SUBJECT: Oil severance tax incentive to use enhanced efficiency equipment

COMMITTEE: Energy Resources — committee substitute recommended

VOTE: 7 ayes — West, Farabee, Crownover, Corte, Crabb, Gonzalez Toureilles, Howard

0 nays

WITNESSES: For — Victor Carrillo, Texas Energy Planning Council; James Mann, Fiberod; Bill Stevens, Texas Alliance of Energy Producers; (*Registered, but did not testify*: Adam Haynes, TIPRO; Julie Moore, Occidental Petroleum Corporation; Fred Morrow and Russ Rutledse, Fiberod; Tom Sellers, ConocoPhillips).

Against — None

BACKGROUND: At the end of 2004, Texas had over 110,000 inactive oil or gas wells. Of those, almost 16,000 were considered abandoned by the Railroad Commission. Many of these abandoned wells are no longer in production because it is not economically feasible to keep them open.

DIGEST: CSHB 2983 would establish a tax credit for producers installing and using enhanced efficiency equipment to produce oil.

The bill would provide a definition of enhanced efficiency equipment and the requirements a producer must meet to be eligible for the tax credit. A qualified producer would be entitled to a credit in an amount equal to 20 percent of the cost of the equipment provided that:

- the cumulative total of all severance tax credits may not exceed $2,000 for any well;
- the equipment installed in a qualifying well must have been purchased and installed between September 1, 2005, and September 1, 2009;
- an application for the credit would have to be filed with the comptroller noting that the equipment was purchased and installed within the required dates; and

- the equipment would have to be evaluated and approved by a higher learning institution's accredited petroleum engineering program.

The producer could carry any unused credit forward until the credit is used.

The number of wells approved for the credit each year could not exceed 2 percent of the total number of producing wells in the state on September 1 of that fiscal year.

The bill would take effect on September 1, 2005.

NOTES: The substitute removed tax credits for new exploratory wells. It amends the definition of enhanced efficiency equipment and adds qualification requirements a producer must meet to be entitled to the tax credit.