

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 89TH LEGISLATIVE REGULAR SESSION

May 8, 2025

TO: Honorable Morgan Meyer, Chair, House Committee on Ways & Means

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: HB3159 by Darby (relating to a severance tax exemption for oil and gas produced from certain previously inactive restimulation wells; providing a civil penalty.), **Committee Report 1st House, Substituted**

No significant fiscal implication to the State is anticipated.

The bill would provide a severance tax exemption for hydrocarbons, taxable under both Chapters 201 and 202 of the Tax Code, produced from both oil and gas restimulation wells on or after January 1, 2026. The bill would define a restimulation well as an inactive well that previously has at least 5 years of production and would not be part an enhanced oil recovery project or an uncompleted well without a record of production prior to the hydraulic fracture treatment to enhance the well's production.

Oil, gas, and condensate produced from a qualified well would be exempt from severance taxes ending on the last day of the 36th consecutive month following the restimulation treatment or the date on which the cumulative amount of taxes exempted equals the lesser of restimulation costs or \$750,000, whichever occurs first. The exemption on gas would override the qualified wells' concurrent high-cost gas tax reduction under Section 201.057 of the Tax Code while the restimulation exemption is in effect.

The Railroad Commission (RRC) would review an application by the operator and issue a certificate for the qualifying well. RRC may revoke the certificate under certain circumstances and the exemption would automatically expire concurrently. RRC would adopt rules necessary to administer the certification and associated penalty provisions of the bill.

To qualify for the exemption, the taxpayer must apply to the Comptroller with the issued RRC certificate and a report of the actual restimulation costs incurred. The Comptroller by rule would establish forms and procedures to implement those provisions of the bill.

A civil penalty would be assessed against a person applying or attempting to apply for an exemption knowing the well is not a qualifying well in an amount not to exceed \$10,000 plus the difference in taxes paid and taxes due.

The bill would provide an incentive to return marginal inactive wells to production. Although it is possible that certain non-marginal inactive wells would qualify for this exemption, the number of wells and associated hydrocarbon production volumes are expected to be inconsequential and there would be no significant revenue impact.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: JMc, KK, SD, BRI