

- SUBJECT:** Reinstating, revising severance tax exemption for certain wells
- COMMITTEE:** Ways and Means — favorable, without amendment
- VOTE:** 11 ayes — Burrows, Guillen, Bohac, Cole, Martinez Fischer, Murphy, Noble, E. Rodriguez, Sanford, Shaheen, Wray
- 0 nays
- WITNESSES:** For — Ed Longanecker, TIPRO; James LeBas, TXOGA; (*Registered, but did not testify*: Paula Bulcao, BP America; Greg Macksood, Chesapeake Energy, Encana, Hilcorp, PDC Energy, WPX Energy; Jamie Weber, EOG Resources; John Kroll, HMWK LLC; Bill Stevens, Panhandle Producers and Royalty Owners Association, Texas Alliance of Energy Producers; Ryan Paylor and Lauren Spreen, Texas Independent Producers and Royalty Owners Association; Al Zito)
- Against — None
- BACKGROUND:** Tax Code sec. 202.056 exempts oil and gas produced from certain previously inactive wells from severance taxes for 10 years.
- To qualify for the exemption, a well must either have been designated as a three-year inactive well by the Railroad Commission before or on February 29, 1996, or as a two-year inactive well before or on February 28, 2010.
- DIGEST:** HB 1558 would re-establish the severance tax exemption for certain previously inactive oil and gas wells and reduce the duration of the exemption from 10 years to five years.
- To qualify for the exemption, a well could not have produced oil or gas in more than one month in the two years preceding the date of application for the exemption. This exemption would not apply to a well that was part of an enhanced recovery project or to one that had been drilled but not completed and did not have recorded hydrocarbon production reported to

the Railroad Commission.

The bill would take immediate effect if finally passed by a two-thirds record vote of the membership of each house. Otherwise, it would take effect September 1, 2019.

**SUPPORTERS
SAY:**

HB 1558 would encourage oil and gas well operators to renew production at marginal wells to address the growing problem of abandoned, inactive wells in Texas, known as orphan wells. It is the responsibility of the Railroad Commission to seal orphan wells, but the agency does not have the resources to seal the wells that are currently abandoned nor the wells it expects to be abandoned this year. Reinstating the severance tax exemption for two-year inactive wells could incentivize operators to bring them back online, preventing them from being abandoned.

Renewed production at previously inactive wells also could increase sales and property tax revenue and employment.

**OPPONENTS
SAY:**

HB 1558 would give preferential tax treatment to a particular industry, which amounts to an interference in the free market.