GREEN SHEET REDIGEST

HB 29 **2020 Second Extraordinary Session** **DeVillier**

TAX/SEVERANCE-EXEMPTION: Suspends severance taxes on production from certain oil wells (Items #26 and 61)

DIGEST

Present law imposes a tax on natural resources severed from the soil or water based upon quantity or value of the products or resources severed.

Present law establishes a severance tax on oil at a rate of 12.5% of its value at the time and place of severance. The value is the higher of: (1) gross receipts received from the first purchaser, less charges for trucking, barging and pipeline fees, or (2) the posted field price.

Proposed law provides beginning Oct. 1, 2020, through Dec. 31, 2025, oil produced from any orphaned well that is undergoing or has undergone well enhancements that required a Dept. of Natural Resources permit such as re-entries, workovers or plug backs, shall be exempt from severance tax, when production occurs on or after Oct. 1, 2020.

Proposed law provides the exemption shall last for a period of 24 months or until payout of the well cost is achieved, whichever occurs first.

Proposed law defines "well costs" as the cost of completing the well to the commencement of production or the cost of well enhancements, as determined by the Dept. of Natural Resources.

Proposed law defines "operating costs" as costs directly attributable to the operation of the exempt well, including but not limited to direct materials, supplies, fuel, direct labor, contract labor or services, repairs, maintenance, property taxes, insurance, depreciation, and any other costs that can be directly attributed to the well.

Proposed law further provides calculation of operating costs shall begin from the date that the Dept. of Natural Resources permitted operation or enhancement is complete and production is established. Operating costs shall not include costs included in the well cost.

Proposed law requires interest on a refund of severance tax to an operator whose well qualifies for this exemption shall be paid in accordance with R.S. 47:1624(A)(2).

Proposed law provides if an orphaned well is unable to produce in paying quantities, the operator may be reimbursed from the Oilfield Site Restoration Fund reasonable costs paid or incurred to plug and abandon the orphaned well following certification of proper plugging and abandonment by the Oilfield Site Restoration Commission with the approval of the secretary of the Dept. of Natural Resources.

Proposed law authorizes the secretary to approve or deny the reimbursement in whole or in part.

Proposed law requires the Dept. of Natural Resources, in consultation with the Oilfield Site Restoration Commission, to promulgate rules including those setting forth the guidelines for determining rates of reimbursement and procedures for notification of the commencement of plugging and abandonment by the operator.

Effective upon signature of governor or lapse of time for gubernatorial action.

(Adds R.S. 47:633(7)(e))

Summary of Amendments Adopted by House

The Committee Amendments Proposed by House Committee on Ways and Means to the original bill:

1. Make changes to the title.

2. Add provisions defining the terms "well cost" and "operating costs".

3. Add provisions relative to payment of interest on a refund of severance tax to an operator whose well qualifies for the exemption.

4. Make technical changes.

Summary of Amendments Adopted by Senate

Committee Amendments Proposed by Senate Committee on Revenue and Fiscal Affairs to the reengrossed bill

1. Changes the application of the exemption to orphaned wells.

2. Authorizes reimbursement for plugging of orphaned wells if approved by the Dept. of Natural Resources.

3. Requires the Dept. of Natural Resources to promulgate rules.

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