

BILL ANALYSIS

C.S.H.B. 3159
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Ways & Means
Committee Report (Substituted)

BACKGROUND AND PURPOSE

The bill author has informed the committee that oil and gas wells, particularly horizontal shale wells developed through hydraulic fracturing, experience a rapid decline in production after initial extraction which stems from the inherent challenges of extracting hydrocarbons from extremely tight shale rock formations. However, the bill author has also informed the committee that large quantities of oil and gas often remain trapped within these existing well sites and that these resources can be extracted using a specialized technique known as restimulation. C.S.H.B. 3159 seeks to capitalize on this opportunity and revitalize existing oil and gas infrastructure in Texas by creating a strategic incentive framework for oil and gas operators to reinvest in previously completed wells.

CRIMINAL JUSTICE IMPACT

It is the committee's opinion that this bill does not expressly create a criminal offense, increase the punishment for an existing criminal offense or category of offenses, or change the eligibility of a person for community supervision, parole, or mandatory supervision.

RULEMAKING AUTHORITY

It is the committee's opinion that rulemaking authority is expressly granted to the Railroad Commission of Texas and the comptroller of public accounts in SECTION 1 of this bill.

ANALYSIS

C.S.H.B. 3159 amends the Tax Code to exempt hydrocarbons produced from a restimulation well that has been certified as a qualifying well by the Railroad Commission of Texas (RRC) from oil and gas production taxes until the earlier of the following dates:

- the last day of the 36th consecutive month following the month in which the well first produces hydrocarbons after a restimulation treatment is completed; or
- the date on which the cumulative amount of taxes exempted and any amount credited back under the bill's provisions equals the lesser of the restimulation costs or \$750,000.

This exemption does not apply with respect to an oil or gas well that:

- has less than 60 months of production reported to the RRC before the date a restimulation treatment is performed;
- is part of an enhanced oil recovery project, as defined by Natural Resources Code provisions relating to abandoned wells;
- is drilled but not completed and that does not have a record of hydrocarbon production reported to the RRC; or
- is not an inactive well, as defined by Natural Resources Code provisions relating to abandoned wells, immediately before the restimulation treatment is performed.

The bill establishes that gas produced from a qualifying well that was previously certified by the RRC as a well that produces or will produce high-cost gas is not eligible for the gas production tax reduction for certain high-cost gas provided by applicable state law during the period the gas is exempt from oil and gas production taxes under the bill's provisions.

C.S.H.B. 3159 authorizes the operator of a restimulation well to apply to the RRC for certification that the well is a qualifying well at any time after the first day the well produces hydrocarbons following the date a restimulation treatment is completed. The bill authorizes the RRC to require an applicant to provide any relevant information required to administer the bill's provisions and requires the RRC, after approving an application, to issue a certificate designating the well as a qualifying well. The RRC may revoke such a certificate if it determines any of the following:

- a well that was certified as a qualifying well is not a restimulation well; or
- the operator is claiming or has claimed an exemption for hydrocarbons produced from a well that is not a qualifying well.

The bill requires the RRC to notify an operator that a certificate designating a well as a qualifying well has been revoked and establishes that the tax exemption provided by the bill is automatically revoked on the date the RRC revokes the certificate unless the RRC issues a new certificate for the well. Hydrocarbons produced from the well after the date a certificate is revoked are not eligible for the exemption.

C.S.H.B. 3159 requires the person responsible for paying an applicable oil or gas production tax to apply to the comptroller of public accounts to qualify for the exemption and requires the comptroller to determine the form and content of the application, which must include the certificate designating a well as a qualifying well issued by the RRC and a report of the restimulation costs incurred to perform the restimulation treatment on the qualifying well from which the hydrocarbons that are the subject of the application are produced. For this purpose, restimulation costs include only the current and contemporaneous restimulation costs associated with performing the restimulation treatment.

C.S.H.B. 3159 requires the comptroller to approve an exemption application if the application meets all applicable requirements and authorizes the comptroller to require the person applying for the exemption to provide any relevant information necessary to administer the bill's provisions. The bill also authorizes the comptroller by rule to establish procedures to comply with the bill's provisions.

C.S.H.B. 3159 establishes that, if the oil or gas production tax, as applicable, is paid at the applicable rate on hydrocarbons produced from a qualifying well on or after the date the RRC issues a certificate designating the well as a qualifying well but before the date the comptroller approves an application for an exemption for hydrocarbons produced from the well, the person responsible for paying the applicable tax is entitled to a credit against the oil or gas production taxes due in an amount equal to the amount of the tax paid during that period on hydrocarbons produced from the qualifying well. The bill requires the person responsible for paying the applicable tax to apply to the comptroller before the expiration of the applicable period for filing a tax refund claim under applicable state law to receive the credit.

C.S.H.B. 3159 subjects a person who makes or submits an application, report, or other document or item of information to the RRC or the comptroller under the bill's provisions that the person knows is false or untrue in a material fact to the applicable penalties imposed by Natural Resources Code provisions relating to the conservation and regulation of oil and gas. The bill makes a person who applies or attempts to apply for an exemption for hydrocarbons produced from a well the person knows is not a qualifying well liable to the state for a civil penalty capped at the sum of \$10,000 and the difference between the amount of taxes paid or attempted to be paid and the amount of taxes due. The bill authorizes the attorney general to recover such a penalty in a suit brought on the state's behalf and establishes that venue for such a suit is in Travis County.

C.S.H.B. 3159 authorizes the RRC to adopt rules necessary to administer the bill's provisions.

C.S.H.B. 3159 defines the following terms:

- "consecutive months" as months in consecutive order, regardless of whether an oil or gas well produces hydrocarbons during any or all of those months;
- "hydrocarbons" as the oil, gas, condensate, and other hydrocarbons produced from an oil or gas well;
- "operator" as the person responsible for the actual physical operation of an oil or gas well;
- "restimulation costs" as expenses that are directly attributable to payment for the restimulation treatment performed on a restimulation well;
- "restimulation treatment" as the treatment of an oil or gas well with an application of fluid under pressure for the purpose of initiating or propagating fractures in a target geologic formation to enhance the production of hydrocarbons from the well; and
- "restimulation well" as a previously completed oil or gas well that, following production of hydrocarbons, became an inactive well and subsequently received a restimulation treatment.

C.S.H.B. 3159 applies only to hydrocarbons produced on or after January 1, 2026.

C.S.H.B. 3159 does not affect tax liability accruing before the bill's effective date. That liability continues in effect as if the bill had not been enacted, and the former law is continued in effect for the collection of taxes due and for civil and criminal enforcement of the liability for those taxes.

EFFECTIVE DATE

January 1, 2026.

COMPARISON OF INTRODUCED AND SUBSTITUTE

While C.S.H.B. 3159 may differ from the introduced in minor or nonsubstantive ways, the following summarizes the substantial differences between the introduced and committee substitute versions of the bill.

The substitute narrows the applicability of the exemption from oil and gas production taxes for hydrocarbons produced from a certified restimulation well by including a provision absent from the introduced establishing that the exemption does not apply with respect to an oil or gas well that is not an inactive well immediately before the restimulation treatment is performed. Accordingly, while both the introduced and the substitute define "restimulation well" as a previously completed oil or gas well that, following production of hydrocarbons, received a restimulation treatment, the substitute includes a specification absent from the introduced that an applicable well became an inactive well and subsequently received such treatment following production of hydrocarbons.