HUBs. The Commission actively educates vendors on HUB requirements by assisting them in obtaining the Texas Building and Procurement Commission's (TBPC) HUB certification. Additionally,

when soliciting bids from the TBPC's Centralized Master Bidders List (CMBL), internally developed bid requirements are followed to ensure increased HUB participation. Finally, the RRC requires non-HUB prime contractors to demonstrate that they have solicited bids from HUB subcontractors as well.

History of Railroad Commission HUB participation from FY 2001 - FY 2005

	FY 01	FY 02	FY 03	FY 04	FY 05
Total Agency Expenditures	$16.8 M	$19.4 M	$17.3 M	$18.5 M	$21.6 M
Total dollar amount spent with HUBs	$4.3 M	$3.2 M	$3.4 M	$4.5 M	$3.5 M
Percent of total spent with HUBs	25.3%	16.5%	19.8%	24.5%	16.2%

Since FY 2001, the Railroad Commission's HUB participation rates have fluctuated from a low of 16.2% to a high of 25.3%. Regardless of the fluctuation, the Commission has been recognized as one of the top agencies spending more than $5 million with the largest percentage of expenditures spent with HUBs in fiscal years 2001, 2002, 2003 and 2004. In addition, the Commission was recognized as one of the top 50 agencies by total HUB expenditures in fiscal year 2005. For more information see the HUB Plan on pages 81-88.

Performance Indicators	State Goal	FY 2004	FY 2005
Professional Services	20.0%	38.9%	40.1%
Commodities	12.6%	25.8%	22.5%
Other Services*	33.0%	23.9%	15.2%
Special Trade	57.2%	0.0%	0.0%

*The Commission spends a substantial amount of the funds earmarked for the Other Services Procurement category on well plugging and site remediation services. The Commission is committed to increasing HUB participation over the prior year and to continue to actively recruit HUB vendors. Even though the Commission continues to increase HUB participation in this category, the number of qualified vendors providing well plugging and site remediation services is extremely limited.

Key Organizational Events and Areas of Change and Impact on the Organization

In July 2003, the Commission adopted a new organizational structure following an efficiency review of operations and to prepare for reduced appropriations for the FY 2004 – 2005 biennium. The Commission's efficiency review commenced in March 2003 under the leadership of Commissioner Carrillo. The efficiency gains recognized through this effort allowed the Commission to absorb reduced appropriations with minimal impact on the Commission's operations and employees. The new structure has enabled the Commission to be more responsive and focused in its approach to the work ahead, and it more closely aligns the agency organization structure with budget priorities. More importantly, the new structure improves the agency planning process, the identification of business process improvements, and the implementation of technological enhancements.

Use and Anticipated Use of Consultants

For imaging and scanning services, the Commission contracted with Neubus, Inc. through a statewide digital imaging services contract administered by the Texas State Library and Archives Commission. Contracted services and consultants will continue to be used as appropriate to leverage their expertise and provide best value solutions for the Commission.

Part III. Fiscal Aspects

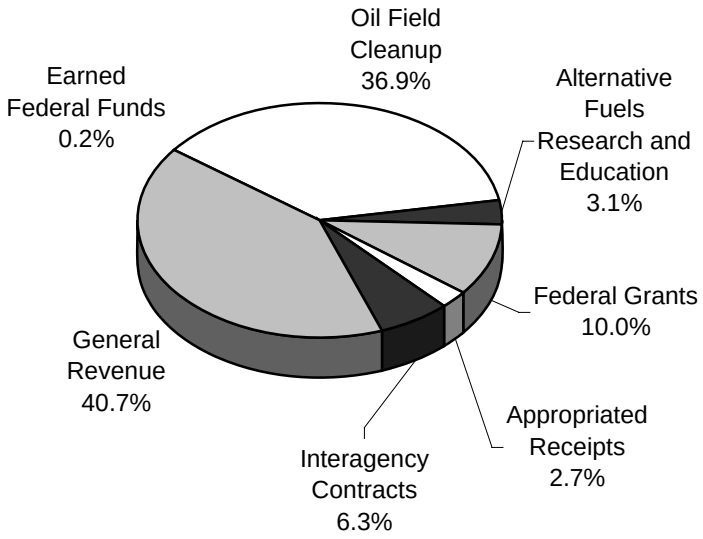
Size of Budget

The Railroad Commission's operating budget for FY 2006 is $66,841,794 with 716.5 positions. General Revenue represents 40.7% of the agency's method of finance. Funding reductions continue to have a negative impact on the agency by reducing the FTE headcount in all divisions.

Method of Finance

The total budget has increased from $44 million in 1999 to $66.8 million in 2006. During this same period, General Revenue (GR) peaked at $29.9 million in 2002 and has declined to its current level of $27.2 million. Fee increases of $3.3 million in 2004 minimized Commission use of statewide General Revenue and helped offset GR budget reductions. In contrast, the Oil Field Cleanup Fund has increased from $10.5 to $24.7 million.

FY 2006 Source of Funds	
General Revenue	$27,221,732
Earned Federal Funds	$162,204
Oil Field Cleanup	$24,677,130
Alternative Fuels Research and Education	$2,099,999
Federal Grants	$6,671,012
Appropriated Receipts	$1,793,900
Interagency Contracts	$4,215,817
TOTAL	**$66,841,794**



Per Capita and Other States Comparison

Comparative data for the Pipeline Safety program includes the federally delegated program cost per pipeline mile, calculated by dividing total program expenditures by federally regulated pipeline mileage. Oklahoma, Louisiana, New Mexico and Texas regulate similar pipeline systems; comparative data is presented below.

State	2005 Expenditures	Pipeline Mileage	Cost per Pipeline Mile
Oklahoma	$978,088	37,814	$25.86
Louisiana	$1,801,013	34,362	$52.41
New Mexico	$1,045,533	18,609	$56.18
Texas	**$3,718,373**	**170,209**	**$21.84**

Comparative data for the Well Plugging and Site Remediation programs compares Texas with three neighboring oil and gas producing states. Numbers of wells plugged and sites cleaned up in addition to total expenditures for 2005 in each state appears below.

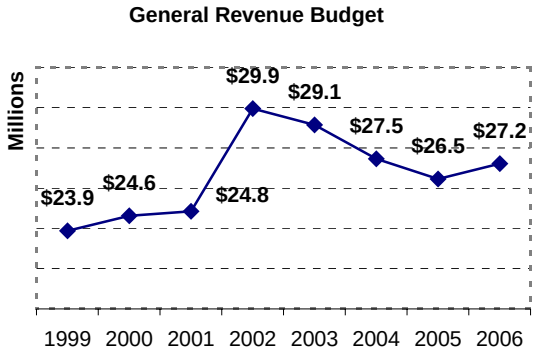
State	Number Wells Plugged	Number Sites Cleaned	2005 Expenditures
Oklahoma	204	660	$4,679,600
Louisiana	177	9	$3,203,546
New Mexico	65	4	$1,599,983
Texas	**1,710**	**292**	**$14,760,000**

The final table illustrates the relative cost efficiency of the Coal Regulatory program compared to other state's coal regulatory programs. The comparative data presented includes the average cost per permitted acre. This benchmark is calculated by dividing the federal funding received in 2005 by the total acreage that was permitted in 2005. The RRC Coal Regulatory program cost based on federal funding is less than one half the national average, and, in fact, decreased 15% below its year 2003 cost.

State	2005 Federal Funding	Total Acreage Permitted	Average Cost per Permitted Acre
Colorado	$1,954,760	163,320	$12
Indiana	$1,990,000	257,310	$8
Texas	**$1,300,000**	**270,700**	**$5**
West Virginia	$10,520,169	317,500	$33
Total, State and Indian Regulatory Programs	$56,863,373 (2004 Data)	4,282,456	$13

General Revenue

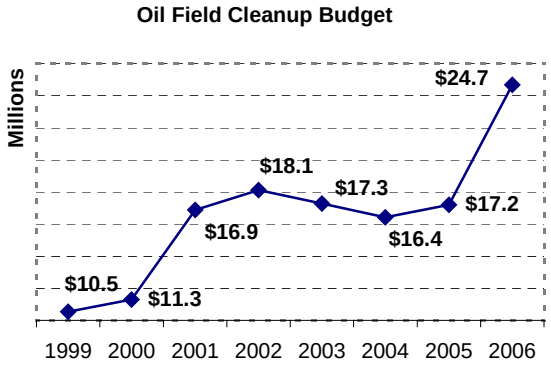
While the RRC's General Revenue appropriation has increased over the last two biennia, it is important to note the increases have been offset by corresponding increases in fees borne by the regulated community. Most recently, the Commission increased fees associated with Surface Mining permits and Pipeline Safety fees. In addition, the majority of appropriation increases are earmarked for legislative mandated salary and longevity increases for employees.



Oil Field Cleanup

The Legislature created the Oil Field Cleanup Dedicated Account (OFCU) in 1991 to give the Railroad Commission, on behalf of the state, the financial ability to plug abandoned oil and gas wells and to remediate abandoned oilfield sites throughout the state. Revenue for the Oil Field Cleanup Dedicated Account comes from the oil and gas industry in the form of fees for permits, oil and gas production regulatory fees, financial assurance collections, sales of salvageable equipment, reimbursement for plugging and remediation costs, administrative penalties and civil penalties. Most of these categories of revenue are dependent on the health of the industry. During periods of low prices and rig counts, revenue from permit fees and production drops. Yet, at the same time, demands on the Account increase as the state must deal with more abandoned wells and neglected sites. During the 77th legislature, increased fees were provided through SB 310. It was anticipated that these increased fees would generate an increase in the annual collections from approximately $12 million to $20 million.

Actual collections for the FY 2004 were $20.9 million and $22 million for FY 2005. Collections in FY 2006-2007 are expected to be $25 million and $23.5 million, respectively. Provided the current economic conditions remain relatively stable, future collections through fiscal year 2009 should be about $24 million. While the forecast for revenue collections is good, the Commission continues to be challenged in its ability to enter into modestly priced contracts for well plugging or site remediation services due to limited availability of contractors in certain areas of the state.



Federal Funds

The Commission's Pipeline Safety program falls under a federal/state partnership program administered by the U. S. Department of Transportation. The federal Pipeline Safety Act provides for state assumption of the intrastate regulatory and enforcement responsibilities through this arrangement. The RRC participates in this program and provides annual certification to assume the safety responsibilities. The percentage of funding is determined through a performance-based allocation formula with a maximum of 50% reimbursement from the federal government. Pipeline Safety also qualifies for other federal grant programs in the areas of damage prevention.

Federal funding for the Oil and Gas Underground Injection Control (UIC) is also inadequate. The program was created on the basis of a 75% federal share with a 25% general revenue state share. Due to federal funding limitations, the state share represents more than 25% of the UIC funding. It is not clear if further grant reductions will occur in this program.

The Commission is also responsible for the State's Coal Regulatory Program and Abandoned Mine Land Reclamation Program (AML) administered by funds provided through the U. S. Department of Interior. The Coal Regulatory Program funding is provided through federal allocation and requires a state match. The AML is totally federally funded. At this time, the long-term funding for these programs is not projected to change substantially.

The Oil and Gas Waste Minimization program previously received grant funding from the United States Environmental Protection Agency (USEPA); however, the USEPA stopped providing funding for this program at the end of FY 2005.

FY 2005 SOURCE OF FEDERAL AWARDS

U. S. Department of the Interior

- **Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining**
- **Abandoned Mine Land Reclamation (AML) Program**

U. S. Department of Transportation

- **Pipeline Safety**

U. S. Environmental Protection Agency

- **State Underground Water Source Protection**
- **Pass-through from Texas Commission on Environmental Quality**
- **Pollution Prevention Grants Program**
- **Brownfields Training, Research & Technical Assistance Program**
- **State and Tribal Response Program**

U. S. Department of Commerce

- **Pass-through from General Land Office**

The Commission has actively pursued and will continue to pursue federal funding opportunities. (More information on the mpart of federal funds is provided on pages 49-54.)

Other Funds

Most recently, the Commission has entered into an $8 million contract with the Texas Commission for Environmental Quality (TCEQ) to reduce environmentally hazardous emissions by offering rebates to customers purchasing more efficiently fueled forklifts. The program has been extremely successful and is expected to continue.

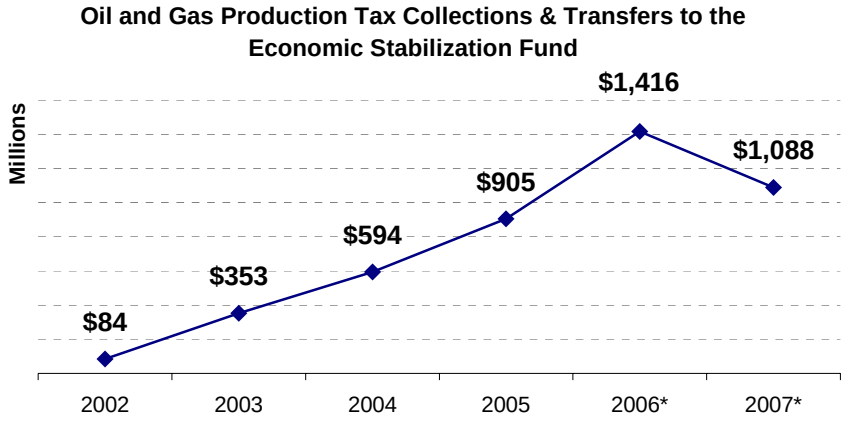
State Revenue Source

Economic Stabilization Fund (ESF) – "Rainy Day Fund"

The Texas Constitution mandates that if oil and natural gas production tax receipts exceed the net amount received in fiscal 1987, an amount equal to 75 percent of the excess must be transferred to the state's Economic Stabilization Fund from the General Revenue Fund.

For the fifth time since the creation of the Economic Stabilization Fund in 1989, the 2005 Legislature drew down the fund balance. For the three-year period 2005-07, the Legislature appropriated and/or authorized the transfer of $1.7 billion from the ESF.

Transfers from state natural gas and oil production collections to the ESF are estimated to total $2.9 billion over the three-year period 2004-06.



* 2006-07 Projections
Source: Comptroller of Public Accounts

The dramatic increase in available revenue for the State is largely the product of three factors: stronger than expected national and state economic growth, sustained high oil and gas prices, and greater than expected non-tax revenue. Since February 2006, the severance tax collections have been revised by the Comptroller of Public Accounts (CPA) upward by $2.5 billion (77.5%), largely as a result of sustained high oil and gas prices. Of these, oil production and regulation tax revenues have been revised upward $524 million (57.5%), while natural gas tax revenues have been increased by $2 billion (85.3%). The increase in severance tax revenue, however, also implies an

increase in transfers of General Revenue-related funds to the Economic Stabilization Fund. At the end of fiscal 2007, the balance is expected to total just under $1.1 billion.

Degree to Which Current Budget Meets Current and Expected Needs

The FY 2006–2007 budget has supported continued progress on modernizing RRC business applications and improving the Commission infrastructure. Maintaining current technology spending levels is necessary for the Commission to continue to provide service at current levels. Previous capital budget authority caps have hindered the Commission's ability to procure capital items. However, using funds from vacant positions, the Commission was able to secure additional capital authority in August 2005. These salary dollars from vacant positions were expended to refresh many Information Technology items. The current budget will support the need for minor equipment and upgrades of infrastructure equipment for the Commission.

Turnover is important to any organization and the Commission is no exception. The greatest concern for turnover among different age groups continues to be the Commission's inability to retain employees under the age of forty. Results from the Survey of Organizational Excellence indicate there is a desire by our employees to continue long-term employment, but inadequate pay is our employees' primary concern. Exit interview statistics re-confirm low pay as a motivator to change jobs and leave the Commission. Many leave employment in state government for higher compensation, but a significant number go to other State or Federal agencies for similar jobs posted in a higher salary group. A comparison of pay to other agencies with a similar scope notes that we pay our employees almost 20% less than our peer agencies.

Capital and/or Leased Needs

The Commission will seek to continue progress on modernizing its business applications to support mission critical operations and provide public access to information and services. The Commission will review the current end user computing infrastructure, develop or update replacement plans, and scrutinize purchases to insure best value.

Part IV. Service Population Demographics

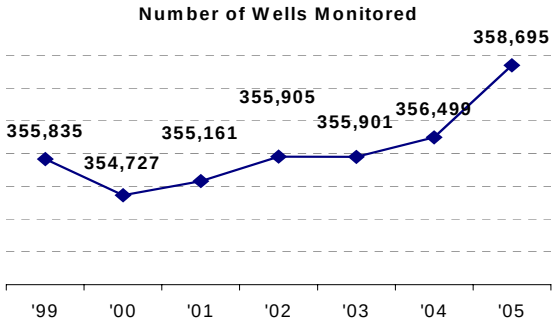
As mentioned above, the current service responsibilities of the Commission are with five basic industry segments. They are: (1) oil and natural gas exploration and production, (2) natural gas and hazardous liquids pipeline operations, (3) natural gas utilities, (4) LP-gas service, and (5) coal and uranium mining. The following sections describe the demographics of each of these distinct service population areas.

Oil and Natural Gas Exploration and Production

The Texas oil and natural gas industry consists of a wide spectrum of businesses, ranging from sole proprietorships to fully integrated, multinational corporations. Activities range from drilling and plugging wells to hauling waste. All aspects of the oil and natural gas production cycle from beginning to end are part of the regulatory responsibility of the Commission.

Texas is the nation's leading oil producing state and the leading gas producing state. Texas provides 30% of the domestic onshore oil production, and 36% of the domestic onshore-marketed gas production in the United States. Based on latest available information (as of 12-30-2004) from the United States Energy Information Administration, Texas has remaining proven oil reserves of 4.61 billion barrels, and proven gas reserves of 49.95 trillion cubic feet.

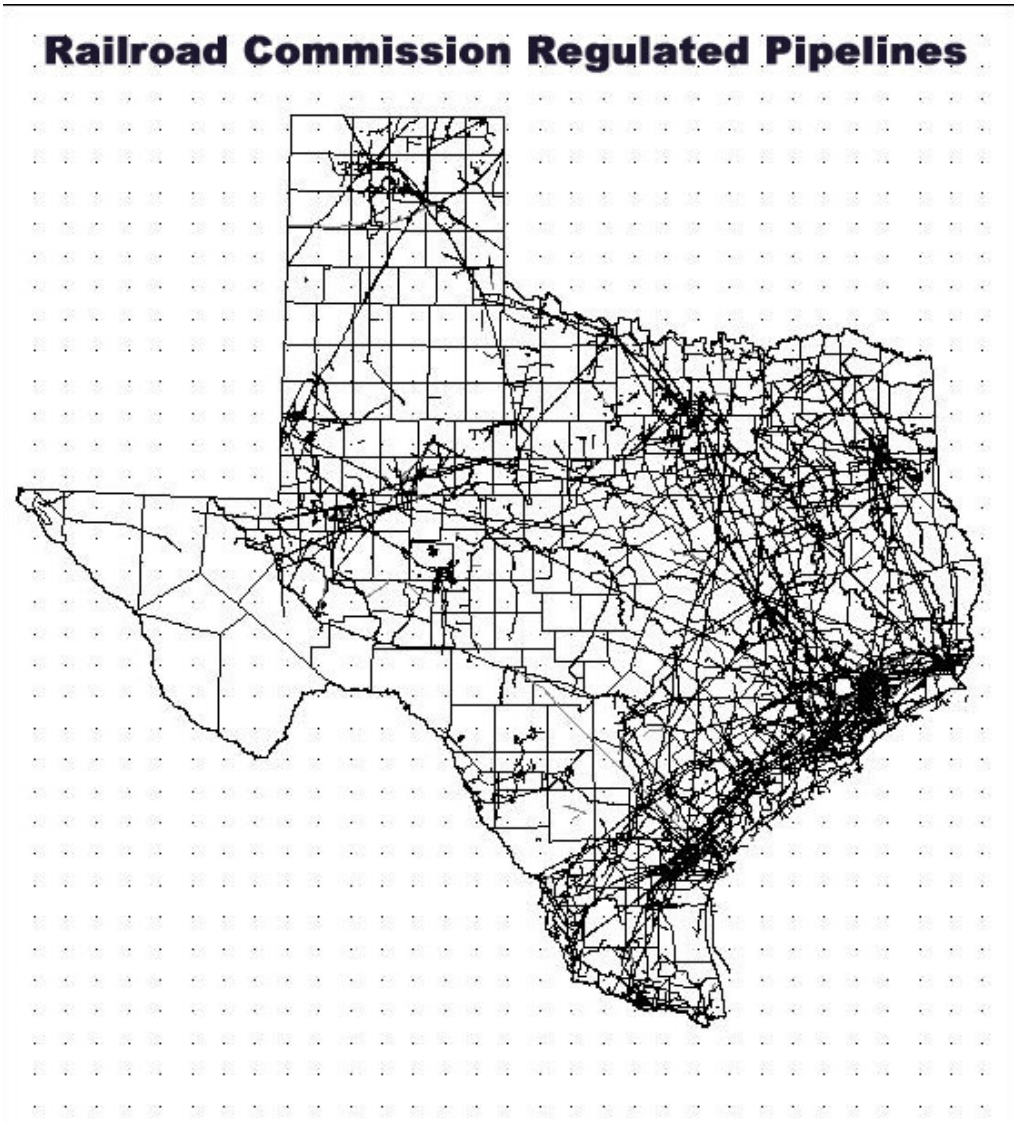
With respect to oil production, Texas is a mature producing state with increasingly marginal production. Peak annual oil production for Texas was in 1972 when the average oil production was almost 3.5 million barrels of oil per day coming from 167,000 active oil wells. Currently, production from Texas oil wells is averaging only about 944,000 barrels per day, less than one-third of the rate produced in 1972. However, the number of active oil wells is still around 142,000 wells.



Although the oil production rate is declining, the Railroad Commission's responsibilities over the next two to five years will actually be increasing. It takes just as much effort to perform an inspection, or deal with a permit for a well producing one barrel of oil per day as it does for a well producing 100 barrels of oil per day. As wells become even more marginal, the likelihood of operators leaving abandoned wells for the Commission to ultimately plug will increase during periods of low oil and gas prices. Over the past several years, the Commission has strengthened financial assurance requirements for operators, culminating in universal bonding for all operators of wells in hopes of reversing this trend. Over the long term, this action should result in less

burden for the Commission to plug abandoned wells.

Natural gas appears to have a much brighter outlook than oil. Texas natural gas production also peaked in 1972 at 26 billion cubic feet of gas per day, and current gas production is approximately 14 billion cubic feet per day. Although this is a 47% decline from the peak year, annual production of natural gas has remained relatively flat for the past 15 years. However, the number of producing gas wells has more than tripled from 23,000 in 1972 to 70,384 today. Once again, the workload of the Commission is not expected to decrease in the short or medium term. In the long term, increasing demand for natural gas that must be met by North American production (natural gas cannot be economically imported in large quantities like oil), will likely increase drilling and production activity for natural gas in Texas. This increased activity will also mean additional activity for the Railroad Commission.



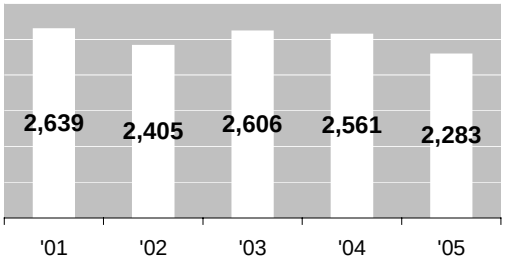
Pipeline Operations

To gather, transport, and deliver Texas' valuable oil and natural gas resources an extensive network of pipelines is required. The Railroad Commission has responsibility to ensure that these systems are designed, constructed, operated, and maintained safely, and that rates for natural gas service are just and reasonable.

There are approximately 270,000 miles of pipeline in Texas, about 1/6th of the total pipeline mileage of the entire United States. They are divided into the categories of natural gas distribution lines (80,000 miles), hazardous liquid and natural gas transmission lines (75,000 miles), interstate lines (80,000 miles), and non-regulated lines (35,000 miles). The Railroad Commission has direct safety responsibility over the first two categories. These regulatory responsibilities are extended to more than 1,500 operators of intrastate gathering, transmission, distribution, and master metered systems.

Development of new natural gas markets, especially for gas-fired electric generation, are expected to demand new pipelines over the short, medium and long term.

Number of Pipeline Safety Inspections Performed



Increasing public demand for environmental impact review and more stringent safety standards are also likely to increase the workload of the Commission. Not only new capacity, but also the aging infrastructure of existing pipelines and the sprawl of urban areas into right-of-ways once only inhabited by pipelines will require even closer pipeline safety scrutiny by the Commission.

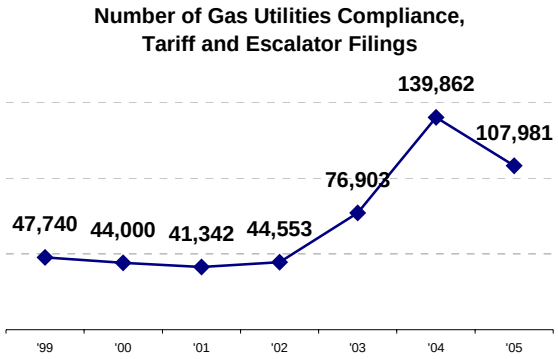
Natural Gas Utilities

There are approximately 7,000 active tariffs on file with the Commission that reflect rates charged for natural gas utility transmission and distribution services. There are 180 investor-owned and 84 municipally-owned natural gas utilities in Texas, serving nearly four million customers.

The 78th Legislature passed the Interim Rate Adjustment (IRA) as Section 104.301 of the Texas Utilities Code allowing natural gas utilities an interim rate adjustment to capture increases in net investment of invested capital, annually. This change allows a utility an adjustment to its rates annually without coming to the regulatory authority for a full-blown rate case until the end of a five-year anniversary. Administratively approved by the regulatory authorities, this change has increased the Commission staff's workload dramatically.

Natural gas utility companies in Texas not only include the distribution utilities that most people associate with utilities, but also many natural gas gathering and transporting pipelines. The Commission has had statutory authority for many years to allow these parties to develop their own negotiated rates as long as all parties are in agreement. Disputes over such rates or terms of service were handled as contested cases. The Commission has since developed a mediation process to resolve such disputes without the associated cost of a contested hearing. This informal complaint process has been extremely successful in reaching resolution of such issues. Expansion of this process to other areas of dispute within the Commission is currently being evaluated.

The natural gas industry saw a significant increase in the price of natural gas to consumers in 2005 and 2006. In an anticipation of increased consumer calls and complaints, the Gas Services Division implemented an automated consumer complaint and information system for the 2005 – 2006 winter season. Consumers that call the Commission may listen to a recorded message that may help them understand the increases in the price of natural gas on their utility bill, and they may leave a voice message to be returned by Commission staff. Additionally, consumers may file a written comment or a complaint through the Commission's website that is monitored daily, resulting in timely response by Commission staff.

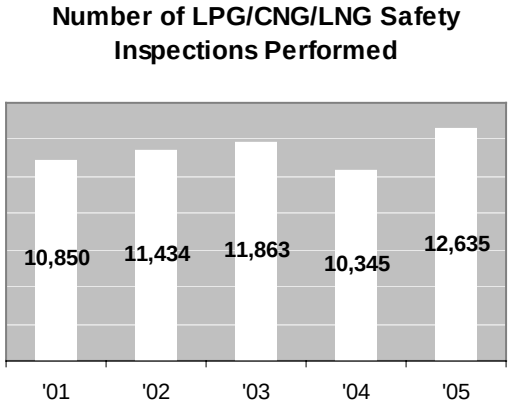


The 79th Legislature directed the Commission to conduct a natural gas competition study to determine the extent to which viable competition exists in the Texas natural gas pipeline industry, from wellhead to burner-tip. Included in the study is Commission assessment of the effectiveness of current laws, regulations, enforcement, and oversight addressing pipeline monopoly power abuses and recommendations for any necessary changes. Upon completion of the study, the Commission shall make recommendations of solutions to bring market competition to any non-competitive segments of the industry. Presently, the Commission is in the process of developing a panel of industry representatives to review and interpret the data obtained from workshops held across the State from November 2005 to January 2006.

LP-Gas Service Companies

This industry includes LP-gas, commonly referred to as propane, as well as compressed natural gas (CNG) and liquefied natural gas (LNG). The Railroad Commission's responsibilities include oversight to insure that the transportation, storage, distribution and use of these fuels are handled safely. This is done through (1) examination and licensing of persons and companies handling these fuels; and (2) inspection and monitoring of transport trucks, facility installations and storage facilities. In addition, the Commission conducts training and continuing education for LP-gas

licensees, certificate holders, and emergency response personnel.



There are 11,000 individuals working in the industry, with about 2,500 dealer licenses issued annually and about 11,000 facility inspections conducted each year.

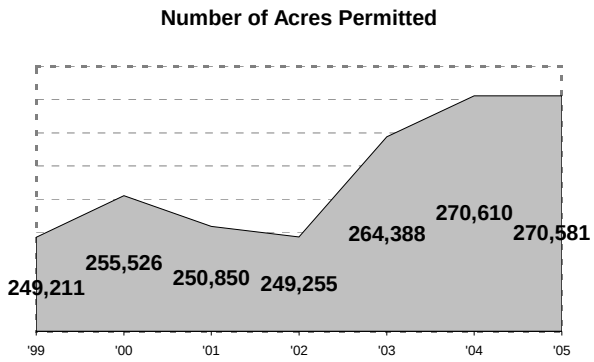
The retail propane business consists primarily of fueling space-heating, cooking, and water heating appliances in rural residences and commercial buildings; portable applications such as outdoor grills, torches and agricultural tools; and as an engine fuel for off-road vehicles such as industrial lift trucks and on-road vehicles such as school buses and light trucks. These markets are substantial. There are almost one-half million propane-fueled residences in Texas. In addition, propane outdoor cooking has overtaken charcoal grills; more than 80% of the state's forklifts are propane-powered, and about 14,000 Texas highway vehicles are powered by propane. Clean air mandates and incentives are expected to contribute to the increasing demand for propane in the near, medium, and long-term planning horizons. This projected growth will require an increase in current levels of safety inspection coverage, safety and technical training, consumer education efforts, and other supporting services.

Another important part of the Commission's responsibility is education and research into promoting the use of propane as an alternative fuel in Texas. Texas is the largest propane producing and consuming state, and promoting efficient, environmentally beneficial uses of this important Texas resource and fuel is theCommission's responsibility. The Alternative Fuels Research and Education Division (AFRED) carries out this responsibility primarily with funding provided by industry-paid fees. This division was created in 1991 as the first LP-gas "checkoff" program in the United States. Since then 11 other states and a nationwide propane education council have enacted comparable programs, largely due to the Texas program's success. LPG checkoffs now exist in Alabama (1993), Missouri (1993), Oklahoma (1994), Mississippi (1996), Illinois (1997), Florida (1997), Nebraska (1998), Kentucky (1998), New Jersey (1999), Minnesota (2001) and Kansas (2003). In addition, the national Propane Education and Research Council, created by Congress in 1996, began operations in January 1998.

AFRED fulfills its mission through research programs, public and industry education programs, and administration of rebate programs. As measured by checkoff fee collections, the AFRED efforts have resulted in maintaining or increasing retail use of propane in Texas at or above fiscal year 1992 baseline levels in ten of the 13 years from 1993 – 2005. Use of propane can vary significantly year-to-year based on winter weather.

Coal and Uranium Mining

Currently there are 20 coal-mining permits administered by the Surface Mining Division. These mining permits, held by ten companies, cover approximately 19 counties. The annual coal production from 1990 to 2001 has remained relatively steady, averaging about 51.6 million short tons. Coal production of 47.17 million tons in 2005 ranks Texas 5th in coal production in the United States. Six permitted mining operations no longer produce coal and are undergoing final land reclamation.



About 99.8% of the coal mined in Texas is utilized as boiler fuel at electric power generation plants. The long-term fuel commitment required by existing electric power generation facilities suggests that the mining industry in Texas will remain relatively stable for the foreseeable future. This, however, can change if Wyoming Powder River Basin coal becomes a more economical fuel source. The fuel source of choice is dictated to a large degree by the cost of delivering Powder River Basin coal to Texas.

The expansion of mining areas at existing mines and the development of new deposits has enabled the annual coal production to remain stable. The relative stability of the mining industry has resulted in a constant permitting workload for the past few years. This trend is expected to continue for the short and medium planning horizons. For the longer term, when economical Texas lignite deposits become mined out, this fuel source will be replaced with western Powder River Basin coal or natural gas.

There were forty-four (44) uranium surface mines permitted during the 1970's and early 1980's. These mining operations covered more than 31,000 acres in and around the Karnes County area. Due to substantial reductions in the market price for uranium in the early 1980's, surface uranium mining became uneconomical and has ceased.

Today, all remaining uranium production activities in Texas are confined to in-situ mining techniques, which are regulated by the Texas Commission on Environmental Quality. The Railroad Commission continues to be responsible for the approval, inspection and enforcement of uranium exploration drilling, which has increased in recent years.

Part V. Technological Developments

Impact of Technology on Current Agency Operations

The Commission has made significant strides in automating agency operations to provide better service. The most significant impact of technology has been the growth and usage of the Internet. Web-based technology has matured not only as a solution for Internet development but is now a generally expected source of information. As stakeholders, who include the general public, continue to demand increased availability of information over the Internet, the Commission has continued to respond with new capabilities that have helped redefine and reshape the way energy information is portrayed and provided. Stakeholders' requests for more immediate access to the Commission's volumes of information stored on paper and microfilm are being addressed. Use of the Internet should be optimized to its fullest capacity for providing information to all stakeholders, both internal and external, and for receiving regulatory information.

The technical foundation has been built to enable electronic filing of permits on the Commission's website. Electronic payment technology is utilized to automate payments for permits and reduce processing time. These technology advancements have resulted in a marked improvement in the availability of and access to information for stakeholders.

Impact of Anticipated Technological Advances

Technology Initiatives
Public Access through the Internet
Data Sharing
Expansion of Geographic Information Systems
Current Hardware for Staff
Improved Network
Use of Mobile Devices
Scanning and Imaging
Using the Internet for Training
Data Transmission from Remote Sites
Software to Manage Geo-Technical Data

Anticipated technological advances present opportunities for the long-term improvement of Commission regulatory operations and the ability to exchange information with stakeholders. Business process improvements through the appropriate use of technology will streamline operations for the Commission and its regulatory constituencies. Also, the Commission has long recognized the value of its information and strategically positions itself to continually improve access to its data repositories.

Information technology plans in support of Commission regulatory operations should continue to address several initiatives:

- E-government application development activities that encourage and promote data-sharing with other governmental agencies and support seamless integrated government services;
- Continued expansion of Geographic Information Systems (GIS) for data collection and sharing;
- Establish end user computing technology refresh program;
- Continue to improve network technical infrastructure to ensure internal and external network connectivity that supports the increased availability of information and services through Internet-based applications, GIS and digital images;
- Expanded use of mobile computing technologies, such as event driven data entry, hand-held digital devices, personal digital assistants (PDAs), wireless communications, global positioning system (GPS) system units, and digital cameras to improve field inspections, data collection, and reporting;
- Expanded use of scanning devices and imaging products for records and information management initiatives and regulatory programs;
- Expanded use of the Internet to provide computer-based-training to staff and regulated industries;
- Expand Internet-based public access to regulatory data maintained by the Commission;
- Remote sensing, monitoring, and reporting devices used for data transmission; and
- Geo-technical software to manage down-hole well data information and improve the ability to work with well logs.

Degree of Agency Automation, Telecommunications, etc.

The Commission relies on technology to conduct regulatory operations and to achieve its goals. Effective communication is critical to the effort and is enabled by the Internet, mainframe and open systems applications, storage and image technology, and e-mail. The public has access to Internet-enabled regulatory forms and reports. District offices are able to access all Railroad Commission applications via the Intranet. The Commission uses the statewide telecommunications network maintained by the Department of Information Resources

(DIR) to deliver voice and Internet-based services.

Information on the Web
Links to interactive data inquiry on oil and gas production
Online filing
Job opportunities
Schedules of seminars and meetings
Mining activities
Commission districts
Oil and gas statistics and data
Publications
News releases
Proposed and adopted statewide rules
Commission final orders and proposals for decisions

Today, the Commission views the Internet as a primary medium for conducting business with regulated entities and the public. The Commission's website at www.rrc.state.tx.us provides valuable data that is used by the regulated industry, governmental agencies, and the public.

External stakeholders who once could only obtain regulatory information by going to the Commission's headquarters in Austin or to one of the district offices, can now view and print information from the website locally. Members of the regulated industries and the general public continue to request more information, data, and easier access. The Commission places a high priority on meeting these needs. The following are some more recent additions to the website:

The **Production Data Query (PDQ)** enhancement is a publicly available web application that:

- Increases access to data by making production data accessible for query,
- Increases usefulness of data by providing the ability to present the production data in enhanced formats that can be downloaded, and
- Expands data to include operator and field name changes and production disposition data.

The **Drilling Permits Application**:

- Allows permit filing over the web resulting in increased electronic filings,
- Provides an imaging and retrieval process for Drilling Permits,
- Expedites internal workflow with electronic routing and approval,
- Reduces the need for data entry, and
- Enhances customer service with information displays, electronic notification and easy access to permit status.

Production Reporting:

- Provides the ability to submit production reports online over the Internet as well as through an enhanced EDI data file format,
- Provides an imaging and retrieval process for Production Reports,
- Increases productivity with use of an internal workflow queue process for resolving problems and questions, and

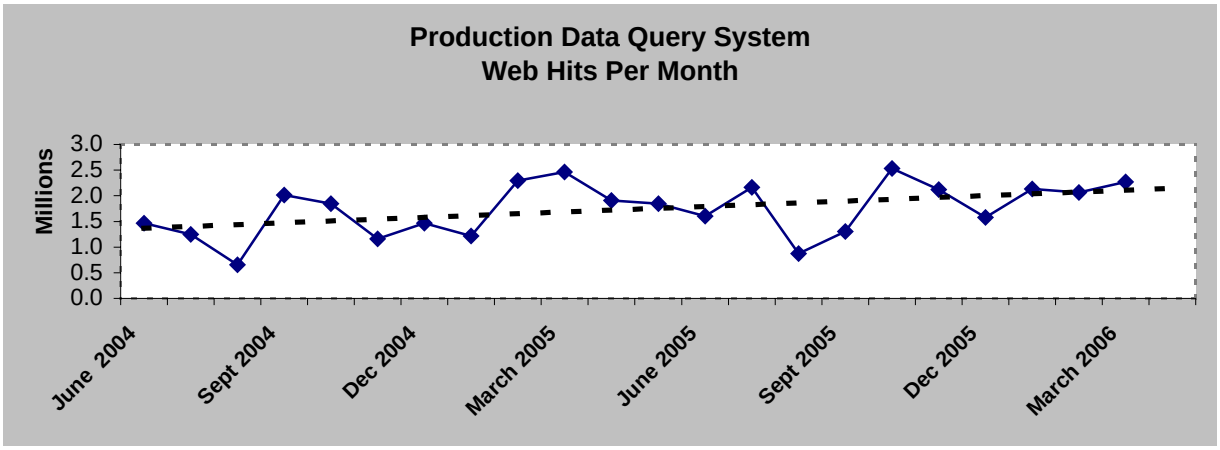
- Increases staff productivity by improving data accuracy and reducing data entry.

The **Geographic Information System (GIS) Map Viewer**:

- Is available on the website for public and industry to locate mapped oil wells, natural gas wells, plugged wells, dry holes, injection and disposal wells, permitted locations and pipelines,
- Is updated and refined on a daily basis as permit applications are received by the Commission, and
- Provides links to Well Identification information, production and available scanned well logs.

The RRC is a member organization of the Texas Geographic Information Council (TGIC), the coordinating council for geographic information systems technology and data for the State of Texas. The Commission supports the goals and objectives of TGIC by participating in the on-going strategic planning process for development of coordinated, cost-efficient and non-redundant GIS systems in the state.

Additionally, the Commission participates in conferences in Texas and the Interstate Oil and Gas Compact Commission (IOGCC). Through these activities, the Commission staff remains current on the impact of trends and technological advancements on agency operations.



Anticipated Need for Automation

The Commission uses automation to continue to improve regulatory operations and provide information to the public. The anticipated need for further automation at the Railroad Commission is in four main areas:

- Electronic workflow for internal efficiency,
- Expansion of data query systems,
- Implementation of additional RRC online applications, and
- Integration of business applications with GIS and document imaging systems.

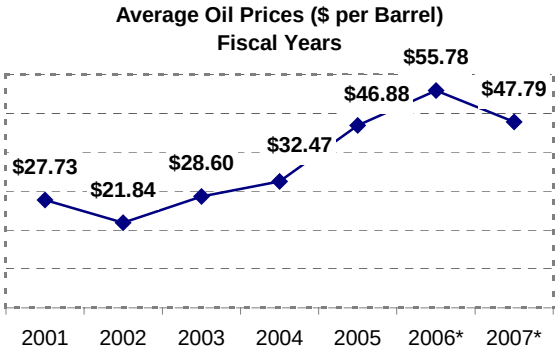
Part VI. Economic Variables

Identification of Key Economic Variables

The Texas economy and the oil and gas industry traditionally have been linked since the discovery of the Spindletop Field in southeast Texas in 1901, and until a severe contraction of the industry in the 1980s, this association remained strong. Dramatic increases in the price of oil propelled Texas into economic booms that countered trends in the national economy, so that by 1981 the oil and gas industry single-handedly comprised more than one-fourth of Texas' gross state product. However, in 1986 a crash in oil prices led to greater diversity in the state economy. The rapid growth of service industries and the decrease in production of oil and gas in Texas since then has made the state's economy more similar to the nation's economy.

The energy industries are basic commodity businesses and, as such, the laws of supply and demand drive their performance. The key economic variables that affect the Railroad Commission service populations and the resulting impact on the agency are all energy related. The cost, availability, and consumption level of energy are the leading factors that determine the direction of the energy industries. From mid-1999 to mid-2001, as oil and natural gas prices climbed, the industry added 18,000 jobs (up 13.1 percent), only to lose the majority of these (down 12,800) by January 2003. Record-breaking oil and gas prices have boosted the industry since then, and by March 2006, the natural resources and mining industry had added 27,800 jobs, its highest total since 1991.

The impact on Texas' energy-related industries is not only affected by Texas economic variables, but also by national and world economic variables. The oil industry is truly a global market, and its economic variables are driven by global supply and demand for oil. In 2005, the issues of oil production peaking in the near future, along with tight inventory, stronger demand, and production loss in the Gulf of Mexico caused by hurricanes Katrina and Rita raised the Texas average oil price to an all time high, above $61 per barrel by August 2005 and above $52 for the year. High oil prices also helped increase Texas rig count by 21 percent over 2004. The reduction in the nation's oil refining capacity-already close to its physical limits helped push U. S. gasoline prices up to almost $3.00 per gallon for a brief period.

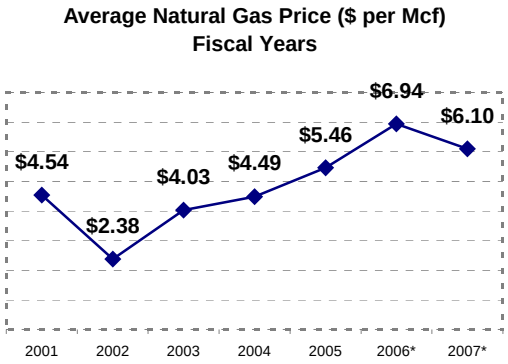


* Projected
Source – RRC & Comptroller of Public Accounts (CPA)

By March 2006, oil prices still averaged $62.97 per barrel, but the average price of natural gas had fallen to $6.93 per Mcf because of rising inventories and a warmer than normal winter in most parts of the country. Although gasoline prices retreated to just over $2.00, they subsequently inched back upward to almost $3.00 per gallon before fluctuating downward.

The environmental impact of fossil fuels is another important variable that drives energy economics. The need to reduce emissions from coal and oil-derived petroleum products has contributed to a shift in demand from these products to natural gas, liquefied natural gas (LNG) and renewable energy sources. Recent technology improvements and overall demand for natural gas have renewed an interest in LNG transported by tanker ships. With its existing deepwater ports, large petrochemical industry, and extensive pipeline infrastructure, the Texas Gulf Coast is well positioned to become a major source for LNG regasification terminals in the U.S. When these terminals are in operation they will have a positive impact, not only on Texas, but also on the national supply and demand balance for natural gas.

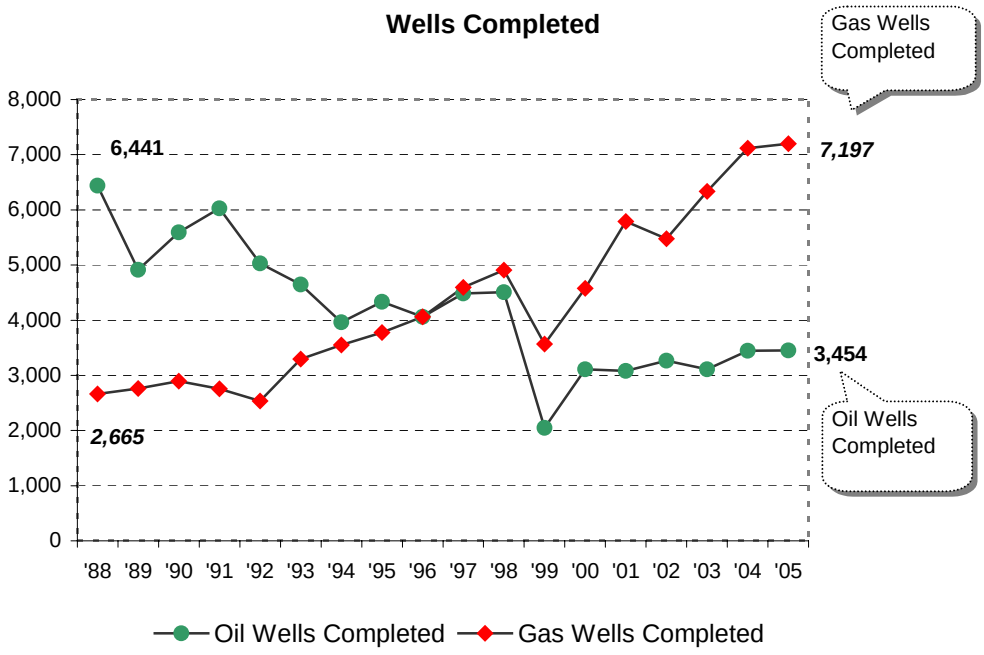
Historically natural gas prices moved in direct relation to world oil prices, however, in the past decade there has been a distinct change in that relationship. While Texas oil prices still are directly impacted by world oil prices, Texas natural gas prices are now directly impacted by U.S. supply and demand, as reflected in the New York Stock Exchange natural gas commodity futures market. Following the price spike to $4.03 per Mcf in fiscal 2003, taxable natural gas prices continued to rise in fiscal 2004 to $4.49 per Mcf, and again in fiscal 2005 to $5.46 per Mcf. Texas natural gas tax receipts are expected to total $4.2 billion in 2006-07—up 36.7 percent from the $3.0 billion collected in 2004-05.



* Projected
Source – RRC and CPA

Another important economic variable for the energy industry in Texas is the revenue impact of oil and gas severance taxes. Since the tax is levied as a percentage of price, there is a direct translation to increased oil production tax revenues, regardless of ongoing production declines. In 2005, the level of oil production tax collections triggered the constitutional transfer of revenues to the Economic Stabilization Fund. This transfer—only the second in response to oil production revenues since 1991—totaled $112.1 million.

Finally, Texas coal (lignite) production competes directly with coal delivered by rail from the Powder River Basin of Wyoming. A major portion of the cost of the imported coal is the transportation component. Almost all of the consumption of Texas coal (99.8%) is for electric power generation, with the generation plants located near the source of the coal being mined.

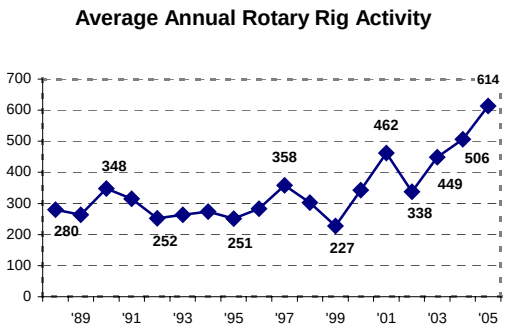


Source – RRC and CPA

Effect of Economic Conditions on Service Populations

Oil and gas remains five times as important in Texas' economic mix as nationally, so recent jumps in the price of oil and natural gas have much smaller negative impacts in Texas than in the nation as a whole. The oil and gas industry helps support the Texas economy when higher oil and gas prices drag down the energy-consuming sectors.

Two frequently used barometers of oil and gas exploration activity are rotary drilling rig usage and the number of wells drilled. In 1990, drilling activity showed a significant increase in Texas for the first time since 1984. The level of rig activity declined again in 1991, and fluctuated from an historical low in June 1992 of 209 rigs to a peak in October 1997 of 386.



Source – RRC and CPA

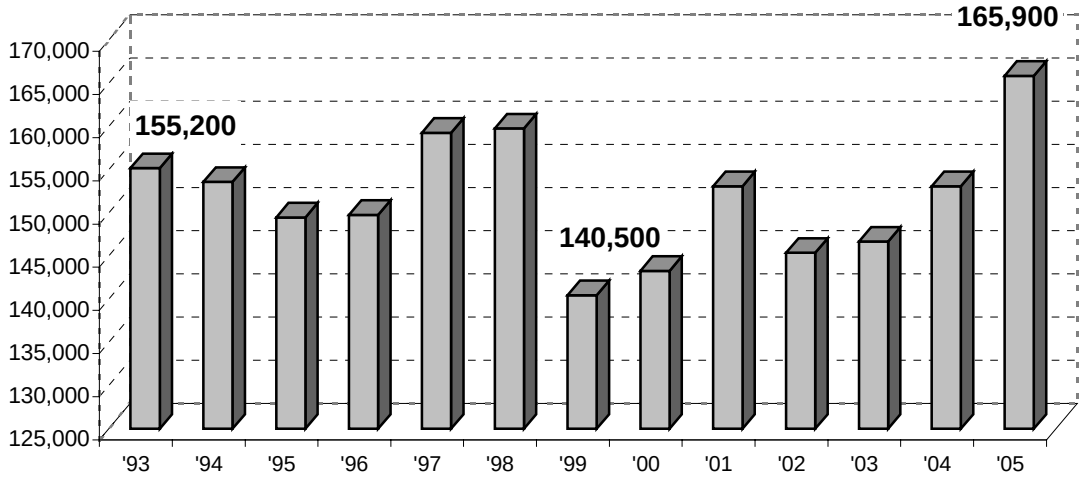
Since Texas oil and natural gas prices hit bottom in fiscal 2002, the statewide rotary rig count has increased by almost 100 percent, with almost two-thirds of new drilling activity associated with the search for natural gas, and industry employment has increased directly with the new drilling activity. In 2005, a variety of factors including tight inventories, stronger demand and losses of production from the

Gulf of Mexico caused by hurricanes Katrina and Rita helped move Texas average oil price to an all time high above $61 per barrel by August 2005 and above $52 for the year. High oil prices also helped increase Texas rig counts in 2005 by 21% over 2004. Firm prices brought the number of operating oil and gas rigs in Texas to 726 in April 2006, its highest level since before the oil price crash in January 1986. The gross state product from the oil and gas industry (drilling, production, refining, chemicals and energy-related manufacturing) was estimated to be $100.4 billion in 2005, with more than two-thirds of this in the natural resources and mining industry.

From the fourth quarter of calendar 2002 through the first quarter of calendar 2006, Texas oil and gas employment increased by an estimated 25,900 jobs, or 18%. Still, as a proportion of all nonfarm jobs in Texas, natural resources and mining employment had dropped from about 4% in 1985 to 1.5% in January 2003, before rising back to 1.7% by the second quarter of FY2006.

As a result of burgeoning worldwide demand for oil, refining capacity constraints, hurricane damage, speculation, and political tensions, oil prices rose from $18 in late 2001 to levels that topped $72 per barrel in April 2006. As a result, natural resources and mining jobs had increased by 10,400, or 6.41% over the previous year by April 2006.

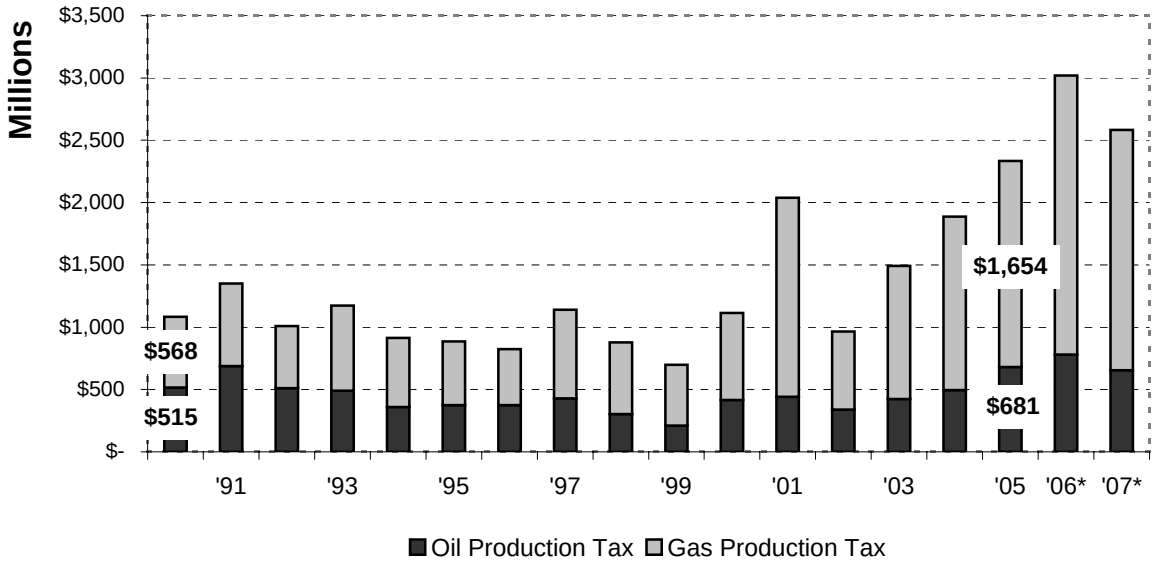
Texas Natural Resources & Mining Employment



Source – Workforce Commission and CPA

Impact of Expected Future Economic Conditions

Oil and Natural Gas Severance Tax Collections
1990-2005



* Projected
Source – RRC and CPA

Since February 2006, the severance tax collections have been revised upward by $2.5 billion (77.5%), largely as a result of sustained high oil and gas prices. Of these, oil production and regulation tax revenues have been revised upward $524 million (57.5%), while natural gas tax revenues have been increased by $2.0 billion (85.3%). Increased severance tax revenue resulted in increased transfers of General Revenue-related funds to the Economic Stabilization Fund (page 29).

At the end of fiscal 2007, the balance is expected to total just under $1.1 billion. Oil production and regulation taxes are expected to generate $1.4 billion in the 2006-07 biennium, compared to $1.2 billion in 2004-05—a 21.9% increase.

General Revenue Tax	Rate and Base
Natural Gas	7.5% of the market value of gas produced in the state.
	4.6% of the market value of condensate produced in the state.
Oil Production	4.6% of the market value of oil produced in the state.
Oil Regulatory	3/16 of 1 cent on each barrel produced in the state.

In the aftermath of hurricanes Katrina and Rita, U. S. economic growth temporarily decelerated in response to surging oil and gas prices and economic dislocation along the Gulf Coast. After this pause, the Texas economy benefited from new oil and gas exploration and development.

The initial negative fallout from the two storms extended far beyond New Orleans and the Gulf Coast. Even before the hurricanes, increased worldwide demand and limited supplies were causing oil and natural gas prices to rise. By eliminating –at least temporarily-almost 30% of U. S. oil and 20% of U. S. natural gas production, Katrina and Rita accelerated this trend.

The NYMEX one-month futures price of oil more than tripled to $65.55 per barrel in September 2005, up from a low of $19.73 per barrel in January 2002. During this same period, the one-month futures price of natural gas increased more than five-fold, from $2.19 per thousand cubic feet (Mcf) to $12.22 per Mcf. Subsequently, the price of natural gas reached almost $13.5 per Mcf in October and again in December.

Current projections indicate a continuing trend toward increasing energy demand in the United States and in Texas. Section 39.9044, Texas Utilities Code, states the intent of the Legislature that at least 50% of new generating capacity installed in Texas use natural gas as its primary fuel. Since January 1, 2000, 100% of the new non-renewable generating capacity added in Texas has been gas-fired. This increased demand should certainly stimulate the Texas oil and gas exploration industry and related service industries.

Over the last decade, technology improvements have helped Texas operators reduce their exploration costs for new reserves, drill more commercially successful wells, improve operating efficiencies, and increase the ultimate percentage of recovery from oil and gas reserves. Continuing technological advancements in the field will also continue to strengthen the Texas energy industry.

All of these factors point to a series of economic conditions that should provide a favorable energy development scenario for Texas energy industries. These favorable conditions should result in increased workloads for the Railroad Commission to deal with a stepped-up program of exploration and development in the oil and gas regulatory area. This increased workload in oil and gas also transitions into additional workload in all the other energy related regulatory and administrative functions of the Commission as it ripples through the pipeline, gas utility, surface mining, and LP-gas industries.

If, however, these projections are incorrect, and energy production and consumption in Texas decline, the workload of the Commission will still increase. As the energy industry has matured in the state, the Commission has been delegated a higher degree of responsibility in regulating environmental aspects for the exploration and production phases of the industry, as well as expanding operations in plugging and site cleanup of abandoned well locations. If the industry is in a downturn, environmental responsibilities will increase as more abandoned wells and sites fall to the Commission to manage. In downtimes more disputes develop which will require more Commission resources for resolution, and since basic maintenance of facilities is delayed during these periods, the RRC is required to perform increased safety oversight of regulated operations.

Ultimately, changes in economic conditions will certainly impact where and how the Commission's resources are allocated, but neither an upturn nor a downturn in Texas' energy industries will diminish the regulatory role of the Railroad Commission.

Agency Response to Changing Conditions

The scenarios described herein illustrate a basic shift in the response of the Railroad Commission to the changing economic climate of the Texas energy industry. Where once the focus was on regulating production to conserve energy resources and protect correlative rights, the emphasis has now progressed into a series of coordinated strategies designed to: (1) encourage the most complete development of energy resources for the benefit of the Texas economy, (2) advance public safety, and (3) protect the environment.

The Commission is recognized nationally and internationally for its leadership role in ensuring that resource recovery operations meet applicable standards for environmental and safety compliance. This proactive stewardship of Texas resources and support for the industry that is regulated and served by the Commission will provide the blueprint for future direction and resource allocation of the agency.

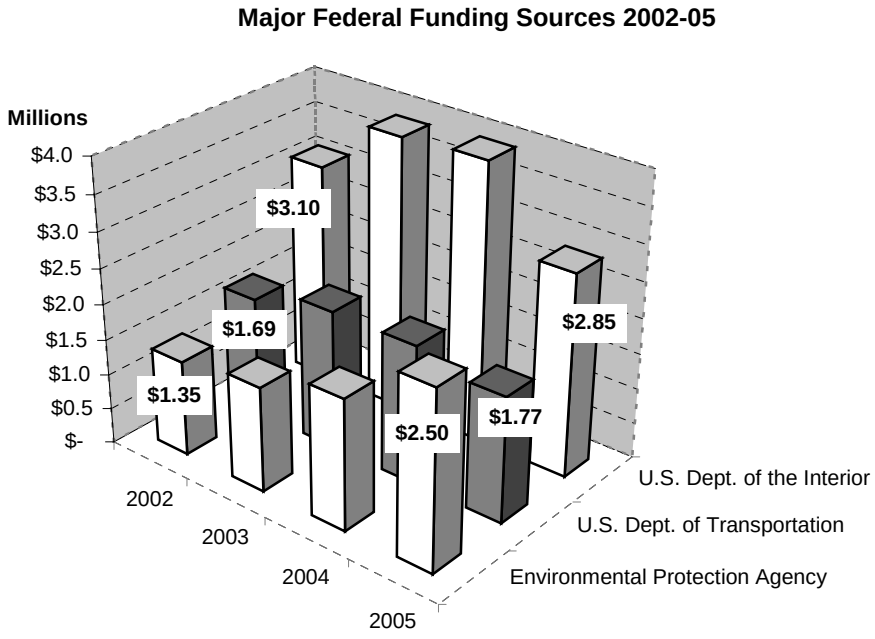
The Commission has responded to economic changes by developing a more flexible agency that can readily shift resources as needed to address changes in workload. Where once the Commission had rigid separation of authority and resources in its operating divisions, the current structure allows for rapid deployment of resources among divisions, encourages cross-training of staff across divisions, and has supervision in place to maintain uniformity in policy throughout the agency.

Oil and Natural Gas Production				
Calendar Year	**RRC Total Oil Production (Million Bbl)**	**Percentage CHANGE in Texas Oil Production**	**Total Natural Gas Production (Trillion CF)**	**Percentage CHANGE in Texas Gas Production**
1992	613	-5.27	5.44	-1.34
1993	578	-5.72	5.65	3.88
1994	543	-5.99	5.71	1.17
1995	515	-5.24	5.71	-0.12
1996	500	-2.87	5.88	2.98
1997	491	-1.68	5.86	-0.34
1998	460	-6.49	5.83	-0.46
1999	409	-10.97	5.61	-3.83
2000	401	-1.95	5.76	2.72
2001	381	-4.93	5.83	1.32
2002	366	-3.99	5.73	-1.73
2003	360	-1.65	5.82	1.55
2004	352	-2.40	6.01	3.20

Source – RRC and CPA

Part VII. Impact of Federal Statutes/Regulations

Historical Role of Federal Involvement



Environmental Protection Agency (EPA)

In 1980, Congress specifically exempted most oil and gas wastes from regulation as hazardous wastes under Subtitle C of the Resource Conservation and Recovery Act (RCRA) pending further study by the Environmental Protection Agency (EPA). On July 6, 1988, after conducting the required study, EPA published a regulatory determination on this issue. EPA concluded that regulation of exempt oil and gas wastes as hazardous wastes is unnecessary; that oil and gas wastes pose no significant threat to public health and the environment when managed in accordance with existing federal and state programs; and that existing programs are adequate for oil and gas wastes. However, EPA did recognize gaps in some state programs. Texas, along with other oil and gas producing states, has been working with EPA to develop guidelines for state oil and gas environmental regulations, and working with stakeholder groups to use those guidelines to evaluate each state's program.

During its study, EPA narrowed the scope of the exemption to exclude some oil and gas wastes from exemption. The Texas Legislature gave the RRC authority to establish a program to regulate the management of hazardous wastes generated at exploration and production sites. The Commission adopted regulations (Statewide Rule 98, Standards for Management of Hazardous Oil and Gas Wastes) in 1996. The Commission's hazardous waste program was coordinated with and complements the hazardous waste program of the Texas

Commission on Environmental Quality (TCEQ).

In 1982, the RRC obtained primacy for the Underground Injection Control (UIC) program under the federal Safe Drinking Water Act (SWDA) for Class II wells associated with oil and gas activity. The RRC runs this program for over 50,000 injection wells, with oversight and partial funding from EPA.

In March 2004, the Commission received EPA approval for primacy of the UIC program for Class III brine mining wells, and is repermitting approximately 80 wells. Currently, both a state permit from the RRC and a federal National Pollutant Discharge Elimination System (NPDES) permit from EPA under the Clean Water Act (CWA) are necessary for any discharge of oil and gas wastes to surface waters of the state.

Department of Transportation, Office of Pipeline Safety (OPS)

The federal Pipeline Safety Act requires all pipelines (both interstate and intrastate) to adhere to certain safety requirements. The Commission serves as the certified agent, under federal law, to inspect intrastate pipelines. The federal government, through the Department of Transportation's Office of Pipeline Safety (OPS), provides funding to the states to help support its safety requirements. The Commission's receipt of funds is based on a grading of the agency's pipeline safety program.

The federal pipeline funding program is based on a 50% maximum reimbursement program, limited by the total amount of federal funds available. Continuation of this federal funding program is essential to maintaining the integrity of the Commission's pipeline safety program.

The Commission also promotes the prevention of underground damages by participating in the national Dig Safely program. Limited funding has been available to support damage prevention initiatives within the State of Texas. The Commission received legislative authority to draft rules for the regulation of underground damage prevention involving pipeline facilities, with a planned implementation in June 2007.

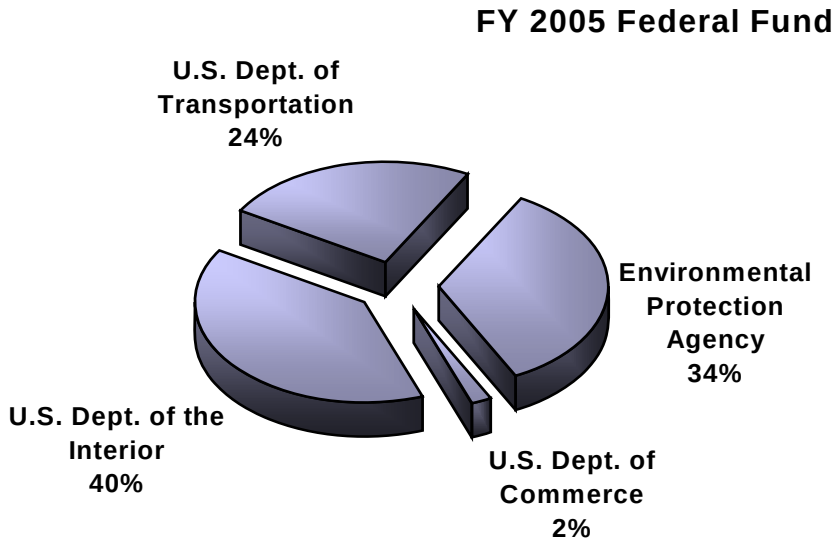
Department of the Interior, Office of Surface Mining Reclamation & Enforcement (OSMRE)

The federal Surface Mining Control and Reclamation Act of 1977 (SMCRA) established a nationwide program to regulate surface coal mining and the effects of underground mining on surface lands. This law provides that the Department of Interior, Office of Surface Mining Reclamation and Enforcement (OSMRE) coordinate with states in the regulation of the coal mining industry. The federal program provides states the opportunity to assume primary jurisdiction in the regulation of the coal mining industry in their state if they establish regulatory programs no less effective than the federal program. States are provided 50% federal cost share in maintaining a state regulatory program. As an added incentive to assume state primacy, states are also provided with 100% federal grant funds to establish an

abandoned mine land reclamation program. This program provides funds to reclaim pre-law abandoned coal mines and eligible abandoned non-coal mines that present health and safety problems.

The 66th Legislature amended Texas Surface Coal Mining and Reclamation Act (enacted in 1975) in 1979 to allow the Railroad Commission to assume primacy under SMCRA to regulate the Texas coal mining industry. In 1980 Texas became the first state in the nation to have its coal mining regulatory program approved by the Department of Interior. Both the state coal mining regulatory program and the abandoned mine land reclamation program are subject to annual federal oversight reviews. Federal cost share funding for the regulatory program is expected to remain at 50%. The federal tax on coal (mined) used to fund the national abandoned mine program expired in September 2004, but Congress has extended the tax several times. The most recent extension is scheduled to expire in June 2006.

Description of Current Federal Activities



Over the past few years, EPA has increased its focus on oil and gas exploration and production activities in Texas and other states. Examples of this increased interest include EPA's action to prohibit oil and gas discharges, attempts to regulate exempt oil and gas stormwater discharges and hydraulic fracturing techniques, expanded studies of oil and gas wastes, increased presence in the states, and possible regulation of "gathering lines." Over the past several years, EPA has conducted compliance inspections under the federal Spill Prevention, Control, and Countermeasures (SPCC) program, and the Clean Water Act. EPA has also joined with the United States Fish and Wildlife Service (USFWS) to perform "flyovers" of states to inspect oil and gas facilities.

More open communication over the past few years as well as the creation of task forces have improved coordination of state and federal activities. In late 2003, Railroad

Commissioner Victor Carrillo was named to the Interstate Oil and Gas Compact Commission (IOGCC)/EPA Task Force, which was created in late 2002 by a memorandum of understanding between the IOGCC and EPA. The goals of the task force are to provide long-term improvement in communication between the EPA and the states, to discuss the need for results-based environmental management plans for oil and natural gas development, to serve as a permanent forum for consultation as new issues emerge and to identify other mutually beneficial joint activities. The IOGCC has not yet finalized such an arrangement with the USFWS. In addition, the IOGCC has coordinated meetings between the EPA regional offices and the states within those regions to foster discussion.

The FY 2007 budget proposed by the U.S. Office of Surface Mining proposes the continuation of the abandoned mine land program until September 2007. A regulatory initiative is also underway by the EPA regarding a possible national regulatory program dealing with the disposal of coal combustion waste at mine sites. The potential impact of this initiative on the Commission's coal mining regulatory program is uncertain at this time.

The Railroad Commission believes that strong state programs will minimize further federal activity in these areas. The Commission's efforts in strengthening areas in its program, such as waste management, inspections, abandoned well plugging, and cleanup of abandoned oilfield sites, will act to limit EPA's involvement in state programs.

Anticipated Impact on Service Populations and Agency Operations of Future Federal Actions

The Commission continues to seek out and apply for funds from outside sources, and has devoted a position for the sole purpose of researching, developing, and applying for grants. Many of these grant opportunities are at the federal level.

The Alternative Fuels Research and Education Division has secured competitive grants from the U.S. Department of Energy and the national Propane Education and Research Council to develop and demonstrate an LPG fuel cell, research LPG applications in agriculture, evaluate the market potential of a low-emissions LPG tractor, train LPG forklift technicians to minimize emissions, and investigate the reliability of overfill prevention devices on LPG motor-fuel tanks.

Federal funding for the Underground Injection Control (UIC) program is inadequate. The federal UIC funding was developed on the basis of a 75% federal share and a 25% state share. In actuality, the state share is closer to 64% because of the way the federal funds are allocated and because Congress has cut the funding level for the UIC program over the last 13 years. Because federal funds are inadequate for established programs in the Oil and Gas division, the Commission has had to come up with additional funding sources and increase its efforts to streamline programs to make them more efficient.

The Commission has received numerous TCEQ grants totaling over $10.5 million (of EPA money) to plug 1,080 wells in the

Upper Colorado River Basin, Red River Basin, Canadian River Basins, Trinity River Basin and Petronila Creek.

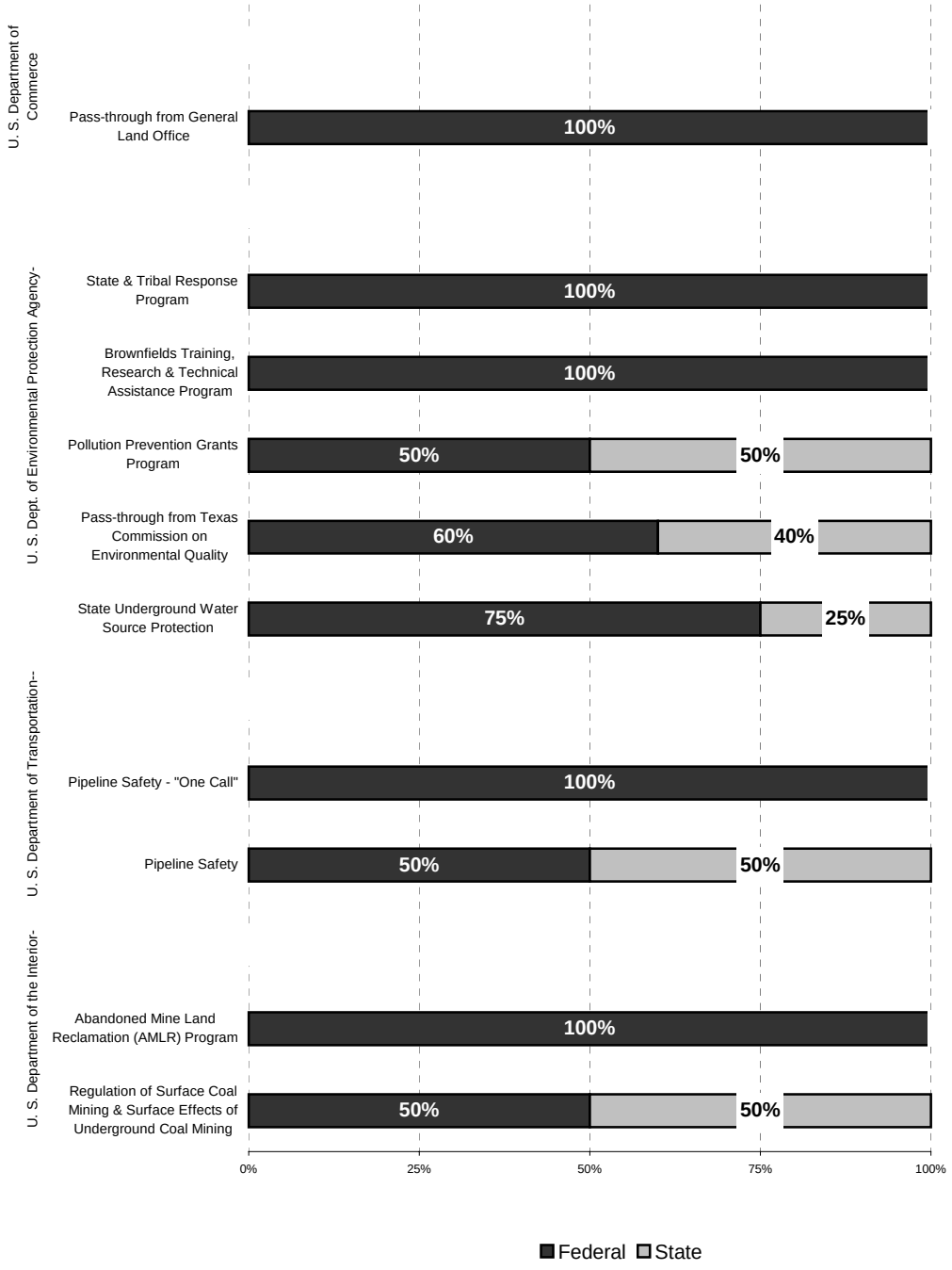
The Commission is currently using four TCEQ grants to fund well plugging. The Commission is also negotiating an agreement with the General Land Office (GLO) to fund the plugging of bay and offshore wells on state lands using GLO and Coastal Impact Assistance Program funds. Through the end of fiscal year 2005, the Commission and the GLO had partnered to plug 45 bay wells and the first two offshore wells at a total cost of approximately $6.3 million.

Every year since 2003 the Site Remediation section of the RRC Oil and Gas Division has been awarded an EPA Brownfields Subtitle C State and Tribal Response Program grant, cumulatively valued at $879,350 to date, with no matching funds required. The purpose of the grant is to help the Commission build a Brownfields Response program in Texas that includes building and maintaining an inventory of potential Brownfields sites, outreach to increase the Voluntary Cleanup Program, and a limited number of federally-funded Targeted Brownfields Site Assessments for non-responsible parties to help facilitate third party cleanup and redevelopment projects. The overall effect of this grant is that the Commission will realize more voluntary and third party cleanups, which will reduce dependence on the Oil Field Cleanup Fund.

In December 2005, the Commission completed a two-year research study funded by EPA to investigate the soil effects of various oil and gas exploration by-products, which could lead to more effective tools for protecting the environment. The RRC is currently seeking a new grant to pursue this research further.

Since February 2005, the Site Remediation section has been awarded a cumulative total of $1,432,465 in federal grants to fund three Non-point Source (NPS) grant projects: (1) the NPS Watershed - Colorado River Upstream of Spence Reservoir; (2) the NPS Watershed - Colorado River Downstream of Spence Reservoir; and (3) the NPS Watershed - Petronila Creek. All three grant projects have similar scopes of work, involving investigation of possible point and non-point sources of oilfield pollution that could contribute to pollutant loading of the watersheds, and development of remedies to reduce pollutant loading from any oilfield sources.

Match Rates


U. S. Department of Commerce
Pass-through from General Land Office
100%
U. S. Dept. of Environmental Protection Agency--
State & Tribal Response Program
100%
Brownfields Training, Research & Technical Assistance Program
100%
Pollution Prevention Grants Program
50%
50%
Pass-through from Texas Commission on Environmental Quality
60%
40%
State Underground Water Source Protection
75%
25%
U. S. Department of Transportation--
Pipeline Safety - "One Call"
100%
Pipeline Safety
50%
50%
U. S. Department of the Interior-
Abandoned Mine Land Reclamation (AMLR) Program
100%
Regulation of Surface Coal Mining & Surface Effects of Underground Coal Mining
50%
50%
0%
25%
50%
75%
100%
Federal
State

Part VIII. Other Legal Issues

Impact of Anticipated State Statutory Changes

The Legislature enacted several statutory changes during the 79th legislative session, which impact the Commission's regulatory programs and functions.

Programs and Functions with Statutory Changes
Rail Safety Program
Pipeline Safety Program
Well Plugging Insurance Policies
Orphaned Well Reduction Program
Gas Utility Regulation
Oil and Gas Regulation
Site Remediation and Well Plugging

Rail Safety Program

House Bill 2702 transferred all powers and duties of the Railroad Commission that relate primarily to railroads and the regulation of railroads to the Texas Department of Transportation (TxDOT), effective October 1, 2005. Under the new law, TxDOT is authorized to perform any act and issue any rules and orders as permitted by the Federal Railroad Safety Act of 1970 (49 U.S.C. 20101 et seq.). Effective January 5, 2006, TxDOT repealed the Railroad Commission's rules, found in Title 16, Chapter 5, of the Texas Administrative Code, concerning railroad safety because TxDOT adopted its own rules in Title 43 of the Texas Administrative Code.

Pipeline Safety Program

House Bill 2161 amended both the Natural Resources Code and the Utilities Code to require the Commission to adopt and enforce rules prescribing safety standards related to the prevention of damage to pipeline facilities from the movement of earth that exceeds a depth of 16 inches. The Commission may not implement rules regulating the movement of earth by a person in the vicinity of a facility until September 1, 2007. Preliminary to initiating rulemaking, the Commission's Safety Division convened a workshop on March 28, 2006.

Senate Bill 9 added a new section (§756.106 later administratively re-designated as §756.126) to the Health and Safety Code. The new section requires the

Railroad Commission to adopt and enforce safety standards and best practices, including those described by 49 U.S.C. Section 6105, *et seq*., relating to the prevention of damage by a person to a facility under the jurisdiction of the commission, not later than June 1, 2007.

The conforming amendment of Commission rule §8.1 was effective January 30, 2006 (30 Texas Register 8428).

Well Plugging Insurance Policies

House Bill 380 amended Chapter 91 of the Natural Resources Code to authorize well plugging insurance policies as an alternative form of financial assurance, provided the policy meets certain requirements. These policies can be collected only after the well is plugged, unlike other forms of financial assurance, on which the Commission may call upon delinquency of an operator's P-5.

Conforming amendments to Commission rule §3.78 became effective December 19, 2005 (30 Texas Register 8426).

Orphaned Well Reduction Program

House Bill 2161, among many other things, established the Orphaned Well Reduction Program. This new program, effective on January 1, 2006, includes procedures, requirements, and incentives for assuming operatorship and regulatory responsibility for orphaned oil or gas wells. An "orphaned well" is a well for which the RRC has issued a permit, for which production of oil or gas or another activity under Commission jurisdiction has not been reported to the Commission for the preceding 12 months, and whose operator's RRC-approved P-5 Organizational Report has lapsed.

An operator adopting such wells from January 1, 2006, to December 31, 2007, may be eligible to receive certain benefits, such as a payment from the Oil Field Cleanup Fund and/or an exemption from severance taxes and Oil Field Cleanup Regulatory fees on future production from the wells.

House Bill 2161 has the potential to increase the number of orphaned wells that are adopted by an estimated 350 wells each year, with a possible reduction in liability to the Oil Field Cleanup Fund of as much as $2.5 million for each of the five years the benefits are available, at a maximum cost to the fund of $500,000 each year.

Amendments to Commission rule §3.80 to adopt three new forms to implement the Orphaned Well Reduction Program became effective April 3, 2006.

Gas Utility Regulation

House Bill 951 and **Senate Bill 480** amended and enacted new sections in the Natural Resources Code and the Utilities Code authorizing pipelines to appeal to the Commission the municipalities' annual assessments against pipelines. Pipelines and cities must share the Commission's costs of handling the appeals.

Oil and Gas Regulation

House Bill 484 amended the Natural Resources Code to clarify the requirements for filing electric logs and to identify the operator as the person responsible for

compliance. Conforming amendments to Commission rule §3.16 became effective January 30, 2006 (31 Texas Register 477).

House Bill 2161 also amended Chapters 201 and 202 of the Tax Code to provide three levels of tax credits for oil and gas production from qualified low-producing oil leases and gas wells. And, under Section 202.060 of the Tax Code, the bill created a new oil production tax credit incentive program for taxpayers who use enhanced efficiency equipment in the production of oil and a crude oil severance tax credit.

The Commission is currently in the process of amending §3.95, relating to Underground Storage of Liquid or Liquefied Hydrocarbons in Salt Formations, and §3.97, relating to Underground Storage of Gas in Salt Formations. Consistent with the Commission's wish to further the goals of safety and the prevention and control of pollution, the Commission is proposing the amendments in order to reduce the possibility of explosion and fire at such facilities and enhance the safety of such facilities in light of the gas release and fire at the Moss Bluff Hub Partners, LP natural gas storage facility and incidents at several liquid hydrocarbon storage facilities.

The Commission also is currently in the process of rulemaking in response to a petition for rulemaking concerning commercial recycling facilities.

Site Remediation and Well Plugging

House Bill 773, which revised the Commission's delegated authority for procurements, including those for the Oil Field Cleanup Fund. The bill delegated to the Commission all purchasing functions related to well plugging and site remediation. Effective September 1, 2005, procurements for site remediation and well plugging are not limited to competitive bids; the Commission may use any procurement method that provides the best value to the Commission.

Impact of Current and Outstanding Court Cases

Six cases have been filed that could impact the Commission's regulatory programs.

Osage Environmental, Inc. v. Texas Railroad Commission

(1) Osage Environmental, Inc. v. Texas Railroad Commission, in the 353rd Judicial District Court of Travis County, Texas. The plaintiff challenges the authority of the Commission to regulate Osage's oil and gas waste recycling facility and to pursue enforcement actions for violations of its permit.

Theodosia Coppock v. Railroad Commission of Texas

(2) Theodosia Coppock v. Railroad Commission of Texas, Cause No. 03-05-00097, in the Third Court of Appeals. (Consolidated with Cause No. GN401274, Juanita Alvarado, Guadalupe Davila, and the Kickapoo Traditional Tribe of Texas v. Railroad Commission of Texas). The appellants challenge the Commission's authority to grant Dos Republicas Resources, Inc. an extension of time to commence coal mining operations at the Eagle Pass Mine. The District Court sustained the Commission on the issue of its jurisdiction to consider the extension of time, but ruled against the Commission on the issue of whether market conditions could be used as a reason to delay mining. All parties have appealed. The case was argued on October 5, 2005, but no opinion has issued.

Seagull Energy E&P Inc. v. Railroad Commission of Texas

(3) Seagull Energy E&P Inc. v. Railroad Commission of Texas, Cause No. 03-0464, in the Supreme Court of Texas. Seagull challenges the Commission's longstanding interpretation of the law with regard to the regulation of oil and gas production from multiple lenticular sands. All lower courts have upheld the Commission. The case has been argued but no opinion has issued.

CenterPoint Energy Entex v. Railroad Commission of Texas

(4) CenterPoint Energy Entex v. Railroad Commission of Texas, et al., Cause No. 03-04-00731, in the Third Court of Appeals. Entex brought this declaratory judgment action contending that the Commission did not have authority to conduct a prudence review of Entex's gas costs and that the City of Tyler was not entitled to the recovery of its rate case expenses. The district court upheld the Commission. The Third Court of Appeals, in an opinion issued February 24, 2006, held that the Commission did have authority to conduct a prudence review of gas purchases, but that the prudence review

proceeding was not a "ratemaking" proceeding that would entitle the city to the reimbursement of expenses. Motions for rehearing have been filed by Entex and the City of Tyler.

Cities of Allen, et al. v. Railroad Commission of Texas

(5) Cities of Allen, et al. v. Railroad Commission of Texas, Cause No. D-1-GV-05-005221, in the 53rd Judicial District Court of Travis County, Texas. This is a declaratory judgment action filed by a group of cities seeking to invalidate the Gas Reliability Infrastructure Program (GRIP) rule, 16 TAC §7.7101, to the extent that it prohibits an opportunity for a hearing on appealed municipal GRIP determinations before issuance of a final Commission GRIP order.

TXU Gas Company v. Railroad Commission of Texas

(6) TXU Gas Company v. Railroad Commission of Texas, Cause No. GN402652, in the 345th Judicial District Court of Travis County, Texas. This is a consolidated appeal by TXU and several other parties of the Commission's final order in TXU's system wide rate case. Several significant ratemaking and jurisdictional issues are raised. The case is scheduled to be heard on July 25, 2006.

Impact of Local Governmental Requirements

The ability of cities to now cede their original jurisdiction over natural gas rates to the Commission has had some impact on Commission workload in this area. A few smaller communities have ceded jurisdiction in rate setting cases to the Commission. The impact of the TXU Gas Company system-wide rate case is projected to increase the number of communities ceding their rate-setting jurisdiction to the Commission. In general, the ceding of original jurisdiction to the Commission has not had a significant impact on the number or complexity of rate cases handled by the Commission.

Under legislation enacted in 2005, cities may now assess annual fees against natural gas and hazardous liquids pipelines for the placement, construction, maintenance, repair, replacement, operation, use, relocation, or removal of a pipeline facility on, along, or across the public roads, highways, streets, alleys, streams, canals, or other public ways located within cities and maintained by cities. A pipeline may appeal that assessment to the Commission, which has exclusive jurisdiction to determine whether a charge is authorized, and must hear the appeal *de novo*. These new statutory provisions have not had an impact on the agency; no appeals have been filed. However, it is difficult to evaluate how much of an impact these provisions could have. A municipality that has many pipelines using its public rights-of-way could assess charges against all pipelines, which might all appeal to the Railroad Commission at the same time. Alternatively, if many cities across the state make their assessments at roughly the same time, the Commission could be inundated with appeals. The new provisions do not state when the cities must assess charges; there are no deadlines by which a pipeline must file an appeal of a municipal assessment with the Commission; and there is no deadline by which the Commission must take action. The impact of this new authority on the Commission may be mitigated to some extent by the fact that pipelines and cities must share the Commission's costs of handling the appeals.

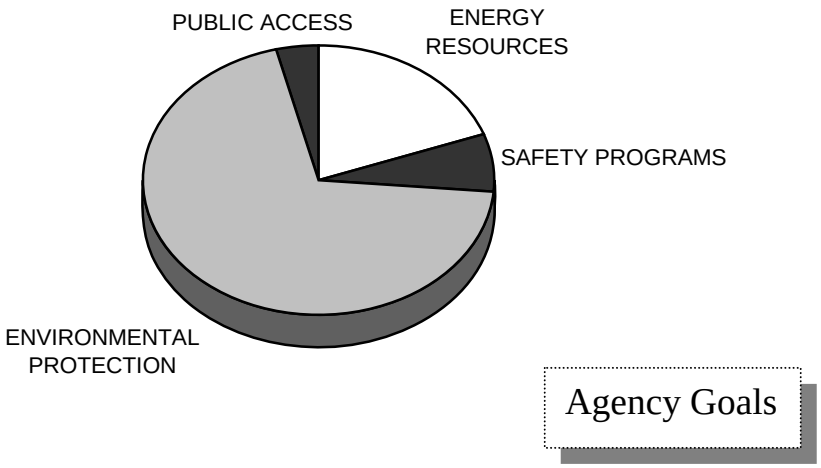
Recently, several cities have considered or adopted regulations concerning drilling within city limits. Legal developments in this area could create another level of regulation for oil and gas operators. In a similar situation, some municipalities impose more restrictive regulation of liquefied petroleum gas facilities within their municipal boundaries, which results in non-uniform regulation of LPG in Texas.

Part IX. Self-Evaluation and Opportunities for Improvement

How Effectively and Efficiently Has the Agency Met Its Requirements

General Operations

The effectiveness and efficiency with which the Commission carries out its mandates are evaluated periodically from the results of outcomes and outputs of program performance. The Commission's Internal Audit Plan incorporates the review of major areas within the Commission. Additional feedback regarding the Commission's performance is provided from various external oversight committees.



Energy Resources

Development of Texas' energy resources is of course very dependent on general economic conditions in the industry. To that end, future measurements of energy development will be compared with energy development in other states under the assumption that the same economic conditions are prevalent in other areas of the nation. The underlying goal is that the Commission does not want to create barriers to the orderly and efficient development of the state's energy resources.

Texas continues to lead the nation in oil production, natural gas production, propane production, natural gas consumption, coal consumption, and propane consumption. It has also maintained its position as the fifth largest coal producer. In the past four years Texas has been the leading state in construction of gas-fired electric generation. These facts indicate that the goal of orderly and efficient energy development is being met.

Safety Programs

The Commission considers public safety a top priority. The Commission supported this assertion by creating a Safety division in 2003 to focus more attention on the three major safety program areas of rail, pipeline and LP-gas. Since that time the rail program has moved to TxDOT allowing the Commission to focus on energy related safety issues. A review of outcome and output measures indicates that most of the safety programs, when fully staffed, are meeting their expected targets. In 2005, the Commission completed 2,283 pipeline inspections and 12,635 LP-gas inspections.

The Commission adopted the nation's first overall integrity management plan for pipelines, ahead of the federal government which used our rules as a template to develop their own integrity management rules. This is considered the premiere step in assuring the safer operation of pipeline facilities in the state.

A formal risk-based evaluation system has been used for the pipeline systems of Texas and a similar system has been implemented for inspections on LP-gas installations for FY 2005. Pipeline safety evaluations are conducted on a one, two, or three-year interval based on the public safety risk of the system. The risk-based plan for inspection of LP-gas installations ranges from one to seven years.

Environmental Protection

With respect to its environmental protection mandates, the Commission continues to make use of the Oil Field Cleanup Fund to plug abandoned wells and clean up abandoned sites. From 1992 to the end of FY 2005 the Commission plugged 20,176 well**s**, and has consistently stepped up the number, complexity, and expenditures on sites remediated with 292 completed cleanups, investigations, or assessments in 2005, with contract services expended of $3.4 million.

Regarding operator or third party initiated cleanups of contamination at oil and gas exploration and production sites, the Commission's Operator Cleanup Program issued 108 "No Further Action" closure letters, and the new Voluntary Cleanup Program had five new applicants in FY 2005. The Operator Cleanup Program generally oversees more complex and long-term remediation projects involving risk assessments and contaminant rate and transport modeling. The Voluntary Cleanup Program is a user-funded, incentive-based program that encourages third party, non-responsible parties to clean up contamination in return for a release of liability from the Commission.

During 78th Legislative Session (2003, R.S.) the legislature enacted a transition to universal bonding of all oil and gas operators. This transition was complete as of September 1, 2005 and will have a significant impact on reducing the number of orphan wells that must be plugged by the state.

Even in light of the inability to retain experienced staff and increased demands on field staff, facility inspections continue at their historical pace. Field operations goals

and job priorities have been implemented to ensure that field staff has more time to witness specific jobs related to public safety and protection of the environment.

Such jobs include:
Well plugging,
Surface casing jobs,
Spill response,
Inspection of hydrogen sulfide facilities, and
Witnessing mechanical integrity testing.

Generally these types of jobs are more time consuming than routine lease inspections, thus the total number of facility inspections is expected to decrease as we devote more time to these types of jobs.

The RRC's Oilfield Waste Minimization program was the first and most comprehensive program in the nation and was adopted by the Interstate Oil and Gas Compact Commission as a model for other states. The purpose of this program is to encourage and train oil and gas operators to minimize the amount and toxicity of the waste that they generate. Unfortunately, the EPA ceased funding this program at the end of FY 2005.

The RRC's federally funded abandoned mine land reclamation program reclaims priority sites based on public health and safety concerns. To date 497 dangerous underground mine openings have been closed. More than 2,361 acres of abandoned coal and uranium surface mines, located at 31 sites in 13 counties, have been reclaimed to eliminate safety concerns and return the land to productive use.

The regulated coal mining industry continues to reclaim land contemporaneous with mining operations. As some mining operations move closer to suburban population centers, the potential for these operations to impact the environment and the general public has brought a greater public focus on the industry. Undoubtedly, this new public awareness of the mining industry will demand greater RRC staff resources in dealing with public issues and concerns, and to insure mining impacts do not extend beyond the permit boundaries.

Public Access through Technology Enhancement

Through the Oil and Gas Migration (OGM) project, the Commission has established a foundation for developing new applications to expand the RRC Online services and to improve the internal efficiency of Commission staff. The infrastructure used includes both the mainframe and open systems environment. Standards have been established and are used to deploy each type of application. The web-based applications have been validated for usability, and skill set requirements of the application development staff have been validated. Building on this established foundation for future development will improve the Commission's ability to provide new functionality and allow the agency to meet its requirements more effectively and efficiently.

Agency Characteristics Requiring Improvement

The Commission is continually making organizational changes that will allow it to more readily allocate resources across divisions as needed to address workload changes and to better serve our regulated community. These changes are also designed to build more uniformity in resource allocation and to balance the workload. The Commission continually reviews its operations and makes improvements as needed to remain innovative and responsive to changes in the industry and to the public it serves, as well as to promote employee pride and commitment.

The Commission is also placing greater emphasis on environmental protection in every action it takes. A continual reminder that we must balance the three areas of environmental protection, safety, and resource development continues to be emphasized to all employees.

Key Obstacles

Obstacles
Staff Retention in Engineering & Technical Oilfield Disciplines
Limits on Out of State Travel to Attend Federal Certification Training
Limited Capital Funding

Funding and staffing levels have both been decreased while the Commission strives to maintain the same high level of service and to manage increased workloads. Retention of employees in the engineering and technical oilfield disciplines is becoming increasingly difficult. Without these employees, progressive ideas cannot be carried out, and at some point basic services begin to deteriorate. A program to provide competitive salaries to maintain our human resources is critical.

The Retirement Incentive program has further exaggerated the Commission's staffing level shortfalls. To date, 47 employees have elected to retire under this program resulting in a $1.4 million unbudgeted expenditure for the Commission.

Out-of-state travel caps impede the Commission's ability to benefit Texas by working with federal agencies, national organizations, and counterpart organizations in other states; to audit gas utilities and other feepayers headquartered in other states; and to attract and administer federal and national grant funds. The cap has also affected the federal grant dollars available in the Pipeline Safety program by not having the required amount of "qualified" employees that have attended the mandatory training, which is conducted out of state.

Maintaining current technology infrastructure impacts the ability of the Commission to accomplish its mission. Funding for this equipment is vital to the continued success of the Commission's regulatory programs. Although previous capital budget authority caps have hindered the Commission's ability to procure capital items, the Commission was able to secure additional capital authority in August 2005. As a result, the Commission was able to refresh its outdated desktop computers and network printers. Capital budget authority and funding are needed to ensure that computing equipment continues to be refreshed and maintained.

In addition to refreshing its end user computing environment, the Commission was able to secure a rider that allows it to increase its capital budget where federal funds will be the sole source of funding. This rider allows the Commission the opportunity to maximize the use of federal funds, which the Commission has aggressively sought as alternative funding sources.

Opportunities

Opportunities
Severance Tax Incentives
Reduce Regulatory Burdens
New Technology in Coal Gasification and LNG Imports
Conventional Alternative Fuels
Transfer of State Energy Conservation Office (SECO) to RRC
Best Practices for Excavation near Pipelines
Oilfield Activities Encroaching into Urban Areas
Well Plugging and Site Cleanup
Access to Paper Records and Other Public Access via the Internet
Conflict of Rights of Mineral Owners and Surface Owners
Competitive Salaries to Retain Staff

Energy Resources

The continuing depletion of Texas oil and gas reservoirs is a given fact. It is critical to the Texas economy that the RRC provide a business environment that will encourage exploration and development of these resources. Tax incentive opportunities that serve to encourage new exploration and production, thus increasing the Texas oil and gas reserve base, have been a big part of the Commission's agenda for many years. These incentives result in increased oil and gas recovery and fewer marginal wells being plugged, both of which positively impact the state's economy and employment rate with higher than average paying jobs. Consideration should be given to further severance tax incentives or elimination of the tax altogether. While it seems unreasonable to consider tax reductions when product prices are high, it could have the effect of bringing prices lower for consumers if more supply is brought to the market.

In late 1999 the Commission initiated a regulatory reform program to systematically review all of its regulatory requirements to determine the current applicability of the regulations. Significant changes in the industry demand a renewed look at regulations. The regulatory reform effort to date has shown specific success in reducing regulatory burdens on oil and gas operators. Additional regulatory reform ideas are ongoing. In addition, the Commission's migration to a new oil and gas computer system will include a business re-engineering effort to identify more efficient methods of regulation and to examine all regulations to determine their current relevance. Particular emphasis should be put on relaxation of regulatory burdens on marginal oil and gas wells to encourage their continued production.

The Commission also has an opportunity to be at the forefront in developing ways to better utilize the state's vast coal reserves. The federal FutureGen project is directed toward a pilot facility to use coal to fuel a zero emissions electric generation facility. A decision by the federal government is expected in 2007 to award a contract for this pilot facility. Texas has two proposed sites, and if one is chosen, it will bring the opportunity for future additional uses of Texas' coal resources. In addition, several new LNG facilities are planned along the Texas Gulf Coast to bring much needed additional natural gas resources into the state. This opportunity to strengthen Texas as the natural gas leader should be given top priority.

The Commission's responsibility for supporting research, education, training and marketing regarding clean-burning alternative fuels offers a key opportunity to help clean up Texas' air and develop an industry in which Texas is the national leader. This responsibility appears likely to increase in importance through 2009 under Texas' air quality State Implementation Plan and the clean-air incentives of the Texas Emissions Reduction Plan (TERP) established under SB5, 77th legislature. The Commission has identified NOx reductions in the range of $2,000 - $5,000 per ton obtainable from LPG forklifts and other LPG equipment, and is working closely with the Texas Commission on Environmental Quality to realize these benefits.

Research and education complement and reinforce other Commission programs that ensure safe storage, transportation, handling and use of alternative fuels. The

Commission is coordinating closely with propane check-off programs in other states, with federal agencies, and with the national check-off program to leverage limited Texas funds by co-funding projects and conducting joint programs. Continued emphasis on this program will contribute to attaining clean air standards and development of the LP-gas business in Texas.

SECO Programs

Energy Efficiency
- Texas Energy Partnership
- Utility audits
- LoanSTAR, Housing Partnership
- State Facilities Utility Management

Clean Fuels
- Clean Cities
- Alternative Fuels

Fuel Cells
- Texas Fuel Cell Initiative

Nuclear Waste Disposal
- Pantex

Training
- Energy Education Outreach
- Energy Manager Training

Building Design
- Codes and Standards
- Sustainable School Design

Transferring the State Energy Conservation Office (SECO) to the Railroad Commission would make SECO more effective and efficient by consolidating state energy policy, programs, and federal and interstate relations in Texas' chief energy agency.

SECO's mission is closely related to that of the Railroad Commission. The RRC is the state's chief energy agency, responsible for stewardship of Texas' energy resources and for energy-related environmental, safety, and economic-development matters. SECO's mission is to promote energy efficiency while protecting human health and safety and the environment. The Commission's five operating divisions--Oil and Gas, Gas Services, Safety, Surface Mining and Alternative Fuels--are key state resources in these areas.

SECO's programs would be deployed more effectively at the Railroad Commission. SECO's energy-efficiency, renewable-energy, research, educational, and technology-transfer programs benefit Texas' economy and environment by encouraging new technology and reducing energy costs for institutional, industrial, transportation and residential consumers. These programs would be most effective as part of a consistent, comprehensive state energy policy shaped by the Commission's market, regulatory and technical experience.

The Railroad Commission is rich in the technical, legal and policy resources needed to maximize the value to Texas of federal energy programs. The primary funding source for SECO programs has been Petroleum Violation Escrow (oil overcharge) settlement funds administered by the U. S. Department of Energy.

SECO's roles with DOE include:

Serving as Texas' point of contact for State Energy Program and other solicitations,

Managing oil-overcharge and State Energy Program grants, and

Representing Texas on the board of the National Association of State Energy Officials.

Consolidating these functions in the Railroad Commission would coordinate with related Commission functions, and

strengthen the state's ability to attract federal funds for these purposes.

Besides DOE, the Railroad Commission communicates constantly with the federal Department of Transportation, Federal Energy Regulatory Commission, Environmental Protection Agency and other federal and interstate entities that have energy-related regulatory, safety, economic-development and environmental responsibilities. These relationships will also help the Commission incorporate SECO programs into a comprehensive state energy policy.

Safety Programs

The 75th Legislature's enactment of a statewide One-Call damage prevention program was a major step forward in pipeline safety. By far, the leading cause of pipeline accidents in Texas is damage from excavation near pipeline facilities. Enforcement of the statute is currently left to the local county government and the governor's One-Call Board. Although the One-Call Program involves all underground utilities, (electric, water, telephone, etc.), it is pipelines that pose the greatest risk of catastrophic consequences of damage. As the RRC develops rules to implement Best Practices for excavation activities near pipelines, The Railroad Commission should be given resources and funding to enforce violations of the One-Call statute

The Commission created an inventory program for all plastic pipe installed in pipeline systems in the state to aid in predicting potential material defects in plastic pipe. The inventory would allow for any replacement program that may become necessary to remove the affected pipe. The State of Texas also has a considerable amount of steel pipeline in the ground. Much of the pipe will be evaluated through the integrity program, but another larger portion of the pipe is installed within distribution systems. The Commission may need additional resources to develop a plan for assessment and the potential replacement of steel pipelines as well.

LP-gas is an important fuel for many Texans. There are more than one million LP-gas installations in Texas at this time. Safe handling in the storage, delivery, and use of this product is a prime concern of the Commission. To safely handle this product, operators need specialized training. The Commission licenses businesses that handle the product and tests and certifies the employees working for these businesses. During fiscal 2002 and 2003, the Commission's Alternative Fuels Research and Education Division providing training and continuing education classes for 5,451 commercial handlers of LP-gas in Texas.

A new safety concern is developing as oilfield activities begin to encroach into urban areas. In particular, the development of the vast Barnett Shale gas resources is occurring in the metropolitan Fort Worth area. This development mingled among residential areas is creating unique opportunities to assure that these important natural resources are adequately developed while maintaining the safety and quality of life for the residents in the developing areas.

Environmental Protection

Due to an increase in the number of orphaned wells and sites resulting from marginal production and volatile product prices, the Commission, with support from the Texas legislature, strengthened the financial assurance requirements for operators with a transition to universal bonding beginning in September 2004. The Commission continues to evaluate the effects of this measure in reducing the liabilities to the Oil Field Cleanup Fund.

The Oil Field Cleanup Fund collects fees from industry for the purpose of plugging abandoned wells and remediating oilfield pollution sites that have been orphaned. In addition, grant awards and other miscellaneous collections have recently supplemented industry contributions. The program has been successful to date with over 24,000 plugged wells, and over 3,000 sites investigated, assessed, or cleaned up.

In recognition of the financial resources necessary to deal with the increasing liability, the 78th Legislature passed a revised fee structure to increase Oil Field Cleanup Fund Revenues. The intent was to increase annual revenues from approximately $12 million to $20 million. With the current high level of activity brought on by increased product prices annual revenues into the fund have actually exceeded the targeted level.

The Commission has for several years worked with active operators to help them in their voluntary efforts to clean up pollution sites. In the past year this activity and requests for guidance from industry have escalated significantly, with more than 600 (as of April 2006) complex pollution sites in the Operator Cleanup Program. Operators in this program are seeking to have the Commission to provide an evaluation of their cleanup activities, and official notice that their site meets current requirements with no further action necessary. The Commission needs additional funding to set up a specialized group that would work with operators on their voluntary cleanups.

By all indications, the new Voluntary Cleanup Program is very popular, with non-responsible parties seeking to clean up oil- and gas-contaminated sites they did not cause or contribute to in return for a release of liability from the Commission. Currently there are more than 35 (as of April 2006) active Voluntary Cleanup Program sites with a projected growth rate of 12 to 20 new sites per year. Cleanups have been completed at 11 (as of April 2006) sites for which the Commission has issued certificates of completion. The Commission's workload in this area will continue to be evaluated to determine if additional staff is warranted.

At the present time there are about 11,000 wells in the state that are inactive with the last operator of record delinquent in renewing its organization report (orphan wells). Many of these well bores are valuable for further geological interpretation, or re-completion into previously overlooked reservoirs. If these well bores are not assumed by a responsible operator, it is likely that they will ultimately be left to the state for plugging. In addition, there are 1,754 abandoned sites eligible for state-funded remediation.

House Bill 2161, enacted by the 79th Texas Legislature (2005), established an Orphaned Well Reduction Program (Section 89.047, Texas Natural Resources

Code). This new program became effective on Jan. 1, 2006, and includes procedures, requirements, and incentives to assume operatorship and regulatory responsibility for orphaned oil or gas wells. More incentives are needed to encourage active operators to take responsibility for wells and sites that have been abandoned.

The RRC continues to use the "Prioritization of High Risk Wells" program established by SB 310, effective since September 2001. Developed by the RRC, this is a system for: (1) identifying abandoned wells that pose a high risk of water contamination; (2) periodically testing of such high risk wells; and (3) giving priority to plugging high risk wells with compromised casings. Testing criteria have been established; a tracking system has been developed to monitor progress toward achieving goals, and a revised well plugging priority system has been approved to ensure that high risk abandoned wells are plugged first.

In the first four years of the program, staff tested more than 12,298 wells and identified more than 8,087 wells (about 66%) as having failed a fluid level test, requiring plugging with the use of RRC-managed funds.

Public Access through Technology Enhancements

Technology enhancements are critical for the RRC to develop new information products and maintain its level of service to the public and to industry. As these groups demand more online resources and information the RRC must leverage existing resources to meet these demands.

This can be done through enhancements in:
Workflow,
Expanded online query ability,
Additional online applications, and
Integration of applications with GIS and imaging.

The Railroad Commission has a vast store of information that is useful to industry and to the public. Unfortunately most of this information is in paper or microfilm records that must be copied or viewed in person. The Commission has already taken steps to assure that future records are more accessible, and some of the historical data and forms are already available via the Internet, but much remains to be done. Funding to provide the resources to make all Commission records more accessible needs to be explored.

General Opportunities

As new areas of oil and gas production are developed the conflict between surface owners and mineral owners escalates. State law currently provides that mineral owners can use as much of the surface area as is reasonably necessary to extract the minerals underlying the surface. Many surface owners do not also own the mineral rights

and conflicts are developing over this issue. The law currently does not provide for notice to surface owners nor does it define what is "reasonably necessary" to extract the minerals. This issue is likely to result in the need for policy development in this area.

As pointed out in other sections of this report, the Commission is challenged in the area of attracting and keeping qualified employees. The budget allocated to the Commission for salaries is not sufficient to attract and keep quality employees. The employees of the Commission are like the capital assets of an industrial firm; if we don't properly maintain those assets the business will ultimately fail. We must develop a program of providing competitive salaries and incentives to maintain our human resources.

Providing the tools to our employees to carry out their assigned duties is one of the responsibilities of senior management of any organization. In an effort to maintain a flat budget year-to-year, the Commission has sacrificed capital spending, especially in the area of vehicles and information technology. Regular appropriations are needed to maintain the RRC's vehicle fleet and technology infrastructure.

The Oil and Gas Migration (OGM) project is a comprehensive approach to the migration of applications and databases from the mainframe to the open systems environment. It leverages the existing technology investments and puts in place a system architecture that can maintain data integrity and security while at the same time providing flexible and collaborative tools for data entry and maintenance. The OGM project work to date has improved the technology infrastructure, extending access to Commission information to the public. The project has provided the citizens of Texas and the oil and gas industry with the ability to submit and access electronic information via the Internet.

As a result of the state's data center consolidation (DCC) initiative, however, the goal of the OGM project to migrate applications from the mainframe has changed. Mainframe migration is no longer imperative since the selected data center service provider will support both the mainframe and open systems environments. Instead of continuing to migrate applications from the mainframe through the OGM project, the Commission will identify and pursue opportunities to modernize applications and improve business processes through the use of appropriate technology. The Commission will identify potential application development initiatives and projects that can be developed and deployed in a year or less, that stand alone, and that are not dependent on additional, subsequent initiatives and projects. Application development initiatives and projects will be selected, prioritized and scheduled based on legislative directive, business case, value to the Commission and stakeholders, and resource availability.

How Will We Work with Local, State, and Federal Entities to Achieve Success?

The Railroad Commission has worked with federal entities to secure grants to fund projects that are vital to meet the needs of the public and industry. The Commission has worked closely with other state agencies to share information resources, coordinate jurisdiction, and uphold the goals of the state. The RRC has also worked with the TCEQ and the GLO to plug abandoned wells with funds that these agencies have available to protect surface and groundwater. The RRC also works with other state agencies as an active member of the Texas Groundwater Protection Committee and the Texas Coastal Coordination Council. The Commission works with the legislature to introduce and support legislation that is critical to the industry we regulate. The Commission also works with local municipalities and city governments to monitor and assure compliance with environmental protection standards, and to protect public health and safety.

The RRC continues to work closely with the Department of Information Resources (DIR) on multiple initiatives including planned procurement schedules, IT commodity purchasing, the Texas project delivery framework, the DCC initiative, and others. As a member organization of the Texas Geographic Information Council (TGIC) the Commission participates in development of GIS systems that are coordinated, cost-efficient, and non-redundant, as well as data sharing among state agencies.

Availability of Key Resources

The Commission works very closely with the public and the industries that it regulates to make sure that it is using all available resources from these sources. There are formal advisory committees for LP-gas, AFRED, and Oil Field Cleanup. The Commission makes use of industry associations as well as public interest groups and other state agencies in the development of new rules. The Commission frequently conducts workshops both in Austin and around the state to get input on proposed rule changes. The Commission has made input via the Internet much easier, to make sure that we are using industry and public resources to the maximum extent possible.

The Commission is continuing its efforts to secure funding from non-traditional sources by dedicating resources for the sole purpose of seeking additional grants.

Employee Attitudes

The Commission has historically maintained a highly experienced and knowledgeable workforce committed to effective and courteous public service. The Commission always emphasizes customer service, whether that customer is a large operator, or a small producer, or an individual who has problems with his or her local natural gas distribution company. The Commission has always been commended on its responsiveness to the general public and to the industries that it regulates.

However, as pointed out in other sections of this plan, attracting and maintaining quality skilled employees is extremely challenging. The salary level of the skilled professionals at the Railroad Commission is not competitive with private industry, or in many cases, other state agencies. Fair salary is a prime area of concern for RRC employees as reported in the recent survey of Organizational Excellence. The lack of normal advancement in salaries is beginning to deteriorate the attitudes of the employees.

In other areas however, attitudes are positive. The strategic orientation of the Commission, the sense of making a difference, and having resources to deliver quality services all scored high in the survey. Employees take pride in their work and in the services they perform for the people of Texas. We should strive to provide a comprehensive benefits package and competitive salaries. We can support our employees by recognizing their outstanding service, providing continuing education and training, and providing competitive salaries.

AGENCY GOALS, OBJECTIVES, STRATEGIES AND RELATED MEASURES

GOAL 1	**ENERGY RESOURCES** Support the development, management, and use of Texas' **lignite,** oil, and gas energy resources to protect correlative rights, provide equal and fair energy access to all entities, ensure fair gas utility rates, and promote research and education on use of alternative fuels.
OBJECTIVE 1.1.	**Increase opportunities for lignite, oil, and gas resource development while preventing waste, protecting the correlative rights of mineral interest owners, and conserving the state's oil and natural gas resources.**
Outcomes	Percent of oil and gas wells that are active Percent of total United States onshore gas coming from Texas Percent of total United States onshore oil coming from Texas Percent of **forms and** reports filed electronically through the **RRC Online Systems**
STRATEGY 1.1.1.	**Energy Resource Development** Protect correlative rights and prevent waste while maximizing opportunities for the development of **lignite,** oil, and gas resources through well site permitting, production allowables, production rule reviews, and exception processing.
Outputs	Number of organizations permitted or renewed Number of drilling permit applications processed Number of wells monitored
Efficiency Measure	Average number of cases completed by examiner Average number of wells monitored per analyst
Explanatory Measures	Number of active oil and gas rigs **Annual calendar year production of primary energy sources of crude oil, natural gas and lignite** **Volume of oil produced from active CO2 injection recovery** **Volume of CO2 stored underground**
OBJECTIVE 1.2.	**Maintain competitive prices and adequate natural gas supplies for Texas energy consumers and reduce the historical decline in use of odorized propane in Texas markets.**

Outcomes	Average Texas residential gas price for Commission regulated utilities as a percentage of the national average residential gas price Annual percentage change in the level of AFRED account fee revenue

STRATEGY 1.2.1.	**Gas Utility Compliance**
	Oversee natural gas utility rate structures that promote safe, efficient, and reliable supply at a reasonable cost and audit regulated gas utilities to ensure compliance with rate structures and submission of Gas Utility Taxes.
Outputs	Number of field audits conducted Number of Gas Utility dockets filed Number of gas utilities compliance, tariff, and escalator filings
Efficiency Measure	Average number of field audits per auditor
Explanatory Measures	**Cost of gas included in average residential gas bill**

STRATEGY 1.2.2.	**Promote LP Gas Usage**
	Develop and implement research and technical services, marketing, and a public education plan to increase the use of LP-gas as an alternative fuel.
Outputs	Number of rebate and incentive applications handled Number of training hours provided to Texas LP-gas licensees and certificate holders**, operators of LP-gas equipment, and firefighters**
Efficiency Measure	Administrative costs as a percentage of Alternative Fuels Research and Education Account fee revenue
Explanatory Measures	Number of alternative-fuel vehicles in Texas

GOAL 2	**SAFETY PROGRAMS** Advance safety in the delivery and use of Texas petroleum products and in the operation of the Texas **pipeline** system through training, monitoring and enforcement.
OBJECTIVE 2.1.	**Improve safety in the pipeline industry and the LPG/CNG/LNG products business from FY 2002 levels.**

Outcomes

Average number of pipeline safety violations per equivalent 100 miles of pipe identified through inspections

Average number of LPG/CNG/LNG safety violations identified per inspection unit

STRATEGY 2.1.1. Pipeline and LP Gas Safety

Ensure the safe operation of pipelines and LPG/CNG/LNG businesses through licensing and permitting, field inspections, accident investigations and emergency response.

Outputs

Number of pipeline safety inspections performed

Number of LPG/CNG/LNG safety inspections performed

Number of pipeline safety violations identified through inspections

Number of LPG/CNG/LNG safety violations identified through inspections

Number of pipeline and LP-gas accident investigations and special investigations performed

Number of pipeline and LP-gas education programs administered

Number of pipeline and LP-gas permits and licenses issued or renewed

Efficiency Measures

Average number of pipeline field inspections per field inspector

Average number of LPG/CNG/LNG safety inspections per inspector

GOAL 3 ENVIRONMENTAL PROTECTION

Assure that Texas fossil fuel energy production, storage, and delivery is conducted to minimize harmful effects on the state's environment and to preserve natural resources.

OBJECTIVE 3.1. Reduce the occurrence of identified pollution violations associated with fossil fuel energy production in Texas from FY 2002 levels.

Outcomes

Percentage of oil and gas facility inspections that identify environmental violations

Percentage of current surface mining operations (coal and uranium) that are in full compliance with applicable state and federal regulations

STRATEGY 3.1.1. Oil and Gas Monitoring and Inspections

Assure that Oil and Gas permitted activities comply with applicable state and federal regulations through field inspections, witnessing tests, monitoring reports, processing applications and enforcement actions.

Outputs	Number of oil and gas facility inspections performed Number of enforcement referrals for legal action due to oil and gas rule violations Number of oil and gas environmental permit applications and reports processed
Efficiency Measures	Average number of oil and gas facility inspections performed by district office staff
Explanatory Measures	Number of oil and gas wells, and other related facilities subject to regulation Number of statewide rule violations documented

STRATEGY 3.1.2.	**Surface Mining Monitoring and Inspections**
	Assure that Surface Mining permitted activities comply with applicable state and federal regulations through field inspections, witnessing tests, monitoring reports, processing applications and enforcement actions.
Outputs	Number of coal mining inspections performed Number of coal mining permit actions processed
Efficiency Measures	Average number of staff review days required to process coal mining permitting actions that require Commission decision Average number of staff review days required to process administrative coal mining permitting actions
Explanatory Measures	Number of acres permitted

OBJECTIVE 3.2.	**Identify and correct existing environmental threats through voluntary operator actions or with use of state funds.**
Outcomes	Percentage of known orphaned wells plugged with the use of state managed funds Percentage of identified **abandoned** pollution sites investigated, assessed, or cleaned up with state **managed** funds Percentage of abandoned surface mine sites on which reclamation has been initiated

STRATEGY 3.2.1.	**Oil and Gas Remediation**
	Protect public health and the environment by identifying, assessing, and prioritizing sites that require the use of state funds for remediation and provide assistance for operator-initiated corrective actions.

Outputs	Number of **abandoned** pollution sites investigated, assessed, or cleaned up with the use of state **managed** funds
Efficiency Measures	Average number of days to complete **abandoned** state-**managed** site clean-up
Explanatory Measures	Number of identified abandoned pollution sites that are candidates for state **managed** funded cleanup Number of Voluntary Cleanup program applicant operator initiated cleanups monitored and evaluated **Number of complex operator initiated cleanups monitored and evaluated**

STRATEGY 3.2.2. Oil and Gas Well Plugging

Protect public health and the environment by identifying, assessing, and prioritizing wells that require the use of state funds for plugging and provide assistance for operator-initiated corrective actions.

Outputs	Number of **orphaned** wells **managed** plugged with the use of state funds Total aggregate plugging depth of **orphaned** wells plugged with the use of state **managed** funds
Efficiency Measures	Average number of days to plug a**n orphaned** well with the use of state **managed** funds
Explanatory Measures	Number of orphaned wells approved for plugging Number of known orphaned wells in non-compliance with the Commission plugging rule Number of wells plugged, by operators, without the use of state **managed** funds Percentage of active well operators who have more than 25% of their wells inactive

STRATEGY 3.2.3. Surface Mining Reclamation

Protect public health and the environment by identifying, assessing, and prioritizing mine lands that require the use of state funds for reclamation and provide assistance for operator-initiated corrective actions.

Outputs	Number of acres of earthwork completed Number of acres permanently revegetated

GOAL 4	**PUBLIC ACCESS TO INFORMATION AND SERVICES** Strive to maximize electronic government and to minimize paper transactions by developing technological enhancements that promote efficient regulatory programs and preserve and increase access to public information.
OBJECTIVE 4.1.	**Increase efficiency in providing public access to information and provide more efficient interaction with regulated industries.**
Outcomes	Percent of public requests for research or information received through Internet-based technology
STRATEGY 4.1.1.	**GIS and Well Mapping**
	Collect, maintain, and preserve GIS and Well Mapping data submitted to the Commission; provide efficient public access to this information; offer regulated industries a means to conduct their business electronically.
Output Measures	Number of reports provided to customers from electronic data records
STRATEGY 4.1.2.	**Public Information and Services**
	Collect, maintain, and preserve oil and gas data submitted to the Commission; provide efficient public access to this information; offer regulated industries a means to conduct their business electronically.
Output Measures	Number of documents provided to customers by Information Services
Explanatory Measures	Number of external visits to RRC website (in thousands)

HISTORICALLY UNDERUTILIZED BUSINESS (HUB) PLAN

HUB GOAL

In accordance with Section 111.11 of the Texas Administrative Code, Chapter 2161 of the Texas Government Code and the State of Texas Disparity Study, the Railroad Commission is dedicated and committed to assisting Historically Underutilized Businesses (HUBs). The Railroad Commission demonstrates a good faith effort to actively educate vendors of HUB requirements by assisting them in obtaining the Texas Building and Procurement Commission (TBPC) HUB certification. Additionally, when soliciting bids from the TBPC's Centralized Master Bidders List (CMBL), internally developed initiatives are followed to ensure increased HUB participation. Finally, the Commission requires non-HUB prime contractors to demonstrate they have solicited bids from HUB subcontractors.

OBJECTIVE

The Railroad Commission will demonstrate a good faith effort to utilize HUBs in contracts for services and commodities purchases. The annual procurement goal may be achieved by contracting directly with HUBs or indirectly through subcontracting opportunities.

Outcome

Percentage of dollars spent with HUB vendors.

STRATEGY **Internal Procurement Initiatives**

Continue to develop and implement internal procurement initiatives that include, but are not limited to, TBPC Certification of Commission purchasers; professional staff development of purchasing liaisons; development of prime contractor and HUB subcontractor relationships; informing HUB vendors of the Railroad Commission's procurement opportunities through the agency's website, the Electronic State Business Daily, local commerce events, and statewide forums; and continuing to promote the Commission's Mentor Protégé Program.

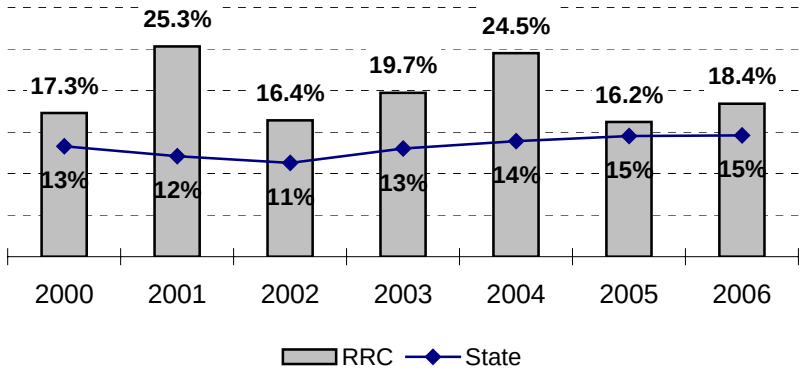
Output

Number of dollars spent with HUB vendors
Number of bids obtained from HUB vendors
Number of purchases awarded to HUB vendors
Number of HUB subcontracting dollars reported
Number of HUB forums attended, vendor outreach efforts, and internal training programs conducted

Procurement Category	Agency Goal	State Goal
Heavy Construction	0.0%	11.9%
Building Construction	0.0%	26.1%
Special Trade Construction	0.0%	57.2%
Professional Services	20.0%	20.0%
Commodities	20.0%	12.6%
Other Services	15.0%	33.0%

Awards to HUB Vendors by Fiscal Year

RRC Compared to Statewide



FY 2006 September to February (First Six Months)

External and Internal Assessments

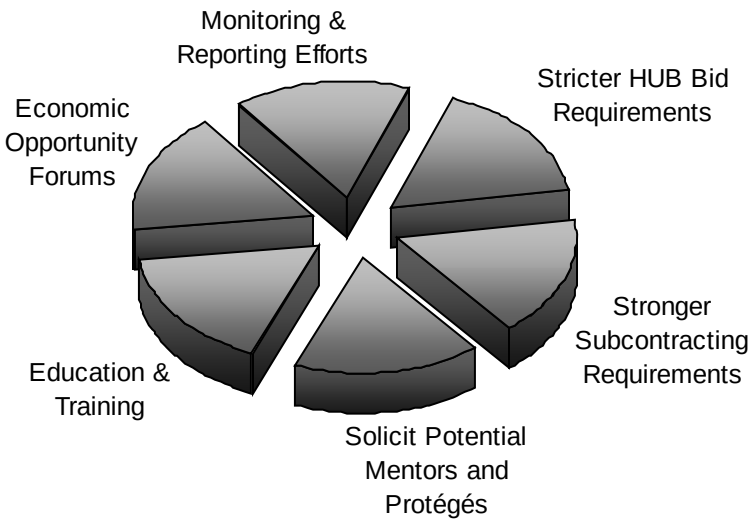
Fiscal Year	Total Agency Expenditures	$ Spent with HUBs	% of Total Spent with HUBs
2001	$16,807,991	$4,253,708	25.3%
2002	$19,383,195	$3,192,260	16.4%
2003	$17,327,612	$3,430,740	19.7%
2004	$18,533,477	$4,547,738	24.5%
2005	$21,598,657	$3,503,337	16.2%

State Procurement Categories	State Goals	RRC Actual FY 04	RRC Actual FY 05
Special Trade Construction Contracts	57.2%	00.0%	00.0%
Professional Services Contracts	20.0%	38.9%	40.1%
Other Services Contracts	33.0%	23.9%	15.2%
Commodities Contracts	12.6%	25.8%	22.5%

Historically, the Commission has not purchased in the Heavy Construction or Building Construction categories. However, if these categories of services are procured, internal procurement initiatives will be followed.

The Commission spends a substantial amount of the funds earmarked for the Other Services Procurement Category on well plugging services and site remediation services. The Commission continues to increase HUB participation in this category although the number of qualified vendors providing well plugging and site remediation services is extremely limited. The Commission is committed to increasing HUB participation over the prior year and to continuing its recruiting efforts of HUB vendors.

RRC Initiatives



Addendum to the HUB Strategic Goal

In addition to the Commission's HUB Strategic Goal, the Commission has implemented the following initiatives.

Bid Efforts

- Adoption of stricter HUB bid requirements than those set by the TBPC.

The Commission goal is to obtain a bid from a HUB vendor on all purchases, including purchases less than $2,000. TBPC does not require bids be taken for purchases less than $2,000.

Internal Bid Attempts for All Programs except Site Remediation And Well Plugging	
Amount of Purchase	**Number and Type of Bid**
$1,000.00 or less	One verbal bid, attempt to utilize a HUB vendor
$1,000.01-$2,000	Two verbal bids, one bid must be from a HUB vendor
$2,000.01-$5,000	Three verbal bids, minimum of one minority-owned business and one woman-owned (of any ethnicity) business
$5,000.01 - $25,000	Six written bids, minimum of two minority-owned businesses and two woman-owned (of any ethnicity) businesses *

Site Remediation Program	
Amount of Purchase	**Number and Type of Bid**
$2,000.00 or less	One verbal bid, attempt to utilize a HUB vendor
$2,000.01 - $10,000	Three verbal bids, minimum of one minority-owned business and one woman-owned (of any ethnicity) business
$10,000.01 - $25,000	Six written bids, minimum of two minority-owned businesses and two woman-owned (of any ethnicity) businesses *
* Procurement files will include supporting documentation to ensure that internal bid efforts are met.	

The Railroad Commission is required to make a good faith effort to assist Historically Underutilized Businesses (HUBs) in receiving contract awards issued by the state. The goal of this program is to promote fair and competitive business opportunities for all businesses contracting with the State of Texas.

- Utilize TBPC's HUB/CMBL directory for approved vendors, except for the

Well Plugging program, which is exempt from using the CMBL, and target HUB vendors in local areas when possible.

- ❖ Purchase orders will be divided into reasonable lots to keep with industry standards and competitive bid requirements, while ensuring compliance with TBPC rules and regulations.
- ❖ All purchase specifications, terms, and conditions shall specify reasonable, realistic delivery schedules consistent with the agency's actual requirements.

Contractor/Subcontractor Efforts

- ❑ The Commission provides contractors and lessors with information about our HUB goals in the bid information. Each contractor or lessor is required to state if they will subcontract any portion of the contract. The Commission also provides the contractor with a list of qualified HUB vendors, if available. The CMBL will be utilized to obtain a list of eligible bidders.
- ❑ The Commission has developed a HUB subcontracting plan for the procurement of professional services, construction, and commodities in an amount equal to or greater than $100,000 where subcontracting opportunities are believed to exist.
- ❑ The Well Plugging, Site Remediation, and Reclamation programs are specialized areas of service in which the Commission seeks bids and awards contracts. Although exempted from using the CMBL for well plugging and site remediation contracts, the Commission continues to seek, identify and award bids to qualified HUB vendors in these areas.
- ❑ The Commission continually researches the Centralized Master Bidders List, the HUB Directory, the Internet, the Commission's list of approved pluggers and other directories, identified by the TBPC, for HUB vendors that may be available to perform contract work.
- ❑ The Commission has designed a Mentor Protégé Program to foster long-term relationships between contractors/vendors and HUBs and to increase the ability of HUBs to contract with the state or to receive subcontracts under a state contract.
- ❑ The Commission contacts:

City and County HUB programs
Small/Minority Business Associations
Chambers of Commerce, and
Trade Associations

as possible sources for obtaining information on other HUB vendors.

- ❑ The Commission tracks the good faith efforts of prime contractors who subcontract with HUB vendors.

Mentor Protégé Program and Recruitment Efforts

- **Solicit potential mentors and protégés** through the use of the TBPC CMBL and other business contacts, such as local Chambers of Commerce or contractor associations, on a monthly basis.
- Meet with potential mentors and protégés to **discuss the benefits** of participating in the program outlined in material developed by the Commission.
- **Facilitate negotiations** between mentors and protégés formalizing agreements between the parties.
- Schedule and conduct meetings to **monitor performance** of the parties under negotiated agreements.
- **Report participation** in the program **and progress** of the agreements to TBPC.

Mentor Protégé Program		
Mentors	**Protégés**	Term
The Wackenhut Corporation	The Spearhead Group	December 2003 - 2005
Eagle Construction	Forsan Cowboy Construction	January 2004 - 2006
Accenture	The Arizpe Group	March 2004 - 2006
Accutest Labs	Healthy Resources	April 2004 - 2006
Lone Star Products	OKM Engineering	December 2004 - 2006
Earth Tech, Inc.	V-Tech Environmental	August 2005 - 2007
SKA Consulting	Legacee Environmental	October 2005 - 2007

Education and Training Efforts

- ✓ **Inform vendors** about the CMBL requirements with bid information, pamphlets, electronic bulletin board, etc.
- ✓ Require all Commission **purchasers** to become **certified.**
- ✓ **Provide training** as needed to new purchasing assistants, and **offer continuing education** to ensure compliance with TBPC HUB standards.
- ✓ **Attend** a minimum of three economic opportunity **forums** for HUBs each year to provide information and bid opportunities to vendors.
- ✓ Create an internal network to **share HUB information**.

FY 2005 HUB Forums	
HUB Discussion Workgroup Meeting	October 2004
HUB Forum & Spot Bid Fair - Texas State University San Marcos	November 2004
Mentor Protégé Agreement Meeting with Lone Star Products & OKM Engineering HUB Forum - SFA -Texas State Agency Economic Opportunity Forum HUB Discussion Workgroup Meeting HUB Forum & Bid Fair - Sponsored by GAHCC, TWC and Frost Bank	December 2004
Agency Internal HUB Forum - Presentation by Reliance Enterprise	January 2005
Agency Internal HUB Forum - Presentation by Legacee Environmental HUB Forum - TWC & ERS Economic Opportunity Forum HUB Discussion Workgroup Meeting	February 2005
MBE Institute for Public Policy - Forum Agency Internal HUB Forum - Presentation by Black Contractors Associations Agency Internal HUB Forum - Presentation by DBSOS	March 2005
HUB Discussion Workgroup Meeting Site Visit - Well Plugging Agency Internal HUB Forum - Presentation by Better Marketing Concepts	April 2005
HUB Forum - Environmental Trade Fair & Conference HUB Forum - Black Enterprise Entrepreneurs Conference HUB Discussion HSP - AML Mandatory Site Visit	May 2005
Agency Internal Forum - Digital Rhythm and Nola Computers Agency Internal Forum - Site Remediation, Ganco Environmental and Columbia HUB Forum - Hosted by TEA, GLO and TWC	June 2005
Agency Internal HUB Forum - "How to do Business w/RRC", Radcon Services Internal HUB Forum - Triangle Technology & Purchasing Manager HUB Forum - TAMACC Expo, Houston Texas	July 2005
HUB HSP Discussion - AML Mandatory Site Visit Mentor Protégé Agreement Meeting with Earth Tech & V-Tech Environmental HUB Discussion Workgroup Meeting Internal HUB Forum - Computer Tech	August 2005

Monitoring/Reporting Efforts

- **Monitor progress** of HUB utilization using monthly reports provided by purchasing liaisons of each division. These reports document HUB purchases by division and are compiled for external HUB reporting.
- Enter HUB data into the agency's purchase **tracking system**.
- Compile HUB data of purchases and report this information to TBPC as part of the **Semi-Annual and Annual State of Texas HUB Utilization Report**.
- Report the effectiveness of HUB participation by analyzing division performance on a regular basis and **communicating results to management**.

Additional Requirements

- Identify non-TBPC certified HUBs being used by the Commission and assist them in obtaining TBPC certification. Bids may be obtained from HUBs that are not on the CMBL for purchases that are less than $2,000.
- Identify vendors used by the Commission that are TBPC HUB certified.
- Ensure that each division and district office has access to a HUB/CMBL directory through one of the following formats:
  - Hard copy: alpha, county, or commodity code, is available in the purchasing section.
  - HUB/CMBL via the Internet on the TBPC Web Home Page. (http://www.tbpc.state.tx.us/)
- This Historically Underutilized Business Plan will be utilized on all purchases, including the expenditure of federal funds. This plan will ensure compliance with federal purchasing and procurement standards.

Appendix A - Description of Commission's Planning Process

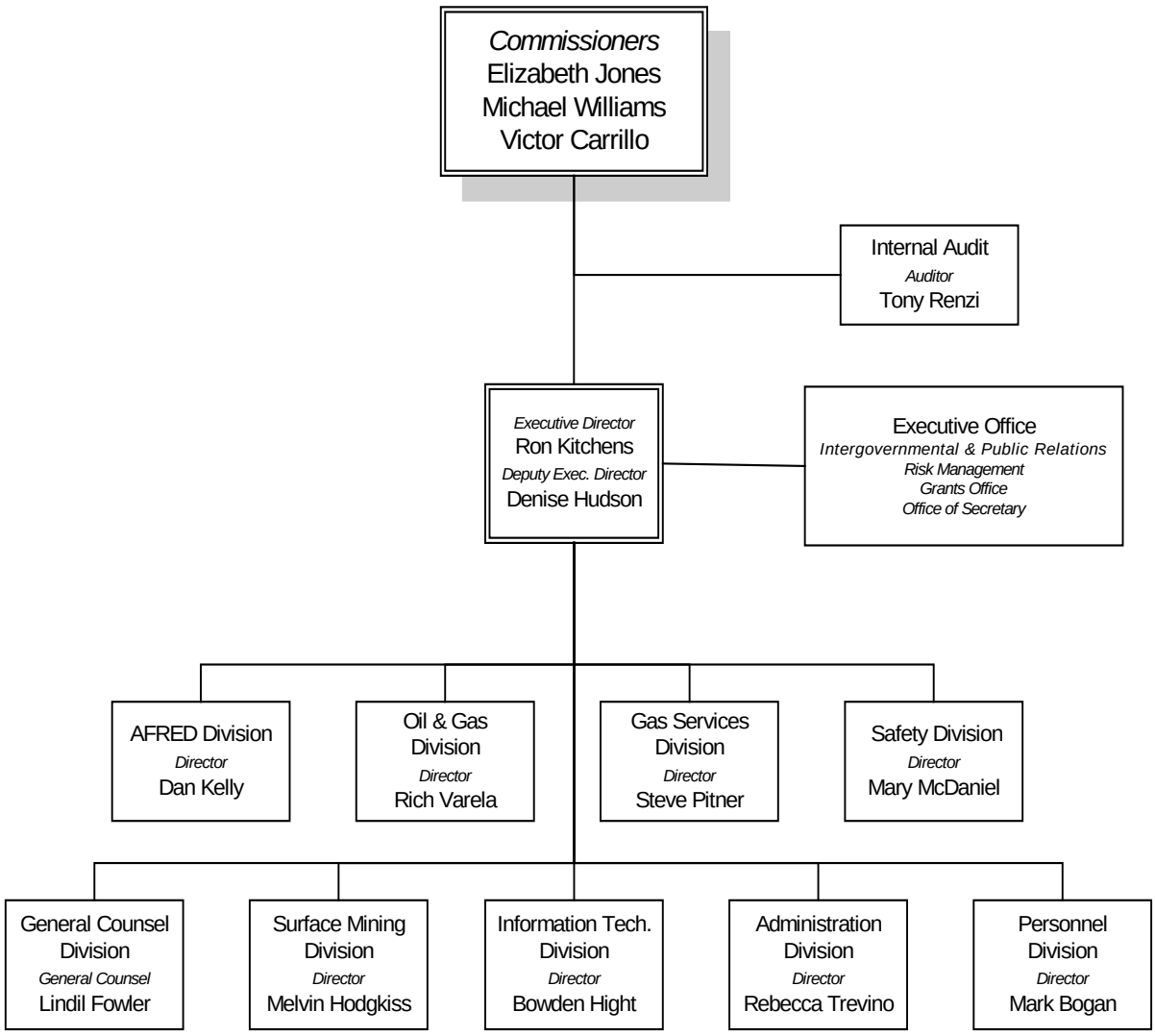
The strategic planning process continues to be an important management tool to monitor and assess our performance in meeting our regulatory responsibilities. The process further provides management an opportunity to reassess core functions and the agency's mission and philosophy. The directors of each division are held accountable for the performance measures attributable to their area of responsibility.

The current Strategic Plan is a continuation of the goals and strategies originally modified for the FY 2004 – 2005 biennium without any significant changes except for the transfer of rail safety to the Texas Department of Transportation. Some minor measure changes have been incorporated based on experience with the new goal and strategy structure that has now been in place for the past three biennium.

The initial planning process started in February with each division performing a comprehensive review of the Commission's budget structure including performance measures and measure definitions. These budget structure modifications were adopted by the Commission on March 28, 2006 and submitted to the Governor's Office of Budget, Planning and Policy and the Legislative Budget Board.

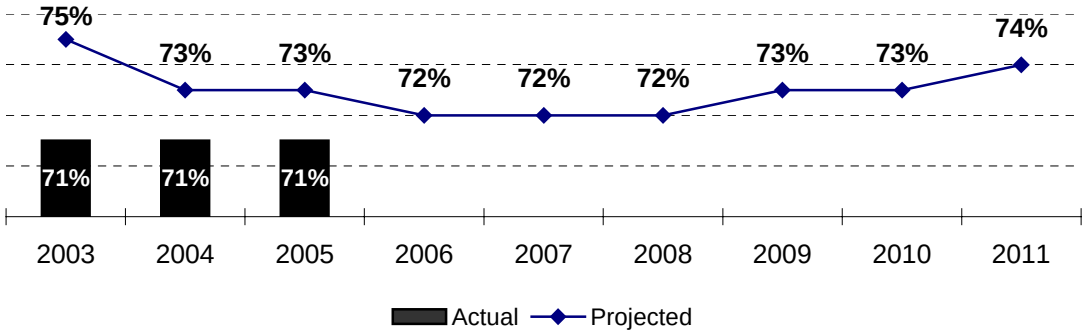
The directors of the various divisions then provided input to the plan, which was then consolidated into the overall plan by the Executive Office. The completed Strategic Plan document was then scheduled for presentation at open conference of the Railroad Commission for consideration on June 20, 2006.

Appendix B – Organization Chart



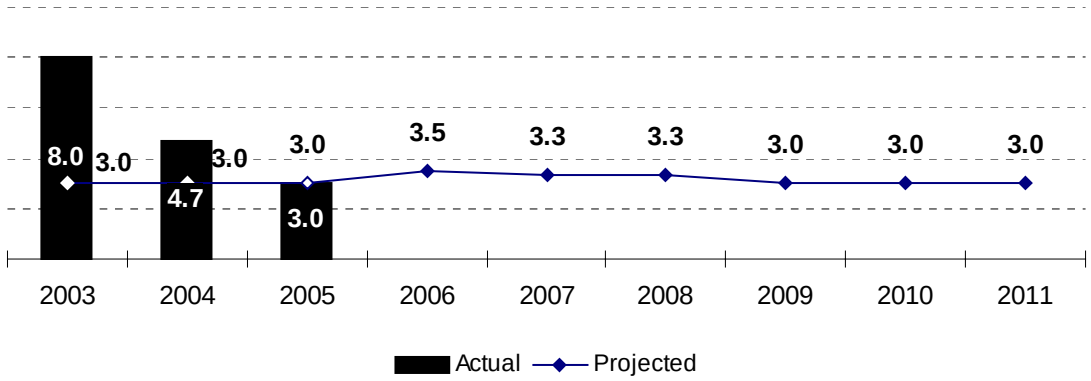
Appendix C - Five-Year Projections for Outcomes

Outcome		2007	2008	2009	2010	2011
1.1.a	Percent of oil and gas wells that are active. ***KEY Measure***	72%	72%	73%	73%	74%

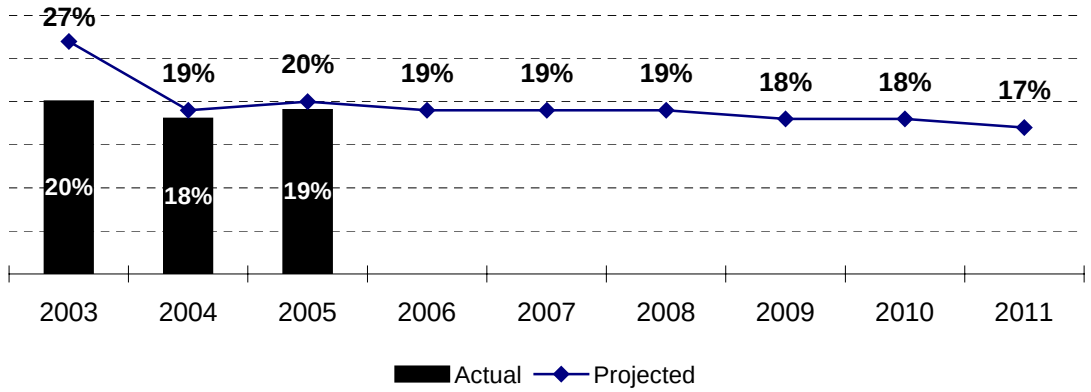


1.1.b	Percent of total U.S. onshore gas production coming from Texas.	32%	32%	33%	34%	34%
1.1.c	Percent of total U.S. onshore oil production coming from Texas.	30%	29%	29%	28%	28%
1.1.d	Percent of forms and reports filed electronically through the RRC Online System.	73%	74%	72%	72%	72%
1.2.a	Average Texas residential gas price for RRC regulated utilities as a percentage of the national average residential gas price.	96%	96%	96%	96%	96%
1.2.b	Annual percentage change in the level of AFRED account fee revenue.	2%	2%	2%	2%	2%

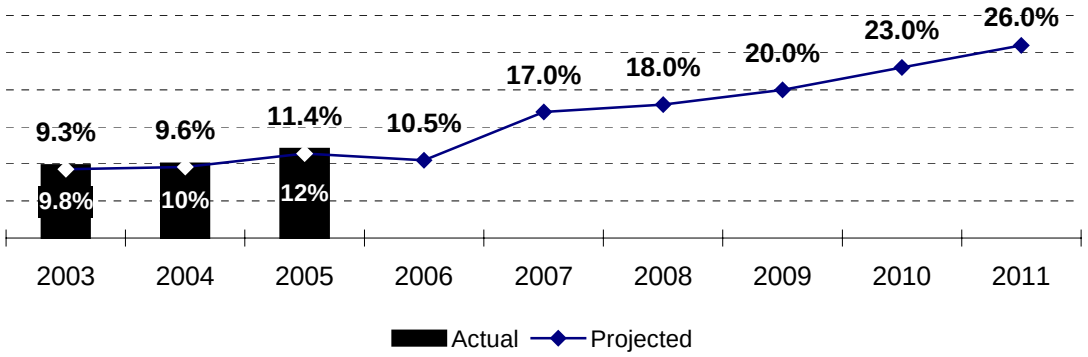
Outcome		2007	2008	2009	2010	2011
2.1.a	Average number of pipeline safety violations per equivalent 100 miles of pipe identified through inspections. ***KEY Measure***	3.3	3.3	3.0	3.0	3.0



2.1.b	Average number of LPG/CNG/LNG safety violations identified per inspection unit.	0.8	0.8	1.0	1.0	1.0
3.1.a	Percentage of oil and gas facility inspections that identify environmental violations. ***KEY Measure***	19%	19%	18%	18%	17%



Outcome		2007	2008	2009	2010	2011
3.1.b	Percent of current surface mining operations (coal and uranium) that are in full compliance with applicable state and federal regulations.	100%	100%	100%	100%	100%
3.2.a	Percentage of known orphaned wells plugged with the use of state managed funds. ***KEY Measure***	17%	18%	20%	23%	26%



3.2.b	Percentage of identified abandoned pollution sites investigated, assessed, or cleaned up with state managed funds.	16%	15%	15%	15%	15%
3.2.c	Percentage of abandoned surface mine sites on which reclamation has been initiated.	60%	70%	80%	90%	100%
4.1.a	Percent of public requests for information through Internet-based technology.	3%	3%	4%	4%	5%

Appendix D - Performance Measure Definitions

Outcome Measure	**1.1.a Percent of oil and gas wells that are active.**
Short Definition	This is the number of active wells on the oil and gas proration schedule expressed as a percentage of the total wells (active and inactive) on schedule. Active wells include all producing wells and injection and other service wells.
Purpose/Importance	This measure provides an indication of the effectiveness of efforts to increase opportunities for oil and gas resource development and sustain production levels (e.g. severance tax incentive programs).
Source/Collection of Data	Count the number of active, injection/service, and inactive wells on the oil and gas proration schedules at the end of a reporting period. Data is maintained within the mainframe database and downloaded to an Excel spreadsheet, which is retained in the Permitting and Production section.
Method of Calculation	Sum the total of active and inactive wells on the oil and gas schedule to get the total number of wells. Divide the number of active wells by the total number of wells on schedule to get the percentage of wells that are active
Data Limitations	The active or inactive classification of wells is based on well status and production information reported by the oil or gas operator. Wells are classified as active or inactive directly from information reported by the operator and in some cases, programmatically adjusted based on whether or not production has been reported over a period of time. Inaccurate or delinquent reporting can impact the accuracy of the data.
Calculation Type	Noncumulative.
New Measure	No.
Desired Performance	Higher than target.

Outcome Measure	1.1.b Percent of total United States onshore gas coming from Texas.
Short Definition	This is the annual amount of Texas gas production expressed as a percentage of the annual onshore gas production from the United States.
Purpose/Importance	This measure is intended to show how Texas gas production compares to total on-shore gas production for the U.S. Over time it will show if Texas is maintaining its market share of production.
Source/Collection of Data	The percentage is hand-calculated from data published in the *Natural Gas Annual Report* by the Energy Information Administration (EIA) for the prior year. The data used is provided in Table 3 of the report titled "Gross Withdrawals and Marketed Production".
Method of Calculation	Subtract production shown for "Federal and State Offshore" from total marketed production. The difference is the onshore gas production for the U.S. Divide production shown for Texas by the onshore production for the U.S. and multiply the answer by 100 to get the percentage of gas production coming from Texas.
Data Limitations	The data provided in the EIA annual report that is used to calculate the percentage is estimated data based on information reported to the EIA on survey forms. The reliability and accuracy of the data is beyond the Railroad Commission's control. This data is published on a calendar year basis.
Calculation Type	Noncumulative.
New Measure	No.
Desired Performance	Higher than target.

Outcome Measure	1.1.c Percent of total United States onshore oil coming from Texas.
Short Definition	This is the annual amount of Texas oil production expressed as a percentage of the annual onshore gas production from the United States.
Purpose/Importance	This measure is intended to show how Texas oil production compares to total on-shore oil production for the U.S.
Source/Collection of Data	The percentage is hand-calculated from data published in the *Petroleum Supply Annual Report* by the Energy Information Administration (EIA) for the prior year. The data used is provided in Table 14 of the report titled "Production of Crude Oil by PAD District and State".
Method of Calculation	Subtract production shown for "Federal and State Offshore" from Total production. The difference is the onshore oil production for the U.S. Divide production shown for Texas by the total onshore production to get the percentage of oil production coming from Texas.
Data Limitations	The data provided in the EIA annual report that is used to calculate the percentage is estimated data based on information reported to the EIA on survey forms. The reliability and accuracy of the data is beyond the Railroad Commission's control. This data is reported on a calendar year basis.
Calculation Type	Noncumulative.
New Measure	No.
Desired Performance	Higher than target.

Outcome Measure	1.1.d Percent of forms and reports filed electronically through the RRC Online System.
Short Definition	The number of forms and reports that are filed through the RRC Online System expressed as a percentage of the total number of filings (electronic or manual) for those same forms and reports.
Purpose/Importance	This measure is an indicator of the actual impact and effectiveness of the RRC Online System and the level of use by the oil and gas industry.
Source/Collection of Data	Statistical query programs generate counts of the number of forms and reports that are filed electronically through the RRC Online System for a particular time period. The data is stored in Oracle. The total count of RRC Online System forms and reports processed (both electronically and manually) is obtained monthly from computer programs and/or listings. The data is maintained in various sections of the Oil and Gas Division.
Method of Calculation	Using programs and listings, sum the total number of forms and reports processed during the reporting period for each type of RRC Online System form and report to get the total number of forms and reports filed. Using the statistical query programs, sum the total number of forms and reports electronically filed through the RRC Online System during the same reporting period. Divide the total number of forms and reports filed electronically through the RRC Online System by the total number of those same forms and reports processed and multiply by 100 to get the percentage of forms and reports filed electronically through the RRC Online System.
Data Limitations	The RRC Online System has been and will continue to be enhanced over time to increase the number of forms and reports that are enabled for electronic filing. The timeline and order of RRC Online System expansion is aligned with the Oil and Gas Migration project. Since adoption rates during the implementation of new forms and reports impact the percentage of forms and reports that are electronically filed through the RRC Online System, the percentage of RRC online filings for newly implemented forms or reports will begin to be calculated one year after implementation of the form or report in the online system.
Calculation Type	Noncumulative.
New Measure	No.
Desired Performance	Higher than target.

Output Measure	**1.1.1.a Number of organizations permitted or renewed.**
Short Definition	This is a count of new organizations added to the P-5 database and organizations that renewed their organization report during the reporting period. Organizations performing operations within the jurisdiction of the Railroad Commission must have an approved organization report (Form P-5) on file with the Commission. Active organizations are required to renew their organization report (Form P-5) annually.
Purpose/Importance	This measure is intended to show the number of operators authorized to engage in oil and gas activity in Texas.
Source/Collection of Data	Form P-5 organization report data is maintained in a mainframe database. The count of organizations permitted and renewed each month is manually calculated from consecutive monthly Form P-5 system summaries. Organization reports processed for changes in information are not included in the measure.
Method of Calculation	To get the number of organizations permitted and renewed for each month in the reporting cycle: (a) subtract the number of active organizations at the end of the previous month from the number of active organizations at the end of the current month to obtain the net change in active organizations; (b) add the number of organizations which expired at the beginning of the current month to the net change in active organizations. Sum the totals for each month in the reporting cycle to get the total number of approved organizations permitted and renewed during the reporting cycle. Recalculate the year-to-date total each quarter by summing the counts for each quarter.
Data Limitations	Data is based on a "snapshot" of statistics taken at the end of two consecutive months and may not be an exact reflection of activity within the current reporting period. However, the variance will self-correct over the following three months.
Calculation Type	Cumulative.
New Measure	No.
Desired Performance	Higher than target.

Output Measure	**1.1.1.b: Number of drilling permit applications processed.**
Short Definition	The number of drilling permit applications processed during the reporting period.
Purpose/Importance	This measure is an indication of oil and gas exploration and development activity. Drilling permits are required before wells can be drilled and completed, recompleted or reentered. This measure is intended to be an indicator of industry activity
Source/Collection of Data	Counts of drilling permit applications processed are available from computer – generated statistical listings and maintained in the Drilling Permit section and on-line query programs.
Method of Calculation	Sum the monthly totals of drilling permit applications processed during the three months within the reporting period to get the reporting period total. When calculating the second, third, and fourth quarter, recalculate the year-to-date total by summing quarter totals.
Data Limitations	Drilling permit applications processed have well-defined parameters and are easily identified. The count may not include permits that are received but are incomplete and have not been built into the computer system, or corrections to previously filed reports.
Calculation Type	Cumulative.
New Measure	No.
Desired Performance	Higher than target.

Output Measure	**1.1.1.c: Number of wells monitored.**
Short Definition	The number of active and inactive oil, gas, and service wells carried on the master oil and gas schedule in the mainframe database. The schedule shows all known wells currently assigned to an operator and regulated by the Commission.
Purpose/Importance	This measure provides an indication of the number of wells that are currently being operated under the Commission's jurisdiction and monitored by the Commission for regulatory compliance.
Source/Collection of Data	Well counts are computer generated monthly from a database containing oil and gas schedule information. A separate count is generated for wells carried on the oil schedule and wells carried on the gas schedule. Before a well is placed on schedule, a well completion package of forms must be filed as required by Commission rules. The forms become a part of the historical record for each well after they are audited and approved. All wells stay on the schedule and are monitored for compliance with applicable statewide rules until the well is properly plugged.
Method of Calculation	Sum the count of wells carried on the oil schedule and the count of wells carried on the gas schedule as of the last month of the reporting period. For the year-to-date total average the well counts for the reported periods.
Data Limitations	The count of wells monitored only reflects wells that have been built to schedule by personnel after review of the required paperwork and determination of well status. The count does not include wells that have been reported to the Commission but not built to schedule because of permit or paperwork problems or other processing delays.
Calculation Type	Noncumulative.
New Measure	No.
Desired Performance	Higher than target.

Efficiency Measure	**1.1.1.a: Average number of cases completed by examiner**.
Short Definition	On average, the number of cases, on which final Commission action has been taken (typically a final order has been entered and any motion for rehearing has been disposed of), handled by each oil and gas examiner during the period.
Purpose/Importance	Provides guidelines as to the efficiency of the examiners and the speed at which cases requiring examiner action are being handled.
Source/Collection of Data	Docket records and monthly mainframe computer reports.
Method of Calculation	Sum of cases completed divided by number of hearing examiners (both legal and technical) assigned cases during the period.
Data Limitations	Because of the significant variance in the complexity of cases and the length of hearings, the average, while a reasonable guideline, often does not accurately reflect the speed or efficiency with which cases are handled. Similarly the variance can cause comparisons between reporting periods to be misleading.
Calculation Type	Cumulative.
New Measure	No.
Desired Performance	Subject to data limitations, generally on target or slightly above target.

Efficiency Measure	**1.1.1.b Average number of wells monitored per analyst.**
Short Definition	On average, the number of active and inactive oil, gas and service wells on the master oil and gas schedules that are being monitored for regulatory compliance by proration analysts that perform well analysis and set proration allowables.
Purpose/Importance	This measure is intended to show how efficiently wells on schedule are being monitored.
Source/Collection of Data	There are two sources of data used to calculate this measure: 1) the number of wells maintained on the oil and gas master schedules; and 2) the number of personnel positions performing proration work. Well counts are computer- generated monthly from a database containing oil and gas schedule information. A separate count is generated for wells carried on the oil schedule and wells carried on the gas schedule. The number of personnel positions are those budgeted to perform proration work.
Method of Calculation	Sum the count of wells carried on the oil schedule and the count of wells carried on the gas schedule as of the last month of the reporting period. Divide the sum by the number of proration analyst positions budgeted as of last month of the reporting period.
Data Limitations	The count of wells monitored only includes wells that have been built to schedule by personnel after review of the required paperwork and determination of well status. The count does not include wells that have been reported to the Commission but not built to schedule because of permit or paperwork problems or other processing delays. Efficiency calculations are based on budgeted positions and are not adjusted for temporary vacancies.
Calculation Type	Noncumulative.
New Measure	No.
Desired Performance	Higher than target.

Explanatory Measure	1.1.1.a Number of active oil and gas rigs.
Short Definition	This is the average number of oil and gas drilling rigs that were actively being used during the last calendar year to explore for or develop oil or natural gas.
Purpose/Importance	The number of active rigs directly impacts the level of drilling activity in the state. It is a quantitative indicator of the industry's operating environment. Comparing the rig count from year to year provides an indication of industry trend for new operations in Texas.
Source/Collection of Data	The rig count data is directly taken from a report issued by Baker Hughes (industry standard) titled *Baker Hughes Rig Count – Annual Averages by State.* The report is downloaded from the Baker Hughes Internet web site.
Method of Calculation	Use the average rig count number shown under "Total Texas" for the current year.
Data Limitations	The rig count is an average for a calendar year not a fiscal year. Rig count data is compiled by Baker Hughes; its accuracy is not within the control of the agency.
Calculation Type	Noncumulative.
New Measure	No.
Desired Performance	Higher than target.

Explanatory Measure	1.1.1.b Annual calendar year production of primary energy sources of crude oil, natural gas and lignite.
Short Definition	The reported amount of crude oil, natural gas, and lignite produced in the most recent calendar year expressed in barrels of oil equivalent.
Purpose/Importance	Production of the three primary energy sources is important to the economy of the state and the United States since energy prices are largely controlled by supply and demand. If the supply of energy is declining, it is an indicator of higher energy prices.
Source/Collection of Data	All Texas oil and gas producers are required to report their monthly production by lease. Volumes are required to be reported by the last day of the month following production. This information is maintained on a Commission database and reported monthly on the website. All Texas lignite producers are required to report to the Commission and the federal Department of the Interior their annual production by mine. This information is maintained on a Commission database and can also be extracted from federal reports.
Method of Calculation	Oil is reported and maintained in the database in Barrels, natural gas is reported and maintained in the database in Mcf, and coal is reported and maintained in the database in Tons. To express all on a common basis, they will be converted to "barrels of oil equivalent." Based on commonly accepted btu conversion factors, 1 Mcf of natural gas is equivalent to 0.176 Barrels of crude oil. The lignite produced in Texas has an average heating value of approximately 6460 btu per pound. When converted, 1 Ton of Texas lignite is equivalent to 2.206 barrels of crude oil.
Data Limitations	Some monthly oil and gas production is reported late or inaccurate and revisions to a particular month's production can continue for several months into the future. Confident annual calendar year volumes for oil and gas are typically not available until at least 6 months after the end of the calendar year. Annual calendar lignite production is not required to be reported until March of each year for the previous year.
Calculation Type	Noncumulative. Only reported annually.
New Measure	Yes
Desired Performance	Increasing production or at least a slow down of the decline experienced over the past 20 years.

Explanatory Measure	1.1.1.c Volume of oil produced from leases that have active CO2 injection wells for tertiary recovery.
Short Definition	This measure is the reported oil produced from leases on which CO2 injection wells are actively injecting CO2
Purpose/Importance	This metric focuses on the volume of oil produced from leases on which CO2 injection is active. These leases are currently associated with the large oil fields in the Permian Basin. Stemming the production decline of large oil fields is critical to sustain overall oil production in Texas and CO2 plays an instrumental role in this regard.
Source/Collection of Data	Data are collected through several specialized database queries of the UIC download and the mainframe computer system.
Method of Calculation	Form H-10 identifies which leases have injection wells actively injecting CO2 and records the monthly volume of injected gas. Production for the leases with active CO2 injection is extracted from the mainframe computer system and summed.
Data Limitations	The Form H-10 can be used to unambiguously identify leases on which injection wells are actively injecting CO2 over a given reporting period. Form H-10 is an annual form on which the operator reports the volumes of injected fluids and gasses. The volume of oil produced as a result of CO2 injection cannot be determined from these data. The staggered nature of H-10 form reporting means complete data are not recorded for at least one year. Consequently, reporting of this measure would lag one year and would not be for the most recent fiscal year.
Calculation Type	Noncumulative.
New Measure	Yes.
Desired Performance	Increased production volumes.

Explanatory Measure	1.1.1.d Volume of CO2 stored underground.
Short Definition	This measure is the reported volume of CO2 injected in underground reservoirs other than for enhanced oil recovery purposes.
Purpose/Importance	The capture and storage of CO2 that would otherwise be released to the atmosphere is an important strategy for both environmental and economic reasons. Release of CO2 into the atmosphere contributes to the accumulation of "greenhouse" gases that are a component of global warming concerns. In addition the availability of large volumes of stored CO2 could provide a ready source of product for industrial uses and enhanced oil recovery projects. Large-scale storage also provides new business opportunities to provide a service to industries that need to dispose of CO2.
Source/Collection of Data	Reporting of injected volumes on an annual basis is required of all operators who operate injection wells. This data is reported by month once a year but reporting cycles are staggered among operators. Will need to accumulate 15 months of data to get a complete year for all operators. This data is maintained on the Commission database.
Method of Calculation	Extract volumes from Commission database.
Data Limitations	Injection wells are permitted to inject fluids that may not be pure CO2. Other gaseous constituents may be mixed with the CO2 when it is injected into the underground formation. At this time only the total gaseous volume is required to be reported in the annual reports, but it is thought that the bulk of the volumes reported is CO2.
Calculation Type	Noncumulative.
New Measure	Yes.
Desired Performance	Increase in volumes stored.

Outcome Measure	1.2.a Average Texas residential gas price for Commission regulated utilities as a percentage of the national average residential gas price.
Short Definition	The average price of natural gas sold to residential consumers in Texas expressed as a percentage of the national average price of natural gas for residential consumers.
Purpose/Importance	Recognizing that Texas is the largest producer of natural gas in the U.S., effective regulation of natural gas utilities should reflect that rates for natural gas consumers in Texas are lower than rates for consumers in the nation as a whole.
Source/Collection of Data	Data is from *Gas Facts*, a statistical report published annually by the American Gas Association (AGA). *Table 9-3, Gas Utility Industry Average Prices by State and Class of Service* provides the national and Texas-specific average residential gas prices.
Method of Calculation	Divide the Texas average residential gas price by the national average residential gas price and multiply by 100 percent.
Data Limitations	*Gas Facts* is based on data collected from individual utilities, so the data cannot be directly verified and may not match data collected by the Railroad Commission. However, *Gas Facts* presents both national and state level data on a consistent basis so a relative comparison can be made. The measure also does not address the cost of natural gas for other classes of consumers, such as commercial, industrial, or electric utilities.
Calculation Type	Noncumulative.
New Measure	No.
Desired Performance	Texas average residential gas price no higher than the targeted performance of 97 percent of the national average residential gas price.

Outcome Measure	1.2.b Annual percentage change in the level of AFRED account fee revenue.
Short Definition	Annual percentage change in the total amount of LPG delivery fee revenue collected and deposited into Alternative Fuels Research and Education Fund Account 101, less revenue that does not reflect actual LPG sales, such as late penalties, administrative and civil penalties, and refunds of payments remitted in error.
Purpose/Importance	Measures by proxy Texans' increased or decreased use of odorized propane as an environmentally beneficial alternative fuel.
Source/Collection of Data	Delivery fee payments received by the Railroad Commission, logged in, deposited with the State Comptroller, and entered into the Uniform Statewide Accounting System (USAS). Records of penalties and refunds maintained by the Alternative Fuels Research and Education Division (AFRED) and entered into the division's delivery fee database.
Method of Calculation	Retrieve from USAS the total amount of delivery fee revenue deposited during the reporting period and the same period of the previous fiscal year. Retrieve from the AFRED LPG delivery fee database the total amount of late penalties, administrative and civil penalties, and refunds of payments remitted in error during the reporting period. Obtain total adjusted revenue by subtracting total penalties and refunds from total revenue. Subtract the previous year's total adjusted revenue from the current year's total adjusted revenue. Make this difference the numerator of a fraction whose denominator is the total adjusted revenue for the same reporting period of the previous fiscal year. Express this fraction as a percentage and report the percentage.
Data Limitations	No direct measure exists of odorized LPG usage in Texas. Delivery fee revenue offers a convenient proxy. However, the proxy is limited in its ability to measure the effectiveness of the division's programs. One reason is that residential LPG usage, which accounts for about 60-70 percent of total usage, is subject to weather-related ups and downs that are outside the agency's control. Another reason is that odorized propane deliveries during the fourth quarter of each fiscal year vary substantially as buyers make winter pre-buy decisions based on judgments about whether wholesale prices are headed up or down.
Calculation Type	Noncumulative.
New Measure	No.
Desired Performance	Equal to or greater than target percentage.

Output Measure	**1.2.1.a Number of field audits conducted.**
Short Definition	These are on-site audits conducted on intrastate (natural) gas utilities and on odorized liquefied petroleum gas fee payers. There are several types of audits conducted, depending upon the specific regulatory focus being made.
Purpose/Importance	Field audits are conducted to ensure that the authorized rates are being accurately computed and billed by gas utilities, and that the proper gas utility tax is being remitted. The audits also include payers of the odorized liquefied petroleum gas fee, to ensure proper reporting and payments. The importance of on-site audits of the companies' books and records is to test the accuracy and completeness of reports made by the gas utilities in compliance with several statutory and regulatory requirements.
Source/Collection of Data	Each audit conducted consists of audit work papers, the auditor's report, the formal notification of results letter, and any needed correspondence to abate violations noted. These audits are maintained in Austin, and are available to the public for review.
Method of Calculation	An audit log is maintained for each fiscal year, which lists all audits conducted. Audit numbers are sequentially assigned all audits, with the first two digits referencing the fiscal year (i.e. Audit No. 00-045). Selected information is also entered into the mainframe computer, allowing for automated counts.
Data Limitations	A simple count cannot differentiate between a simple one-person audit and highly complex group audit.
Calculation Type	Cumulative.
New Measure	No.
Desired Performance	Higher than target.

Output Measure	**1.2.1.b Number of gas utility dockets filed.**
Short Definition	This measure reflects regulatory activity by reporting the number of docket numbers assigned to filings made by utilities in a year.
Purpose/Importance	Gas utilities are required by statute to obtain commission approval prior to increasing environs rates or city gate rates. The commission is also required to set rates for other jurisdictions when the parties are unable to agree on a rate increase. Additionally the commission is required to review requests for Natural Gas Policy Act section 311 rates, abandonment cases, rate complaints and sales, purchases, mergers, acquisitions or transfers of utility assets. Finally, the commission may initiate enforcement proceedings against non-compliant gas utilities or gas companies, may add, amend or repeal procedural or substantive rules, and may initiate general inquiries into existing rates. Each of these filings is assigned a docket number, so this output measures the level of activity related to these regulatory responsibilities.
Source/Collection of Data	Each request for regulatory review is filed with the Gas Services division Regulatory Analysis and Policy section (RAP). A RAP tariff analyst assigns a unique, sequential docket number to each filing. The list of docket numbers is maintained and kept current by the tariff staff.
Method of Calculation	The number of dockets filed on an annual basis is reported.
Data Limitations	The gross number of dockets filed does not differentiate between the different types of filings that can be made It also does not provide information regarding the number of dockets completed on an annual basis. Finally, the level of activity (when a filing is made) is dictated for the most part by industry rather than the Commission.
Calculation Type	Cumulative.
New Measure	No.
Desired Performance	Target.

Output Measure	1.2.1.c Number of gas utilities compliance, tariff, and escalator filings.
Short Definition	This measure reflects regulatory activity by reporting the number of compliance, tariff, and escalator filings made by utilities in a year.
Purpose/Importance	Natural gas utilities are required by statute to file tariffs (or contract briefs) and current rate information with the commission within thirty days of the effective date of the rate. Compliance filings are made to comply with a commission order, and may include revised tariffs. Escalators (including purchased gas adjustments (PGAs)) are typically filed monthly to reflect changes in the cost of gas that are passed through to customers. The compliance, tariff, and escalator information requires review by commission staff for reasonableness and correctness. This output measures the level of activity related to these regulatory responsibilities.
Source/Collection of Data	Each of these filings is made with the Gas Services division Regulatory Analysis and Policy section (RAP). A RAP tariff analyst reviews the filing for reasonableness and correctness, and provides notification to the utility concerning approval of the filing. The list of filings is maintained and kept current by the tariff staff.
Method of Calculation	The number of compliance, tariff, and escalator filings made on an annual basis is reported.
Data Limitations	The gross number of filings does not differentiate between the different types of filings that can be made It also does not provide information regarding the number of filings approved on an annual basis. Finally, the level of activity (when a filing is made) is dictated for the most part by industry rather than the Commission.
Calculation Type	Cumulative.
New Measure	No.
Desired Performance	Target.

Efficiency Measure	**1.2.1.a Average number of field audits per auditor.**
Short Definition	This is the relationship between the number of audits completed during a specific time frame and the number of auditors conducting audits.
Purpose/Importance	This relationship is important in establishing the proper size of staff needed to conduct field audits in timely cycles. With too few auditors, time between audits would increase and problems found would be magnified.
Source/Collection of Data	All audits completed are maintained in our files and the number of auditors, and any periods of auditor vacancies, can be obtained/verified through the Commission's Personnel division.
Method of Calculation	The number of audits completed during each reporting period is divided by that period's average number of auditors conducting audits. When there are no vacancies, the average number of auditors is eight.
Data Limitations	The mathematical process described above cannot differentiate between a simple one-person audit and highly complex group audit, each of which impacting the resulting average.
Calculation Type	Cumulative.
New Measure	No.
Desired Performance	Higher than target.

Explanatory Measure	1.2.1.a Cost of gas included in average residential natural gas bill.
Short Definition	This measure is the cost of gas component of average residential gas bill assuming 6 Mcf/month consumption.
Purpose/Importance	Affordable heating cost is a necessity for Texas citizens. The unregulated cost of gas is the biggest component of the average gas bill. Monitoring the cost of gas of the state's major gas utilities is important to determine if changed policies are needed.
Source/Collection of Data	The Commission maintains information on the gas costs for 25 key cities assuming a 6 Mcf per month consumption. This data is calculated from the tariff sheets applicable to these 25 cities. The information is published quarterly and posted on the Commission's website.
Method of Calculation	The monthly calculation at the end of each fiscal year quarter for the 25 cities is averaged to determine statewide average cost of gas.
Data Limitations	No known data limitations.
Calculation Type	Noncumulative.
New Measure	Yes.
Desired Performance	Affordable steady gas costs without major fluctuation.

Output Measure	1.2.2.a Number of rebate and incentive applications handled.
Short Definition	Annual number of applications for all division rebates and incentives received and paid or rejected, including, but not limited to, consumer rebates, low-emission forklift rebates, media rebates, highway signage rebates and manufactured housing incentives.
Purpose/Importance	Fifty percent of AFRED's annual budget is set aside by statute for consumer rebates. This measure tells how many rebate and incentive applications the division processes annually for LPG consumers and marketers. The more rebates and incentives we provide, the better we fulfill our statutory charge to operate rebate and other marketing programs that increase environmentally and economically beneficial usage of LP-gas.
Source/Collection of Data	Commission records of rebate and incentive applications received and processed. Applications received are reviewed for completeness and, if complete, entered into the Commission's rebate and incentive tracking database. Paper originals are retained by the division.
Method of Calculation	Retrieve from the rebate and incentive database the total number of each type of rebate and incentive handled during the reporting period. Add these totals and report the sum.
Data Limitations	Although the total budget for rebates is relatively stable from year to year, rebates come and go, and rebate amounts change. For this reason, simply counting the number of applications handled provides only an approximation of work output. When rebates are issued in larger amounts, e.g., $750 for a home with multiple appliances as opposed to $150 for a single appliance, fewer applications will be processed before the budget is exhausted, and vice versa. In addition, the procedure does not track applications that are incomplete or submitted after the due date. (For most rebates, the applications must be submitted within 30 days of date the propane gas to the appliance was turned on.) These applications are returned to the applicant with a letter of explanation.
Calculation Type	Cumulative.
New Measure	No.
Desired Performance	Equal to or greater than target.

Output Measure	**1.2.2.b** Number of training hours provided to Texas LP-gas licensees and certificate holders, operators of LP-gas equipment, and firefighters.
Short Definition	Number of contact hours documented by Alternative Fuels Research and Education Division records of training class attendance and course length.
Purpose/Importance	This measure tells how much technical training the division provides annually to LPG technicians, other LPG industry personnel, and LPG consumers, e.g., LPG school bus fleet operators. The more training that is provided, the more likely the trainees are to work competently and safely.
Source/Collection of Data	Commission records of classes. Instructors report attendance and class length to their supervisor in writing within one day of their return to Austin. Information from these reports is entered into the Commission's training database. Paper originals are retained by the division.
Method of Calculation	Retrieve from the training database the total number of class contact hours. Report this number.
Data Limitations	None.
Calculation Type	Cumulative.
New Measure	No.
Desired Performance	Equal to or greater than target.

Efficiency Measure	**1.2.2.a Administrative costs as a percentage of AFRED account fee revenue.**
Short Definition	The portion of division personnel, capital equipment and other operating costs devoted to administration, plus transfers to other Railroad Commission divisions from Alternative Fuels Research and Education Fund Account 101, General Revenue-Dedicated, divided by total annual fee revenue deposited into the fund.
Purpose/Importance	The proportion of Fund Account 101 usable for administration is limited by statute to 25 percent. This measure tells how much of the division's budget is used for administration. The lower the percentage, the more efficiently we fulfill our statutory charge to operate research, marketing and public education programs that benefit propane marketers and consumers.
Source/Collection of Data	Delivery fee payments as recorded in the Uniform Statewide Accounting System (USAS). Amounts spent on administration are compiled and reported by the Commission's Finance and Administration division.
Method of Calculation	Retrieve from USAS the total amount of delivery fee revenue deposited during the reporting period. For the same reporting period, retrieve from the Commission's Finance and Administration division the total amount spent on administration by AFRED and the total amount of Account 101 funds spent by each other division of the Commission to which transfers are made. Add these spending totals. Divide the USAS revenue total by the spending total. Report the quotient expressed as a percentage.
Data Limitations	Since delivery fee collections vary both seasonally and from year to year, annual reports of this measure may reflect performance more accurately than individual quarterly reports.
Calculation Type	Cumulative.
New Measure	No.
Desired Performance	Equal to or less than target percentage.

Explanatory Measure	1.2.2.b Number of alternative-fuel vehicles in Texas.
Short Definition	The number of compressed natural gas (CNG), liquefied petroleum gas (LPG) and liquefied natural gas (LNG) vehicles for which the Comptroller has issued a liquefied gas tax decal, plus the number of hybrid electric vehicles registered with the Texas Department of Transportation.
Purpose/Importance	To measure the degree to which Texas is obtaining the energy-security and air-quality benefits of alternative-fuel and hybrid electric vehicles.
Source/Collection of Data	Comptroller's records of liquefied gas tax decals issued; Texas Department of Transportation records of vehicle registrations
Method of Calculation	Obtain from the Comptroller's Office a report of the total number of vehicles for which the Comptroller has issued liquefied gas tax decals. Obtain from the Texas Department of Transportation's Vehicle Titles & Registration Division a report of the number of vehicles registered in Texas that are identified in the Department's records as hybrid-electric vehicles. Add the two totals and report the sum.
Data Limitations	LPG, CNG and LNG vehicles represent the vast majority of alternative fueled vehicles in Texas. However, the methodology outlined above does not include vehicles powered by electricity, biodiesel, ethanol, methanol, or another alternative fuel as that term is defined in the federal Energy Policy Act of 1992 (EPACT). "Alternative fuel" is defined even more broadly under Texas law, as any fuel or power source that allows a vehicle to meet 1994 low-emission vehicle (LEV) emission standards (Texas Health & Safety Code §382.131). Under this definition, gasoline and diesel vehicles are considered alternative-fueled vehicles as long as they meet LEV. Since these vehicles displace no petroleum, they are excluded from this measure.
Calculation Type	Non-cumulative.
New Measure	No.
Desired Performance	Greater than estimated.

Outcome Measure	2.1.a Average number of pipeline safety violations per equivalent 100 miles of pipe identified through inspections.
Short Definition	Average of the number of safety violations noted per 100 miles for distribution, transmission, and hazardous liquid pipelines inspected.
Purpose/Importance	In order to determine the level of compliance by the various segments of the pipeline industry, a trending level can be established with this outcome. The Commission's Pipeline Safety program can be compared to other state or federal programs by type of pipeline to determine the level of compliance by the industry.
Source/Collection of Data	Each pipeline safety evaluation documents the number of miles inspected and the number of violations found. Data is collected during field evaluations and maintained within the mainframe database by pipeline system.
Method of Calculation	An average number of violations per 100 miles of pipe for each of the three types of systems (distribution, transmission, and hazardous liquids) will be determined by dividing the number of violations by the mileage of pipe that was inspected. These three averages will then be averaged to get a single equivalent statewide number for all of the pipeline systems within the state.
Data Limitations	Future enhancements to this measure may consider including diameter of the pipeline. Over a two-year period data will be collected to determine the total statewide pipeline mileage expressed in a way to also take into account pipeline diameter.
Calculation Type	Noncumulative.
New Measure	No.
Desired Performance	Maintain or reduce baseline level.

Outcome Measure	2.1.b Average number of LPG/CNG/LNG safety violations identified per inspection unit.
Short Definition	Each safety inspection will identify and record any violation of the LPG/CNG/LNG safety regulations. The average number of violations per inspection unit can be used as a benchmark for the state of the LPG/CNG/LNG industry.
Purpose/Importance	The Commission's LPG/CNG/LNG program conducts field investigations of stationary and mobile LPG-gas facilities to determine compliance with the Commission's safety regulations. By determining the average number of violations per inspection unit, the overall effectiveness of the program can be monitored by comparing the trend of reported average violations per year.
Source/Collection of Data	Each field inspection documents the number of violations and this data is entered into an Oracle database system. The number of inspections by type and number of violations by type can be retrieved from this system. Each site that is inspected is considered one inspection unit except for forklift inspections. Each forklift inspection is considered to be 1/3 of an inspection unit.
Method of Calculation	The total number of violations noted is divided by the total number of inspection units completed to determine the average number of safety violations per inspection unit.
Data Limitations	None.
Calculation Type	Noncumulative.
New Measure	No.
Desired Performance	Maintain or reduce baseline level.

Output Measure	2.1.1.a Number of pipeline safety inspections performed.
Short Definition	A total of the onsite field inspections conducted on intrastate hazardous liquids and natural gas pipelines.
Purpose/Importance	Field inspections are conducted on pipeline facilities to monitor compliance with Commission safety regulations. Inspections are conducted on various types of facilities and tracked within the system and evaluation type.
Source/Collection of Data	All safety investigations/evaluations are conducted using data collection sheets to record the data relevant to the safety evaluation. All of the data is transferred into the Commissions mainframe system.
Method of Calculation	The mainframe database can be utilized to total the number of inspections conducted within any prescribed time interval to calculate the number of field inspections conducted. The inspection will be considered complete based on the ending date of the inspection. All inspections completed within the time period selected will be totaled.
Data Limitations	None.
Calculation Type	Cumulative.
New Measure	No.
Desired Performance	Higher than target.

Output Measure	2.1.1.b Number of LPG/CNG/LNG safety inspections performed.
Short Definition	A total of the onsite field inspections conducted on LPG/LNG/CNG stationary and mobile installations.
Purpose/Importance	Field inspections are conducted on LPG/LNG/CNG installations to monitor compliance with Commission safety regulations. Inspections are conducted on various types of facilities and tracked within the system and evaluation type.
Source/Collection of Data	All safety investigations/evaluations are conducted using data collection sheets to record the data relevant to the safety evaluation. All of the data is transferred into the Commissions LPG Oracle database.
Method of Calculation	The Oracle database can be utilized to total the number of inspections conducted within any prescribed time interval to calculate the number of field inspections conducted.
Data Limitations	None.
Calculation Type	Cumulative.
New Measure	No.
Desired Performance	Higher than target.

Output Measure	2.1.1.c Number of Pipeline safety violations identified through inspections.
Short Definition	Safety inspections identify violations of Commission safety regulations for pipeline facilities. Violations are listed by each particular code section and associated with each individual safety inspection.
Purpose/Importance	Safety inspections are conducted to determine the compliance with the Commission's safety regulations for pipeline installations. Noncompliance with the safety regulations are identified and recorded on the field evaluation data sheets.
Source/Collection of Data	The inspection reports include information on the type of installation and all observed violations. The data is transferred into the Commission's mainframe system.
Method of Calculation	The source of data is the mainframe system and is drawing from the pipeline database.
Data Limitations	None.
Calculation Type	Cumulative.
New Measure	No.
Desired Performance	Lower.

Output Measure	**2.1.1.d Number of LPG/CNG/LNG safety violations identified through inspections.**
Short Definition	Safety inspections identify violations of Commission safety regulations for LPG/LNG/CNG facilities. Violations are listed by each particular code section and associated with each individual safety inspection.
Purpose/Importance	Safety inspections are conducted to determine the compliance with the Commission's safety regulations for LPG/LNG/CNG installations. Noncompliance with the safety regulations are identified and recorded on the field evaluation data sheets.
Source/Collection of Data	The inspection reports include information on the type of installation and all observed violations. The data is transferred into the Commission's LPG Oracle database.
Method of Calculation	The source of data is the LPG Oracle database.
Data Limitations	None.
Calculation Type	Cumulative.
New Measure	No.
Desired Performance	Lower.

Output Measure	2.1.1.e Number of pipeline and LP-gas accident investigations and special investigations performed.
Short Definition	In addition to routine safety evaluations, special investigations and accident investigations are conducted on LP-gas and pipeline facilities to determine compliance with Commission safety regulations. Many investigations are initiated through public complaints and accident investigations in the event an accident occurs on a pipeline or at an LP-gas facility.
Purpose/Importance	Accident investigations are conducted to determine the probable cause of the incident and to determine if noncompliance may have contributed to the incident. Special investigations are conducted to monitor new construction and installation activities and to respond to consumer/public complaints.
Source/Collection of Data	Using the pipeline safety database and the LPG database, the number of accident and special investigations can be determined. Each investigation requires an on-site inspection which includes the completion of a field report, documenting the amount of time spent conducting the investigation and completing the report.
Method of Calculation	Using totals from each database the number can be determined.
Data Limitations	None.
Calculation Type	Cumulative.
New Measure	No.
Desired Performance	Target.

Output Measure	2.1.1.f Number of pipeline and LP-gas education programs administered.
Short Definition	Seminars are conducted by the LP-gas and pipeline safety representatives to increase awareness of pipeline and LP-gas safety and the requirements for compliance with the Commission safety regulations.
Purpose/Importance	Educational seminars are provided to pipeline and LP-gas industry employees as well as the general public to increase awareness regarding the Commission's safety program to increase compliance with the regulations.
Source/Collection of Data	A count of the number of seminars is maintained and totaled at the end of each quarter.
Method of Calculation	The total can be obtained from adding the record sheets from each meeting that documents the attendance.
Data Limitations	The hand count of records of education program dates.
Calculation Type	Cumulative.
New Measure	No.
Desired Performance	Higher than target.

Output Measure	2.1.1.g Number of pipeline and LP-gas permits and licenses issued or renewed.
Short Definition	Each LP-gas operator and dealer is required to have a license from the Commission to perform LP-gas activities and all pipelines are required to have an operating permit from the Commission.
Purpose/Importance	In order to gather and maintain information on the regulated industry, each LP-gas operator/dealer is required to have a license from the commission that requires testing, fee, and annual renewal. Pipelines are also required to have a permit from the Commission with an annual renewal.
Source/Collection of Data	All data for licensing and permits are entered into the Oracle database for LPG and the mainframe system for Pipeline Safety. The mainframe system is used for recording information on Pipeline Safety permit and licensing applications from applicants and the Oracle database is used for recording similar information for LPG/CNG/LNG
Method of Calculation	The totals can be calculated using the mainframe system.
Data Limitations	None.
Calculation Type	Cumulative.
New Measure	No.
Desired Performance	Target.

Efficiency Measure	2.1.1.a Average number of pipeline field inspections per field inspector.
Short Definition	Each field inspector is required to conduct a minimum number of field inspections. This summarizes the number of evaluations completed during any specific time frame and the number of inspectors available to conduct inspections.
Purpose/Importance	To maintain adequate staffing levels and projections for workload within fiscal years, it is important to use the average of inspections performed by inspectors.
Source/Collection of Data	The data is collected in the commission's mainframe system as part of the inspection process. Each inspection records the inspector performing the inspection and the time the evaluation was conducted. The number of field personnel is maintained in the section.
Method of Calculation	The number of evaluations completed during each reporting period is divided by the number of inspectors available to conduct inspections.
Data Limitations	There is no separate allowance for evaluations where multiple inspectors conduct an evaluation. In this instance the evaluation will only be counted once.
Calculation Type	Cumulative.
New Measure	No.
Desired Performance	Higher than target.

Efficiency Measure	**2.1.1.b Average number of LPG/CNG/LNG safety inspections per inspector.**
Short Definition	Each field inspector is required to conduct a minimum number of field inspections. This summarizes the number of evaluations completed during any specific time frame and the number of inspectors available to conduct inspections.
Purpose/Importance	To maintain adequate staffing levels and projections for workload within fiscal years, it is important to use the average of inspections performed by inspectors.
Source/Collection of Data	The data is collected in the Commission's Oracle system as part of the inspection process. Each inspection records the inspector performing the inspection and the time the evaluation was conducted. The number of field personnel is maintained in the section.
Method of Calculation	The number of evaluations completed during each reporting period is divided by the number of inspectors available to conduct inspections.
Data Limitations	There is no separate allowance for evaluations where multiple inspectors conduct an evaluation. In this instance the evaluation will only be counted once.
Calculation Type	Noncumulative.
New Measure	No.
Desired Performance	Higher than target.

Outcome Measure	3.1.a Percentage of oil and gas facility inspections that identify environmental violations.
Short Definition	The percentage of the total number of oil and gas facility inspections performed where at least one pollution-related violation was detected. Pollution-related violations include violations of Statewide Rules 8, 9, 13, 14, 17, 21, 46, 91, 94, and 98 (water protection, disposal wells, well completion and plugging, wellhead pressure, fire prevention and swabbing, fluid injection, oil spills, and hazardous waste management) and violations of 16 TAC Chapter 4, subchapter F (NORM waste disposal).
Purpose/Importance	This percentage measures the level of activity for the Commission's district offices associated with potential environmental threats, and is an indicator of the overall level of compliance by oil and gas operators in protecting the environment. From this percentage, a statistical projection of the number of compliant and non-compliant facilities and required Commission staffing may be deduced.
Source/Collection of Data	Data is collected manually in the field on "D-Forms" and captured in an automated database. Statistical reports are generated monthly.
Method of Calculation	This percentage is calculated by dividing the total number of oil and gas facility inspections where at least one pollution-related violation was detected by the total number of oil and gas facility inspections
Data Limitations	The number of non-compliant leases and facilities is affected by the health of the oil and gas industry, or the lack thereof. Increases/decreases in personnel and priority of inspection assignments also affect these numbers.
Calculation Type	Noncumulative.
New Measure	No.
Desired Performance	Less than target. This indicates that oil and gas facility inspections detected fewer pollution-related violations than predicted, thus indicating a higher level of compliance by the oil and gas industry.

Outcome Measure	3.1.b Percent of current surface mining operations (coal and uranium) that are in full compliance with applicable state and federal regulations.
Short Definition	The percentage of coal and uranium mining operations that are permitted and not subject to a reclamation bond forfeiture proceeding.
Purpose/Importance	The purpose of this outcome measure is to monitor the financial soundness of the coal and uranium mining industry.
Source/Collection of Data	The permitted acreage is contained in Commission orders and may be adjusted by administrative revisions. Bond forfeiture acres are from Commission bond forfeiture orders. Reclamation is determined to be complete when the acreage is returned to the landowner.
Method of Calculation	This percentage is calculated by dividing the total permitted surface coal and uranium mining acres, less the total reclamation bond forfeiture acres; by the total permitted surface coal and uranium mining acres.
Data Limitations	The bond forfeiture process is subject to various legal appeals therefore; forfeiture acres may continue to be counted for an extended period of time resulting in a performance target of less than 100% for more than one fiscal year.
Calculation Type	Noncumulative.
New Measure	No.
Desired Performance	Target.

Output Measure	3.1.1.a Number of oil and gas facility inspections performed.
Short Definition	This measure is the total number of inspections performed at a lease or other oil and gas facility by district staff and documented by a work report during the reporting period.
Purpose/Importance	The number of oil and gas facility inspections performed measures the level of activity for the Commission's district offices. A subset of this number measures the level of compliance (or non-compliance) by oil and gas operators.
Source/Collection of Data	Data is collected manually in the field on "D-Forms" and captured in a statewide D-System database (Oracle) maintained in the Field Operations section. Statistical reports are generated monthly.
Method of Calculation	This measure is generated monthly from the Field Operations section D-System database by an automated report that provides the total number of oil and gas facility inspections performed during the reporting period.
Data Limitations	Many factors impact the amount of time required to perform an inspection including type of inspection, number of wells inspected during one job, number/magnitude of detected violations, travel time, and weather conditions. As the time required to perform inspections increases, the overall number of inspections performed decreases. Increases/decreases in personnel and priority of inspection assignments also affect this number.
Calculation Type	Cumulative.
New Measure	No.
Desired Performance	Higher than target.

Output Measure	3.1.1.b Number of enforcement referrals for legal action due to oil and gas rule violations.
Short Definition	The total number of oil and gas leases and facilities referred to the Office of General Counsel, Enforcement section, wherein the responsible operator failed to initiate timely action to bring the lease or facility in compliance with statewide rules.
Purpose/Importance	This measure represents the level of non-compliance at the district office level that requires further enforcement action by the Commission.
Source/Collection of Data	Statistics on referrals to the Enforcement section are maintained in a Field Operations section spreadsheet application.
Method of Calculation	This number is generated monthly by summing the total number of referrals in the Field Operations section spreadsheet application for the reporting period.
Data Limitations	None.
Calculation Type	Cumulative.
New Measure	No.
Desired Performance	Lower than target. This indicates that operators are complying with district directives to bring non-compliant oil and gas facilities into compliance with Commission rules and regulations.

Output Measure	3.1.1.c Number of oil and gas environmental permit applications and reports processed.
Short Definition	The number of oil and gas environmental permit applications processed for disposal wells, waste hauler permits, surface storage and disposal, hydrocarbons storage and brine mining, and monitoring reports for UIC well volumes and pressures and mechanical integrity tests (also know as pressure tests) for oil and gas enhanced recovery and disposal wells, and pressure tests or fluid level readings for inactive wells
Purpose/Importance	This measure provides an indication of Oil & Gas division staff workloads and oil and gas activity in the state.
Source/Collection of Data	Count the total number of permit applications processed and monitoring reports received and reviewed during the reporting period. Data is maintained within mainframe and PC programs. Includes: Fluid injection wells (Forms H-1), disposal wells (Forms W-14), hydrocarbon wells (Forms H-4), brine mining wells (Forms H-2), pit applications (Forms H-11), minor permit applications, discharge applications, land farming applications, pipeline hydrostatic test permit applications, new/renewal waste hauler permit applications (Forms WH-1), UIC well monitoring reports (Forms H-10), report on test on inactive wells (Forms H-15), pressure test reports for UIC wells (Forms H-5), brine mining well monitoring reports, and hydrocarbon storage monitoring reports.
Method of Calculation	Add the number of permit applications processed and monitoring reports received and reviewed during the reporting period.
Data Limitations	Can be affected by any data entry delays.
Calculation Type	Cumulative.
New Measure	No.
Desired Performance	Higher than target.

Efficiency Measure	**3.1.1.a Average number of oil and gas facility inspections performed by district office staff.**
Short Definition	This figure represents the average number of oil and gas facility inspections performed during the reporting period by district staff.
Purpose/Importance	The average number of oil and gas facility inspections performed measures how efficiently the Commission's district office staff conducts the inspections. The number also measures the level of activity for the Commission's district office staff. By tracking the average number of inspections performed, it is possible to determine the total number of inspections that can be performed during a specified period. This measure serves as a management tool to predict future inspection performance.
Source/Collection of Data	Statistics on the total number of inspections, the number of district office staff, and the average number of inspections are maintained in the Field Operations section D-System database. Reports on these statistics are generated monthly.
Method of Calculation	This measure is generated monthly from the Field Operations section D-System database by an automated report that provides the total number of oil and gas facility inspections performed during the reporting period and the total number of district office staff performing the inspections. The report determines the average number of inspections performed by dividing the total inspections by the total number of district office staff performing the inspections.
Data Limitations	An inspection encompasses a lease or other oil and gas facility. Not all inspections require the same amount of time to complete due to the travel time required to reach the lease or facility, the number of wells on a lease, and the number of violations identified on the lease or facility. Some inspections (such as well casing cementing operations, well plugging operations, and injection/disposal well mechanical integrity tests) are more time consuming and are designed to verify compliance rather than identify violations. These factors impact the average number of inspections performed by district office staff. Increases/decreases in personnel and priority of inspection assignments also affect this number.
Calculation Type	Noncumulative.
New Measure	No.
Desired Performance	Higher than target

Outcome Measure	3.1.1.a Number of oil and gas wells and other related facilities subject to regulation.
Short Definition	Number of oil and gas wells, existing facilities holding an active environmental permit, including disposal and EOR wells carried on the schedule, and the number of other major facilities.
Purpose/Importance	The sum of these units is indicative of our regulatory tasks and allow for better allocation of resources for and prioritization of inspection and monitoring of environmental facilities.
Source/Collection of Data	Data is housed in mainframe and PC databases. This number includes: hydrocarbon storage facilities (wells), brine mining wells, commercial facilities, UIC wells, vehicles permitted by oil and gas waste haulers, in addition to well counts.
Method of Calculation	Add oil and gas well counts, hauler vehicles shown on PC database, commercial injection and disposal wells and hydrocarbon storage and brine mining wells shown on the schedule, commercial storage and disposal facilities permitted under Rules 8, 9 and 46.
Data Limitations	This is a constantly changing number since operators activate and deactivate facilities every day.
Calculation Type	Noncumulative.
New Measure	No.
Desired Performance	Target. Subject to market/field conditions.

Explanatory Measure	3.1.1.b Number of statewide rule violations documented.
Short Definition	This measure represents the total number of statewide rule violations reported by district office staff as a result of oil and gas facility inspections
Purpose/Importance	Oil and gas facility inspections are used to identify violations and initiate correction. The Commission takes appropriate enforcement action to achieve compliance on all reported rule violations including legal enforcement action, if necessary
Source/Collection of Data	The number of rule violations noted is maintained in the Field Operations D-System database.
Method of Calculation	The number is generated by an automated report from the Field Operations section D-System database that tallies the number of inspections and violations during the reporting period. These reports are generated monthly.
Data Limitations	None.
Calculation Type	Cumulative.
New Measure	No.
Desired Performance	Less than target. This indicates that oil and gas facility inspections detected fewer violations than predicted, thus indicating a higher level of compliance by the oil and gas industry.

Outcome Measure	3.1.2.a Number of coal mining inspections performed.
Short Definition	The total number of inspections conducted during the fiscal year to assure mining operations are conducted in compliance with issued permits and applicable regulations.
Purpose/Importance	This measure identifies the number of field inspections conducted to monitor the activities of permitted mining operations. On-site inspections of mining operations are the primary means to ensure that mining and reclamation is being conducted in accordance with the approved permit.
Source/Collection of Data	The number of inspections is documented through reports prepared for each on-site inspection of permitted mining operations. Inspection reports are prepared and filed in the administrative records for each mining permit.
Method of Calculation	The number of inspections is a cumulative count of all types of inspections performed during a reporting period. This number is determined from a review of the files for each mining permit and exploration registration.
Data Limitations	The frequency and type of inspections are dependent in part on the level of mining, reclamation or exploration activities that are ongoing during the reporting period.
Calculation Type	Cumulative.
New Measure	No.
Desired Performance	Higher than target.

Output Measure	**3.1.2.b Number of coal mining permit actions processed.**
Short Definition	The number of coal mining permit actions reviewed and processed to completion during the fiscal year. Permit actions include: applications for new permits, permit renewals, transfers, or revisions, exploration registrations renewed or issued, reclamation bond adjustments and releases, monitoring report evaluations, applications for blaster certifications, construction design documents and certifications, and initiation of the extended responsibility period.
Purpose/Importance	This measure provides a numeric count of the major administrative and technical reviews performed by the staff. The majority of program staff resources are allocated to these reviews, which are required to demonstrate mining operations are conducted in compliance with administrative and technical performance standards contained in the regulations or Commission orders.
Source/Collection of Data	The permit actions are tracked in a database with the decision document entry marking the completion of the permit action review. These decision documents consist of Commission orders, administrative approval letters, acknowledgement letters, blaster certificates, and exploration registrations.
Method of Calculation	The number of permit actions completed is a cumulative count of all actions with a decision document issued during a reporting period. This number is determined from a query of the permit actions database for actions completed during the reporting period.
Data Limitations	The number and timing of permit action requests is determined by the mining industry and not controlled by the Commission. Specifically, many of the construction design documents are affected by seasonal weather conditions; therefore creating a workload that is not necessarily linear over the evaluation period.
Calculation Type	Cumulative.
New Measure	No.
Desired Performance	Higher than target.

Efficiency Measure	3.1.2.a Average number of staff review days required to process coal mining permitting actions that require Commission decision.
Short Definition	The average number of staff days required to review and file requests for permit actions that require Commissioner's decision. Actions that require Commission decisions are those which are presented to the Commissioners for decision during a public meeting. These types of actions include those requiring public notice (new mining permits, permit renewals and transfers, significant permit revisions, release from reclamation bond liability), reclamation bond replacements in form or amount, and contested administrative permit revisions.
Purpose/Importance	This measure provides an indication of the responsiveness of staff in meeting certain target review time frames for major permitting actions. The measure is also important to illustrate to the coal mining industry the timeliness of staff in meeting these review timeframes.
Source/Collection of Data	This is a count of the number of staff review days, for permit action requests that require Commissioner's approval, completed during the reporting period. A database is maintained within the Surface Mining and Reclamation division that tracks the processing of permit action requests. Key processing milestones are documented with a database entry on the date of the event. Permit action reviews are considered complete when staff review documents are filed with the hearings examiner. The number of staff review days is a count of the calendar days beginning on the stamped receipt date through the staff review filing date.
Method of Calculation	Divide the aggregate total number of staff review days for all actions completed during the reporting period by the number of actions completed for the reporting period.
Data Limitations	The number and timing of applications for permitting actions is determined by the mining industry and not controlled by the Commission. The staff review time for different types of permitting actions also vary, dependent on the complexity of the permit action requested The ability to meet the performance measure may be influenced if more complex permit actions are submitted for review during the reporting period than estimated in establishing the performance measure target.
Calculation Type	Cumulative.
New Measure	No.
Desired Performance	Lower than target.

Efficiency Measure	**3.1.2.b Average number of staff review days required to process administrative coal mining permitting actions.**
Short Definition	The average number of staff days required to review administrative permitting action requests. These actions, which do not require public notice, are approved or denied by the division director and include: non-significant permit revisions, exploration registrations renewed or issued, reclamation bond map adjustments, monitoring report evaluations, applications for blaster certifications, construction design documents and certifications, and initiation of the extended responsibility period.
Purpose/Importance	This measure provides an indication of the responsiveness of staff in meeting certain target review time frames for administrative permitting actions. The measure is also important to illustrate to the coal mining industry the timeliness of staff in meeting these review timeframes.
Source/Collection of Data	This is a count of the number of staff review days for all administrative permit action requests completed during the reporting period. A database is maintained within the Surface Mining and Reclamation division that tracks the processing of permit action requests. Key processing milestones are documented with a database entry logging the date of the event. Permit action reviews are considered complete when a deficiency letter or director's final decision letter is sent to the permittee. The number of staff review days is based on the number of calendar days beginning on the stamped receipt date until the date staff is complete resulting in a deficiency letter or director's final decision letter.
Method of Calculation	Divide the aggregate total number of staff review days for administrative permitting action initial reviews completed during the reporting period by the number of administrative initial reviews completed for the reporting period.
Data Limitations	The number and timing of applications for permitting actions is determined by the mining industry and not controlled by the Commission. The staff review time for different types of permitting actions also vary, dependent on the complexity of the permit action requested. The ability to meet the performance measure may be influenced if more complex permit actions are submitted for review during the reporting period than estimated in establishing the performance measure target.
Calculation Type	Cumulative.
New Measure	No.
Desired Performance	Lower than target.

Explanatory Measure	3.1.2.a Number of acres permitted.
Short Definition	The total number of acres permitted for surface coal and uranium mining activities
Purpose/Importance	The purpose of this measure is to track the amount of land area that is subject to the Commission's mining regulations. This measure provides information that illustrates the size of the land area that the Commission must inspect.
Source/Collection of Data	Changes to permit acreage are contained in Commission orders (permit revisions, bond releases) or the director's approval letters for incidental permit boundary revisions. Each document that adjusts the permit area is recorded on the spreadsheet with the source document identified.
Method of Calculation	A spreadsheet is maintained to track adjustments to permit acreage for each mine. Whenever a document that adjusts permit acreage is filed in the administrative records the acreage adjustment is entered on the spreadsheet along with the approval date. The spreadsheet maintains a running total of the permit acreage.
Data Limitations	None.
Calculation Type	Noncumulative.
New Measure	No.
Desired Performance	Target.

Outcome Measure	3.2.a Percentage of known orphaned wells plugged with the use of state managed funds.
Short Definition	The ratio of the number of orphaned wells plugged with the use of state managed funds to the total number of orphaned wells. An orphaned well is a well for which production of oil or gas or another activity under the jurisdiction of the Commission has not been reported to the Commission for the preceding 12 months, and for which the Commission-approved organization report (Form P-5) has lapsed. State managed funds include the Oil Field Cleanup Fund and other funds appropriated to the agency.
Purpose/Importance	Provides an indication of the effectiveness of the state managed well plugging program.
Source/Collection of Data	An automated database captures the number of wells plugged with state managed funds. A separate automated database captures the number of orphaned wells.
Method of Calculation	The percentage is calculated by dividing the number of orphaned wells plugged by the number of wells that are orphaned.
Data Limitations	Does not distinguish between complex and/or deep pluggings which may be more time consuming, and have higher costs associated with them and routine shallow pluggings which may be more readily addressed, and less costly. The number of orphaned wells identified by the Commission's mainframe system is a dynamic number that changes daily.
Calculation Type	Cumulative.
New Measure	No.
Desired Performance	Higher than target. This indicates that the number of wells plugged with state managed funds (numerator) is higher than anticipated due to the plugging of more wells and/or the number of orphaned wells is lower than anticipated due to healthy economic conditions for the oil and gas industry.

Outcome Measure	3.2.b Percentage of identified abandoned pollution sites investigated, assessed, or cleaned up with state managed funds.
Short Definition	Percentage of identified pollution sites investigated, assessed, or cleaned up with state funds.
Purpose/Importance	Provides an indication of the effectiveness of the cleanup program.
Source/Collection of Data	An automated database captures the completion of abandoned pollution site investigations, assessments, and cleanups. Pollution sites are identified primarily through inspections, referrals from District Office field personnel and the general public.
Method of Calculation	This percentage is calculated by dividing the number of abandoned pollution sites investigated, assessed, or cleaned up using the Oil Field Cleanup fund and other state funds appropriated to the agency by the number of identified abandoned pollution sites.
Data Limitations	While the percentage is a reflection of effectiveness it is dependent on abandoned pollution site identification; therefore abandoned sites that have not yet been identified cannot be captured.
Calculation Type	Cumulative.
New Measure	No.
Desired Performance	A higher percentage indicates more effectiveness within the limits of the data.

Outcome Measure	3.2.c Percentage of abandoned surface mine sites on which reclamation has been initiated.
Short Definition	The number of abandoned surface mines where reclamation has been initiated since September 1, 1998, expressed as a percentage of the total number of prioritized unreclaimed, eligible and accessible abandoned surface mine sites as of September 1, 1998.
Purpose/Importance	This measure demonstrates the performance of the Abandoned Mine Land Reclamation program's planning, design and bidding effort and activity.
Source/Collection of Data	The number of Abandoned Mine Land projects initiated is determined by review of AML contract documents. The Abandoned Mine Land Inventory System, maintained by the U.S. Office of Surface Mining Reclamation and Enforcement, determines the total number of prioritized Abandoned Mine Land sites in Texas.
Method of Calculation	Divide the number of abandoned surface mine sites where reclamation has been initiated by the total number of prioritized unreclaimed, eligible and accessible abandoned surface mine sites as of September 1, 1998.
Data Limitations	The total number of unreclaimed prioritized, eligible and accessible abandoned surface mines may change if certain landowners change their minds and elect to participate in the Abandoned Mine Land Reclamation program.
Calculation Type	Cumulative.
New Measure	No.
Desired Performance	Higher than target.

Explanatory Measure	3.2.1.a Number of complex operator-initiated cleanups monitored and evaluated.
Short Definition	Number of complex operator cleanups monitored and evaluated to ensure appropriate remediation and elimination of an environmental threat. Complex cleanups are defined as sensitive site cleanups requiring specific cleanup levels and/or detailed assessments.
Purpose/Importance	Provides an indication of the effectiveness of the cleanup program for complex pollution sites that do not require the use of state managed funds to remediate.
Source/Collection of Data	Staff maintains a database of sites. Sites are identified by district and headquarters technical staff through inspections, complaints, or operators contacting the Commission while conducting environmental investigations as part of due diligence or during property transfers.
Method of Calculation	Reported annually. On the last day of each fiscal year, report the total number of operator cleanups involving sensitive environmental sites that require detailed assessment and cleanup activities that are currently in some stage of monitoring or evaluation.
Data Limitations	These sites may take several years to complete and frequently involve many hours of staff time to review and approve technical reports and corresponding site activities. Staff review time can vary significantly depending on the technical complexity or other factors.
Calculation Type	Noncumulative.
New Measure	No, but changed to an explanatory measure,
Desired Performance	Within the data limitations, lower numbers indicate the need for fewer environmental cleanups while higher numbers indicate more activity in the program.

Output Measure	3.2.1.b Number of abandoned pollution sites investigated, assessed, or cleaned up with the use of state managed funds.
Short Definition	Number of abandoned pollution sites where an investigation, assessment, or clean up activity is completed with the use of Oil Field Cleanup or other state funds appropriated to the agency.
Purpose/Importance	Provide an indication of the effectiveness of the cleanup program for abandoned sites requiring the use of state managed funds. It represents the number of abandoned sites from a pool of identified abandoned sites that are cleaned up with state managed funds.
Source/Collection of Data	An automated database captures the completion of abandoned pollution site investigations, assessments, and cleanups. Pollution sites are identified primarily through inspections, referrals from District Office field personnel and the general public.
Method of Calculation	A cumulative count of the number of abandoned pollution cleanup activities that are completed at abandoned pollution sites with monies from the Oil Field Cleanup Fund and other state funds appropriated to the agency. A cleanup activity is considered completed when the final invoices for the cleanup activity are approved for payment by the Site Remediation Section.
Data Limitations	Does not distinguish between major sites that are complex, time consuming, and costly compared to minor sites that may be smaller, more readily addressed, and less costly. Factors affecting this measure include funds availability, number of identified abandoned sites, availability of qualified contractors, and availability of field staff to supervise operations.
Calculation Type	Cumulative.
New Measure	No.
Desired Performance	A larger number indicates more pollution cleanup within the limits of the data.

Efficiency Measure	3.2.1.a Average number of days to complete abandoned state managed site cleanups.
Short Definition	Average number of days to complete state managed fund site cleanups.
Purpose/Importance	Provides an indication of the efficiency of state funded cleanups.
Source/Collection of Data	An automated database captures the beginning and completion of site cleanups.
Method of Calculation	Calculation is based on the date the abandoned site cleanup file is closed minus the date the abandoned site is approved for cleanup with state managed funds, summed for all sites and divided by the total number of site cleanups completed during the period. The file is closed when the final invoice is approved for payment.
Data Limitations	Does not distinguish between major sites, which may be complex, costly and require more time to complete and minor sites, which may be more rapidly completed.
Calculation Type	Noncumulative.
New Measure	No.
Desired Performance	Fewer average days generally indicates greater efficiency within the limits of the data.

Explanatory Measure	3.2.1.a: Number of identified abandoned pollution sites that are candidates for state managed funded cleanup.
Short Definition	Sites identified as abandoned with oil and gas waste, substances, or other materials that are causing or likely to cause pollution.
Purpose/Importance	Provides an indication of the number of pending state managed cleanup activities. Data is updated annually and used to calculate the performance measure regarding the percentage of identified abandoned pollution sites investigated, assessed, or cleaned up with state funds.
Source/Collection of Data	The figure is compiled and recorded annually on a statewide basis by surveying field personnel in coordination with databases maintained in headquarters.
Method of Calculation	Identified abandoned sites statewide are summed on an annual basis for a total number.
Data Limitations	While the figure is a total number, it does not differentiate between abandoned sites in terms of size, complexity, or possible cost. Also, abandoned sites not on the list may be cleaned up, such as emergency cleanups.
Calculation Type	Noncumulative.
New Measure	No.
Desired Performance	A higher number of abandoned sites indicate an increased magnitude of needed cleanups within the limits of the data.

Explanatory Measure	3.2.1.b Number of Voluntary Cleanup Program applicant operator initiated cleanups monitored and evaluated.
Short Definition	Number of Voluntary Cleanup Program (VCP) applicant cleanups monitored and evaluated to ensure appropriate remediation and elimination of an environmental threat.
Purpose/Importance	Provides an indication of the effectiveness of the Voluntary Cleanup Program. The purpose of the VCP is to provide an incentive to remediate property by removing the liability to the state of lenders, developers, owners, and operators who did not cause or contribute to contamination released at the site.
Source/Collection of Data	Staff maintains a database of sites. Sites are brought forward by eligible applicants wishing to clean up the property while paying for Commission oversight in return for a release of liability from the state.
Method of Calculation	Reported annually. On the last day of each fiscal year, report the total number of Voluntary Cleanup Program cleanups that are currently in some stage of monitoring or evaluation.
Data Limitations	These sites may take several years to complete and frequently involve many hours of staff time to review and approve technical reports and corresponding site activities. Staff review time can vary significantly depending on technical complexity or other factors.
Calculation Type	Noncumulative.
New Measure	No.
Desired Performance	Within the Data Limitations, lower numbers indicate the need for fewer environmental cleanups while higher numbers indicate more activity in the program.

Output Measure	3.2.2.a Number of orphaned wells plugged with the use of state managed funds.
Short Definition	The number of orphaned wells plugged by the Commission with the use of the Oil Field Cleanup Fund and other funds appropriated to the agency.
Purpose/Importance	This measure shows the level of well plugging activity conducted by the Commission to protect the environment. It represents the number of wells from the pool of orphaned wells that are plugged with state funds
Source/Collection of Data	The number of wells plugged with Oil Field Cleanup and other state funds is maintained in the Field Operations section PLUG database. Monthly Field Operations reports generate the number of wells plugged with state funds.
Method of Calculation	A cumulative count of the number of wells plugged with monies from the Oil Field Cleanup Fund and other funds appropriated to the agency.
Data Limitations	The number of wells plugged with state managed funds includes only those wells that have been physically plugged, have been invoiced by the plugging contractor, and whose invoice has been approved for payment by the Field Operations Section. Due to the complexity of some well plugging operations, higher plugging costs may be incurred, thereby reducing the number of wells actually plugged within budget constraints. Factors affecting this measure include; funds availability, number of approved wells, availability of qualified contractors, and availability of field inspectors to supervise operations.
Calculation Type	Cumulative.
New Measure	No.
Desired Performance	Higher than target. This indicates that the number of wells plugged with state managed funds is higher than anticipated due to the plugging of more wells with fewer complications.

Output Measure	3.2.2.b Total aggregate plugging depth of orphaned wells plugged with the use of state managed funds.
Short Definition	The total footage of the plugging depth for all orphaned wells plugged by the Commission with state managed funds
Purpose/Importance	Provides an indication of the effectiveness of the plugging program for wells requiring the use of state managed funds.
Source/Collection of Data	An automated database captures the plugging depth for all wells plugged with state managed funds.
Method of Calculation	Calculated by summing the plugging depth of each well plugged for a given period.
Data Limitations	Does not distinguish between complex and/or deep pluggings which are more time consuming, and routine shallow pluggings which are more readily addressed.
Calculation Type	Cumulative.
New Measure	No.
Desired Performance	Higher than target. This indicates that the Commission is plugging more wells and/or deeper wells than anticipated.

Efficiency Measure	3.2.2.a Average number of days to plug an orphaned well with the use of state managed funds.
Short Definition	The average number of days required to complete the plugging of a well using state managed funds.
Purpose/Importance	Provides an indication of the efficiency of the state managed well plugging program. By tracking the average number of days to plug a well, it is possible to determine the total number of wells that can be plugged during a specified period. This measure serves as a management tool to predict future well plugging performance and staffing needs.
Source/Collection of Data	An automated database captures the beginning and completion date of well plugging on a lease basis.
Method of Calculation	The average is calculated by subtracting the file closure date from the bid award date on a lease basis to obtain a cumulative total days for all wells plugged. This number is then divided by the total number of wells plugged.
Data Limitations	Due to the complexity and/or depth variations of some well plugging operations, longer plugging times may be incurred, thereby increasing the average number of days to plug a well.
Calculation Type	Noncumulative.
New Measure	No.
Desired Performance	Less than target. Fewer average days generally indicates greater efficiency within the limits of the data.

Explanatory Measure	3.2.2.a Number of orphaned wells approved for plugging.
Short Definition	The number of orphaned wells that have been inspected, evaluated using a risk based methodology (Well Plugging Prioritization System) and approved for plugging with state-managed funds.
Purpose/Importance	To maintain a continuous population of well plugging candidates that can be bid out and plugged to ensure that numerical and budgetary goals are achieved.
Source/Collection of Data	An automated database captures the number of orphaned wells approved for plugging with state managed funds.
Method of Calculation	A cumulative count of the number of orphaned wells approved for plugging with state-managed funds.
Data Limitations	The number of orphaned wells approved for plugging with state managed funds includes only those wells that meet the well plugging criteria and have been approved for plugging. Because there is a time lag between approval and actual plugging, the wells approved during the reporting period are not necessarily the same wells actually plugged during the reporting period.
Calculation Type	Cumulative.
New Measure	No.
Desired Performance	On target. This indicates that a sufficient number of orphaned wells are approved to ensure achievement of goals.

Explanatory Measure	3.2.2.b Number of known orphaned wells in non-compliance with the Commission plugging rule.
Short Definition	The number of wells that are non-compliant with Statewide Rule 14 (well plugging) and Statewide Rule 1 (delinquent Organization Report). A well is classified as orphaned if it has been inactive for a period of more than 12 months; is not covered by a bond, letter of credit; or other form of financial assurance; and for which the Commission approved Organization Report (P-5) has lapsed.
Purpose/Importance	This measure represents the total population of orphaned wells, and is an indicator of liability for use of state managed funds.
Source/Collection of Data	An automated database captures the number of orphan wells in non-compliance with the Commission's plugging rule.
Method of Calculation	This measure is generated monthly from the Commission's mainframe system by an automated report that provides the number of orphan wells from the total population of wells monitored by the Commission.
Data Limitations	The number of orphaned wells is a dynamic number that changes daily. The number of orphan wells is affected by the health of the oil and gas industry, or the lack thereof.
Calculation Type	Noncumulative.
New Measure	No.
Desired Performance	Less than target. This indicates that the number of orphan wells in non-compliance with the Commission's plugging rule is lower than anticipated as a result of a successful state managed plugging program and /or due to healthy economic conditions for the oil and gas industry.

Explanatory Measure	3.2.2.c Number of wells plugged, by operators, without the use of state managed funds.
Short Definition	The number of wells plugged by the oil and gas industry. A well is considered properly plugged when it complies with the provisions of the Statewide Rule 14 (well plugging) including the filing and approval of a well plugging report (Form W-3).
Purpose/Importance	Statewide Rule 14 (well plugging) is designed to prevent the migration of fluid in a well that may pose a threat to public safety and/or cause or threaten to cause pollution of surface and/or subsurface waters. This measure represents the level of plugging activity by the oil and gas industry. An increased level of plugging activity indicates that operators are plugging their wells and removing the threat posed by inactive wells that could potentially become orphaned in the future.
Source/Collection of Data	An automated database captures the total number of wells plugged.
Method of Calculation	The number of wells plugged by operators is determined by subtracting the number of wells plugged with state managed funds for the reporting period from the total number of wells plugged for the reporting period as determined by the Commission's mainframe system, which includes wells plugged with state managed funds. The difference is the number of wells plugged by the oil and gas industry.
Data Limitations	Wells plugged by operators and by the Commission with the use of state managed funds are captured by the Commission's mainframe system only after a well plugging report (Form W-3) has been processed by the Permitting and Production section. There is a time lag between actual plugging and well plugging report processing.
Calculation Type	Cumulative.
New Measure	No.
Desired Performance	Higher than target. An increased level of plugging activity indicates that operators are plugging their wells as required by Commission rules and these wells will not require plugging by the Commission

Explanatory Measure	3.2.2.d Percentage of active well operators who have more than 25% of their wells inactive.
Short Definition	This measure is the percentage of active well operators for whom more than 25% of their wells are inactive. An inactive well is a well that is not currently producing and is not identified as an active service type well.
Purpose/Importance	An operator who begins to accumulate a large percentage of inactive wells as compared to active wells begins to pose a potential problem of leaving behind abandoned unplugged wells. As long as an operator has a large percentage of active wells it is unlikely that he will be in a position to abandon his operations and leave behind unplugged wells. This measure will be a general indication of whether additional regulations might be necessary to require all operators to plug their inactive wells after a certain period of inactivity.
Source/Collection of Data	Data is collected electronically through a mainframe download (Program BWU180), which provides well status information for wells monitored by the Commission. This program is run monthly.
Method of Calculation	For each active operator with one or more wells, the ratio of inactive wells to total wells is calculated to determine whether that operator has an inactive-to-total ratio greater than 25%. The number of well operators who have an inactive-to-total ratio greater than 25% is divided by the total number of well operators to derive this percentage.
Data Limitations	Well status information is largely based upon findings reported by the operator; the Commission has minimal ability to verify those findings.
Calculation Type	Noncumulative. Well status and the inactive to total ratios for each operator are developed individually at each reporting cycle.
New Measure	No.
Desired Performance	Lower than target.

Output Measure	**3.2.3.a Number of acres of earthwork completed.**
Short Definition	The amount of acres of earthwork completed to remediate abandoned mine land related health and safety hazards and environmental degradation.
Purpose/Importance	This measure demonstrates on-the-ground progress made in eliminating abandoned mine land health and safety hazards and remediation of environmental degradation.
Source/Collection of Data	Staff inspection reports are used by to verify earthwork completion quantities in accordance with contract specifications. Inspection reports become part of the contract payment document file. Contract payment documents are in the Surface Mining division's project administrative files.
Method of Calculation	Add the number of acres of earthwork completed for the reporting period as shown on contract payment documents.
Data Limitations	Timing of contract and weather conditions can influence the results of this performance measure.
Calculation Type	Cumulative for the biennial reporting period.
New Measure	No.
Desired Performance	Higher than target.

Output Measure	**3.2.3.b Number of acres permanently revegetated.**
Short Definition	The acreage of regraded abandoned mine land (earthwork completed) planted with permanent self-sustaining vegetation.
Purpose/Importance	This measure demonstrates on-the-ground progress made in planting permanent vegetation required to prevent erosion of the regraded mine site and foster long-term agricultural productivity.
Source/Collection of Data	Staff inspection reports are used by to verify vegetation completion quantities in accordance with contract specifications. Inspection reports become part of the contract payment document file. Contract payment documents are in the Surface Mining division's project administrative files.
Method of Calculation	Add the number of acres of permanent seeding or sprigging completed for the reporting period as shown on contract payment documents.
Data Limitations	The activity represented by this performance measure is seasonal and therefore is not linear over time.
Calculation Type	Cumulative for the biennial reporting period.
New Measure	No.
Desired Performance	Higher than target.

Outcome Measure	4.1.a Percent of public requests for research or information received through Internet-based technology.
Short Definition	Public requests for research or information received through Internet-based technology will be analyzed on a percentage basis.
Purpose/Importance	The measure is intended to compare the number of requests received through Internet-based technology with the number of requests received by telephone, fax, US mail, and walk-in customers. Over time, the impact of the Internet on public requests can be assessed. For example, an answer to the following question will emerge: As Internet requests go up, will requests made through telephone, fax, US mail, and walk-in customers go up or down?
Source/Collection of Data	Each request received by telephone, fax, US mail, in person, and Internet-based technology (e-mail) is tabulated on a daily basis and reported monthly.
Method of Calculation	The percentage is calculated by dividing the total number of requests received by the Commission through Internet-based technology by the total number of requests received.
Data Limitations	One request can represent one document and a few minutes of research time, or one request can represent hundreds of documents and hours of research time.
Calculation Type	Noncumulative.
New Measure	No.
Desired Performance	Higher than target.

Output Measure	4.1.1.a Number of reports provided to customers from electronic data records.
Short Definition	This measure represents the number of requests received within Information Services for reports including either hardcopy reports or electronic data records.
Purpose/Importance	This measure reflects the level of public demand for energy information maintained at the Commission. The Commission's applications systems are used to record and monitor the activities of regulated entities and include regulatory information about each of the Commission's program areas as well as digital map data representing locations of regulated facilities across the State of Texas.
Source/Collection of Data	An automated system is used to capture the individual requests for information on the number of digital datasets output or the number of jobs required to generate multiple datasets of related information. An external customer is an entity who is external to the Commission such as an operator, another government agency, or a private individual
Method of Calculation	This measure is determined by tabulating the number of hardcopy reports or digital datasets provided to external customers by Information Services open records representatives. A request for electronic information is a request for electronic data records from the Commission's mainframe and Unix-based applications systems. For mainframe electronic and hardcopy information requests, each dataset generated is equal to one request. For Unix-based information requests each job executed is counted as one request. Individual and subscription information requests are counted using the same process.
Data Limitations	None.
Calculation Type	Cumulative.
New Measure	No.
Desired Performance	Higher than target.

Output Measure	4.1.2.a Number of documents provided to customers by Information Services.
Short Definition	Number of documents provided to customers from Information Services. A customer is an entity such as an operator, government agency other than the Commission, or a private company or individual. Maps, quad reports, vendacard copies, and photocopies made for other agencies are counted manually. One side of a piece of paper is equal to one document. For quad reports and subscriptions, a stapled or bound set of pages or microfiche set equals one document. With well logs and other oversize documents, one square foot of paper is equal to one document. For maps, a plotted map, digital bond map, or graphic image map is equal to one document.
Purpose/Importance	The measure is intended to show the volume of documents provided to customers.
Source/Collection of Data	The total number of documents comes from manual and computer-tabulated counts of the number of documents sold.
Method of Calculation	The total number of documents is determined by both manual and computer-tabulated counts of specific Railroad Commission documents sold or provided to external customers by Information Services.
Data Limitations	The measure captures the number of documents that are photocopied; however, it does not capture the number of documents that customers accessed without photocopying.
Calculation Type	Cumulative.
New Measure	No.
Desired Performance	Higher than target.

Explanatory Measure	4.1.2.a Number of external hits to the Commission's website.
Short Definition	This measure is the number of visits to the Commission's website originating from outside of the Commission.
Purpose/Importance	This indicator provides a measure of public access. It also provides a way to view trends in website access by the public and to measure the effectiveness of site updates that might include new functions and features.
Source/Collection of Data	Website visits are calculated using the electronic log files that are updated each time the Commission's Internet site is accessed.
Method of Calculation	The number of external website visits is determined by a software program that reads the log file and complies the information captured by the web server.
Data Limitations	This measure represents a single dimension of website activities. This measure does not include additional log file information about the website customer such as the number of pages accessed the number of hits excluding image, templates and style sheets or number of unique visits.
Calculation Type	Cumulative.
New Measure	No.
Desired Performance	Higher than target.

Appendix E – Workforce Plan

I. AGENCY OVERVIEW

The Texas Legislature created the Texas Railroad Commission in 1891 when it was given jurisdiction over rates and operations of railroads, terminals, wharves, and express companies, hence the name of the Commission was established as Railroad Commission of Texas. In 1917, the Legislature declared pipelines to be common carriers, giving the Commission regulatory authority over them; it also gave the Railroad Commission jurisdiction and responsibility to administer conservation laws relating to oil and natural gas production. During the 1920's the Commission was given additional regulatory responsibility over motor carriers and natural gas utility companies. During the 1930's additional regulations over oil and natural gas production were enacted, primarily to conserve natural resources and protect the correlative rights of mineral interest owners. The first pipeline safety regulations requiring the odorization of natural gas were adopted during that decade, as well.

During the 1950's and 1960's environmental concerns were addressed by the adoption of additional oil and gas operation regulations. Also during this period, safety authority over LP-gas products was delegated to the Commission. In the 1970's the Commission assumed authority over coal and uranium surface mining operations, and federal pipeline safety standards were adopted for natural gas pipelines. Throughout the 1980's and 1990's additional environmental and safety responsibilities in the oil and gas production, natural gas utility, hazardous liquids pipelines, LP-gas, and surface mining industries were delegated to the Commission. In 1994, the motor carrier industry was deregulated and the Commission's remaining motor carrier responsibilities were transferred to the Texas Department of Transportation (TxDOT). In 2005, the Commission's rail safety responsibilities were transferred to TxDOT.

HISTORY	
1891	Texas Railroad Commission created.
1917	Regulation of pipelines. Conservation laws relating to oil & natural gas production.
1920's	Regulation of motor carriers and natural gas utility companies.
1930's	Additional regulation over oil and natural gas production. Odorization of natural gas.
1950's & 60's	Environmental concerns. Safety authority over LP-gas products.
1970's	Authority over coal & uranium surface mining. Federal pipeline safety standards.
1980's	Additional environmental and safety responsibilities.
1990's	Research & education on alternative fuels. Transfer of motor carrier responsibilities to TxDOT.
2001	Sunset Review continued the Commission until September 1, 2014.
2005	Transfer of last rail function to TxDOT.

With these changes over time, the current service responsibilities of the Commission are with five basic industry segments. They

are: (1) oil and natural gas exploration and production, (2) natural gas and hazardous liquids pipeline operations, (3) natural gas utilities, (4) LP-gas service, and (5) coal and uranium mining. Today, the majority of the resources of the Commission are dedicated to the area of oil and natural gas exploration and production regulation. Approximately 72% of the staff (direct & indirect) is dedicated to the oil and natural gas industry, 14% to the pipeline and natural gas utility industries, 6% to the LP-gas industry, and the remaining 8% to the coal and uranium mining industry.

Three statewide officials, who are elected to 6-year staggered terms, head the Commission. Serving at the discretion of the Commission is an Executive Director who implements policies and rules, and manages the daily operations of the Railroad Commission. Supporting the Executive Director is a management team comprised of the Deputy Executive Director and Division Directors who oversee various aspects of the organization.

The Commission's current operating budget for fiscal year 2006 is $66,841,794 with 716.5 FTE's. The Commission's central office is located in the Capitol Complex at the William B. Travis Building, 1701 North Congress, Austin, Texas. Approximately 61% of the Commission's staff is located in this headquarters office. The remaining staff is located throughout the state in Commission field offices.

The Commission has 14 field locations:

- Abilene
- Amarillo
- Corpus Christi
- Garland
- Houston
- Kilgore
- Midland
- Pampa
- San Angelo
- San Antonio
- Sweetwater
- Tyler
- Weslaco
- Wichita Falls

These offices contain various combinations of employees from the following functional areas: Oil and Gas, Pipeline/LP-gas Safety, Utility Audit, Surface Mining, and Alternative Fuels Research and Education.

A. Agency Mission

We serve Texas by our stewardship of natural resources and the environment, our concern for personal and community safety, and our support of enhanced development and economic vitality for the benefit of Texans.

B. Strategic Goals and Objectives

Goal 1: Energy Resources

Support the development, management, and use of Texas' lignite, oil and gas energy resources to protect correlative rights, provide equal and fair energy access to all entities, ensure fair gas utility rates, and promote research and education on use of alternative fuels.

Objective 1.1. Increase opportunities for lignite, oil and gas resource development while preventing waste, protecting the correlative rights of mineral interest owners, and conserving the state's lignite, oil and natural gas resources.

Strategy 1.1.1. Protect correlative rights and prevent waste while maximizing opportunities for the development of lignite, oil and gas resources through well site permitting, production allowables, production rule reviews, and exception processing.

Objective 1.2. Maintain competitive prices and adequate natural gas supplies for Texas energy consumers and reduce the historical decline in use of odorized propane in Texas markets.

Strategy 1.2.1. Oversee natural gas utility rate structures that promote safe, efficient, and reliable supply at a reasonable cost and audit regulated gas utilities to ensure compliance with rate structures and submission of gas utility taxes.

Strategy 1.2.2. Develop and implement research and technical services, marketing, and a public education plan to increase the use of LP-gas as an alternative fuel.

Goal 2: Safety Programs

Advance safety in the delivery and use of Texas petroleum products and in the operation of the Texas pipeline system through training, monitoring and enforcement.

Objective 2.1. By 2009, improve safety in the pipeline industry and the LPG/CNG/LNG products business from FY 2002 levels.

Strategy 2.1.1. Ensure the safe operation of pipelines and LPG/CNG/LNG businesses through licensing and permitting, field inspections, accident investigations and emergency response.

Goal 3: Environmental Protection

Assure that Texas fossil fuel energy production, storage, and delivery is conducted to minimize harmful effects on the State's environment and to preserve natural resources.

Objective 3.1. By 2007, reduce the occurrence of identified pollution violations associated with fossil fuel energy production in Texas from FY 2002 levels.

Strategy 3.1.1. Assure that Oil and Gas permitted activities comply with applicable state and federal regulations through field inspections, witnessing tests, monitoring reports, processing applications and enforcement actions.

Strategy 3.1.2. Assure that Surface Mining permitted activities comply with applicable state and federal regulations through field inspections, witnessing tests, monitoring reports, processing applications and enforcement actions.

Objective 3.2. Identify and correct existing environmental threats through voluntary operator actions or with use of state funds.

Strategy 3.2.1. Protect public health and the environment by identifying, assessing, and prioritizing sites that require the use of state funds for remediation and provide assistance for operator-initiated corrective actions.

Strategy 3.2.2. Protect public health and the environment by identifying, assessing, and prioritizing wells that require the use of state funds for plugging and provide assistance for operator-initiated corrective actions.

Strategy 3.2.3. Protect public health and the environment by identifying, assessing, and prioritizing mine lands that require the use of state funds for reclamation and provide assistance for operator-initiated corrective actions.

Goal 4: Public Access to Information and Services

Strive to maximize electronic government and to minimize paper transactions by developing technological enhancements that promote efficient regulatory programs and preserve and increase public access to information.

Objective 4.1. Increase efficiency in providing public access to information and provide more efficient interaction with regulated industries.

Strategy 4.1.1. Collect, maintain, and preserve GIS and Well Mapping data submitted to the Commission; provide efficient public access to this information; offer regulated industries a means to conduct their business electronically.

Strategy 4.1.2. Collect, maintain, and preserve oil and gas data submitted to the Commission; provide efficient public access to this information; offer regulated industries a means to conduct their business electronically.

C. Anticipated Changes in Mission, Strategies, and Goals

The Railroad Commission does not expect significant changes in its mission, strategies or goals during the next five years, but it does recognize the need to adapt readily to any changes required by legislation.

II. CURRENT WORKFORCE PROFILE

A. Critical Workforce Skills

The Commission employs qualified individuals in numerous program disciplines. Strong employee competencies are critical to meet ongoing business objectives and goals. The skills identified as critical are listed below:

- Engineering
  - Chemical
  - Civil
  - Mechanical
  - Mining
  - Natural Gas
  - Petroleum
- Information Technology
- Sciences
  - Agronomy
  - Chemistry
  - Geology
  - Hydrology
  - Soil Science
  - Toxicology
- Attorneys
- Finance

The specific skills and qualifications that are critical include:

- Technology/computer/automation skills and competencies, and
- Leadership and management skills.

B. Workforce Demographics (As of February 28, 2006)

Gender

As of February 28, 2006, RRC had 393 male employees (56.2%) and 306 female employees (43.8%). The total of 699 employees includes both full-time and part-time employees.

Gender		
Male	393	56.2%
Female	306	43.8%

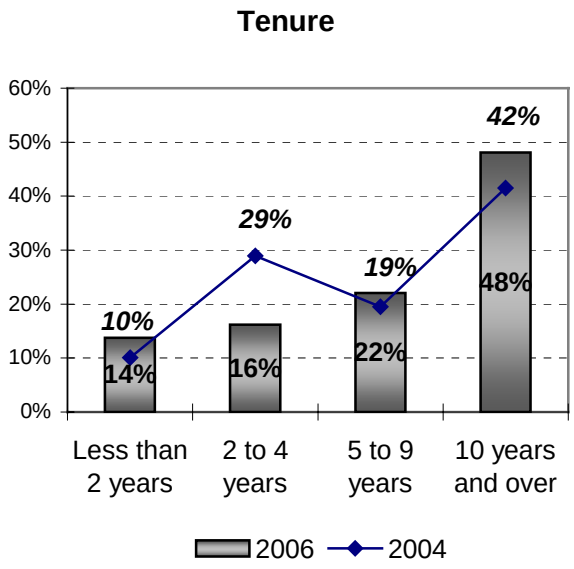
Age

Over 78% of RRC's current employees are over the age of 40. With only 21% of the Commission's workforce under 40 years old, the Commission must aggressively plan how to replace the knowledge of the 189 employees who are eligible to retire before the end of FY 2011.

Age		
Under 30 years	36	5.1%
30 - 39 years	113	16.2%
40 - 49 years	234	33.5%
50 - 59 years	**249**	**35.6%**
60 years and over	67	9.6%
TOTAL	699	100.0%

Tenure

On the last day of February 2006, the Commission had 96 employees with less than two years of agency service, and 113 employees with less than five years of service with the agency. There were 154 employees (22.0%) with five to nine years of service, and 336 (48.0%) had ten or more years of service. The chart below reflects the agency's workforce tenure. Results from the Survey of Organizational Excellence indicate there is a desire by our employees to continue long-term employment, but inadequate pay is the primary concern for employees in their future employment with the Commission.



Job Category

The table below outlines the job categories of Commission employees. The "Professional" category has the largest number (39%) of agency employees, which reflects the qualifications required to accomplish the Commission's regulatory goals. The Commission has a highly educated workforce with many employees holding advanced degrees or credentials.

Job Categories As of February 28, 2006		
Officials, Administration	54	7.7%
Professional	**275**	**39.3%**
Technical	164	23.5%
Para-professional	36	5.2%
Administrative Support	165	23.6%
Skilled Craft	5	0.7%
TOTAL	699	100.0%

Diversity

The following table compares the Commission's African American, Hispanic and female employees to the state civilian workforce as reported by the Commission on Human Rights. The Commission is committed to a diverse workforce and will continue to work diligently to meet the goals of the state of Texas.

RRC Diversity by Job Category
As of February 28, 2006

	African American		Hispanic		Female	
Job Category:	**RRC %**	State Goal	**RRC %**	State Goal	**RRC %**	State Goal
Officials, Administration	**3.9%**	3.7%	**17.6%**	10.0%	23.5%	30.0%
Professional	6.2%	8.7%	**14.5%**	9.3%	36.0%	46.3%
Technical	3.7%	13.2%	**17.7%**	16.4%	15.2%	39.7%
Para-professional	8.3%	22.7%	**22.2%**	28.5%	**72.2%**	55.6%
Administrative Support	14.5%	19.2%	**33.9%**	21.6%	**85.5%**	81.3%
Skilled Craft	0.0%	10.0%	**20.0%**	24.3%	**40.0%**	16.7%
TOTAL	**7.5%**		**20.5%**		**43.8%**	

Source: Comptroller of Public Accounts and State Auditor's Human Resource Information System

C. Employee Turnover and Projected Attrition

Turnover is important to any organization and the Commission is no exception. As noted by the table, the Commission's turnover rate over the previous years has averaged around 10% except in FY 2003, when the Commission performed the Efficiency Review and the Legislature created the Retirement Incentive Bonus. Commission turnover would have been about 10% for 2003, but 44 employees took advantage of the Retirement Incentive Bonus.

Employee Turnover

FY	2002	2003	2004	2005
RRC	**8.4%**	**15.5%**	**9.3%**	**10.0%**
State of Texas	14.8%	17.4%	14.8%	18.9%
Article VI	10.8%	11.7%	9.5%	11.5%

Results from the Survey of Organizational Excellence indicate there is a desire by our employees to continue long-term employment, but inadequate pay is our employees' primary concern. Exit interview statistics re-confirm low pay as a motivator to change jobs and leave the Commission. Many leave employment in state government for higher compensation, but a significant number go to other State or Federal agencies for similar jobs posted in a higher salary group. A comparison of pay to other agencies with a similar scope notes that we pay our employees almost 20% less than our peer agencies.

FY 2005 Terminating Employees By RRC Tenure		
Less than 2 years	**16**	**21.6%**
2 to 5 years	**13**	**17.6%**
5 to 10 years	**15**	**20.3%**
10 to 15 years	5	6.8%
15 to 20 years	3	4.0%
20 to 30 years	8	10.8%
Greater than 30 years	14	18.9%
Total	74	100%

The highest percentage of turnover occurs among employees under 40 years of age. As mentioned in previous Workforce Plans, the greatest concern for turnover among different age groups continues to be the Commission's inability to retain the employees under the age of forty. As noted on the chart below, 24 (32.4%) employees under the age of forty elected to leave the Commission in FY 2005. Twenty-two of the 24 had tenure of less than five years.

FY 2005 Terminating Employees By Age		
Under 30 years	**10**	**13.5%**
30 – 39 years	**14**	**18.9%**
40 - 49 years	20	27.0%
50 - 59 years	23	31.1%
60 years and over	7	9.5%
Total	74	100%

Terminating Employees by RRC Tenure and Age

Retirement Eligibility

Statistics show a gradual increase in the number of Commission employees eligible to retire over the next six years. By fiscal year 2011, more than 27% of the Commission's current workforce will be eligible to retire. By comparison, the 2005-09 Workforce Plan projected 22% for an increase of 5%. This steady increase in the number of employees retiring indicates the Commission will lose a significant portion of its most knowledgeable employees, including many in critical positions.

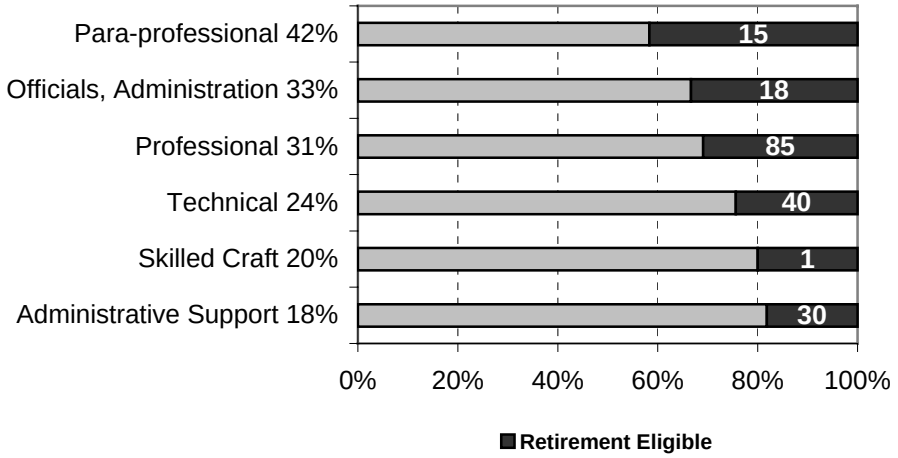
Most of the Commission's leadership positions, including Division Directors and District Office Directors, will be eligible to retire during the next six years. The Commission has identified specific workforce skills including engineers, scientists and attorneys who will be eligible for retirement. In order to replace these important skills, succession planning as well as a greater focus on internal organizational development and training will be required as our workforce planning evolves. When a retirement occurs and no internal applicant emerges, then there will be increased pressure to recruit from outside the Commission. The obvious barrier to external recruiting is competition with private sources, the associated recruitment costs and also the downtime regarding continued delivery of service.

Projection of Commission Employees Eligible for Retirement in the Next Six Years

FY		
2006	27	3.9%
2007	30	4.3%
2008	33	4.7%
2009	40	5.7%
2010	33	4.7%
2011	26	3.7%
Total	189	27.0%

Percentages based on headcount of 699

Retirement Eligible by Job Categories



III. FUTURE WORKFORCE PROFILE

A. Expected Workforce Change

The Commission is currently addressing the need to automate regulatory functions and continues to make automation a priority. The major focus is in the Oil and Gas Division, which represents 50.5% of our workforce. Once automation is accomplished, a reassignment or reduction of qualified employees that conducted these processes manually will occur. Assessment of these job functions along with the assessment of our workforce skills will take place. The reductions in these areas will be redirected to increase field presence and better monitor oil and gas activity statewide. Employee attrition and the high level of employees eligible to retire should decrease the actual number of potential reductions in force.

Recognizing the significant potential savings in taxpayer dollars by consolidating state agency data centers, the 79th Legislature (Regular Session) passed HB 1516. The Railroad Commission of Texas is one of 27 state agencies directly impacted by this legislation. The Data Center Consolidation (DCC) is designed to consolidate equipment and jobs where duplication of effort exists among the agencies by outsourcing the functions and equipment to a third party service provider.

The impact of HB 1516 on the RRC workforce is difficult to assess at this time because details of the contract with the service provider is not expected to be completed until December 2006. However, early estimates indicate that up to 30% of employees within the Information Technology Services (ITS) Division could be affected as a result of this legislation.

B. Anticipated Increase or Decrease in Number of Employees Needed

As a result of increasing public demands in the areas of pipeline safety and environmental protection in the oil and gas industry, it is expected that a greater distribution of Commission resources will be directed to these areas in the future. To address this public demand additional resources will be required. Technology advancement is a primary goal of the Commission and will satisfy some of these increasing demands, but technology alone cannot address all the concerns for monitoring, reviewing, and physically inspecting the facilities of the regulated industries. One anticipated change would be to increase our field presence to improve regulatory functions of oil and gas activity statewide.

C. Future Workforce Skills Needed

The workforce that is needed to meet Railroad Commission performance objectives is as follows:

- **Engineers**
- **Computer Programmers and System Analysts**
- **Attorneys**
- **Scientists (Geologists, Toxicologists, Agronomists, Hydrologists, Chemists)**
- **Accounting Professionals**
- **Administrative Support Staff**

These functions are also needed to achieve the Commission's Strategic Plan. Workforce skills are developed through various training provided by the appropriate professional disciplines. Such training is used to maintain and improve employee skills and enhance performance by incorporating new trends in each discipline.

While the basic regulatory functions of the Railroad Commission are projected to be the same or similar in the future, the development and implementation of technological enhancements will require new skills. Future functions to accomplish Railroad Commission goals will have the following focus:

- Increase computer skill sets for employees,
- More electronic focus for record keeping and processing of information,
- Increase and maintain high levels of customer service skills by maximizing electronic government and minimizing paper transactions, and
- Create and develop a comprehensive training program as part of the HR partnership with the agency divisions and management.

IV. GAP ANALYSIS

A. Anticipated Surplus or Shortage of Workers or Skills

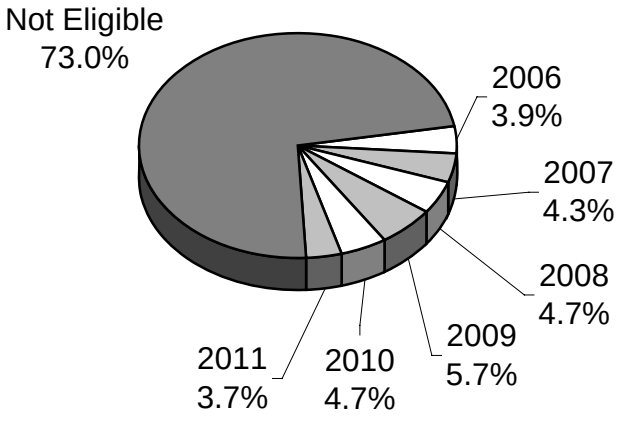
With more than 27% of the Railroad Commission workforce being eligible for retirement by FY 2011, the Commission projects a shortage in staffing and skill levels needed to meet future requirements of the Commission. The projected staffing areas with an anticipated shortage of employees that are most affected by the retirement eligibility include the following:

- **Information Technology**
- **Engineering, Toxicology, Geology, Hydrology**
- **Leadership**
- **Attorneys**

The Commission believes replacing projected retirements and anticipated turnovers in management will require succession planning and greater emphasis on professional development and training to replace skill sets that will be leaving. Likewise, with additional professional development and training, the Commission believes the agency's current workforce has the skills required to replace the anticipated staffing needs noted above.

An important barrier that will be faced by the Commission in replacing all skill sets is funding, both for professional development and training of existing employees, and the associated recruiting expenses of hiring external employees.

Percent of Staff Who Are Retirement Eligible Over the Next Six Years - 27%



Normal expected retirement over six years would be 15% based on 40 years of employment.

V. STRATEGY DEVELOPMENT

GOALS To Address Workforce Gap
Career Development
Recruitment Plans
Leadership Development
Organizational Training and Development
Succession Planning
Retention Programs

Goals to address the Railroad Commission's projected workforce gap will include the following:

- Career development programs – Such programs as mentoring, the development of internships for professional areas and an increase in professional training and development for staff will be initiated throughout the agency.
- Recruitment plans – Recruitment efforts will focus on areas that are difficult to attract and retain such as engineering, attorneys and the recruitment of women and minorities.
- Leadership development – Efforts will be made to identify, retain and develop existing employees with management and leadership capabilities. This will require the funding to identify and increase leadership training.
- Organizational training and development – Funding for in-house training such as IT training, managerial training and skill development will be needed to address individual employee training needs for the day to day operations of the agency.
- Succession planning – By implementing this goal, managers and supervisors will be made aware of what skill sets are critical to meeting their objectives and can plan for employee attrition. Succession planning will also address staffing or skill imbalances due to turnover and retirements.
- Retention Programs – Some programs are already in place to help retain the employees who have skills critical to the Commission's success, now and in the future, such as the Recruitment and Retention Bonus Program, and the Flextime and Staggered Work Hours programs.

The success of these goals is dependent upon adequate funding.

A. Implementation of Workforce Plan

The Workforce Plan will be implemented in connection with the Railroad Commission's Strategic Plan. Strategic Plan changes due to leadership, if any, or legislative changes may result in adjustments to the Workforce Plan.

To begin the implementation of the Workforce Plan the following actions have been taken and will proceed as the actions are completed.

- Each Division Director will participate in a staffing questionnaire. The questionnaire is designed to raise awareness for the Director regarding the age, diversity, and skill level of current staff, and the impact of these 3 factors on the goals and objectives of the division.

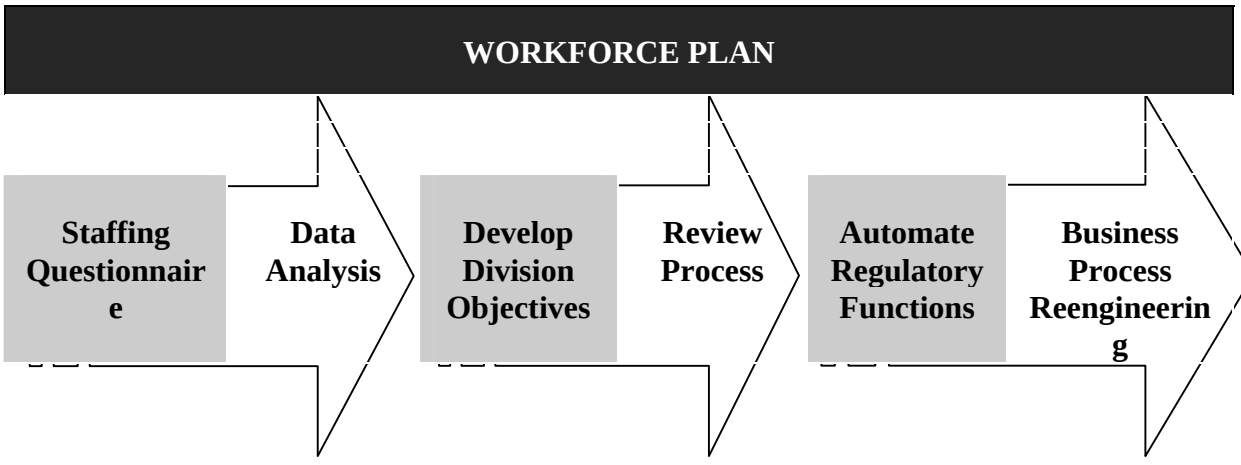
- Data representing the Railroad Commission workforce will be distributed to the Directors to assist in completing the questionnaire. Data will include turnover, retirement eligibility, diversity of immediate workforce, and tenure.

- The Human Resource function will develop a stronger business partnership with each of the divisions. By doing so, such areas as training needs, strategic planning of workforce to meet division objectives, and long range planning of workforce needs can be addressed on an ongoing basis.

- Division Directors along with the Commission will review progress of the Workforce planning process biennially. Adjustments to the Plan, if any, will be documented.

- During the next five years, the initiative to automate our regulatory functions in the Oil and Gas Division will require the Commission to critically assess the following areas: competency gaps in technological skills, job functions, and skill shortages or surplus within the division.

- Business process reengineering to ensure an effective and efficient outcome of Commission service.



B. Workforce Plan Evaluation and Revision

The final phase involves monitoring, evaluating, and revising to ensure a successful Workforce Plan. The following critical employment tools will be available to measure and evaluate changing trends in the workforce.

- The Survey of Organizational Excellence
- Customer Service questionnaires and feedback
- Retirements, projected retirements and agency turnover
- College and Diversity recruiting programs
- The Statewide Exit Survey and our internal Railroad Commission Exit Interview System
- Hiring trends including the time to hire

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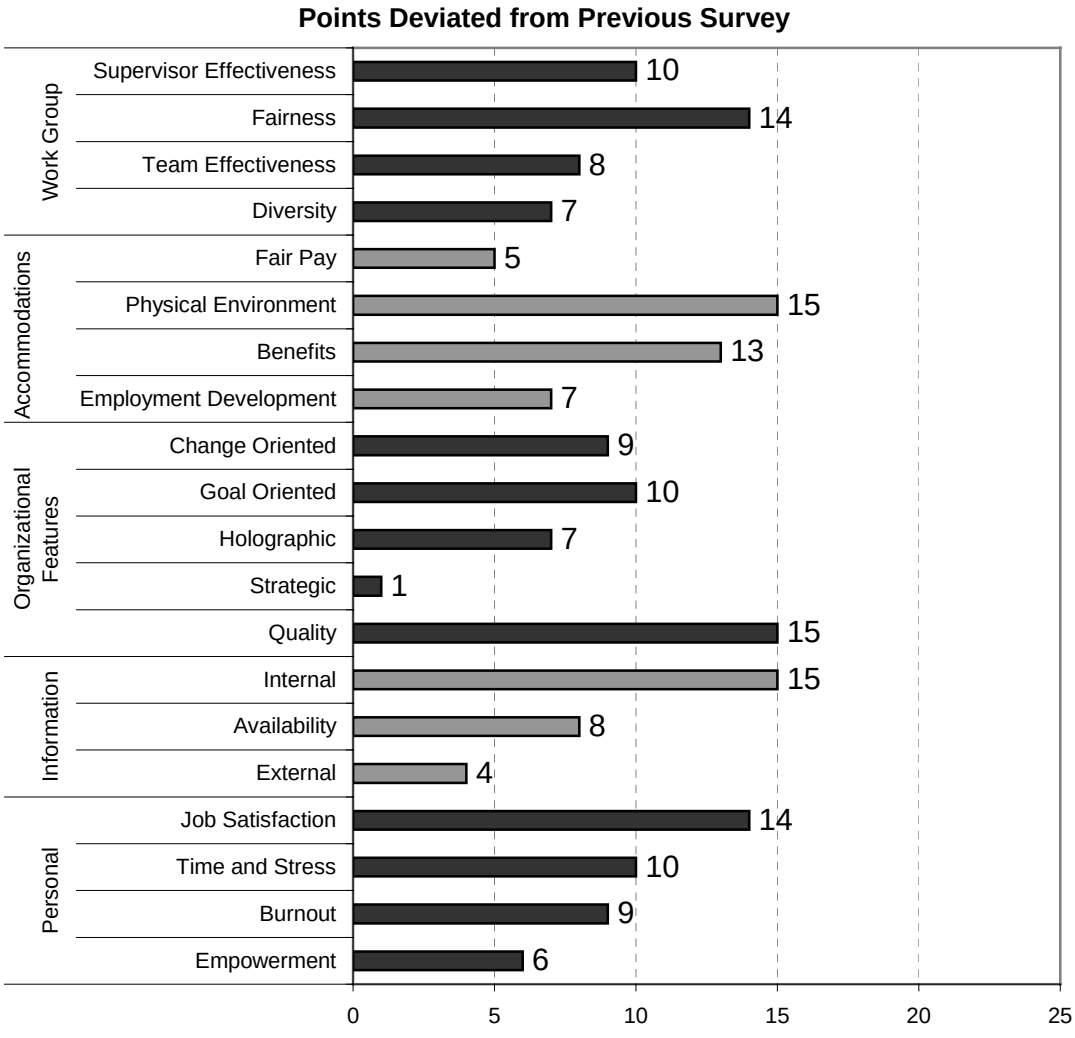
This effort to revise and acclimate the Commission's Workforce Plan will occur each even-numbered fiscal year in preparation for the upcoming fiscal year. As in this Workforce Plan, Commissioners, upper level Directors and Division Directors will participate to insure that the plan evolves into a document that reflects the Commission's workforce at that time and into the succeeding five years. Emphasis will be placed upon professional training development to deal with the turnover in management due to projected retirements. Internal professional training and development will be the key to successful transition, both from a budget standpoint as well as curriculum. In the short run, the Commission may suffer productivity losses, but in the long run, the benefits will outweigh the losses.

Appendix F - Survey of Organizational Excellence

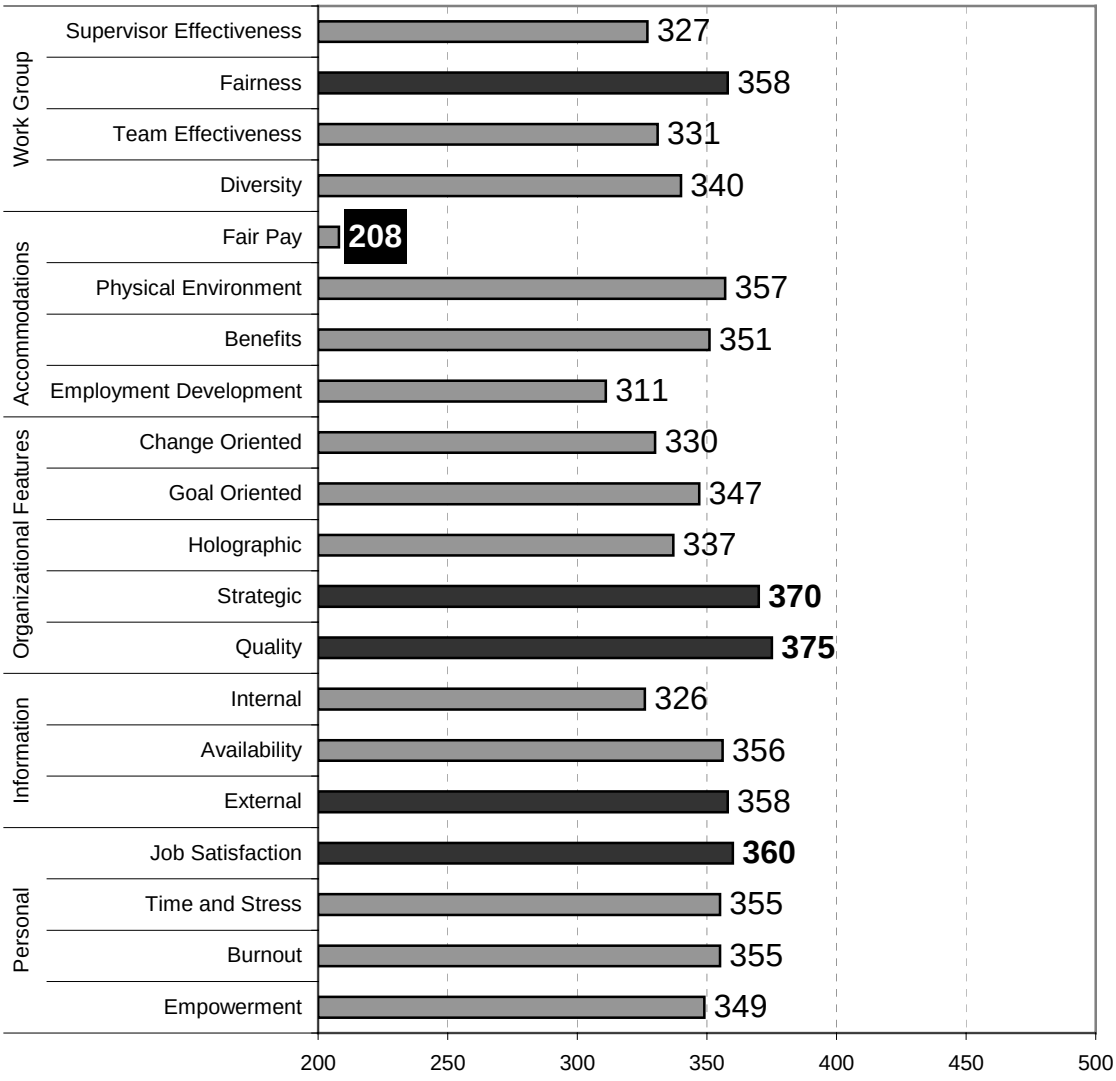
The Railroad Commission participated in the 2005 - 2006 Survey of Organizational Excellence to obtain information about work force issues that impact the quality of service ultimately delivered to all customers. The data collected by the Survey assisted the Commission in understanding, from the viewpoint of the employee, what the Commission is doing well and where improvement efforts should be targeted. We believe understanding how employees perceive various aspects of the workplace is critical to implementing successful change.

Conclusions from the Survey are based on 376 respondents (53%) from 715 distributed surveys. In comparison to the last Survey, results obtained in 2003-04, the Commission experienced positive growth in 20 out of the 20 constructs.



The highest scoring constructs, or areas of strength, for the Commission included:

- **Quality** (375) – Quality focuses upon the degree to which quality principles, such as customer service and continuous improvement, are a part of the organizational culture. This construct also addresses the extent to which employees feel that they have the resources needed to deliver quality services.
- **Strategic Orientation** (370) – Strategic Orientation reflects employees' thinking about how the organization responds to external influences that should play a role in defining the organization's mission, vision, services and products.
- **Job Satisfaction** (360) – Job satisfaction addresses employees' attitude about the overall work situation. This construct looks at the degree to which employees intrinsically like their jobs and the total work environment. It focuses upon both the job itself and availability of resources to do the job.



The lowest scoring constructs, or areas of concern, are as follows:

- **Fair Pay** (208) – Fair pay addresses perceptions of the overall compensation package offered by the organization. It describes how well the compensation package "holds up" when employees compare it to similar jobs in other organizations.
- **Employee Development** (311) – Employee Development is an assessment of the priority given to the employees' personal and job growth.
- **Internal Information** (326) – Internal Information captures the flow of communication within the organization from the perspectives of top-down, bottom-up, and across divisions or departments.

On a scoring range from a low of 100 to a high of 500, our scores ranged from 375 to 208 with only one score in the 200 range (Fair Pay-208). Scores above 300 suggest that employees perceive the issue more positively than negatively. Scores below 200 should be a significant source of concern for the organization.

A score above the neutral midpoint of "3.0" suggests that employees perceive the issues more positively than negatively. Conversely, a score below "3.0" indicates a more negative view by employees. Possible responses ranged from "1.0" to "5.0"

Appendix G – Enabling Statutes

Citation/Title	Authority/Impact on Agency
Tex. Const., Art. 16, §30(b)	Establishes that when law creates a Railroad Commission, it shall be composed of three Commissioners, elected statewide for staggered six-year terms, and that the Governor shall fill a vacancy by appointment until the next general election.
Tex. Health & Safety Code, §401.020	Requires Commission to consider recommendations and advice of the Texas Radiation Advisory Board.
Tex. Health & Safety Code, §401.415	Grants the Commission sole authority to regulate and issue licenses, permits, and orders for the disposal of oil and gas NORM (naturally occurring radioactive material) waste.
Tex. Health & Safety Code, §756.126	Directs the Commission to adopt and enforce safety standards and best practices, including those described by 49 U.S.C. §6105, et seq., relating to the prevention of damage by a person to a facility under the jurisdiction of the Commission; deadline is June 1, 2007.
Tex. Nat. Res. Code, Chapter 33	Provides that a member of the Railroad Commission, appointed by that body, shall be a member of the Coastal Coordination Council.
Tex. Nat. Res. Code, §33.205	Requires the following Commission actions (when they might adversely affect a coastal natural resource area) to be consistent with the Coastal Management Program: wastewater discharge permits; waste disposal or storage pit permit; certification of federal permit for the discharge of dredge or fill material.
Tex. Nat. Res. Code, Chapter 52, Subchapters A-E	Provisions dealing with leasing of State lands for the production of oil and gas.
Tex. Nat. Res. Code, Chapter 81	General jurisdictional and administrative provisions for the Railroad Commission.

Citation/Title	Authority/Impact on Agency
Tex. Nat. Res. Code, Chapter 85	**Commission is mandated to prevent waste; given authority to adopt rules, and prosecute and order administrative penalties for violations of Commission rules.**
Tex. Nat. Res. Code, Chapter 86	**Provides jurisdiction and authority to regulate natural gas production.**
Tex. Nat. Res. Code, Chapter 87	**Provides jurisdiction and authority for regulation of sour natural gas production.**
Tex. Nat. Res. Code, Chapter 88	**Provides jurisdiction and authority for regulation of producing oil properties.**
Tex. Nat. Res. Code, Chapter 89	**Provides jurisdiction and authority concerning plugging of wells by operators and the Commission.**
Tex. Nat. Res. Code, Chapter 90	**Ratification of the Interstate Compact to Conserve Oil and Gas; designates governor as official state representative to the Compact.**
Tex. Nat. Res. Code, Chapter 91	**Provides jurisdiction and authority for regulation of various aspects of oil and gas production and related operations, including: well casing, waste prevention, natural gas measurement, financial security for operations, Oil Field Cleanup Fund, record keeping, annual report filing, underground hydrocarbon storage, disposal pits, electric log filing, royalty reporting standards and voluntary cleanup program, etc.**
Tex. Nat. Res. Code, §91.101	**Provides the authority to adopt rules and orders and issue permits to prevent pollution of surface or subsurface waters from specified oil and gas exploration, development, and production activities. Specified activities include pipeline transportation of oil or gas prior to refining or use as a fuel or in manufacturing.**

Citation/Title	Authority/Impact on Agency
Tex. Nat. Res. Code, §91.104	**Directs the Commission to require a bond, letter of credit, cash deposit, or nonrefundable annual fee from a person required to file an organization report with the Commission; this requirement may be met by including a well or well bore in a well-specific plugging insurance policy that meets specified criteria.**
Tex. Nat. Res. Code, §91.107	**Limits the Commission to approving a transfer of operator of an existing well to operators with a bond, letter of credit or cash deposit on file with the Commission.**
Tex. Nat. Res. Code, §91.109	**Provides the authority to require a bond, letter of credit or cash deposit from a person issued a permit to store, handle, treat, reclaim, or dispose of oil and gas waste. Excuses operators engaged in specified activities from filing bonds, letters of credit or cash deposits based on their Commission regulated activities, and requires certain others to file a bond, letter of credit, or cash deposit of $25,000.**
Tex. Nat. Res. Code, §91.111	**Establishes the Oil Field Cleanup Fund as a special fund in the state treasury.**
Tex. Nat. Res. Code, §91.112	**Describes purpose of the Oil Field Cleanup Fund and specifies the activities for which fund monies may be used.**
Tex. Nat. Res. Code, §91.113	**Provides the authority to conduct control or cleanup operations under specified circumstances.**
Tex. Nat. Res. Code, §91.1131	**Authority to establish risk assessment as the guide for conducting site investigations and environmental assessments, and controlling and cleaning up of oil and gas wastes and other substances and materials under Commission jurisdiction.**
Tex. Nat. Res. Code, §91.1132	**Requires the Commission to adopt rules for identifying abandoned wells that pose a high risk of contaminating surface water or groundwater; to periodically test high-risk wells by conducting a fluid level test or, if necessary, a pressure test; and giving priority to plugging high-risk wells with compromised casings.**

Citation/Title	Authority/Impact on Agency
Tex. Nat. Res. Code, §91.1135	**Establishes the Oil Field Cleanup Fund Advisory Committee, a ten person committee charged with receiving information about rules proposed by the Commission relating to the Oil Field Cleanup Fund reviewing recommendations for legislation proposed by the commission, and monitoring the effectiveness of the Oil Field Cleanup Fund.**
Tex. Nat. Res. Code, §91.114	**Prohibits the Commission from accepting organization reports, applications and permits for organizations that have violated Commission rules related to safety or pollution.**
Tex. Nat. Res. Code, §91.115	**Grants the state a first lien on a responsible person's interest in any hydrocarbons stored at and in any equipment that is located at the site or facility and used in connection with the activity that generated pollution that has not been cleaned up as required by law or Commission rule or order.**
Tex. Nat. Res. Code, §91.142	**Directs the Commission to require all organizations subject to its jurisdiction to file annual reports.**
Tex. Nat. Res. Code, Chapter 91, Subchapter F	**Provides the authority to regulate storage of gas in depleted reservoirs; to issue orders allowing exercise of eminent domain; to supervise the construction and operation of storage facilities.**
Tex. Nat. Res. Code, Chapter 91, Subchapter G	**Provides the authority to regulate underground hydrocarbon storage facilities and adopt rules and issue orders and permits relating to such facilities.**
Tex. Nat. Res. Code, Chapter 91, Subchapter H	**Authority to regulate underground storage facilities for natural gas and to adopt rules, issue orders and permits, and assess administrative penalties for violations relating to such facilities.**

Citation/Title	Authority/Impact on Agency
Tex. Nat. Res. Code, Chapter 91, Subchapter K	**Prohibits use of saltwater disposal pits, but allows the Commission to authorize use of such pits if it can be conclusively shown that use of the pit will not result in pollution of surrounding productive agricultural land or surface or groundwater supplies or on a temporary emergency basis.**
Tex. Nat. Res. Code, Chapter 91, Subchapter M	**Requires basic electric logs to be filed with the Commission; requires the Commission to adopt rules to establish criteria and procedures for making such filings and for granting access to or maintaining confidentiality of such logs.**
Tex. Nat. Res. Code, Chapter 91, Subchapter N	**Directs the Commission to adopt and enforce rules and orders, and authorizes issuance of permits, relating to the generation, transportation, treatment, storage, and disposal of hazardous oil and gas waste.**
Tex. Nat. Res. Code, Chapter 91, Subchapter O	**Creates the Railroad Commission Voluntary Cleanup Program.**
Tex. Nat. Res. Code, Chapter 92	**Provides jurisdiction and authority to restrict drilling in qualified subdivisions.**
Tex. Nat. Res. Code, Chapter 101	**Provides jurisdiction and authority over voluntary unitization agreements.**
Tex. Nat. Res. Code, Chapter 102	**Provides urisdiction and authority to "force pool" mineral interests.**
Tex. Nat. Res. Code, Chapter 103	**Authority to approve agreements by persons owning or controlling leases or other interests in separate property in oil fields, gas fields, or oil and gas fields for the construction and operation of cooperative facilities.**
Tex. Nat. Res. Code, Chapter 111	**Provides jurisdiction and authority for regulation of crude oil common carriers, public utilities, and common purchasers.**

Citation/Title	Authority/Impact on Agency
Tex. Nat. Res. Code, Chapter 111 Subchapter A	**General provisions regarding scope and application of chapter; definitions.**
Tex. Nat. Res. Code, Chapter 111 Subchapter B	**Jurisdiction and authority to regulate common carriers of crude petroleum; declares such businesses to be of public interest and subject to regulation; requires carriers to file tariffs and to transport without discrimination.**
Tex. Nat. Res. Code, Chapter 111 Subchapter C	**Jurisdiction and authority to regulate public utilities; requires such entities to operate without discrimination in rates or services.**
Tex. Nat. Res. Code, Chapter 111 Subchapter D	**Declares that persons, gas pipeline companies, and gas purchasers claiming or exercising the right to carry or transport natural gas by pipeline or pipelines for hire or compensation, are regulated as common purchasers, and that the business of purchasing or purchasing and selling crude petroleum by a gathering system is a common purchaser and subject to the Commission's jurisdiction; provides that common purchasers are subject to the same regulation concerning rates for gathering, transporting, loading, and delivering crude petroleum as set out in Subchapter F; prohibits discrimination between persons and fields by common purchasers.**
Tex. Nat. Res. Code, Chapter 111 Subchapter E	**Requires the Commission to adopt rules for gathering, transporting, loading, and delivering crude petroleum by common carriers and for use of storage facilities necessarily incident to this transportation; to prescribe and enforce rules for the government and control of common carriers with respect to their pipelines and receiving, transferring, and loading facilities.**
Tex. Nat. Res. Code, Chapter 111 Subchapter F	**Requires the Commission to adopt rates for gathering, transporting, loading, and delivering crude petroleum by common carriers and for use of storage facilities necessarily incident to this transportation, and to hold a hearing once each year for the purpose of adjusting rates to conform to the statutory basis for rates and charges.**

Citation/Title	Authority/Impact on Agency
Tex. Nat. Res. Code, Chapter 111 Subchapter G	Enforcement provisions, including jurisdiction to hear complaints and for appointment of a receiver.
Tex. Nat. Res. Code, Chapter 111 Subchapter H	Defines penalty provisions; allows recovery by state and by aggrieved parties.
Tex. Nat. Res. Code, Chapter 111 Subchapter I	Provisions governing "common carrier coal pipelines" and the Commission's authority to issue certificates of public convenience and necessity.
Tex. Nat. Res. Code, Chapter 113	Provides jurisdiction and authority to license and regulate LP-gas activities, service, and alternative fuels; and requires testing of LP-gas systems in schools.
Tex. Nat. Res. Code, Chapter 113 Subchapters A-H	Jurisdiction and authority to license LP-gas activities; to regulate LP-gas safety; and to assess administrative penalties for violations.
Tex. Nat. Res. Code, Chapter 113.163	Prohibits the Commission from approving an application for a license or a registration for an exemption for entities that have violated Commission LP-gas safety rules.
Tex. Nat. Res. Code, Chapter 113 Subchapter I	Authority to adopt rules relating to the use of LP-gas and other environmentally beneficial alternative fuels that are or have the potential to be effective in improving the quality of air in this state.
Tex. Nat. Res. Code, §113.243	Creates the Alternative Fuels Research and Education Fund in the state treasury; declares the composition of the fund; and specifies the activities for which fund monies may be used.
Tex. Nat. Res. Code, §113.2435	Authority to establish consumer rebate programs for purchasers of appliances and equipment fueled by LP-gas or other environmentally beneficial alternative fuels.
Tex. Nat. Res. Code, §113.244	Imposes a fee on odorized LP-gas delivered into any means of conveyance to be sold and placed into commerce.

Citation/Title	Authority/Impact on Agency
Tex. Nat. Res. Code, Chapter 113 Subchapter J	**Establishes the Alternative Fuels Council as an agency of the state; makes the three Railroad Commissioners members of the council (but allows a Commissioner to designate a staff member to serve in place of that Commissioner) and provides that the chairmanship of the council rotates annually between the commissioner of the General Land Office and the chairman of the Railroad Commission or the individuals designated by those members.**
Tex. Nat. Res. Code, Chapter 113 Subchapter L	**Requires testing of LP-gas systems in school facilities at least every two years; requires Commission enforcement.**
Tex. Nat. Res. Code, Chapter 115	**Provides jurisdiction and authority for regulation of transporters of petroleum products.**
Tex. Nat. Res. Code, Chapter 116	**Jurisdiction and authority to license compressed natural gas (CNG) and liquefied natural gas (LNG) activities; to regulate CNG and LNG safety; and to assess administrative penalties for violations.**
Tex. Nat. Res. Code, Chapter 117	**Grants the jurisdiction over all pipeline transportation of hazardous liquids or carbon dioxide and over all hazardous liquid or carbon dioxide pipeline facilities; authorizes the Commission to adopt rules and safety standards for such pipelines and to require submission to the Commission of facility response plans.**
Tex. Nat. Res. Code, §117.012(a)	**Requires the Commission to adopt safety standards related to the prevention of damage to intrastate hazardous liquid or carbon dioxide pipeline facilities resulting from the movement of earth by a person in the vicinity of the facility, other than movement by tillage that does not exceed a depth of 16 inches, but the Commission may not implement such rules until Sept. 1, 2007.**

Citation/Title	Authority/Impact on Agency
Tex. Nat. Res. Code, §§117.101-117.102	Requires the Commission to hear appeals about municipal assessments against pipeline facilities for the placement, construction, maintenance, repair, replacement, operation, use, relocation, or removal by an owner or operator of a hazardous liquid or carbon dioxide pipeline facility on, along, or across the public roads, highways, streets, alleys, streams, canals, or other public ways located within the city and maintained by the city.
Tex. Nat. Res. Code, Chapter 118	Provides the authority to require, by rule, that an operator file a plan for assessment or testing of a pipeline.
Tex. Nat. Res. Code, Chapter 131	Provides the authority to adopt rules and issue permits and orders relating to surface uranium mining and reclamation.
Tex. Nat. Res. Code, Chapter 134	Provides the authority to adopt rules and issue permits and orders as necessary to enforce provisions relating to surface coal, iron ore, and iron ore gravel exploration, mining, and reclamation; training, examination, and certification of blasters engaged in blasting for mining operations.
Tex. Nat. Res. Code, Chapter 134, Subchapter F	Requires filing a reclamation bond with Commission prior to issuance of a permit for surface mining.
Tex. Nat. Res. Code, Chapter 134, Subchapter G	Provides the authority to administer money received from abandoned mine reclamation or related purposes and to enter land for purposes of conducting reclamation under specified circumstances.
Tex. Nat. Res. Code, Chapter 141	Provides the authority to regulate the exploration, development, and production of geothermal energy and associated resources.
Tex. Nat. Res. Code, Chapter 211	Grants jurisdiction over all salt dome storage of hazardous liquids and directs Commission to adopt by rules for safety standards and practices for salt dome storage of hazardous liquids.

Citation/Title	Authority/Impact on Agency
Tex. Rev. Civ. Stat. Title 112, Arts. 6447-6447n	Governs the organization and administration of the Railroad Commission.
Tex. Tax Code §§201.001-201.057	Provisions concerning gas severance tax.
Tex. Tax Code §§202.001-202.059	Provisions concerning oil severance tax.
Tex. Util. Code, Title 3, Subtitle A (Chapters 101-105)	Establishes regulatory system for rates, operations and services of gas utilities.
Tex. Util. Code, Chapter 101	General provisions; definitions.
Tex. Util. Code, Chapter 102	Establishes RRC jurisdiction over rates and services of gas utilities.
Tex. Util. Code, Chapter 103	Provisions governing municipalities' jurisdiction and powers; allows the surrender to Commission of municipalities' original jurisdiction over gas utilities; directs that appeals of municipal decisions be made to the Commission.
Tex. Util. Code, Chapter 104	Provisions governing gas utility rates and services; prohibiting unreasonable preferences, prejudices, or differences in rates and services; establishing procedures and standards for setting gas utility rates.
Tex. Util. Code, §104.003	Requires the Commission to approve rate for certain types of transactions if neither the gas utility nor the customer had an unfair advantage during the negotiations; the rate is substantially the same as the rate between the gas utility and at least two of those customers under the same or similar conditions of service; or competition does or did exist with another gas utility, another supplier of natural gas, or a supplier of an alternative form of energy.

Citation/Title	Authority/Impact on Agency
Tex. Util. Code, §104.112	**Authorizes gas utilities' recovery of costs of relocating a facility to accommodate construction or improvement of a highway, road, street, public way, or other public work by or on behalf of the United States, this state, a political subdivision of this state, or another entity having the power of eminent domain that are not reimbursed through a surcharge on gas volumes sold and transported to customers in the service area where the relocation occurred, without filing a statement of intent; Commission may deny based only on particular findings.**
Tex. Util. Code § 104.301	**Authorizes the RRC to review and approve an interim adjustment in a gas utility's rates to recover the cost of changes in the investment in service for gas utility services.**
Tex. Util. Code, Chapter 105	**Provisions governing judicial review or Commission orders in gas utility rate cases; authorizes the Commission to pursue enforcement actions, seek penalties, and accept complaints related to gas utilities.**
Tex. Util. Code Title 3, Subtitle B (Chapters 121-124)	**Jurisdiction and authority to regulate the transportation of natural gas by utilities; provisions governing the Commission's administration and collection of the gas utility tax; and the authority of the Commission to regulate natural gas sub-metering.**
Tex. Util. Code, Chapter 121 Subchapters A-D	**Establishes RRC jurisdiction to regulate the transportation and use of natural gas.**
Tex. Util. Code, Chapter 121 Subchapters E-F	**Jurisdiction and authority to regulate safety for intrastate natural gas pipelines and pipeline facilities.**

Citation/Title	Authority/Impact on Agency
Tex. Util. Code, §121.201	**Authority to adopt safety standards for the transportation of gas and for gas pipeline facilities, including safety standards related to the prevention of damage to such a facility resulting from the movement of earth by a person in the vicinity of the facility, other than movement by tillage that does not exceed a depth of 16 inches, but may not implement such rules until Sept. 1, 2007.**
Tex. Util. Code §121.211	**Authority to adopt an inspection fee to be assessed annually against operators of natural gas distribution systems and master meter systems operators to recover the costs of administering the pipeline safety program.**
Tex. Util. Code, Chapter 121 Subchapter G	**Provisions governing the Commission's enforcement remedies, including receivership and administrative penalties. Authorizes RRC to seek enforcement remedies.**
Tex. Util. Code, Chapter 121 Subchapter H	**Provisions governing appeals of Commission decisions.**
Tex. Util. Code, Chapter 121 Subchapter I	**Requires a permit to construct and operate a sour gas pipeline facility; establishes procedures and standards by which the Commission is authorized to issue permits.**
Tex. Util. Code, Chapter 121 Subchapter J	**Requires testing of natural gas piping systems in schools every two years; requires Commission enforcement.**
Tex. Util. Code, Chapter 122	**Establishes gas utility tax; requires Commission to administer and collect the tax.**
Tex. Util. Code, Chapter 124	**Authority to regulate delivery of natural gas to dwellings through submeters.**
Tex. Water Code §26.121	**Prohibits water pollution from oil and gas waste.**

Citation/Title	Authority/Impact on Agency
Tex. Water Code §26.131	**Establishes that the Commission is solely responsible for preventing and abating water pollution resulting from oil and gas exploration, development, production, and pipeline transportation activities and from its oil and gas waste.**
Tex. Water Code §§26.401-26.407	**Creates the Texas Groundwater Protection Committee, establishes the requirements of the committee, including the publishing of an annual report on known groundwater contamination sites, identifies the Railroad Commission as one of the state agencies with responsibility related to the protection of groundwater, and mandates that the Commission's executive director serve as a member of the Committee.**
Tex. Water Code §§27.001-27.105	**Provisions concerning regulation of injection wells.**
Tex. Water Code §27.034	**Authority to adopt rules and procedures reasonably necessary for issuance of UIC permits.**
Tex. Water Code §27.035	**Jurisdiction over in situ recovery of tar sands and authority to adopt rules to regulate in situ recovery of tar sands.**
Tex. Water Code §27.036	**Jurisdiction over brine mining and authority to adopt rules to regulate brine mining.**
Tex. Water Code §§29.001-29.053	**Jurisdiction to regulate oil and gas waste haulers, including authority to adopt rules and issue permits.**
30 U.S.C. §1253	**Authorizes states to assume exclusive jurisdiction over regulation of coal mining and reclamation operations.**
30 U.S.C. §1235	**Authorizes states to administer AML program.**
42 U.S.C. §300h	**Authorizes states to administer the federal underground injection control program.**

Citation/Title	Authority/Impact on Agency
42 U.S.C. §6926	**Authorizes states to administer hazardous waste programs.**
49 U.S.C. §60105	**Authorizes certificate of state pipeline safety programs for intrastate pipelines. In the event of certification, the federal Department of Transportation may not regulate intrastate natural gas or hazardous liquids pipelines.**

Appendix H - Significant Events

1891	Railroad Commission was established by Legislature, giving the Commission jurisdiction over rates and operations of railroads, terminal, wharves and express companies.
1917	Legislature declares pipelines to be common carriers and gives Railroad Commission jurisdiction and responsibility to administer conservation laws relating to oil and gas.
1919	Legislature enacts a statute requiring conservation of oil and gas, forbidding waste, and giving the Commission jurisdiction. Commission adopts first Statewide Rule regulating the oil and gas industry.
1920	Legislature declares production and sale of natural gas to be a public utility and gives Railroad Commission jurisdiction over gas utilities.
1927	Railroad Commission given jurisdiction over buses and their hire on highways.
1929	Railroad Commission given jurisdiction over trucks and their hire on highways.
1935	Legislature enacts comprehensive statutes prohibiting oil and gas waste, and gives Railroad Commission authority to adopt necessary orders to prevent waste.
1937	Railroad Commission requires all residential uses of natural gas to be odorized.
1951	Legislature establishes the Liquefied Petroleum Gas Division as a separate division, requiring the use of malodorants and regulating the storage and distribution for the protection of public safety.
1971	Railroad Commission adopts federal regulations for the safety of natural gas pipeline facilities.
1975	Railroad Commission given jurisdiction over surface mining of coal, lignite, and uranium, and the reclamation of mined lands.
1980	Through the Railroad Commission, Texas is the first state in the nation designated by the federal government to administer the coal regulatory program under the federal Surface Mining Act.
1985	Pipeline safety program expanded to include hazardous liquids pipelines.
1991	Legislature enacts a statute expanding funds for well plugging and oilfield contamination cleanup.

1991	Legislature assigns the Railroad Commission new duties of researching and educating the public on alternative fuels.
	The Commission is given jurisdiction over aggregate quarry and pit safety.
1995	Legislature transfers motor carrier regulatory functions to the Texas Department of Transportation.
1996	The 10,000th well is plugged under the Commission's plugging program since its inception in 1983.
	Commission votes to oppose merger of Union Pacific and Southern Pacific railroads.
1997	HB 1611 requires all public schools to conduct pressure tests on their natural gas piping systems.
	Pipeline operators planning to transport natural gas with certain concentrations of hydrogen sulfide are required to obtain a permit prior to beginning construction.
1998	Interactive oil and natural gas production query (ACTI) made available to the public via the Internet.
	Work begins on a proposal for the application and receipt of certain permits via the Internet (ECAP.)
1999	The 15,000th well is plugged under the Commission's plugging program.
2000	First electronic filing and approval of a drilling permit is completed with the ECAP system.
	Natural gas spot prices top $10/mcf.
2001	Sunset Commission review of Railroad Commission.
	SB 310 requires all private and public schools to conduct pressure tests on LP-gas piping, and extends pressure tests on natural gas piping to private schools.
	Pipeline integrity testing rule adopted requiring pipelines to demonstrate structural integrity of their pipeline systems.
2002	Fees for Oil Field Cleanup Fund increased substantially to allow for increased well plugging and site remediation.

2002	Begin transition to universal bonding of all oil and gas operators to slow the incidence of orphan wells that must be plugged by the state.
	ECAP system available to accept online permitting for all forms of new drilling permits.
	Voluntary cleanup program for contaminated oil and gas sites initiated.
2003	New statutes require the collection of the Oil Field Cleanup Regulatory fee on crude oil and natural gas production regardless of whether that production is exempt from severance tax or has been granted a severance tax reduction.
	Jurisdiction for the response to coastal oil spills less than 240 barrels moved from the Railroad Commission to the General Land Office.
	Phase II of the Oil and Gas Migration Project initiated to migrate the Commission's mainframe data to an open systems environment and reengineer business processes for better operating efficiency.
	The 20,000th well is plugged under the Commission's plugging program.
	A record number 1,635 wells were plugged with Oil Field Cleanup funds and other state and federal funds.
	Site Remediation completed its 2,500th cleanup activity.
	For the first time in its history, the Railroad Commission was awarded a Brownfields Subtitle C Grant from the EPA for $449,630, with subsequent grants in excess of $1 million. The Commission was the first state oil and gas agency in the country to receive a Brownfields Subtitle C grant from the EPA.
	The RRC intranet mapping application went online, standardizing and simplifying the process of creating and plotting statewide pipeline maps.
	Natural gas utilities are required to file utility tariffs with the Commission electronically via the Commission's Internet system.
	The Uniform System of Accounts required for gas utility reporting in Texas moved from the National Association of Regulatory Commissioners' USOA (NARUC) to the Federal Energy Regulatory Commission USOA (FERC), by order dated December 22, 2003. The NARUC USOA had been the required system since its adoption by the Railroad Commission in 1977.

2003 Legislature authorized the RRC to adopt fees to be assessed against natural gas distribution operators to recover the costs of administering the pipeline safety program.

Legislature authorized the RRC to assess fees against railroads to recover the costs of administering the rail safety program.

Legislature transferred responsibility for the aggregate pit and quarry program from Railroad Commission to Texas Department of Transportation.

Legislature passed the Gas Reliability Infrastructure Program Adjustment (GRIP) allowing natural gas utilities an annual interim rate adjustment (IRA) on net investment.

2004 Commission completes first system-wide gas utility rate case.

RRC began digitizing electric well logs that are required by Tex. Nat. Res. Code, §§ 91.551 - 91.556 to be filed with the Commission. Digital electric logs are accessible through the GIS Viewer on the Commission website.

Legislature authorized increase in seal/severance fees to encourage prompt compliance and to enhance the Oil Field Cleanup Fund.

Commission implements the Production Data Query System, expanding Internet query capabilities for production data filed with the Commission and replacing the ACTI Production System.

By letter dated February 9, 2004, the United States Environmental Protection Agency officially delegates to the Railroad Commission the Class III Brine Mining Program under the federal Safe Drinking Water Act.

The Commission and the Louisiana Department of Natural Resources Office of Conservation sign a Memorandum of Understanding regarding reciprocal notification prior to certain oil and gas activity near the boundary between the two states.

Following statutory changes adopted in 2001, the Commission implements "universal bonding," requiring all well operators (and many non-well operators) to provide a bond, letter of credit or cash deposit as financial security with the filing or renewal of their organization reports.

2005 Transition to "universal bonding" completed.

79th Legislature with **HB 380** authorizes the Commission to accept well-

	specific plugging insurance policies as an alternative form of financial assurance.
2005	Legislature enacts **HB 2161**, which created the Orphaned Well Reduction Program and Tax Incentive, Low-Producing Well Tax Reduction, and Enhanced Efficiency Equipment Tax Credit.
	Legislature enacts **HB 2201** to encourage Clean Coal projects in Texas and clarifying the Railroad Commission's jurisdiction over injection of carbon dioxide from Clean Coal projects into zones productive of oil, gas, and geothermal energy.
	Legislature enacts **SB 1170**, removing the statutory requirement that the Commission determine the status of gas production from gas reservoirs in the state; eliminating the requirement that the monthly reservoir market demand for gas be determined through a hearing; and enabling the Commission to streamline the regulatory process for setting gas allowables by allowing rather than requiring the Commission to prorate.
	Legislature also enacts **SB 1175**, which provided the Commission with the authority to revise the process for setting allowables and to exempt all oil wells in an oil field from production regulation where no operator in the field requests such regulation.
	Legislature enacts **HB 484**, which clarified the requirements for electric logs and identified the operator as the person responsible for compliance.
	The Commission completes the 3,000th cleanup activity under the Oil Field Cleanup Program since its inception in 1992, and the 445th closure under the Operator Cleanup Program since FY 2002. In addition, a record 239 sites entered the Operator Cleanup Program for RRC oversight. Site Remediation Program received $1.6 million in federal and state grants, including $700,000 for a new Non-Point Source Pollution grant for Petronila Creek.
	The Commission completes the 20,176th well plugging utilizing the Oil Field Cleanup Fund (FY 1992 – FY 2005).
	The Commission tests/evaluates 12,185th orphaned well under the High Risk Well Testing Program (FY 2002 - FY 2005).
	The number of known non-compliant inactive wells dropped below 21,000 for the first time since FY 1994.
	Legislature directed the RRC to conduct a study that examined and determined the extent to which viable competition existed in the Texas

	natural gas pipeline industry from the wellhead to the burner tip.
2005	Legislature in **HB 2702** transferred remainder of Railroad Safety oversight from the Railroad Commission to the Texas Department of Transportation.
	The Commission streamlined production reporting requirements by eliminating form "P-1" (oil) and "P-2" (gas) and creating a new production form, "PR".
	The Commission implemented the RRC Online System allowing authorized entities to file certain forms online. The RRC Online allows the public to query on all applications that are filed through the system.
	The Commission released on the RRC website the GIS Map Viewer. This application provides the public the ability to locate mapped oil wells, natural gas wells, plugged wells, dry holes, injection and disposal wells, and permitted locations for new wells and pipelines.
2006	RRC awarded $8 million grant from the Texas Commission on Environmental Quality to reduce air pollution in 41 counties by offering incentives to purchasers of low-NOx propane forklifts.
	As of April 2006, the Commission's Voluntary Cleanup Program had 36 active sites, and had granted ten certificates of completion for successful cleanup of contaminated oil and gas sites since its inception in 2002.
	Commission approves publication of proposed amendments to Statewide Rules 95 and 97, relating to Underground Storage of LPG and Natural Gas in Salt Formations, respectively. The purpose of these proposed amendments is to reduce the possibility of explosion and fire at hydrocarbon storage facilities and enhance the safety of such facilities.