

Tennessee Session Quiet For Industry

KNOXVILLE, TN.—The Tennessee Oil & Gas Association entered the 2018 Tennessee General Assembly with hopes for a session in which the state's oil and gas producers could avoid any measures likely to harm the industry. TOGA got that wish, relates President Chuck Laine. On the other hand, he allows, the fact that lawmakers' attention was focused elsewhere also prevented them from passing a bill that TOGA backed.

According to Laine, the top item on the association's legislative agenda was HB 1187, which sought to redirect all Tennessee oil and gas severance tax revenues—except a small portion for administrative costs—back to the counties from which the production originated.

"Only one-third of severance tax revenues stay in the producing county," Laine observes. "The rest goes into the state's general fund. With production dropping because of the downturn, our members tell us their counties can really use the help."

According to TOGA staffer Roxanne Reiley, the bill was introduced this session as a trial balloon to gauge lawmakers' reaction. "Anytime you ask legislators to

give up general fund revenue, you have to expect a lack of enthusiasm," she acknowledges.

The bill advanced through several committees, she recounts, but ultimately landed "behind the budget," with approximately 250 other bills that sought to direct revenue away from the general fund. "Only about 60 of these bills actually got funded," she points out.

Part of the issue, Reiley suggests, is that legislators anticipate 2018's stronger prices will yield more severance tax revenue. "Higher prices are a double-edged sword," she acknowledges. "Our members and their communities like the higher prices, but it makes it harder to convince the state to give up the increased tax revenue."

Although HB 1187's limited support was no surprise, Reiley concludes, TOGA will make another run at the severance tax issue in 2019. The next bill also may include a three-year phase-in to help lawmakers better accommodate its fiscal note. "The next session will see a new governor and administration and many new legislators," Reiley forecasts. "Our job will be to educate them on the issue

and involve our communities. When the locals talk about the inequality of severance tax allocation, it makes a difference."

Early Bird

Although legislative attention on upstream matters was relatively scant, Laine and Reiley observe, what started as a quiet session for the midstream segment turned boisterous during the final 10 days in April.

"It is the reason we always try to move our bills early in the session rather waiting to the last few days," Reiley relates.

Controversy arose with a seemingly innocuous bill to allow municipal natural gas utilities to fund local chambers of commerce, she indicates, which became the subject of a late-session tug-of-war. SB 1894 and its companion, HB 1941, moved quietly through various committees until the session's final week, when a full floor debate on SB 1894 saw several amendments added and subtracted before it finally passed both chambers late on the session's final day.

"Some utilities wanted to encourage chambers to help recruit more local businesses," Reiley explains. "This bill flew

under the radar until very late in the session, and then legislators wanted to exempt their districts, saying it was not a good use of customers' money."

As finally approved, the bill exempted only Davidson, Hamilton, Knox and Shelby counties, which contain Tennessee's four largest cities. "In the end, it became a moot point when it was pointed out that several counties did not even have municipal natural gas utilities," Reiley suggests.

Ultimately, she considers, the experience reinforces TOGA's strategy of encouraging legislators to move its favored bills early in a session. "By the end of the session, there are plenty of reasons for legislators to be mad at each other," Reiley muses. "Maybe there was a vote or a comment at a hearing. Near the end of the session, the animosity comes out. It's like going to your hometown on vacation: After a few days, you remember why you left in the first place."

Other Issues

Laine expresses approval that the legislature finally has approved legislation to return to the state primacy in regulating the state's surface coal mining. "We brought back primacy in regulating Class II injection wells in 2015," Laine notes. "This was just as important for our coal industry."

According to Laine, the general assembly passed legislation to establish and fund a new state agency to regulate and enforce surface coal mining regulations. Moving the regulatory activity from the federal government under the Surface Mining Control and Reclamation Act to the state, industry can expect a more transparent process and the federal government will be relieved of a \$3 million budget item, Laine observes.

"Tennessee was one of the last states not to have primacy over surface coal mining," Laine notes. "It was putting development of our resources at a disadvantage."

According to Laine, the bill also may have helped to turn fossil fuel opponents' attention away from oil and gas. "This was the quietest session I can remember," he describes. "The mining bill meant the environmentalists were only looking in that direction. Next January, we start all over again."

Meanwhile, he adds, Tennessee's oil and gas companies continue to show progressively more signs of life. "Permitting for new wells has picked up this year and for the first time in a while, we are seeing permits in areas outside of conventional areas," Laine reports. "There is a lot more optimism these days and deals are being made." □