LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 80TH LEGISLATIVE REGULAR SESSION

May 3, 2007

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

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

IN RE: **HB2240** by Farabee (Relating to severance tax credits for qualifying low-producing wells.), **Committee Report 1st House, Substituted**

No fiscal implication to the State is anticipated.

The bill would modify the definition of a low-producing oil lease. The bill would repeal the September 1, 2007 expiration date for the program, thereby making it permanent. The repeal of the expiration date would take effect August 27, 2007.

Under the bill, a marginal gas well operator would be entitled to a 25 percent tax credit if the average taxable gas price of the previous three months were more than $4.50 per Mcf but not more than $5.

The tax credit would increase to 50 percent if the price were more than $4.00 per Mcf but not more than $4.50, and to 100 percent if the price were $4.00 or less.

A marginal oil well operator would be entitled to a 25 percent tax credit if the average taxable oil price of the previous three months were above $44 per barrel but not more than $46. The tax credit would increase to 50 percent if the price were above $38 per barrel but not more than $44, and to 100 percent if the price were $38 or less.

The bill would broaden the definition of a marginal oil well to allow wells part of a lease wherein production averaged over a 90-day period was less than: 15 barrels per day, or 10 percent (currently 5 percent) recoverable oil per barrel of produced water.

The bill would take effect September 1, 2007.

The estimated fiscal impact was based on data derived from the Comptroller's oil and gas tax information and Texas Railroad Commission oil and gas historical production records. The average taxable prices from the 2008-09 Biennial Revenue Estimate were used in the fiscal analysis.

Production from existing tax incentives, casinghead gas, and condensate volumes were excluded.

Because average taxable oil and gas prices are not expected to fall low enough at any point over the projection period to trigger any tax credits under the bill, there would be no fiscal impact.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts

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