LEGISLATIVE FISCAL OFFICE
Fiscal Note

Louisiana Legislative Fiscal Office — Fiscal Notes

Fiscal Note On: **SB 495** SLS 22RS 1969
Bill Text Version: **ENGROSSED**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.: SB 390

Date: April 21, 2022 10:12 AM
Author: WHITE, B
Dept./Agy.: DNR/Revenue
Subject: Rebate for plugging oil wells and site restoration
Analyst: Deborah Vivien

TAX/TAXATION EG DECREASE GF RV See Note

Provides incentive rebates for oilfield site restoration associated with certain oil production. (1/1/23)

Proposed law authorizes a rebate up to 80% of the cost of plugging an inactive or orphan oil well and associated oilfield site restoration. Eligible wells must have an initial spud date before 1/1/90, no production within the last 5 years or on the state orphan well list, plugged in accordance with Department of Natural Resources (DNR) regulations, and located in a field in which there is either current oil production or a workover on a different oil well or new oil well drilled within 12 months of plugging. Rebates will be paid from severance tax collections (no stipulation of secondary funding). The well will be certified and the rebate eligibility contracted by DNR and the rebate will be administered through the Department of Revenue. No new rebate contracts will be approved by DNR after June 30, 2026.

Effective 1/1/23.

EXPENDITURES	**2022-23**	**2023-24**	**2024-25**	**2025-26**	**2026-27**	**5 -YEAR TOTAL**
State Gen. Fd.	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
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	$0	$0	$0	$0	$0	**$0**
Annual Total						

REVENUES	**2022-23**	**2023-24**	**2024-25**	**2025-26**	**2026-27**	**5 -YEAR TOTAL**
State Gen. Fd.	DECREASE	DECREASE	DECREASE	DECREASE	DECREASE	
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	DECREASE	DECREASE	DECREASE	DECREASE	DECREASE	
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total						

EXPENDITURE EXPLANATION

The Department of Natural Resources and the Department of Revenue currently have similar programs in place to certify wells and provide rebates but neither can accommodate this volume with existing resources. LFO estimates that both agencies will require significant additional resources to accommodate this effort, including at least 2 positions at DNR and 1 position at LDR at a total cost in excess of $100,000. However, once the program is operational and the administrative duties solidify, evaluations for additional resources may be necessary, depending on participation.

REVENUE EXPLANATION

The bill will reduce severance tax revenue by the amount of the rebate, which is calculated as 80% of the cost to plug and restore a site. **According to both DNR and the Center for Energy Studies (CES), this bill has a significant fiscal exposure for the state ranging between $500 M and over $1.4 B just for plugging the wells. The oilfield site restoration costs are in addition and can be more expensive than the well work. The rebate will presumably be deducted from state severance tax prior to the local allocation of 20% of state severance, which could substantially lower or eliminate the local allocation for a number of years.**

Given the large number of potentially eligible wells and sites and the size of the rebate, it is possible that all of the state's severance tax will be depleted in some years. For instance, a recent report issued by Columbia University with input from CES estimates there are 6,330 offshore orphan wells (including wells in the waters or wetlands of the coastal zone) costing an estimated $1.7 B to plug (80% rebate would be $1.4B). DNR estimates a total of 7,100 wells, both on and offshore. The Columbia report further states that plugging and abandoning (P&A) onshore wells costs an average of between $24,000-$48,000, though costs can fall well outside of this range depending on depth and complexity according to DNR estimates. Offshore wells can cost an estimated $1,200 per foot to P&A, which means a deep water well can exceed $20M with an average offshore cost around $300,000. Data for the number of wells is not certain, especially regarding undocumented or legacy wells, which also appear to be eligible in this bill.

The bill limits the rebate to plugging wells in a field that is currently producing oil or has a workover or newly drilled oil well in that field within 12 months of plugging the well. The fiscal note assumes no impact from additional oil production. To the extent that this rebate draws fields into taxable production that otherwise would not occur, the state may generate revenue. However, it is not clear whether any oil produced will be subject to full-rate or be exempt from severance tax.

There are no provisions in the bill for a secondary source of revenue to pay the rebates, thus it is not known if the amount of severance tax is effectively an annual cost cap or if contractual obligations of the rebate will require other state funds to be **(CONTINUED ON PAGE 2)**

Senate — Dual Referral Rules

[x] 13.5.1 >= $100,000 Annual Fiscal Cost {S & H}

[x] 13.5.2 >= $500,000 Annual Tax or Fee Change {S & H}

House

[x] 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}

[x] 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

Alan M. Boxberger

Alan M. Boxberger
Interim Legislative Fiscal Officer

Louisiana Legislative Fiscal Office — Fiscal Notes

Fiscal Note On: **SB 495** SLS 22RS 1969
Bill Text Version: **ENGROSSED**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.: SB 390

Date:	April 21, 2022 10:12 AM	**Author:**	WHITE, B
Dept./Agy.:	DNR/Revenue		
Subject:	Rebate for plugging oil wells and site restoration	**Analyst:**	Deborah Vivien

CONTINUED EXPLANATION from page one:

Revenue Explanation (CONTINUED)

utilized. The bill also contains no cost limits per project. However, currently only about 50 companies are approved by the Oilfield Site Restoration Committee within DNR to plug wells according to regulations, which could provide a physical limit to the pace of the work. This may spread the costs over a number of years. Should more companies gain approval to conduct this type of work, the state would presumably be obligated to pay all earned rebates at the time they are due.

For informational purposes, the federal government has recently awarded the state significant funding to presumably accomplish similar tasks, particularly if the federal definition of an orphan well includes what the state considers inactive wells. The federal grant is expected to cover 100% of plugging and mitigation costs. Final guidance and administrative certainty are not yet available for the federal dollars. It is not clear if the state would be allowed to submit any rebate costs for reimbursement with federal dollars.

Senate Dual Referral Rules

- [x] 13.5.1 >= $100,000 Annual Fiscal Cost {S & H}
- [x] 13.5.2 >= $500,000 Annual Tax or Fee Change {S & H}

House

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

Alan M. Boxberger

Alan M. Boxberger
Interim Legislative Fiscal Officer