
DIGEST

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HB 549 Reengrossed

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.

Proposed law changes present law 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 from 100% to 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.

(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.

The House Floor Amendments to the engrossed bill:

1. Clarify that the provisions of proposed law regarding the amount of the "exemption" from severance tax for production of oil and natural gas from horizontally drilled wells and horizontally drilled recompletion wells applies to production which commences on or after July 1, 2015.
2. Change the applicability of proposed law from production occurring on or after July 1, 2015, and on or before June 30, 2017, to production occurring on or after July 1, 2015.