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## DIGEST

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HB 108 Original

2016 First Extraordinary Session

Hunter

**Abstract:** Suspends the severance tax exemptions for the horizontal drilling of oil and natural gas occurring from horizontally drilled wells and recompletion wells from April 1, 2016, through Dec. 31, 2020.

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, 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.

Present law, for purposes of the severance tax exemption on oil production occurring from horizontally drilled wells and recompletion wells commenced on or after July 1, 2015, provides for a severance tax exemption based on the price of oil as determined by the secretary of the Dept. of Natural Resources on July 1<sup>st</sup> of each year for the ensuing 12 months based on the average New York Mercantile Exchange prices per barrel from the previous 12 months. The amount of the exemption for a horizontal well that produces oil shall be as follows:

- (1) No severance tax if the price of oil is at or below \$70 per barrel.
- (2) The exemption shall be 80% if the price is above \$70 and at or below \$80 per barrel.
- (3) The exemption shall be 60% if the price is above \$80 and at or below \$90 dollars per barrel.
- (4) The exemption shall be 40% if the price is above \$90 and at or below \$100 per barrel.
- (5) The exemption shall be 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.

Present law, for purposes of the severance tax exemption on natural gas production occurring from horizontally drilled wells and recompletion wells commenced on or after July 1, 2015, provides for a severance tax exemption based on the price of natural gas as determined by the secretary of the

Dept. of Natural Resources on July 1<sup>st</sup> of each year for the ensuing 12 months based on the average New York Mercantile Exchange prices per million BTU per month from the previous 12 months. The amount of the exemption for a horizontal well that produces gas 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 exemption shall be 80% if the price is above \$4.50 per million BTU and at or below \$5.50 per million BTU.
- (3) The exemption shall be 60% if the price is above \$5.50 per million BTU and at or below \$6 per million BTU.
- (4) The exemption shall be 40% if the price is above \$6 per million BTU and at or below \$6.50 per million BTU.
- (5) The exemption shall be 20% if the price is above \$6.50 per million BTU and at or below \$7 per million BTU.
- (6) There shall be no exemption if the price of natural gas exceeds \$7 per million BTU.

Proposed law suspends the present law severance tax exemptions on oil and natural gas production occurring from horizontally drilled wells and recompletion wells from April 1, 2016, through Dec. 31, 2020.

Effective April 1, 2016.

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