GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Fiscal Note 2009 Biennium

Bill #	SB0561	**Title:**	Revise oil and gas production tax holiday
Primary Sponsor:	Kaufmann, Christine	**Status:**	As Introduced

- [x] Significant Local Gov Impact
- [ ] Needs to be included in HB 2
- [ ] Technical Concerns
- [ ] Included in the Executive Budget
- [x] Significant Long-Term Impacts
- [ ] Dedicated Revenue Form Attached

FISCAL SUMMARY

	FY 2008 Difference	FY 2009 Difference	FY 2010 Difference	FY 2011 Difference
Expenditures:				
General Fund	$0	$0	$0	$0
Revenue:				
General Fund	$0	$4,153,330	$23,746,552	$31,931,460
Net Impact-General Fund Balance:	$0	$4,153,330	$23,746,552	$31,931,460

Description of fiscal impact: This bill eliminates the 12-month tax holiday on vertical oil and natural gas production and 18 month holiday on horizontal oil and natural gas production for wells drilled after December 31, 2007

FISCAL ANALYSIS

Assumptions:

Department of Revenue

1. Section one of this bill amends 15-36-304, MCA. Under current law the working interest share of the value of oil produced is exempt from taxation during the first 18 months of production for horizontally completed wells and during the first 12 months of production from other wells. Under this bill, if the price of West Texas Intermediate crude oil as reported in the Wall Street Journal is $38 per barrel or higher, these tax exemptions for oil would not apply to new wells drilled after December 31, 2007. The tax rates for the working interest share on these new wells would be 12.5%.
2. Under current law the working interest share of the value of natural gas produced is taxed at a reduced rate of 0.5% during the first 18 months of production for horizontally completed wells and during the first 12

months of production from other wells. Under this bill, if the spot price for Henry Hub natural gas as reported in the Wall Street Journal is $4 per million BTUs or higher, these reduced rates for natural gas would not apply to new wells drilled after December 31, 2007. The tax rates for the working interest share would be 9%.

3. Section two of this bill provides for an effective date of January 1, 2008.
4. Section three of this bill would provide for applicability to wells drilled and to oil and natural gas produced and sold after December 31, 2007.
5. The majority of new oil wells drilled in recent years (about 90%) have been horizontal wells. Based on historical information from the Oil and Gas Conservation Division's oil and gas database, it is assumed that there will be 144 new producing horizontal wells drilled per year (12 per month) in future years. The natural gas that is produced from horizontal wells is produced as associated gas from horizontal oil wells. Based on information from the Department of Revenue's GenTax System, the value of natural gas produced from these wells averages 8.37% of the value of oil produced from these wells.
6. For purposes of this fiscal note, the prices for oil and natural gas will remain above the threshold prices through FY 2011, eliminating the tax holidays for oil and natural gas. The Montana price of oil is assumed to be $60 per barrel through FY 2011. Based on an analysis of production from 78 producing horizontal oil wells in Fallon County, the average daily production rates per well (barrels per day) for each month during the first 18 months of production are in Table 1. The value of a month's production is barrels per day times 30 days times $60 per barrel. The value of associated natural gas production is 8.37% of the value of oil production. The working interest share of production value is assumed to be 85%. The estimated tax is 12.5% of the working interest value. The estimated tax on the associated natural gas is estimated as 8.37% of the tax on the oil.
7. Table 2 shows the increase in revenues of removing the tax holiday on horizontal well production for FY 2009 through FY 2011. Time and data restrictions prevented the Department from estimating the increase in revenues of removing the tax holiday on vertical wells.
8. The Department's GenTax Computer System will require modifications that will cause no additional administrative costs.

TABLE 1
SB561

WORKING INTEREST TAX ON A HORIZONTAL WELL DRILLED AFTER DECEMBEER 31, 2007

MONTH OF PRODUCTION	Barrels per Month	Working Interest Value	Working Interest Tax- Oil	Working Interest Tax - Assoc. Gas	Total Tax
1	3,955.9	$201,748	$25,219	$2,111	$27,329
2	5,178.2	$264,090	$33,011	$2,763	$35,774
3	4,631.2	$236,190	$29,524	$2,471	$31,995
4	4,084.3	$208,300	$26,038	$2,179	$28,217
5	3,659.3	$186,623	$23,328	$1,953	$25,280
6	3,364.6	$171,597	$21,450	$1,795	$23,245
7	3,128.5	$159,555	$19,944	$1,669	$21,614
8	3,005.9	$153,299	$19,162	$1,604	$20,766
9	2,763.9	$140,959	$17,620	$1,475	$19,095
10	2,810.3	$143,325	$17,916	$1,500	$19,415
11	2,764.8	$141,006	$17,626	$1,475	$19,101
12	2,755.9	$140,553	$17,569	$1,471	$19,040
13	2,670.8	$136,209	$17,026	$1,425	$18,451
14	2,818.5	$143,743	$17,968	$1,504	$19,472
15	2,765.3	$141,032	$17,629	$1,476	$19,105
16	2,767.0	$141,119	$17,640	$1,476	$19,116
17	2,652.9	$135,298	$16,912	$1,416	$18,328
18	2,581.2	$131,641	$16,455	$1,377	$17,832

DEPARTMENT OF REVENUE
TAX POLICY AND RESEARCH

TABLE 2

Increased Oil and Natural Gas Production Taxes Resulting From Removing the 18-Month Tax Holiday on New Horizontally Completed Oil Wells

		Counties 45%	General Fund 55%
FY2009	$7,551,510	$3,398,180	$4,153,330
FY2010	$43,175,550	$19,428,998	$23,746,552
FY2011	$58,057,200	$26,125,740	$31,931,460
FY2012	$58,057,200	$26,125,740	$31,931,460

New Producing Wells per Year	144
New Producing Wells per Month	12
Price per Barrel of Oil	$60

Department of Revenue
Tax Policy and Research

	FY 2008 Difference	FY 2009 Difference	FY 2010 Difference	FY 2011 Difference
Fiscal Impact:				
Revenues:				
General Fund (01)	$0	$4,153,330	$23,746,552	$31,931,460
TOTAL Revenues	$0	$4,153,330	$23,746,552	$31,931,460
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	$0	$4,153,330	$23,746,552	$31,931,460

Effect on County or Other Local Revenues or Expenditures:

1. Oil and gas producing counties with new drilling activity will have increased revenues.

Long-Range Impacts:

1. General fund revenues will increase by about $32 million per year in the future.

Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*