LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 79TH LEGISLATIVE REGULAR SESSION

April 12, 2005

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

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

IN RE: **HB2983** by West, George "Buddy" (Relating to encouraging production from gas and oil wells.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB2983, As Introduced: a negative impact of ($296,191,000) through the biennium ending August 31, 2007.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2006	($203,200,000)
2007	($92,991,000)
2008	($91,944,000)
2009	($90,937,000)
2010	($23,169,000)

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	Probable (Cost) from *GENERAL REVENUE FUND* 1
2006	($152,400,000)	($50,800,000)	($68,247,000)	
2007	($69,743,000)	($23,248,000)	($68,247,000)	
2008	($68,958,000)	($22,986,000)	($68,247,000)	
2009	($68,203,000)	($22,734,000)	($68,247,000)	
2010	($17,377,000)	($5,792,000)	$0	

Fiscal Year	Change in Number of State Employees from FY 2005
2006	
2007	
2008	
2009	
2010	

Fiscal Analysis

The bill would create two new oil production tax incentive programs and one natural gas tax incentive program under Sections 202.058 and 202.060 of the Tax Code.

The bill would add definitions to Section 202.001 to implement a new exploratory well program.

The bill would create a tax incentive program for new exploratory oil and gas wells. A new exploratory well would be defined as a well permitted by the Texas Railroad Commission (RRC) after September 1, 2005. The well would have to be spudded before September 1, 2009.

The bottomhole location of the exploratory well would have to be at least one mile from the nearest well, producing or non-producing from the same geologic interval in commercial volumes; or, the exploratory well would have to be drilled to a horizon where the lowest productive point in the well was a distance of 1000 feet below the correlative interval of any field within one mile of the location of the lowest productive point in the well.

The bill would provide a tax credit per well equal to $10,000 plus a dollar amount equal to the quotient of the square of the depth of the well divided by 1,000. Because the bill would provide a credit for dry holes, the credit per well would be used against other oil production or natural gas taxes owed.

The bill would create a new oil production tax credit incentive program under Section 202.060 for taxpayers who use enhanced efficiency equipment in the production of oil. The bill would define enhanced efficiency equipment as 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 equipment.

The bill would require an institution of higher education located in this state to evaluate the equipment and verify the required energy reduction.

The bill would provide a credit of up to 20 percent of the cost of the equipment, but not to exceed $2,000 per well. A taxpayer would be allowed to carry a tax credit forward until fully redeemed.

The bill would take effect September 1, 2005.

Methodology

This fiscal note is based upon analysis provided by the Comptroller's Office.

Comptroller staff used Railroad Commission (RRC) data to determine the number of exploratory wells that would qualify for the tax credit. Wells drilled at least one mile apart, new field discoveries based on the existing RRC definition, re-entries, deepening, and sidetrack activity were included. Both producing and non-producing wells within the definitions provided for exploratory wells would qualify. An average depth per well was assumed to calculate the credit.

To calculate the fiscal impact associated with the use of enhanced energy efficient equipment for oil wells, RRC oil well count data were used. It was assumed that half of the oil wells would qualify during the first year, followed by 10 percent per year thereafter. Existing equipment installed before the effective date of the bill would qualify for the credit. The maximum credit of $2000 per well was assumed.

The administrative cost estimates indicate the personnel cost for the Comptroller's Office to administer the tax incentive program.

Local Government Impact

Local government sales and property taxes could increase as a result of any new drilling activity induced by the incentive program.

Source Agencies: 304 Comptroller of Public Accounts, 455 Railroad Commission
LBB Staff: JOB, CT