

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **HB 784** HLS 15RS 858
 Bill Text Version: **REENGROSSED**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: May 27, 2015 2:55 PM	Author: DOVE
Dept./Agy.: Natural Resources	Analyst: Drew Danna
Subject: Enhances and Creates Fees for the Office of Conservation	

CONSERVATION/OFFICE RE INCREASE SD RV See Note Page 1 of 2
 Provides for certain fees collected by the office of conservation

Present law authorizes the Office of Conservation to collect annual fees from operators of capable oil and gas wells based on a tiered system and on injection wells and facilities. Proposed law increases the fee caps on Type A & B Commercial Facilities, Class I, II, & III wells, and storage wells by 150%. The caps on capable oil & gas production will also be increased by 150%.

Proposed law also increases the amount of fees deposited in the Oil and Gas Regulatory fund from \$5 to \$15.

Proposed law also creates an additional 31 fees ranging from \$50 to \$3,000.

Proposed law also establishes a fee for expedited permit processing based on the maximum overtime hourly salary of a Dept. of Environmental Quality (DEQ) employee and the hours required to process the permit.

EXPENDITURES	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>	<u>5 -YEAR TOTAL</u>
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	\$0
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
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						

REVENUES	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>	<u>5 -YEAR TOTAL</u>
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	\$0
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
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

There will likely be an increase in salaries expenditures as a result of the expedited permit process. According to the Department of Natural Resources (DNR) there are 6 companies that have expressed interest in the expedited permit program. These companies focus on salt cavern injection wells which require an average of approximately 1,000 work hours to be approved. This processing time has created a backlog in the permit system which DNR hopes to address with the expedited permit program contained within this bill. The increased expenditures required by the bill will be paid for by the companies applying for the permits. **Continued on Page 2**

REVENUE EXPLANATION

The proposed legislation will increase fee caps and raise approximately \$5.5 M annually in new revenue flowing into the Oil & Gas Regulatory Fund from the following categories: Regulatory/Production (\$1.3 M), Class I Injection Wells (\$600,000) and Other Revenue (\$400,000). The proposed bill will also increase the Regulatory fund cap from \$2.45 M to \$3.675 (\$1.2M) and create 31 new fees, which are anticipated to generate approximately \$2 M. Note: The amount of revenue is directly related to the number of applications submitted by operators, any change in this number would directly affect the amount of revenue collected.

In addition, Regulatory/Production fees will increase by 150%, which equates to approximately \$5 M in additional revenues annually. The table below will examine the increase for three subcategories within this area.

	Current Fee	New Fee	Number of Facilities	Total Current Fee	Total New Fee
Type A Commercial	\$6,496	\$16,240	9	\$58,464	\$146,160
Type B Commercial	\$3,248	\$8,120	25	\$81,200	\$203,000
Class II, III, and Storage	\$651	\$1,621	1,129	\$734,979	\$1,830,109

In addition to the information above, Class 1 Injection Well production fees will increase from \$400,000 to \$1 M, or a \$600,000 increase annually.

The proposed bill increases also raises the fund's cap on capable oil and gas from \$2.45 M to \$3.675 M (\$1.225 M).

This legislation also increases the acreage fee donated to the Oil and Gas Regulatory Fund from \$5 per acre to \$15 per acre. Providing for 40,000 acres, revenues will increase from \$200,000 to \$600,000, or an increase of \$400,000 annually. The proposed legislation also introduces 31 new fees which are anticipated to increase revenues by approximately \$2 M per year.

See table on page 2 for more information.

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| <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"/> 6.8(F)(2) >= \$500,000 Rev. Red. to State {H & S} |
| <input checked="" 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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Staff Director



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CONTINUED EXPLANATION from page one: Page 2 of 2

Continued Expenditure Explanation from Page 1
 Should a company elect to apply for an expedited permit pursuant to the proposed bill, the company will be required to pay for the overtime hours a DNR employee works to process the permit and administrative costs not exceeding 20% of overtime salary expenditures. The overtime rate for an employee will be 1.5 times the normal hourly rate plus related benefits. The average overtime hourly rate of the highest paid classified employee in the Office of Conservation is approximately \$102 per hour with a departmental limit of 4,000 overtime hours per year as there are only 10 employees that process permits. This will account for a maximum salary exposure of \$406,000. The maximum for administrative fees for the expedited license would be 20% of the \$406,000 salary total, resulting in another potential \$81,000 in expenditures. The maximum total expenditure exposure is projected to be \$488,000 per year beginning in FY 16. Currently, DNR approves approximately 3 to 4 of these permits per year and the overtime hours would allow for 4 additional salt cavern permits to be approved per year.

Proposed New Fees from Page 1

Application Type	Proposed Free	Number of Applications	Projected Revenue
Alternate Well Unit	\$504	5	\$2,520
Exception to 29-E	\$504	10	\$5,040
Exception to 29-B	\$504	25	\$12,600
Severance Tax Relief	\$504	250	\$126,000
Downhole Combinations	\$504	12	\$6,048
Well Product Reclassification	\$504	5	\$2,520
Selective Completion	\$504	5	\$2,520
Pilot Projects	\$504	2	\$1,008
Work Permit-Minerals	\$75	4250	\$318,750
Amend Permit to Drill-Minerals (LUW, Stripper, Incapable, Other)	\$50	4500	\$225,000
Operator Registration	\$105	1340	\$140,700
Waiver of Production Test	\$504	20	\$10,080
Critical Date Order	\$504	40	\$20,160
Compliance Review Fee - Class III Solution Mining Cavern	\$2,000	71	\$142,000
Compliance Review Fee- Class II Hydrocarbon Storage	\$2,000	152	\$304,000
Class II CO2 EOR Project	\$5,000	2	\$10,000
Community Saltwater Disposal System Initial Notification	\$125	10	\$1,250
Work Permit- Injection or other	\$125	406	\$50,750
Plug & Abandon (NORM disposal)	\$500	1	\$500
Modify Well Permit- change MASIP, work prognosis, ect	\$300	100	\$30,000
Class V Permit Waiver/Exception	\$250	10	\$2,500
Witnessed Verification of MIT Tests	\$250	1521	\$380,250
Transfer Stations Regulatory Fee (E&P Waste)	\$2,500	16	\$40,000
Transport E&P Waste to Commercial Facilities	\$150	550	\$82,500
Authorization for After Hours Disposal (E&P Waste)	\$150	325	\$48,750
E&P Waste Determinination	\$300	3	\$900
Commercial Facility Transfer Station Application	\$1,500	1	\$1,500
Commercial Facility Application Exclusive of an Associated Well	\$3,000	1	\$3,000
Commercial Facility Annual Closure Plan and Cost Estimate Review	\$300	42	\$12,600
Commercial Facility Reuse Material Applications	\$300	50	\$15,000
Reuse Material Applications not Associated w/ Commercial Facility	\$400	1	\$400
Total New Revenue			\$1,998,846

Continued Revenue Explanation from Page 1
 Revenues associated with the expedited permit program will not exceed the expenditures associated with providing the expedited permits as the company applying for the permit will pay for the expenditures directly. The revenue collected by the office may total at most \$488,000 (\$406,000 in salaries/related benefits + \$81,000 in administrative costs) beginning in FY 16. Funding from the increased revenue would go to the Oil & Gas Regulatory Fund.

Senate	<u>Dual Referral Rules</u>	House	<input type="checkbox"/> 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}	<i>Evan Brasseaux</i> <hr/> Evan Brasseaux Staff Director
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<input checked="" 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}	