

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **HB 571** HLS 23RS 105

Bill Text Version: **REENGROSSED**

Opp. Chamb. Action:

Proposed Amd.:

Sub. Bill For.:

Date: May 5, 2023	3:38 PM	Author: SCHEXNAYDER
Dept./Agy.: Natural Resources/Revenue		Analyst: Chris Henry
Subject: Geologic Sequestration of Carbon Dioxide		

ENERGY RE SEE FISC NOTE LF RV See Note Page 1 of 2
Provides relative to carbon capture and sequestration

Proposed law establishes regulations, redistributes fees, and levies a tax for various aspects of carbon capture and sequestration. Requires notice be given to parish governing authorities on applications for class V or VI well permits and for applications to conduct geophysical surveys in their respective parish. Provides for the allocation of funding received from contractual agreements entered into by the Office of Mineral Resources related to the storage of carbon dioxide on state owned lands and water bottoms. Proposed law changes the fee levied by the commissioner of conservation from a charge per individual operator to a charge on each carbon storage facility. Proceeds from this fee are deposited into the statutorily dedicated Carbon Dioxide Geologic Storage Trust Fund (Trust Fund). Proposed law adds to the purposes of the Trust Fund remediation associated with, arising from, or related to the site including property remediation. Proposed law levies a carbon extraction tax of twenty cents (\$0.20) per ton of carbon dioxide extracted from a storage facility. The proceeds of the tax is split with 75% remitted to the parish governing authority where extraction occurs.

EXPENDITURES	2023-24	2024-25	2025-26	2026-27	2027-28	5 -YEAR TOTAL
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	\$0
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	\$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

REVENUES	2023-24	2024-25	2025-26	2026-27	2027-28	5 -YEAR TOTAL
State Gen. Fd.	INCREASE	INCREASE	INCREASE	DECREASE	DECREASE	
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	DECREASE	DECREASE	DECREASE	DECREASE	INCREASE	
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
Annual Total						

EXPENDITURE EXPLANATION

There will be an increase in expenditures from the Carbon Dioxide Geologic Storage Trust Fund resulting from the increase in collections beginning when the first operators commence injection. This could occur as early as FY 25 and will gradually increase as more facilities begin operations. The monies in the fund can only be used by the Office of Conservation for specific purposes enumerated in R.S. 30:1110 (E); proposed legislation also adds language requiring a two-thirds vote of the legislature to add new, additional uses for monies in the Trust Fund.

The change in distributions collected from carbon capture agreements is not anticipated to result in increased expenditures for the Department of Natural Resources (DNR). The effects of the distribution change on collections is detailed on page 2.

The creation of the extraction tax on carbon dioxide is effective only if and when DNR promulgates rules related to the extraction. According to the Department of Revenue (LDR), integrating a new tax into their system would cost \$444,000 in one-time programming and testing costs. The timing of this expenditure would be dependent on the promulgation of rules by the DNR, which is not expected to happen in the immediate future. Any additional resources required of LDR are an increase in self-generated expenditures, which translates to a state general fund revenue reduction since LDR reverts excess self-generated revenue to the state general fund.

REVENUE EXPLANATION

The proposed legislation changes the distribution of funds collected on contractual agreements with the Office of Mineral Resources and operators engaging in carbon capture and sequestration on state owned lands and water bottoms. In the current system, all bonus payments are deposited into the SGF, all liquidated damages payments are deposited into the statutorily dedicated Mineral and Energy Operation Fund (M&EO Fund), and injection payments are split with 75% deposited into the SGF and 25% into the M&EO Fund. The proposed law changes the distribution of collections regardless of its originating source to where 30% is deposited into the M&EO Fund, 30% remitted back to the parish governing authority in which the injection site is located, and 40% is deposited to the SGF. Timing of the payments in an agreement varies, but typical bonus payments are made in the initial years, followed by liquidated damages payments, and finally injection payments. Based on the four current carbon capture and sequestration agreements on state owned property and assuming the minimum injection payments beginning in the fifth year of the agreements (FY 27), this would result in the following net changes during the next five fiscal years: decrease of \$1,256,534 to SGF, decrease of \$11,919,816 to the M&EO fund, and an increase of \$13,176,350 to the parish governing authorities.

Continued on page two

<u>Senate</u>	<u>Dual Referral Rules</u>	<u>House</u>
<input checked="" type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S & H}		<input type="checkbox"/> 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}
<input type="checkbox"/> 13.5.2 >= \$500,000 Annual Tax or Fee Change {S & H}		<input type="checkbox"/> 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}

Evan Brasseaux
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Interim Deputy Fiscal Officer

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CONTINUED EXPLANATION from page one:

The proposed legislation would increase revenue deposited into the Carbon Dioxide Geologic Storage Trust Fund (Trust Fund). Current law authorizes a fee charged on storage operators over 144 months (12 years) based on the tonnage of carbon injected, not to exceed a total of \$5 M regardless of how many facilities they operate. Proposed legislation changes the levy from operator based to facility based, retaining the \$5 M cap but also changing it to a per facility basis. Includes additional provisions that an individual operator with more than one facility ceases to have to pay the fee once it has contributed a total of \$10 M to the fund, regardless if more than two facilities are operated. Should expenditures from the fund cause the balance to fall below \$4 M for a facility, the fees will resume. Similarly, if the balance falls below \$8 M for an operator with more than one facility the commissioner of conservation can resume collections of the fee. This change has the potential to significantly increase revenues deposited into the Trust Fund depending on the number of operators with more than two facilities. The tables below are an illustrative example which compares this change presuming no operator has more than two facilities:

<u>CURRENT LAW</u>			<u>PROPOSED LAW</u>		
(\$5 M over 12 years per Operator)			(\$5 M over 12 years per Facility)		
Fiscal Year	# Operators Injecting	Max. Annual Fee (Per Operator)	Fiscal Year	# Facilities Injecting	Max. Annual Fee (Per Facility)
2023-24	0	\$0	2023-24	0	\$0
2024-25	1	\$416,667	2024-25	1	\$416,667
2025-26	1	\$416,667	2025-26	2	\$833,333
2026-27	2	\$833,333	2026-27	3	\$1,250,000
2027-28	5	\$2,083,333	2027-28	8	\$3,333,333
2028-29	9	\$3,750,000	2028-29	16	\$6,666,667
2029-30	13	\$5,416,667	2029-30	22	\$9,166,667
2030-31	15	\$6,250,000	2030-31	24	\$10,000,000
2031-32	15	\$6,250,000	2031-32	24	\$10,000,000
2032-33	15	\$6,250,000	2032-33	24	\$10,000,000
2033-34	15	\$6,250,000	2033-34	24	\$10,000,000
2034-35	15	\$6,250,000	2034-35	24	\$10,000,000
2035-36	15	\$6,250,000	2035-36	24	\$10,000,000
2036-37	14	\$5,833,333	2036-37	23	\$9,583,333
2037-38	14	\$5,833,333	2037-38	22	\$9,166,667
2038-39	13	\$5,416,667	2038-39	21	\$8,750,000
2039-40	10	\$4,166,667	2039-40	16	\$6,666,667
2040-41	6	\$2,500,000	2040-41	8	\$3,333,333
2041-42	<u>2</u>	<u>\$833,333</u>	2041-42	<u>2</u>	<u>\$833,333</u>
TOTAL		\$75,000,000	TOTAL		\$120,000,000

Projected revenue collections from the Extraction Tax are indeterminable as they are dependent on the promulgation of rules by DNR and include unknown factors such as the number of operators and the timing of when carbon extraction would take place. Once the rules are in place, proceeds from the tax will be split with 75% returned to the parish in which the facility operates and the remaining presumed to be deposited into the SGF.

Any additional resources required of LDR are an increase in self-generated expenditures, which translates to a state general fund revenue reduction since LDR reverts excess self-generated revenue to the state general fund.

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}

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