

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **HB 29** HLS 202ES 4
 Bill Text Version: **REENGROSSED**
 Opp. Chamb. Action:
 Proposed Amd.: **w/ PROP SEN COMM AMD**
 Sub. Bill For.:

Date: October 14, 2020 11:48 AM	Author: DEVILLIER
Dept./Agy.: Natural Resources / Revenue	
Subject: Severance Tax Exemption For Orphaned Wells	Analyst: Greg Albrecht

TAX/SEVERANCE-EXEMPTION RE SEE FISC NOTE GF RV Page 1 of 1
 Suspendes severance taxes on production from certain oil wells (Items #26 and 61)

Proposed law provides an exemption from severance taxes on oil production from any orphaned that has undergone enhancements that require a DNR permit, such as re-entries, workovers, or plug-backs. The availability of the exemption extends to projects that commence production on or after October 1, 2020 and on or before December 31, 2025. The exemption lasts for 24-months or until payout of well costs is achieved, whichever occurs first, as determined by the Dept. of Natural Resources.
 If a participating orphaned well is unable to produce in paying quantities, the operator may be reimbursed costs to plug and abandon the well from the Oilfield Site Restoration Fund.
 Effective upon governor's signature.
 The fiscal note assumes that the bill does not intend to provide its tax exemption to oil condensate produced by natural gas wells.

EXPENDITURES	<u>2020-21</u>	<u>2021-22</u>	<u>2022-23</u>	<u>2023-24</u>	<u>2024-25</u>	<u>5 -YEAR TOTAL</u>
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>	<u>\$0</u>
Annual Total	\$0	\$0	\$0	\$0	\$0	\$0

REVENUES	<u>2020-21</u>	<u>2021-22</u>	<u>2022-23</u>	<u>2023-24</u>	<u>2024-25</u>	<u>5 -YEAR TOTAL</u>
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>	<u>\$0</u>
Annual Total						

EXPENDITURE EXPLANATION

The Department of Revenue may incur relatively small staff time costs associated with modifications to the tax processing to incorporate the payout-based exemption in this bill. However, the narrow focus of the bill makes extensive costs unlikely.

REVENUE EXPLANATION

According to the Department of Natural Resources, an orphaned well is one that has been abandoned by the operator and has ultimately reverted to the responsibility of the State to plug through the Oilfield Site Restoration Program that prioritizes sites and contracts with private oilfield contractors through a bidding process to restore sites. There are over 4,200 orphaned wells in the program.

DNR could not indicate whether any meaningful baseline of orphaned wells being brought back into production occurs. Since orphaned wells are abandoned and not producing because they don't produce in paying quantities, the bill's severance tax exemption is not likely to reduce baseline severance tax receipts to any meaningful degree. To the extent the bill encourages orphaned wells to be brought back into production, it may eventually result in additional severance tax collections once restarted wells achieve payout or within 24-months of new production. This potential result is likely to be small since the wells are likely to produce at marginal rates and pay low severance tax rates of 3.125% or 6.25% of value. The current relatively low oil price environment makes paying quantities even less likely. From an overall activity perspective, while the bill may work to encourage orphan well activity, that activity may occur at the expense of other marginal well activity, resulting in little or no net additional activity.

The Dept of Natural Resources has expressed concern regarding the provision that provides for reimbursement from the Oilfield Site Restoration Fund to well operators that plug and abandon a well that fails to produce in paying quantities. The program/Fund has limited resources for plugging the existing priorities of orphan wells, and the bill's language may allow wells affected by this bill to draw on the Fund without going through the program's prioritization and bidding process for plugging and abandoning.

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