LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 79TH LEGISLATIVE REGULAR SESSION

May 6, 2005

TO: Honorable George "Buddy" West, Chair, House Committee on Energy Resources

FROM: John S. O'Brien, Deputy Director, Legislative Budget Board

IN RE: **HB1202** by West, George "Buddy" (Relating to severance tax credits for continued propduction from certain low-producing gas wells and oil leases.), **Committee Report 1st House, Substituted**

Estimated Two-year Net Impact to General Revenue Related Funds for HB1202, Committee Report 1st House, Substituted: an impact of $0 through the biennium ending August 31, 2007.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2006	$0
2007	$0
2008	($38,761,000)
2009	($41,617,000)
2010	($41,812,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue Gain/(Loss) from *GENERAL REVENUE FUND* 1	Probable Revenue Gain/(Loss) from *FOUNDATION SCHOOL FUND* 193
2006	$0	$0
2007	$0	$0
2008	($29,071,000)	($9,690,000)
2009	($31,213,000)	($10,404,000)
2010	($31,359,000)	($10,453,000)

Fiscal Analysis

The bill would amend 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 for any given month, depending on Comptroller's average taxable oil and gas prices, adjusted to 2005 dollars, based on applicable price indices of the previous three months.

An operator of a qualifying low-producing gas well would be entitled to a 25 percent tax credit if the average taxable gas price were more than $3.00 per mcf but not more than $3.50 per mcf. The tax credit would increase to 50 percent if the price were more than $2.50 per mcf but not more than $3.00 per mcf, and 100 percent if the price were $2.50 per mcf or less.

An operator of a qualifying low-producing oil lease would be entitled to a 25 percent tax credit if the average taxable oil price were above $25 per barrel but not more than $30 per barrel. The tax credit would increase to 50 percent if the price were above $22 per barrel but not more than $25 per barrel, and to 100 percent if the price were $22 per barrel or less.

The bill would define a qualifying low-producing gas well as a well that averaged, over a three-month period, 90 mcf per day or less. The bill would define a qualifying low-producing oil lease as a lease that averaged, over a 90-day period, less than 15 barrels per day per well or 5 percent recoverable oil per barrel of produced water per well.

The bill would require a $100 filing fee collected by the Comptroller's Office for oil leases qualified under the 5 percent recoverable oil requirement.

The bill would limit tax credits only to wells currently paying full tax rates. (As such, it would exclude those wells operating under existing tax incentive programs.) The bill would not extend tax credits to casinghead gas and condensate production.

The bill would require the Railroad Commission of Texas (RRC) to provide a certified list of qualified gas wells and oil leases to the Comptroller's Office. The Comptroller's Office would certify and publish in the Texas Register, each month, the average taxable prices of oil and gas, adjusted to 2005 dollars, using applicable price indices during the previous three months.

Taxpayers would be obliged to apply to the Comptroller's Office for tax credits within the statutory time limit under Section 111.104.

The bill would take effect September 1, 2005 and would only apply to crude oil and gas produced on or after that date.

Methodology

This fiscal note is based on analyses provided by the Comptroller's Office.

Comptroller staff estimated the fiscal impact based upon RRC oil and gas production data. Casinghead gas and condensate volumes were excluded.

Average taxable oil prices are expected to drop (and would thereby trigger the 25 percent tax credit category) from fiscal 2008 to fiscal 2010. However, gas prices are not expected to fall low enough to trigger any of the proposed tax credits.

The fiscal impact of the $100 filing fee would be insignificant, based on the number of oil leases qualified under the 5 percent recoverable oil per barrel of produced water.

Local Government Impact

No significant fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: JOB, WK, WP, CT