LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 79TH LEGISLATIVE REGULAR SESSION

March 30, 2005

TO: Honorable Jim Keffer, Chair, House Committee on Ways & Means

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

IN RE: **HB1766** by Keffer, Jim (Relating to exemptions from and reductions to the gas production tax.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB1766, As Introduced: a negative impact of ($162,130,000) 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	($64,295,000)
2007	($97,835,000)
2008	($120,207,000)
2009	($204,379,000)
2010	($306,925,000)

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	Probable Revenue Gain/ (Loss) from *ECONOMIC STABILIZATION FUND* 599
2006	($48,221,000)	($16,074,000)	($192,885,000)
2007	($73,376,000)	($24,459,000)	($293,502,000)
2008	($90,155,000)	($30,052,000)	($360,621,000)
2009	($153,284,000)	($51,095,000)	($406,566,000)
2010	($230,194,000)	($76,731,000)	($404,521,000)

Fiscal Analysis

The bill would amend Section 201.058 of the Tax Code, concerning a tax incentive for flared or vented natural gas.

The bill would modify Subsection 201.058(b) regarding the time condition required to qualify for the current flared or released tax incentive. The bill would reduce the current twelve-month vent or flare requirement to six months.

The bill would add Subsection 201.058(c) to provide an exemption from the natural gas tax, for the life of the well, for new gas wells and oil wells (the Comptroller's Office indicates no distinction is made) where gas has been vented according to the Railroad Commission of Texas (RRC) rules.

The bill would add a new Subsection 201.058(d) to include new oil and gas wells that are subject to

being vented under RRC rules because of the capital costs associated with venting the gas. The operator would be entitled to a reduction in tax for the first 120 consecutive months, or until the tax reduction equaled 75 percent of the capital costs incurred for the gathering and marketing of the gas, whichever occurred first.

The bill would limit the new provisions to new gas production not marketed before September 1, 2005

The bill would take effect September 1, 2005.

Methodology

The current natural gas severance tax exemption for flared or released gas from an oil well requires a twelve-month time requirement to flare or vent gas production to qualify for a 100 percent exemption for the life of the well. This bill would establish a six-month flared or released schedule, which would increase the amount of casinghead gas production that would qualify.

The new Subsection 201.058(c) would grant a 100 percent severance tax exemption for both gas and oil wells (the bill does not distinguish) that vent for any time frame, subject to RRC rules. If a well flared for any length of time, the natural gas production for the life of the well would qualify for a life-time exemption. Based on the bill's language, it was assumed that new casinghead and gas well gas production would qualify under this new subsection; existing wells and production would not be affected.

The Comptroller's 2006-07 Biennial Revenue Estimate for natural gas tax revenue was used to calculate the annual losses over the projection period.

Since the exemption provided in subsection (d) would be less generous than subsection (c), the impact of the bill was considered on subsection (c).

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts, 455 Railroad Commission

LBB Staff: JOB, SD, WP, CT