BILL ANALYSIS

C.S.H.B. 2240
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Ways & Means
Committee Report (Substituted)

BACKGROUND AND PURPOSE

In 2005, the Texas Legislature passed a severance tax credit for marginal oil and gas wells that is only triggered if prices fall below certain points. In considering the proposal, the value of direct activity of marginal wells was valued at $2.8 billion and, according to the Comptroller, the additional multiplier for total economic impact of oil and gas production to the Texas economy is six-fold. These statistics, along with the danger of such low-producing wells becoming abandoned if prices drop significantly and that impact on the State, led lawmakers to approve the credit as a kind of insurance policy to keep the wells producing in the event of a drastic drop in oil and gas prices.

The measure passed in 2005 contained a sunset date for 2007. After further study by the Railroad Commission's Natural Gas Pipeline Competition Study Advisory Committee in 2006, the group stated, "These marginal wells – while individually insignificant – are collectively important. They provide substantial economic benefit to the State and its citizens, and contribute a meaningful amount of natural gas to the Nation's energy supply." The Committee recommended removing the sunset date and this recommendation was adopted by the Commission.

CSHB 2240 removes the sunset dates and makes adjustments to the qualifying criteria to reflect updated economic forecasts.

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. Amends Tax Code Sections 201.059 (b), (c), (d) and (e) to adjust the price floors of natural gas that trigger the credit to reflect updated economic forecasts. Removes the adjustment to 2005 dollars.

SECTION 2. Amends Tax Code Section 202.058(a)(2) to change the qualifying ratio of recoverable oil to barrel of produced water from 5% to 10%.

SECTION 3. Amends Tax Code Section 202.058 (c) to change a qualified reporting index from New York Stock Exchange to West Texas Sour since this is an index more applicable to Texas production and removes the adjustment to 2005 dollars. Amends Tax Code Sections 202.058(d), (e) and (f) to adjust the price floors of oil that trigger the credit to reflect updated economic forecasts.

SECTION 4. Repeals Tax Code Sections 201.059(g) and 201.058(h) to remove sunset dates, and states that this section takes effect August 27, 2007.

SECTION 5. Clarifying technical language regarding tax liability accrued before the effective date.

SECTION 6. Effective Date. Provides that except otherwise provided by this Act, this Act takes effect September 1, 2007.

EFFECTIVE DATE

SECTION 4 takes effect August 27, 2007. Otherwise, this Act takes effect September 1, 2007.

COMPARISON OF ORIGINAL TO SUBSTITUTE

The substitute added a new Subsection (b) to Section 1 of the bill and deleted the phrase "adjusted to 2005 dollars". In Section 2, the trigger amount was lowered from $48 to $46. The substitute also removed the phrase "adjusted to 2005 dollars" from Section 3 of the bill. These changes ensure that the trigger points in the bill reflect the prices received by producers in current dollars not 2005 dollars. In addition, a change in the 25% trigger was lowered from $48 to $46 in Section 2 of the bill.