



# Ohio Legislative Service Commission

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## Fiscal Note & Local Impact Statement

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**Bill:** H.B. 8 of the 131st G.A. (L 131 0612-1)      **Date:** February 23, 2015  
**Status:** In House Energy and Natural Resources      **Sponsor:** Reps. Hagan and Ginter

**Local Impact Statement Procedure Required:** Yes

**Contents:** Modifies the Oil and Gas Law governing unit operation of a pool and specifies the method to value oil and gas reserves for property tax purposes

### State Fiscal Highlights

- **Department of Natural Resources – Time limits for unit operation determinations.** The bill sets a time limit of 45 days for the Chief of the Division of Oil and Gas holding a hearing to consider the need for unitizing land interests for the extraction of oil and gas. The bill sets a subsequent 30-day deadline after the hearing by which the Chief must issue an order requiring unit operation. These deadlines may result in minimal increase in administrative costs for the Division. Administrative costs of the Division are paid from the Oil and Gas Well Fund (Fund 5180).
- **State lands.** If land owned or controlled by the state would become part of a unit operation, the state would be subject to the costs and enjoy the benefits, including royalties, of participating in the unit operation. This excludes nature preserves.

### Local Fiscal Highlights

- **Lands owned by political subdivisions.** If land owned or controlled by a political subdivision would become part of a unit operation, the political subdivision would be subject to the costs and enjoy the benefits, including royalties, of participating in the unit operation.

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## **Detailed Fiscal Analysis**

### **Department of Natural Resources – Division of Oil and Gas Resources**

#### **Unit operation of a pool for the extraction of oil and gas**

The bill establishes timeframes under which the Chief of the Division of Oil and Gas Resources must hear and determine the need for unit operation of oil and gas pools. Under the bill the Chief must hold a hearing not later than 45 days after the Chief's own motion to establish a unit or the receipt of an application for the operation as a unit from the owners of 65% of the land area overlying the pool. The bill also requires the Chief, if the Chief finds that unit operation is reasonably necessary, to make an order providing for unit operation not later than 30-days after the date of the hearing. As a result, the Division could incur new administrative costs to execute the required duties within the required timeframes. Any increased costs, however, would likely be minimal at most. Administrative costs of the Division are paid from the Oil and Gas Well Fund (Fund 5180).

#### **Impact on public lands**

The bill also requires the Chief to issue an order for the unit operation of a pool or a part of a pool that encompasses a unit area consisting in whole or in part of oil or natural resources owned or controlled by the state or a political subdivision. The exception to this would be nature preserves, which are not subject to unitization. If public land would become part of a unit operation, the state agency or political subdivision which owns or controls the acreage would have the rights and responsibilities of any other member of the pool and be subject to the costs and enjoy the benefits, including royalties, of participating in the pool. Royalties under unitization arrangements are credited to the members of the unit in proportions equal to their percentage of land in the resource pool.

#### **Notice publication requirements**

In addition, the bill limits the Chief's rule-making authority concerning notice publication requirements that apply to the unitization process. This includes prohibiting the establishment of a prehearing publication notice requirement of more than three publications in a newspaper of daily general circulation in the county or counties in which a proposed unit is to be located. The provision also prohibits rules from requiring the last date of publication of such a prehearing notice to occur not more than five days prior to the hearing. Finally, the bill requires that any public notice rules or guidelines concerning unit operation be published in the newspaper of daily circulation that is nearest to the proposed area of unit operation if a newspaper of daily circulation is not available in the county in which the proposed area of unit operation is located. Altogether, these provisions do not appear to have any fiscal effect.

## **Property tax valuation of oil and gas reserves**

The bill specifies that county auditors may employ no method other than the discounted cash flow formula to determine the tax value of all oil or gas reserves, even in the absence of a developing and producing well. Under current law, the formula appears to apply only for the purposes of calculating the tax value of oil and gas reserves that are exploited by an active well that was not the subject of a recent arm's length sale.

As explained in the LSC Bill Analysis, methods that county auditors are required or allowed to use to value undeveloped oil and gas reserves are not explicitly stated in existing law. Currently, county auditors are required to increase the value of land or mineral rights if the auditor determines that their value has increased because of the discovery of oil or gas, construction of production facilities, commencement of drilling, or other factors. The bill states that it "clarifies the intent of the General Assembly" that the discounted cash flow formula "continues to represent the only method for valuing oil and gas reserves for property tax purposes," but it is not clear how the bill changes the property tax valuation methods of oil and gas reserves that exist under current law, if it changes them at all. This provision of the bill has an indeterminate fiscal effect.