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Fiscal Note & Local Impact Statement

Bill: H.B. 225 of the 132nd G.A. **Status:** As Introduced

Sponsor: Rep. Thompson **Local Impact Statement Procedure Required:** No

Subject: Modifies requirements concerning orphaned or abandoned wells

Fiscal Highlights

- **Well plugging.** Increasing the amount that must be spent annually on the Idle and Orphaned Well Plugging Program from 14% to 45% or revenue deposited in the Oil and Gas Well Fund (Fund 5180) in the previous fiscal year will increase expenditures under the program by several million dollars each year.
- **Tax deduction.** The bill authorizes an income tax deduction for amounts received by landowners from the Department of Natural Resources (DNR) to plug an oil or gas well that was either abandoned or improperly plugged. This provision would reduce revenue by minimal amounts to the GRF, the Local Government Fund, and the Public Library Fund.

Detailed Fiscal Analysis

The bill modifies requirements of the Idle and Orphaned Well Plugging Program overseen by DNR's Division of Oil and Gas Resources Management that will increase expenditures by several million dollars annually. These changes include increasing the amount that must be used annually to support the program, authorizing landowners to report idle and orphaned wells, relieving landowners from the financial responsibility to plug those wells, and establishing an income tax deduction for reimbursements paid to landowners to plug idle and orphaned wells.

Spending requirements of the Idle and Orphaned Well Plugging Program

The bill increases the amount that the Chief of the Division of Oil and Gas Resources Management must spend on plugging idle and orphaned wells each year. Under current law, the Chief must annually use 14% of the revenue deposited to the credit of the Oil and Gas Well Fund (Fund 5180) in the previous fiscal year. The bill increases the percentage that must be used to 45%. As of June 20, 2017, a total of nearly $52.1 million has been deposited to the credit of Fund 5180. To comply with current law the Chief would need to use approximately $7.3 million ($52.1 million x 14%) to plug idle and orphaned wells in FY 2018. To comply with the spending requirement under the bill, the amount the Chief would need to use in FY 2018 increases to $23.4 million

($52.1 million x 45%). Expenditures of the program are supported by Fund 5180 appropriation item 725677, Oil and Gas Well Plugging.

Reporting idle and orphaned wells

In conjunction with the increased spending requirement, the bill allows a landowner to report an idle and orphaned well to the Chief. Under the bill, after receiving the landowner report, the Chief must inspect the well within 30 days and prioritize it as being (1) distressed-high priority, (2) moderate-medium priority, or (3) maintenance-low priority. Within 60 days of the landowner report, the Chief must provide the landowner with a written inspection report including the well's priority. For wells designated as distressed-high priority, the bill requires the Chief to begin plugging the well within six months after issuing the written report to the landowner. The bill also specifies that a landowner who reports an idle and orphaned well is not financially responsible for plugging that well, but may elect to plug the well and be reimbursed for costs to do so by the Division as provided under current law. Costs associated with prioritizing and plugging landowner reported wells, including costs for reimbursement if landowners choose to plug the wells themselves, would presumably be supported by the increased spending requirement discussed above.

Income tax deduction

H.B. 225 authorizes a personal income tax (PIT) deduction for amounts received from DNR's Division of Oil and Gas Resources Management to reimburse the landowner's costs to plug an oil or gas well that was either abandoned or improperly plugged and to restore affected land surfaces.

Under continuing law, DNR is required to notify a person when the agency discovers an abandoned or improperly plugged well located on land owned by the person. Once notified, the landowner may apply to DNR for compensation equal to the landowner's reasonable costs to engage a private contractor to properly plug the well and restore affected land surfaces. The Chief of DNR's Division of Oil and Gas Resources Management is required to approve the application if, in the Chief's judgement, the proposed costs are reasonable and the project complies with existing well plugging laws and regulations. The Chief reimburses the landowner's approved well plugging expenses upon the satisfactory completion of all well plugging activities. The Chief may place an annual limit on the number of plugged wells eligible for such reimbursement.

Based on recent DNR expenditures from Fund 5180 appropriation item 725677, Oil and Gas Well Plugging, the PIT deduction authorized by the bill will reduce PIT receipts by minimal amounts. The GRF share of any PIT losses would be 96.68% and the remaining amounts would be equally shared by the Local Government Fund (LGF) and the Public Library Fund (PLF). The LGF and PLF will incur negligible revenue losses from the deduction authorized by the bill. Revenue to the LGF is distributed to counties, municipalities, and townships statewide according to statutory formulas and decisions by county budget commissions. Revenue to the PLF is distributed to public libraries statewide.

Other provisions with little or no fiscal effects

The bill contains other provisions that appear to have little or no fiscal effect. These include certain reporting requirements, and a modification to the timeframe before certain equipment found at idle and orphaned wells is forfeited to the state. Please see the LSC Bill Analysis for additional details about these provisions.

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