LEGISLATIVE FISCAL OFFICE
Fiscal Note

Louisiana Legislative Fiscal Office — Fiscal Notes

Fiscal Note On: **HB 192** HLS 09RS 548
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

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Dept./Agy.: Revenue
Subject: Reduction in severance rate for tertiary oil recovery
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TAX/SEVERANCE TAX — OR DECREASE GF RV See Note

Reduces the severance tax levied after payout on certain oil production within a CO2 tertiary recovery program

Current law provides an exemption from severance taxes for oil produced from a qualified tertiary recovery project until such project has reached payout. Once payout has been achieved, current severance tax rates apply.

Proposed law, with regard to production after payout is achieved, lowers the severance tax rate to 50% of the current rates that would apply on all oil recovered using carbon dioxide tertiary recovery project which is permitted after July 1, 2009.

EXPENDITURES	2009-10	2010-11	2011-12	2012-13	2013-14	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	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**

REVENUES	2009-10	2010-11	2011-12	2012-13	2013-14	5 -YEAR TOTAL
State Gen. Fd.	DECREASE	DECREASE	DECREASE	DECREASE	DECREASE	
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	DECREASE	DECREASE	DECREASE	DECREASE	DECREASE	
Annual Total	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**

EXPENDITURE EXPLANATION

The Department of Revenue reports the potential cost of making changes to the tax processing system to incorporate this new deduction, including programming time and form modification, to be a one-time cost of some $34,000. There may also be ongoing costs associated with taxpayer inquiries and disputes involving this new deduction.

REVENUE EXPLANATION

Tertiary recovery projects use gases to further extract oil or natural gas after primary (pumping equipment) and secondary (water or gas injected to displace oil) methods have exhausted their effectiveness. Oil extracted from a certified tertiary project is not subject to state severance tax until the well breaks even (reaches payout). The proposed legislation will lower the severance rate after payout from current rates (12.5%, 6.25%, or 3.125% depending on well volume) to 1/2 of these rates on oil extracted by qualified tertiary recovery projects after payout has been achieved.

In the last ten years, there have been no qualified tertiary projects active within the state. Two oil projects are attempting to obtain certification (both by the same company) with one being the only known well to be actively using tertiary recovery methods. The company has three sites either producing or in the planning stage. A site in Livingston Parish is the only currently operating site, but it is not clear when payout is expected for this well. The two other proposed sites are in Richland and Concordia parishes. While not currently producing from all of these sites, these projects are moving forward and the firm is extending its CO2 pipeline across south Louisiana. Thus, the state will forego severance tax collections as these wells and other possible wells of this type are developed. The parishes of production (in these cases Livingston, Richland, and Concordia) may also lose revenue as a result of the Constitutional parish severance tax allocation (shown as local funds in the table above).

Currently, anticipated production after payout is speculative due to the lack of historical data using this technology, he unknown timeframes on certification of the project as tertiary, and unknown dates of payout for these wells. DNR expects that tertiary wells will take about two years to reach payout. DNR also worked up estimated revenue losses per 100,000 barrels of annual production, a $50/bbl value, and 12.5% tax rate in the absence of this bill. Revenue losses would be $312,000 per year per 100,000 barrles of production after payout under this example. According to the firm with the only tertiary oil well currently in operation, it had an average production of 13,000 barrels per quarter, roughly half the production level of the DNR example. Thus, the revenue loss from the bill may approximate 1/2 the DNR example initially, then grow as these wells are developed in the state.

Senate	Dual Referral Rules	House
☐ 13.5.1 >= $500,000 Annual Fiscal Cost		☐ 6.8(F) >= $500,000 Annual Fiscal Cost
☒ 13.5.2 >= $500,000 Annual Tax or Fee Change		☐ 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease

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