

SUBJECT: Determining the ad valorem tax appraisal value of oil and gas interests

COMMITTEE: Ways and Means — favorable, without amendment

VOTE: 8 ayes — Keffer, Ritter, Bonnen, Y. Davis, Flores, Paxton, Pena, Pitts

0 nays

1 absent — Otto

WITNESSES: For — James LeBas, Texas Oil and Gas Association; John Valenza, Anadarko Petroleum Corp.; (*Registered, but did not testify*: Steve Perry, Chevron USA; Bill Stevens, Texas Alliance of Energy Producers; Donna Warndorf, Texas Independent Producers and Royalty Owners)

Against — None

BACKGROUND: Tax Code sec. 23.175 governs the appraisal methods for oil and gas interests. If the appraisal methods take into account the future income from the sale of oil or gas to be produced from the interest, this method must use the average price of the oil or gas from the preceding year as the price at which the oil or gas is projected to be sold in the current year of the appraisal.

DIGEST: Under HB 2982, an appraisal method that took into account the future income from the sale of oil or gas would have to use the average price of the oil or gas for the preceding calendar year, multiplied by a market condition factor.

The average price for the preceding year would be calculated by dividing the sum of the monthly average prices for which the oil and gas from the interest was selling during each month, divided by 12.

The market condition factor would be calculated by dividing the comptroller's current statewide average price for oil or gas by the preceding year's statewide average price for oil or gas. The comptroller would publish this information concurrently with the average prices for oil and gas.

The price for the interest used in the second and subsequent years of appraisal would reflect the same percent increase or decrease in the price of oil or gas as projected by the comptroller for revenue estimating purposes.

The bill would take effect January 1, 2008, and would apply for tax years beginning on or after that date.