15.0506.01000

FISCAL NOTE

Requested by Legislative Council
01/12/2015

Revised
Bill/Resolution No.: HB 1187

1 A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2013-2015 Biennium		2015-2017 Biennium		2017-2019 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues	$0	$0	$(4,201,264)	$(75,007,646)	$(5,601,685)	$(100,010,195)
Expenditures	$0	$0	$0	$0		
Appropriations	$0	$0	$0	$0	$0	

1 B. **County, city, school district and township fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

	2013-2015 Biennium	2015-2017 Biennium	2017-2019 Biennium
Counties			
Cities			
School Districts			
Townships			

2 A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

HB 1187 would void two Industrial Commission orders - Order 24665 which implemented gas capture plans and goals and Order 25417 which implemented crude oil conditioning standards. Effective date of 1/1/2016.

B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

Prior to the adoption of Order 24665 gas flaring reached 38% of gas production due to large value differentials between crude oil and natural gas that is expected to continue. Current flaring is 23% of gas production. Crude oil production is expected to remain constant at 1.2 million barrels per day yielding constant natural gas production of 1.4 billion cubic feet per day. 2/3 of gas flared is exempt from tax and royalties because it is flared from wells that are connected to undersized low priority gathering lines. Gas gross production tax is $0.0982 per MCF (thousand cubic feet); Gas value if sold based on sworn testimony given at 2014 oil hearings is $4.17 per MCF; Average royalty rate based on sworn testimony given at 2014 oil hearings is 16%; Average state income tax rate is 2.52%. If Order 24665 is voided the best case scenario is continued flaring at 23% of produced gas with 2/3 of the flared volume exempt from tax and royalties:
Gross production tax impact: 1,400,000,000/1,000 x 365 days x 2 years x 23% x 2/3 x $0.0982 = $15,388,595 per biennium.
Income tax impact: 1,400,000,000/1,000 x 365 days x 2 years x 23% x 2/3 x $4.17 x 16% x 2.52% = $2,634,778 per biennium
Total fiscal impact = $18,023,373 per biennium.

Prior to the adoption of Order 25417, the USDOT indicated their intent to require crude oil stabilization at rail transload stations unless oil was conditioned at well sites. Based on sworn testimony at 2014 oil hearings crude oil stabilization costs are $1 to $2 per barrel. This would be a transportation deduction and reduce well head price. Order 25417 is estimated to cost $.10 per barrel for oil conditioning. For the purposes of this analysis we have calculated a cost of $1.40 per barrel -- the difference between an average of $1.50 and the $.10 cost under Order 25417. Current rail transportation volume is 60% of state crude oil production. Crude oil production is expected to remain constant at 1.2 million barrels per day. Average royalty rate based on sworn testimony at 2014 oil hearings is 16%. Average state income tax rate is 2.52%.

If Order 25417 is voided, 60% of crude oil will continue to move by rail and it is anticipated the cost of USDOT

regulations on oil stabilization will result in an average additional $1.40 per barrel transportation deduction.
Gross Production Tax impact: 1,200,000 barrels per day x 365 days x 2 years x 60% x $1.40 x 5% = $36,792,000 per biennium.
Oil Extraction Tax impact: 1,200,000 barrels per day x 365 days x 2 years x 60% x $1.40 x 6.5% = $47,829,600 per biennium.
Income Tax impact: 1,200,000 barrels x 365 days x 2 years x 60% x $1.40 x 16% x 2.52% = $2,966,907 per biennium.
Total fiscal impact = $87,588,507

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

   A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

   See detail provided above.

   B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

   No impacts to expenditures.

   C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation or a part of the appropriation is included in the executive budget or relates to a continuing appropriation.*

   No impacts to agency appropriations

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