

108TH CONGRESS  
1ST SESSION

# H. R. 503

To amend the Internal Revenue Code of 1986 to allow a credit for the production of oil and gas from domestic marginal wells and to extend the credit for alternative fuels.

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## IN THE HOUSE OF REPRESENTATIVES

JANUARY 29, 2003

Mr. THORNBERRY (for himself, Mr. STENHOLM, Mr. BONILLA, Mr. TURNER of Texas, Mr. COMBEST, Mr. SULLIVAN, Mr. SMITH of Texas, and Mrs. CUBIN) introduced the following bill; which was referred to the Committee on Ways and Means

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## A BILL

To amend the Internal Revenue Code of 1986 to allow a credit for the production of oil and gas from domestic marginal wells and to extend the credit for alternative fuels.

1       *Be it enacted by the Senate and House of Representa-*  
2       *tives of the United States of America in Congress assembled,*

3       **SECTION 1. TAX CREDIT FOR MARGINAL DOMESTIC OIL**  
4               **AND NATURAL GAS WELL PRODUCTION.**

5       (a) IN GENERAL.—Subpart D of part IV of sub-  
6       chapter A of chapter 1 of the Internal Revenue Code of

1 1986 (relating to business credits) is amended by adding  
 2 at the end the following new section:

3 **“SEC. 45G. CREDIT FOR PRODUCING OIL AND GAS FROM**  
 4 **MARGINAL WELLS.**

5 “(a) GENERAL RULE.—For purposes of section 38,  
 6 the marginal well production credit for any taxable year  
 7 is an amount equal to the product of—

8 “(1) the credit amount, and

9 “(2) the qualified crude oil production and the  
 10 qualified natural gas production which is attrib-  
 11 utable to the taxpayer.

12 “(b) CREDIT AMOUNT.—For purposes of this sec-  
 13 tion—

14 “(1) IN GENERAL.—The credit amount is—

15 “(A) \$3 per barrel of qualified crude oil  
 16 production, and

17 “(B) 50 cents per 1,000 cubic feet of  
 18 qualified natural gas production.

19 “(2) REDUCTION AS OIL AND GAS PRICES IN-  
 20 CREASE.—

21 “(A) IN GENERAL.—The \$3 and 50 cents  
 22 amounts under paragraph (1) shall each be re-  
 23 duced (but not below zero) by an amount which  
 24 bears the same ratio to such amount (deter-  
 25 mined without regard to this paragraph) as—

1 “(i) the excess (if any) of the applica-  
2 ble reference price over \$15 (\$1.67 for  
3 qualified natural gas production), bears to  
4 “(ii) \$3 (\$0.33 for qualified natural  
5 gas production).

6 The applicable reference price for a taxable  
7 year is the reference price for the calendar year  
8 preceding the calendar year in which the tax-  
9 able year begins.

10 “(B) INFLATION ADJUSTMENT.—In the  
11 case of any taxable year beginning in a calendar  
12 year after 2003, each of the dollar amounts  
13 contained in subparagraph (A) shall be in-  
14 creased to an amount equal to such dollar  
15 amount multiplied by the inflation adjustment  
16 factor for such calendar year (determined under  
17 section 43(b)(3)(B) by substituting ‘2002’ for  
18 ‘1990’).

19 “(C) REFERENCE PRICE.—For purposes of  
20 this paragraph, the term ‘reference price’  
21 means, with respect to any calendar year—

22 “(i) in the case of qualified crude oil  
23 production, the reference price determined  
24 under section 29(d)(2)(C), and

1 “(ii) in the case of qualified natural  
 2 gas production, the Secretary’s estimate of  
 3 the annual average wellhead price per  
 4 1,000 cubic feet for all domestic natural  
 5 gas.

6 “(c) QUALIFIED CRUDE OIL AND NATURAL GAS  
 7 PRODUCTION.—For purposes of this section—

8 “(1) IN GENERAL.—The terms ‘qualified crude  
 9 oil production’ and ‘qualified natural gas production’  
 10 mean domestic crude oil or natural gas which is pro-  
 11 duced from a marginal well.

12 “(2) LIMITATION ON AMOUNT OF PRODUCTION  
 13 WHICH MAY QUALIFY.—

14 “(A) IN GENERAL.—Crude oil or natural  
 15 gas produced during any taxable year from any  
 16 well shall not be treated as qualified crude oil  
 17 production or qualified natural gas production  
 18 to the extent production from the well during  
 19 the taxable year exceeds 1,095 barrels or barrel  
 20 equivalents.

21 “(B) PROPORTIONATE REDUCTIONS.—

22 “(i) SHORT TAXABLE YEARS.—In the  
 23 case of a short taxable year, the limitations  
 24 under this paragraph shall be proportion-  
 25 ately reduced to reflect the ratio which the

1           number of days in such taxable year bears  
2           to 365.

3           “(ii) WELLS NOT IN PRODUCTION EN-  
4           TIRE YEAR.—In the case of a well which is  
5           not capable of production during each day  
6           of a taxable year, the limitations under  
7           this paragraph applicable to the well shall  
8           be proportionately reduced to reflect the  
9           ratio which the number of days of produc-  
10          tion bears to the total number of days in  
11          the taxable year.

12       “(3) DEFINITIONS.—

13           “(A) MARGINAL WELL.—The term ‘mar-  
14          ginal well’ means a domestic well—

15           “(i) the production from which during  
16          the taxable year is treated as marginal  
17          production under section 613A(c)(6), or

18           “(ii) which, during the taxable year—

19           “(I) has average daily production  
20          of not more than 25 barrel equiva-  
21          lents, and

22           “(II) produces water at a rate  
23          not less than 95 percent of total well  
24          effluent.

1                   “(B) CRUDE OIL, ETC.—The terms ‘crude  
2                   oil’, ‘natural gas’, ‘domestic’, and ‘barrel’ have  
3                   the meanings given such terms by section  
4                   613A(e).

5                   “(C) BARREL EQUIVALENT.—The term  
6                   ‘barrel equivalent’ means, with respect to nat-  
7                   ural gas, a conversion ratio of 6,000 cubic feet  
8                   of natural gas to 1 barrel of crude oil.

9                   “(d) OTHER RULES.—

10                  “(1) PRODUCTION ATTRIBUTABLE TO THE TAX-  
11                  PAYER.—In the case of a marginal well in which  
12                  there is more than one owner of operating interests  
13                  in the well and the crude oil or natural gas produc-  
14                  tion exceeds the limitation under subsection (c)(2),  
15                  qualifying crude oil production or qualifying natural  
16                  gas production attributable to the taxpayer shall be  
17                  determined on the basis of the ratio which tax-  
18                  payer’s revenue interest in the production bears to  
19                  the aggregate to the revenue interests of all oper-  
20                  ating interest owners in the production.

21                  “(2) OPERATING INTEREST REQUIRED.—Any  
22                  credit under this section may be claimed only on  
23                  production which is attributable to the holder of an  
24                  operating interest.

1           “(3) PRODUCTION FROM NONCONVENTIONAL  
 2 SOURCES EXCLUDED.—In the case of production  
 3 from a marginal well which is eligible for the credit  
 4 allowed under section 29 for the taxable year, no  
 5 credit shall be allowable under this section unless  
 6 the taxpayer elects not to claim credit under section  
 7 29 with respect to the well.”.

8           (b) CREDIT TREATED AS BUSINESS CREDIT.—Sec-  
 9 tion 38(b) of such Code is amended by striking “plus”  
 10 at the end of paragraph (14), by striking the period at  
 11 the end of paragraph (15) and inserting”, plus”, and by  
 12 adding at the end of the following new paragraph:

13           “(16) the marginal oil and gas well production  
 14 credit determined under section 45G(a).”.

15           (c) CREDIT ALLOWED AGAINST REGULAR AND MIN-  
 16 IMUM TAX.—

17           (1) IN GENERAL.—Subsection (c) of section 38  
 18 of such Code (relating to limitation based on amount  
 19 of tax) is amended by redesignating paragraph (4)  
 20 as paragraph (5) and by inserting after paragraph  
 21 (3) the following new paragraph:

22           “(4) SPECIAL RULES FOR MARGINAL OIL AND  
 23 GAS WELL PRODUCTION CREDIT.—

24           “(A) IN GENERAL.—In the case of the  
 25 marginal oil and gas well production credit—

1 “(i) this section and section 39 shall  
 2 be applied separately with respect to the  
 3 credit, and

4 “(ii) in applying paragraph (1) to the  
 5 credit—

6 “(I) subparagraphs (A) and (B)  
 7 thereof shall not apply, and

8 “(II) the limitation under para-  
 9 graph (1) (as modified by subclause  
 10 (I)) shall be reduced by the credit al-  
 11 lowed under subsection (a) for the  
 12 taxable year (other than the marginal  
 13 oil and gas well production credit).

14 “(B) MARGINAL OIL AND GAS WELL PRO-  
 15 Duction CREDIT.—For purposes of this sub-  
 16 section, the term ‘marginal oil and gas well pro-  
 17 duction credit’ means the credit allowable under  
 18 subsection (a) by reason of section 45G(a).”.

19 (2) CONFORMING AMENDMENTS.—

20 (A) Subclause (II) of section  
 21 38(c)(2)(A)(ii) of such Code is amended by  
 22 striking “credit or” and inserting “credit,” and  
 23 by striking “credit)” and inserting “credit, or  
 24 the marginal oil and gas well production cred-  
 25 it)”.



1                   (B)       Subclause       (II)       of       section  
 2                   38(c)(3)(A)(ii) of such Code is amended by in-  
 3                   serting “or the marginal oil and gas well pro-  
 4                   duction credit)” after “employee credit”.

5       (d) CARRYBACK.—Subsection (a) of section 39 of  
 6 such Code (relating to carryback and carryforward of un-  
 7 used credits generally) is amended by adding at the end  
 8 the following new paragraph:

9                   “(3) 10-YEAR CARRYBACK FOR MARGINAL OIL  
 10       AND GAS WELL PRODUCTION CREDIT.—In the case  
 11       of the marginal oil and gas well production credit—

12                   “(A) this section shall be applied sepa-  
 13       rately from the business credit (other than the  
 14       marginal oil and gas well production credit),

15                   “(B) paragraph (1) shall be applied by  
 16       substituting ‘10 taxable year’ for ‘1 taxable  
 17       year’ in subparagraph (A) thereof, and

18                   “(C) paragraph (2) shall be applied—

19                   “(i) by substituting ‘31 taxable years’  
 20       for ‘21 taxable years’ in subparagraph (A)  
 21       thereof, and

22                   “(ii) by substituting ‘30 taxable years’  
 23       for ‘20 taxable years’ in subparagraph (B)  
 24       thereof.”.

1 (e) COORDINATION WITH SECTION 29.—Section  
 2 29(a) of such Code is amended by striking “There” and  
 3 inserting “At the election of the taxpayer, there.”

4 (f) CLERICAL AMENDMENT.—The table of sections  
 5 for subpart D of part IV of subchapter A of chapter 1  
 6 of such Code is amended by adding at the end the fol-  
 7 lowing item:

“Sec. 45G. Credit for producing oil and gas from marginal  
wells.”.

8 (g) EFFECTIVE DATE.—The amendments made by  
 9 this section shall apply to production in taxable years be-  
 10 ginning after December 31, 2002.

11 **SEC. 2. EXTENSION OF CREDIT FOR PRODUCING FUEL**  
 12 **FROM A NONCONVENTIONAL SOURCE.**

13 (a) IN GENERAL.—Paragraph (2) of section 29(f) of  
 14 the Internal Revenue Code of 1986 (relating to application  
 15 of section) is amended by striking “2003” and inserting  
 16 “2008”.

17 (b) EFFECTIVE DATE.—The amendment made by  
 18 subsection (a) shall apply with respect to fuels sold after  
 19 December 31, 2002.

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