2015 Regular Session

HOUSE BILL NO. 549

BY REPRESENTATIVE THIBAUT

TAX/SEVERANCE-EXEMPTION: Modifies exemptions, suspensions, and special rates from July 1, 2015 to June 30, 2017

AN ACT

To amend and reenact R.S. 47:633(7)(c)(iii)(introductory paragraph) and to enact R.S. 47:633(7)(d), relative to severance tax; to provide with respect to special tax treatment for severance taxes on oil and natural gas; to provide with respect to the tax on production from certain horizontally drilled wells; to provide for the amount and duration of the exemption for certain horizontally drilled wells; to provide with respect to the determination of the price of oil and natural gas for purposes of the exemption; to provide for applicability; to provide for effectiveness; and to provide for related matters.

Be it enacted by the Legislature of Louisiana:

Section 1. R.S. 47:633(7)(c)(iii)(introductory paragraph) is hereby amended and reenacted and R.S. 47:633(7)(d) is hereby enacted to read as follows:

§633. Rates of tax

The taxes on natural resources severed from the soil or water levied by R.S. 47:631 shall be predicated on the quantity or value of the products or resources severed and shall be paid at the following rates:

* * *

(7)

* * *

(c)

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(iii) All severance tax shall be suspended, for a period of twenty-four months or until payout of the well cost is achieved, whichever comes first, on any horizontally drilled well, or, on any horizontally drilled recompletion well, from which production commences after July 31, 1994<u>, and on or before December 31, 2015</u>.

* * *

<u>(d) There shall be an exemption from severance tax as provided in this Subparagraph for production from any horizontally drilled well, or, on any horizontally drilled recompletion well, from which production commences on or after July 1, 2015. The exemption shall last for a period of twenty-four months or until payout of the well cost is achieved, whichever comes first. For the purposes of this Section "horizontal drilling" shall mean high angle directional drilling of bore holes with fifty to three thousand plus feet of lateral penetration through productive reservoirs and "horizontal recompletion" shall mean horizontal drilling in an existing well bore. Payout of well cost shall be the cost of completing the well to the commencement of production as determined by the Department of Natural Resources.</u>

<u>(i) The amount of the exemption for a well that produces oil shall be based upon the price of Crude Oil Spot Prices (nominal dollars and West Texas Intermediate Spot) per barrel adopted by the Energy Information Administration which is published in the Annual Energy Outlook report. The price per barrel for any production that commences on or after July 1, 2015 through December 31, 2015, shall be based on the price per barrel published in the April 2015 edition of the Annual Energy Outlook report. The price per barrel for any production commencing on and after January 1, 2016, for the ensuing twelve calendar months, shall be based on the price per barrel published in the annual edition of the Annual Energy Outlook report. The amount of the exemption shall be as follows:</u>

CODING: Words in ~~struck through~~ type are deletions from existing law; words <u>underscored</u> are additions.

(aa) There shall be no tax if the price of oil is at or below seventy dollars per barrel.

(bb) The tax rate shall be reduced by eighty percent if the price of oil is above seventy dollars and at or below eighty dollars per barrel.

(cc) The tax rate shall be reduced by sixty percent if the price of oil is above eighty dollars and at or below ninety dollars per barrel.

(dd) The tax rate shall be reduced by forty percent if the price of oil is above ninety dollars and at or below one hundred dollars per barrel.

(ee) The tax rate shall be reduced by twenty percent if the price of oil is above one hundred dollars and at or below one hundred ten dollars per barrel.

(ff) There shall be no exemption in effect if the price of oil exceeds one hundred ten dollars per barrel.

(ii) The amount of the exemption for a well that produces natural gas shall be based upon the Natural Gas Spot Price at Henry Hub (nominal dollars per million BTU) adopted by the Energy Information Administration which is published in the Annual Energy Outlook report. The price of natural gas for any production that commences on or after July 1, 2015 through December 31, 2015, shall be based on the price published in the April 2015 edition of the Annual Energy Outlook report. The price for natural gas for any production commencing on and after January 1, 2016, for the ensuing twelve calendar months, shall be based on the price published in the annual edition of the Annual Energy Outlook report. The amount of the exemption shall be as follows:

(aa) There shall be no tax if the price of natural gas is at or below four dollars and fifty cents per million BTU.

(bb) The tax rate shall be reduced by eighty percent if the price of natural gas is above four dollars and fifty cents per million BTU and at or below five dollars and fifty cents per million BTU.

(cc) The tax rate shall be reduced by sixty percent if the price of natural gas is above five dollars and fifty cents per million BTU and at or below six dollars per million BTU.

(dd) The tax rate shall be reduced by forty percent if the price of natural gas is above six dollars per million BTU and at or below six dollars and fifty cents per million BTU.

(ee) The tax rate shall be reduced by twenty percent if the price of natural gas is above six dollars and fifty cents per million BTU and at or below seven dollars per million BTU.

(ff) There shall be no exemption in effect if the price of natural gas exceeds seven dollars per million BTU.

Section 2. The provisions of this Act shall be applicable for production occurring on or after July 1, 2015, and on or before June 30, 2017.

DIGEST

The digest printed below was prepared by House Legislative Services. It constitutes no part of the legislative instrument. The keyword, one-liner, abstract, and digest do not constitute part of the law or proof or indicia of legislative intent. [R.S. 1:13(B) and 24:177(E)]

HB 549 Engrossed 2015 Regular Session Thibaut

Abstract: Changes the severance tax "exemption" for production of oil and natural gas from horizontally drilled wells and horizontally drilled recompletion wells by changing the amount of the exemption from 100% to an amount based on the price of oil and natural gas.

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. The severance tax rate for oil is 12.5% of value The severance tax rate for natural gas is a minimum of 7¢ per 1,000 cubic feet but is subject to an annual rate adjustment based on the prior year's price of natural gas.

Present law suspends the levy of 100% of the severance tax on production from a horizontally drilled well or horizontally drilled recompletion well for a period of 24 months or until payout of the well cost is achieved, whichever comes first.

Proposed law, for purposes of the suspension of the severance tax on oil and natural gas, defines "horizontal drilling" as high angle directional drilling of bore holes with 50 to 3,000 plus feet of lateral penetration through productive reservoirs and "horizontal recompletion" shall mean horizontal drilling in an existing well bore.

Proposed law changes present law for the severance tax exemption on oil production from horizontally drilled wells and recompletion wells commencing on or after July 1, 2015, by changing the amount of the exemption from 100% to varying amounts based on the price of Crude Oil Spot Prices (nominal dollars and West Texas Intermediate Spot) per barrel adopted by the Energy Information Administration (EIA) which is published in the Annual Energy Outlook (AEO) report. The price per barrel for any production that commences on or after July 1, 2015 through Dec. 31, 2015, shall be based on the price per barrel published in the April 2015 edition of the AEO report. The price per barrel for any production commencing on and after Jan. 1, 2016, for the ensuing 12 calendar months, shall be based on the price per barrel published in the annual edition of the AEO report. The amount of the exemption shall be as follows:

(1) No severance tax if the price of oil is at or below $70 per barrel.

(2) The tax rate shall be reduced by 80% if the price is above $70 and at or below $80 per barrel.

(3) The tax rate shall be reduced by 60% if the price is above $80 and at or below $90 dollars per barrel.

(4) The tax rate shall be reduced by 40% if the price is above $90 and at or below $100 per barrel.

(5) The tax rate shall be reduced by 20% if the price is above $100 and at or below $110 per barrel.

(6) There shall be no exemption if the price of oil exceeds $110 per barrel.

<u>Proposed law</u> changes <u>present law</u> for the suspension of severance taxes on natural gas production from horizontally drilled wells and recompletion wells commencing on or after July 1, 2015, by changing the amount of the exemption <u>from</u> 100% <u>to</u> varying amounts based on the price on the Natural Gas Spot Price at Henry Hub (nominal dollars per million BTU) adopted by the EIA published in the AEO report. The price of natural gas for any production that commences on or after July 1, 2015 through Dec. 31, 2015, shall be based on the price published in the April 2015 edition of the AEO report. The price for natural gas for any production commencing on and after Jan. 1, 2016, for the ensuing 12 calendar months, shall be based on the price published in the annual edition of the AEO report. The amount of the exemption shall be as follows:

(1) No severance tax if the price of natural gas is at or below $4.50 per million BTU.

(2) The tax rate shall be reduced by 80% if the price is above $4.50 per million BTU and at or below $5.50 per million BTU.

(3) The tax rate shall be reduced by 60% if the price is above $5.50 per million BTU and at or below $6.00 per million BTU.

(4) The tax rate shall be reduced by 40% if the price is above $6.00 per million BTU and at or below $6.50 per million BTU.

(5) The tax rate shall be reduced by 20% if the price is above $6.50 per million BTU and at or below $7.00 per million BTU.

(6) There shall be no exemption if the price of natural gas exceeds $7.00 per million BTU.

Applicable to production occurring on and after July 1, 2015 through June 30, 2017.

(Amends R.S. 47:633(7)(c)(iii)(intro. para.); Adds R.S. 47:633(7)(d))

Summary of Amendments Adopted by House

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

1. Delete the modifications to exemptions and suspensions and rate increases for various types of mineral activity subject to severance taxes in favor of a rate modification of the severance tax "exemption" for production of oil and natural gas from horizontally drilled wells and horizontally drilled recompletion wells by changing the amount of the exemption from 100% to an amount based on the price of oil and natural gas.

2. Require the rate of the exemption on oil production from horizontally drilled wells and recompletion wells to be based on the price of Crude Oil Spot Prices (nominal dollars and West Texas Intermediate Spot) per barrel adopted by the EIA which is published in the AEO report.

3. Require the rate of the suspension on natural gas production from horizontally drilled wells and recompletion wells commencing to be based on the price on the Natural Gas Spot Price at Henry Hub (nominal dollars per million BTU) adopted by the EIA published in the AEO report.