

BILL ANALYSIS

C.S.H.B. 2983
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Energy Resources
Committee Report (Substituted)

BACKGROUND AND PURPOSE

There are about 160,000 producing wells in the state. About 5,000 wells per year become uneconomical and are plugged and abandoned. One of the goals of Committee Substitute House Bill 2983 is to reduce the number of wells which are abandoned in a year. A program which can keep wells producing longer is a net revenue gain to the state even if there is a severance tax credit because the alternative is no tax at all from an abandoned well.

House Bill 2983 establishes tax credits for energy efficient equipment installed and used in the production of oil.

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 202, Tax Code.

Sec. 202.060. TAX CREDIT FOR ENHANCED EFFICIENCY EQUIPMENT. is amended to state (a) In this section, "enhanced efficiency equipment" means equipment used in the production of oil that reduces the energy used to produce a barrel of fluid by 10 percent or more when compared to commonly available alternative equipment. Equipment does not qualify as enhanced efficiency equipment unless an institution of higher education approved by the comptroller that is located in this state evaluated the equipment and determined that the equipment does produce the required energy reduction.

(b) Entitles the taxpayer responsible for the payment of severance taxes on the production from a well on which enhanced efficiency equipment is installed and used to a credit in an amount equal to 20 percent of the cost of the equipment, provided that

- (1) the cumulative total of all severance tax credits authorized by this section may not exceed \$2,000 for any well,
- (2) provides that the enhanced efficiency equipment installed in a qualifying well must have been purchased and installed not earlier than September 1, 2005.
- (3) provides that the taxpayer must file an application with the comptroller for the credit and must demonstrate to the comptroller that the enhanced efficiency equipment has been purchased and installed in the well within the period prescribed by Subdivision (2).
- (4) Prohibits the number of applications the comptroller may approve each fiscal year from exceeding a number equal to that state fiscal year, as determined by the comptroller, and
- (5) Allows the tax payer to carry any unused credit forward until the credit is used.

EFFECTIVE DATE

September 1, 2005

COMPARISON OF ORIGINAL TO SUBSTITUTE

The committee substitute removes Sections 1-3 of the original bill. Section 4 of the original bill is now Section 1 of the substitute.

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Section 1 of the substitute is amended as follows:

(a) is amended to make it clear that the institution of higher learning must have a program in petroleum engineering and must be approved by the Comptroller before it can certify that the equipment qualifies as enhanced efficiency equipment.

(c) is added to make it clear that:

- the total of all credits for a single well cannot exceed \$2,000;

- that the equipment must have been purchased and installed between Sept. 1, 2005 and Sept. 1, 2009;

- that an application demonstrating compliance must be filed with the Comptroller; that pumps and motors do not qualify for the credit (there are only three substantial pieces of equipment on an oil well – the pumpjack with motor, the sucker rods and the pump on the end of the sucker rods , the substitute eliminates two of the three from the bill);

- that each manufacturer must demonstrate its product meets the standards;

- and that the bill is limited in the number of wells it could cover, the substitute would limit the number of applications for the credit to no more than 2% of the producing wells in the state during any fiscal year