HOUSE RESEARCH ORGANIZATION bill analysis 5/22/97

SB 582
Ratliff, Bivins
(Holzheauser)

SUBJECT: Extending tax incentives for enhanced oil recovery projects

COMMITTEE: Ways and Means— favorable, without amendment

VOTE: 8 ayes — Craddick, Ramsay, Grusendorf, Heflin, Holzheauser, Horn, Oliveira, Telford

0 nays

3 absent — Stiles, Thompson, Williamson

SENATE VOTE: On final passage, March 3 — 28-0, 3 present, not voting (Bivins, Moncrief, Ogden)

WITNESSES: For — None

Against — None

On — David Garlick, Texas Railroad Commission

BACKGROUND: Under the Tax Code, oil recovered under new projects using enhanced oil recovery systems is eligible for a 50 percent reduction in the amount of severance tax imposed; oil recovered using such techniques in existing projects is eligible for a 50 percent tax credit. Co-production projects also may be eligible for these incentives. The program is scheduled to expire January 1, 1998.

DIGEST: SB 582 would extend the application period for a new enhanced oil recovery project or expansion of an existing enhanced oil project from the current deadline of January 1, 1998, to January 1, 2008. The bill also would make co-production projects ineligible for the tax reductions or credits.

The bill would take effect September 1, 1997.

SUPPORTERS SAY: SB 582 is essential to maximizing the oil production in Texas for many years in the future. This bill would help recover the estimated 120 billion barrels of oil in Texas locked under the ground. These barrels are worth about $4 to $7 trillion to the Texas economy and would not be produced without additional advanced recovery methods. Since the tax incentives were enacted in 1989 and expanded in 1991, the applications filed indicate the recovery of 1.4 billion additional barrels of oil.

Enhanced oil recovery (EOR) is the process of forcing hard-to-get oil from the ground to maximize production after the natural reservoir energy is depleted. The 50 percent tax credit is justified because of the expense and complexity of enhanced oil recovery projects, the fact that this oil would not otherwise be produced, and the potential gain to Texas because of severance and property taxes, royalty interests and economic benefits.

There would also be some potential financial gain to certain units of local government where these enhanced recovery projects would be undertaken. The gain would result from the increased mineral property valuations on the wells subject to the enhanced projects.

It is important to maintain this enhanced recovery program in place because there is always the potential of new oil wells or fields being discovered in the future and the potential revenues would equal out any tax breaks given. Furthermore, eight other states have adopted EOR incentives, and Texas must continue this program in order to maintain its competitive position with regard to incentives.

OPPONENTS SAY:

Comparing the volume of oil produced from the first and second phases of this program shows that a substantial portion of the potential oil production from these types of enhanced recovery projects has already been achieved, and it may not be necessary to extend the project into a third phase because of the small potential gains.

NOTES:

A related bill, SB 126 by Bivins, which would provide 10-year severance tax exemptions for inactive wells brought back to production, has passed both the House and the Senate and awaits action by the governor.