HOUSE SUMMARY OF SENATE AMENDMENTS

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

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

Synopsis of Senate Amendments

1. Increases from $14,000,000 to $25,000,000 the balance that requires a certification by the treasurer to the secretary of the Dept. of Revenue for the Oilfield Site Restoration Fund.

2. Changes the type of oil eligible for the exemption from oil produced from any newly drilled well or completed well to oil produced from orphaned, newly drilled, or newly completed wells that are undergoing or have undergone well enhancements that require a permit.

3. Changes the applicability of the exemption from wells from which production commences on or after Oct. 1, 2020 and on or before Dec. 31, 2025 to wells from which production commences on or after Jan. 1, 2021, and on or before Dec. 31, 2023.

4. Changes the period the exemption lasts from twenty-four months or until payout of the well cost is achieved, whichever occurs first to varied periods depending on the type of well from which the oil was produced.

5. Makes technical changes.

Digest of Bill as Finally Passed by Senate

Present law requires the treasurer to certify to the secretary of the Dept. of Revenue the date on which the balance of the Oilfield Site Restoration Fund equals or exceeds $14,000,000. Proposed law changes $14,000,000 to $25,000,000.

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 an exemption for oil produced from any orphaned, newly drilled, or newly completed 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, when production occurs on or after Jan. 1, 2021, and on or before Dec. 31, 2023.

Proposed law provides the exemption for wells that have undergone well enhancements shall last for a period of six months or until payout is achieved, whichever occurs first.

Proposed law provides the exemption for new wells shall last for a period of 12 months or until payout is achieved, whichever occurs first.

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

Proposed law provides the exemption period shall begin the first day of the month after the operator notifies the Dept. of Revenue that new or post enhancement production has commenced. Proposed law further provides that there shall be no more than one exemption per wellhead.

Proposed law requires the Dept. of Revenue no later than Mar. 1, 2023, report the number and cost of the exemptions claimed by well category and the Dept. of Natural Resources to report the number of orphan wells plugged and the cost of reimbursement to the House Committee on Ways and Means and the Senate Committee on Revenue and Fiscal Affairs.

Proposed law prohibits operators in violation of Statewide Order 29-B from eligibility for the exemption provided the office of conservation is authorized to withhold a permit application from the operator pursuant to present law.

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 present law (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 costs paid or incurred to plug and abandon the well from the Oilfield Site Restoration Fund with the approval of the secretary of the Dept. of Natural Resources following certification by the office of conservation.

Proposed law authorizes the secretary of the Dept. of Revenue 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 determining rates of reimbursement and procedures for notification. Rates of reimbursement shall be in accordance with law.

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

(Amends: R.S. 30:86(C); Adds R.S. 47:633(7)(e))