BILL ANALYSIS

C.S.H.B. 1202
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Energy Resources
Committee Report (Substituted)

BACKGROUND AND PURPOSE

Currently, thousands of marginal producing oil and gas wells across the State are being or are about to be plugged. Many of these wells are tickling along at 10 to 100mcf/day. Marginal well operators face a hefty price burden for high line pressures, compression costs, and taxes, considering the small amount of oil and gas produced.

Under current law, taxes are paid to the State of Texas for oil and gas at a rate that is constant throughout the industry. This leaves many smaller producers facing the problem of their wells not being profitable at certain price levels because the production is marginal. This bill seeks to alleviate these concerns and allow marginal wells certain tax relief and exemptions if price levels fall below a certain threshold.

RULEMAKING AUTHORITY

It is the committee's opinion that this bill does not expressly grant any additional rulemaking authority to a state officer, department, agency, or institution.

ANALYSIS

SECTION 1: Subchapter B, Chapter 201, Tax Code

Section 201.059 is added to (a) define a "qualifying marginal well" as a commission-designated gas well whose production during a three-month period is no more than 90 mcf per day, excluding has flared pursuant to the rules of the commission. For purposes of qualifying a gas well, production per well per day is determined by computing the average daily production from the well using the "p-2" monthly well production report made to the commission. The commission is required to certify to the comptroller a list of qualifying wells.

(b) The comptroller will average the gas prices from the last three months in order to define the necessary price thresholds.

(c) Entitles an operator of a qualifying marginal well to a 25 percent tax credit for marginal wells if the price of gas is between $3.00 and $3.50 per mcf.

(d) Entitles an operator of a qualifying marginal well to a 50 percent tax credit for marginal wells if the price of gas is between $2.50 and $3.00 per mcf.

(e) Entitles an operator of a qualifying marginal well to a 100 percent tax credit for marginal wells if the price of gas is less that 2.50 per mcf.

(f) Reimbursement is necessary if full tax rates are paid.

SECTION 2: Subchapter B, Chapter 202, Tax Code

Section 202.058 is added to (a-b) define a "qualifying marginal lease" as a commission-designated oil lease whose production during a three-month period is no more than 15 barrels of oil per day per well. For purposes of qualifying lease, production per well per day is determined by computing the average daily per well production using the "p-1" monthly lease production during the three-month period by the sum of the number of well-days, where a well-day is one well producing for one day.. The commission is required to certify to the comptroller a list of qualifying wells.

(c) Requires the Comptroller to certify the average taxable oil, adjusted to 2005 dollars, during the previous three months, based on various price indices available to producers including the reported Texas Panhandle Spot Price, West Texas Intermediate Crude Spot Price, New York Mercantile Exchange, or other spot prices, as applicable. requires the comptroller to publish certifications under this subsection in the Texas Register.

(d) Entitles an operator of a marginal well to a 25 percent tax credit for marginal wells if the price of oil is between $25 and $30.

(e) Entitles an operator of a marginal well to a 50 percent tax credit for marginal wells if the price of oil is between $22 and $35.

(f) Entitles an operator of a marginal well to a 100 percent tax credit for marginal wells if the price of oil is less than $22 per barrel.

(g) Reimbursement is necessary if full tax rates are paid.

SECTION 3:

Applies to Oil and Gas produced on or after the effective date of this act and does not affect tax liability accruing beforehand.

EFFECTIVE DATE

September 1, 2005

COMPARISON OF ORIGINAL TO SUBSTITUTE

The substitute amends SECTION1 by modifying the definition of "marginal well" in the original to "qualifying marginal well" in the substitute.

The substitute amends SECTION 2 by modifying the definition of "marginal well" in the original to "qualifying marginal lease" in the substitute.

The substitute removes rulemaking authority in both SECTION 1 and SECTION 2.

The substitute changes the price triggers which allow for tax credits in both SECTION 1 and SECTION 2.