

LEGISLATIVE FISCAL OFFICE
Fiscal Note



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

Bill Text Version: **REENGROSSED**

Opp. Chamb. Action: **w/ HSE COMM AMD**

Proposed Amd.:

Sub. Bill For.:

| | | |
|---|----------|-------------------------------|
| Date: May 12, 2021 | 11:53 AM | Author: ALLAIN |
| Dept./Agy.: Natural Resources / Revenue | | Analyst: Greg Albrecht |
| Subject: Orphan Well Site-Specific Trust Funds | | |

TAX EXEMPTIONS

RE1 SEE FISC NOTE SD RV See Note

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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, and that have reported no production for at least 12-months prior to being enhanced. The operator shall remit the severance tax dollar equivalent to the Dept of Revenue 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. The orphan well program proposed by this bill is effective for ten years, until June 30, 2031.

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> | \$0 |
| 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> | \$0 |
| 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

Presumably, the bill intends to apply to oil wells designated by the Department of Natural Resources as part of an orphaned oilfield site. The Dept. 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 the Dept. of Revenue 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, and there is no baseline of expected orphan well activity assumed in the severance tax forecast.

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}

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Legislative Fiscal Officer