

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **SB 171** SLS 21RS 167

Bill Text Version: **ORIGINAL**

Opp. Chamb. Action:

Proposed Amd.:

Sub. Bill For.:

Date: April 7, 2021	10:01 AM	Author: ALLAIN
Dept./Agy.: Natural Resources / Revenue		Analyst: Greg Albrecht
Subject: Orphan Well Site-Specific Trust Funds		

TAX EXEMPTIONS

OR SEE FISC NOTE SD RV

Provides for severance tax exemptions and site-specific trust funds for certain orphan wells. (gov sig)

Proposed law exempts from severance tax the oil production commencing after October 1, 2021 from orphan wells that undergo DNR permitted well enhancements. The operator shall remit the severance tax dollar equivalent to DNR for credit to site-specific trust accounts for each participating well. The trust accounts are to be a source of funds for future site restoration when required.

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>	<u>\$0</u>
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.	\$0	\$0	\$0	\$0	\$0	\$0
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
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 Natural Resources indicates that it would be able to handle any associated additional workload with existing staff. To the extent wells participate in the bill's provisions, DNR would have to confirm no production in the prior two-year period, review and approve third-party contractor site assessments and restoration plans and costs, as well as administer the associated trust accounts.

REVENUE EXPLANATION

The Department of Natural Resources reports that there are over 4,000 orphan wells in the state, and that over 90% of them presumably could qualify for the bill's provisions. However, the department is unable to reasonably project the number of such wells and volume of production that might participate in the program. While the bill provides a severance tax exemption for production from participating orphan wells, it requires the operator to pay the severance tax equivalent to DNR for credit to the associated site-specific trust account. Thus, any tax incentive attributable to the bill, to attempt to produce from an orphan well, seems uncertain. To the extent orphan wells are brought back into production, the bill would result in an increase in dedicated funds in the site-specific trust accounts, and a consequent diversion from the state general fund where severance tax would otherwise flow. However, it does not seem likely that this effect would be significant.

Senate

Dual Referral Rules

House

13.5.1 >= \$100,000 Annual Fiscal Cost {S & H}

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

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

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

Christopher A. Keaton
Legislative Fiscal Officer