



**LEGISLATIVE FISCAL OFFICE
Fiscal Note**

Fiscal Note On: **HB 662** HLS 21RS 843
 Bill Text Version: **ORIGINAL**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: May 2, 2021 2:21 PM	Author: COUSSAN
Dept./Agy.: Natural Resources / Revenue	Analyst: Greg Albrecht
Subject: Severance Tax Exemption For Orphan Wells	

TAX/SEVERANCE-EXEMPTION OR SEE FISC NOTE GF RV Page 1 of 1
 Exempts oil production of certain orphaned wells from severance tax

Present law imposes a severance tax rate on most oil produced in the state at 12.5% of value. Wells producing less than 25 barrels per day and at least 50% salt water per day pay one-half that full-rate (incapable wells, 6.25%). Wells producing less than 10 barrels per day pay one-quarter the full-rate (stripper wells, 3.125%).

Proposed law provides a severance tax exemption for oil production from orphan wells. The exemption period is the earlier of months to payout of the well or 24-months. Available to wells that commence production on or after January 1, 2022 and on or before December 31, 2024. Only one exemption is allowed per wellhead.

Effective upon governor's signature.

EXPENDITURES	2021-22	2022-23	2023-24	2024-25	2025-26	5 -YEAR TOTAL
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	\$0
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0
Annual Total	\$0	\$0	\$0	\$0	\$0	\$0

REVENUES	2021-22	2022-23	2023-24	2024-25	2025-26	5 -YEAR TOTAL
State Gen. Fd.	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0
Annual Total						

EXPENDITURE EXPLANATION

The Department of Natural Resources indicates that it would be able to handle any associated additional workload with existing staff. The Department of Revenue typically indicates that the costs to modify and test tax systems to incorporate additional exemptions from taxation is approximately \$26,000 of staff time. The exemption does involve a months to payout or a fixed time period, but it is not likely that there will be a material number of participating wells to administer.

REVENUE EXPLANATION

Presumably, the bill intends to apply to oil wells designated by the Department of Natural Resources as part of an orphaned oilfield site, and the Dept. has indicated that there are over 4,000 orphan wells in the state. However, the department is unable to reasonably project the number of such wells and volume of production that might participate in the severance tax exemption program provided by the bill. In analysis of severance tax exemption programs proposed in other bills that included orphan wells, both DNR and the LSU Center for Energy Studies omitted orphan wells from the analysis because there was no known baseline of activity involving those wells and little likelihood of participation in such programs by orphan wells. To the extent orphan wells are brought back into production, the bill would result in a loss to the state general fund during the exemption period where severance tax receipts would otherwise flow. However, it does not seem likely that this effect would be significant, and there is no baseline of expected orphan well activity assumed in the severance tax forecast. Once the exemption period expires, continued production from any participating well would add to state severance tax receipts.

Senate Dual Referral Rules
 13.5.1 >= \$100,000 Annual Fiscal Cost {S & H}
 13.5.2 >= \$500,000 Annual Tax or Fee Change {S & H}

House
 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}
 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}

Christopher A. Keaton
Legislative Fiscal Officer