

The Passage of SB 3 is a Dramatic and Consequential Change in the Regulation of the Texas Energy Industry

**By Thure Cannon, President
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In June, the 87th Texas Legislature passed sweeping new legislation that will help avert some of the deadly power outages that Texans had to endure as a result of Winter Storm Uri in February.

In fact, Texas House Speaker Dade Phelan has called SB 3 “one of the most consequential pieces of legislation the state has tackled in recent memory.”

SB 3 creates a [massive new regulatory structure](#) that will require the addition of 800 state employees and a commitment of \$84 million to the budgets of the Railroad Commission of Texas (RCT) and the Public Utility Commission of Texas (PUCT). Those agencies, and others, have been directed to work together to prepare for, help prevent and respond to future weather emergencies and power outages, such as the one we had in February.

SB 3 also mandates the creation of new entities, such as the Texas Energy Reliability Council and the Texas Electricity Supply Chain Security and Mapping Committee. The mapping committee will, for the first time, map the state’s electricity supply chain, identify critical infrastructure sources within that chain, establish best preparation practices to electric and natural gas service providers in the chain to maintain service, recommend oversight and compliance standards for those facilities and designate priority service needs to best prepare for, respond to and recover from an extreme weather event.

While the committee is responsible for mapping the facilities designated as “critical,” the Railroad Commission is responsible for determining how those facilities are designated. Facilities may be designated as either a critical customer or a critical supplier. Finally, the Railroad Commission is responsible for establishing a tiered penalty system based on a variety of factors. This classification system provides that for serious and enduring violations, penalties may run up to one million dollars.

We believe SB 3 is an unprecedented effort to ensuring the integrity and effectiveness of the Texas energy grid.

The Legislature also wisely rejected proposals that would have been counterproductive and would have increased the risk to Texans, such as creating a new regulatory system similar to the

Federal Energy Regulatory Commission's (FERC) model, which governs the interstate gas pipeline system.

The FERC model is not designed to work with an integrated oil and gas industry, such as we have in Texas. The Texas market is not like the interstate market as, unlike most states, we are a producing state and an end-user state. The existing Texas regulatory structure encompasses everything from the well head to the end user, while the federal system is concerned only with the long-line interstate transportation pipelines. In Texas for example, the midstream business takes gas from the wells, processes it to make it useable in homes and businesses and delivers that gas to the customers. The federal model only involves pipelines transporting gas for others, while in Texas, pipeline companies both transport for others and buy and sell gas. Producers and consumers can choose which service or mix of services they want in Texas. Would anybody seriously claim that Texas would have been better off during the winter emergency if Texas pipelines could not have sold gas to electric generators in need?

The Texas competitive energy market has helped to turn the state into the nation's top energy producer, helping America to achieve energy independence and spurring vital energy investments, including an essential pipeline infrastructure system that is the most economical and safest way to transport the hydrocarbons we rely on every day. In addition, the efficient natural gas industry has been the primary reason that electric generation is turning away from the harmful environmental effects of coal-burning plants.

The oil and gas industry as it now operates provides one third of our state's economy, which pays for our schools, our roads, our bridges and our water infrastructure and so much more. Through ongoing operations and construction in 2019 alone, the Texas oil and gas pipeline industry provided more than \$48.6 billion in economic impact, supported more than 238,000 high-paying jobs, contributed an additional \$29.3 billion in additional gross state product and injected more than \$2.7 billion in state and local government revenues, according to a Texas Tech University study.

Texas pipeline companies are now working diligently with the RRC, the PUCT and all stakeholders to enact the mandates of SB 3 to ensure the integrity of the state's successful free-market system, while protecting the integrity of the energy grid – and the lives of the Texans who rely on it.