

WEST VIRGINIA LEGISLATURE

2020 REGULAR SESSION

Introduced

Senate Bill 198

FISCAL
NOTE

BY SENATORS BLAIR AND HAMILTON

[Introduced January 9, 2020; referred
to the Committee on Energy, Industry, and Mining;
and then to the Committee on Finance]

1 A BILL to amend and reenact §11-13A-3a of the Code of West Virginia, 1931, as amended; and
 2 to amend said code by adding thereto a new section, designated §22-6-29a, all relating to
 3 creating the Oil and Gas Abandoned Well Plugging Fund for use by the West Virginia
 4 Department of Environmental Protection to plug abandoned oil and gas wells without a
 5 responsible operator; providing for administration of the fund; requiring severance tax to
 6 be deposited in the fund; providing specific purposes and limitations for use of the fund;
 7 modifying imposition of the tax on the privilege of severing natural gas or oil by marginal
 8 oil and gas wells; providing exemptions from the severance tax; deleting a subsection of
 9 the code which expired by its own terms; providing reporting requirements for the Oil and
 10 Gas Reclamation Fund and the Oil and Gas Abandoned Well Plugging Fund; providing
 11 rule-making authority; and providing a short title.

Be it enacted by the Legislature of West Virginia:

CHAPTER 11. TAXATION.

ARTICLE 13A. SEVERANCE AND BUSINESS PRIVILEGE TAX ACT.

§11-13A-3a. Imposition of tax on privilege of severing natural gas or oil. ~~Tax Commissioner to develop a uniform reporting form.~~

1 (a) *Imposition of tax.* -- For the privilege of engaging or continuing within this state in the
 2 business of severing natural gas or oil for sale, profit or commercial use, there is hereby levied
 3 and shall be collected from every person exercising ~~such~~ the privilege an annual privilege tax at
 4 the rate and measure provided in subsection (b) of this section: *Provided,* That effective for all
 5 taxable periods beginning on or after January 1, 2000, there is an exemption from the imposition
 6 of the tax provided in this article on the following: (1) Free natural gas provided to any surface
 7 owner; (2) natural gas produced from any well which produced an average of less than 5,000
 8 cubic feet of natural gas per day during the calendar year immediately preceding a given taxable
 9 period; (3) oil produced from any oil well which produced an average of less than one-half barrel
 10 of oil per day during the calendar year immediately preceding a given taxable period; and (4) for

11 a maximum period of 10 years, all natural gas or oil produced from any well which has not
12 produced marketable quantities of natural gas or oil for five consecutive years immediately
13 preceding the year in which a well is placed back into production and thereafter produces
14 marketable quantities of natural gas or oil.

15 (b) *Rate and measure of tax.* -- The tax imposed in subsection (a) of this section ~~shall be~~
16 is five percent of the gross value of the natural gas or oil produced by the producer, as shown by
17 the gross proceeds derived from the sale thereof by the producer, except as otherwise provided
18 in this article: Provided, That effective for taxable periods beginning on or after January 1, 2020:

19 (1) For all natural gas produced from any well which produced an average in excess of
20 60,000 cubic feet of natural gas per day during the calendar year immediately preceding a given
21 taxable year, and for oil produced from any well which produced an average in excess of 10
22 barrels of oil per day, during the calendar year immediately preceding the beginning date of a
23 given taxable year, the rate of tax is five percent of the gross value of the natural gas or oil
24 produced as shown by the gross proceeds derived from the sale thereof by the producer; and

25 (2) For all natural gas produced from any well which produced an average between 5,000
26 cubic feet of natural gas per day and 60,000 cubic feet of natural gas per day during the calendar
27 year immediately preceding the beginning date of a given taxable year, and for oil produced from
28 any well which produced an average between one half barrel per day and 10 barrels per day,
29 during the calendar year immediately preceding the beginning date of a given taxable year, the
30 rate of tax is 2.5 percent of the gross value of the natural gas or oil produced as shown by the
31 gross proceeds derived from the sale thereof by the producer.

32 (c) *Tax in addition to other taxes.* -- The tax imposed by this section ~~shall apply~~ applies to
33 all persons severing gas or oil in this state, and ~~shall be~~ is in addition to all other taxes imposed
34 by law.

35 ~~(d)(1) The Legislature finds that in addition to the production reports and financial records~~
36 ~~which must be filed by oil and gas producers with the State Tax Commissioner in order to comply~~

37 ~~with this section, oil and gas producers are required to file other production reports with other~~
38 ~~agencies, including, but not limited to, the office of oil and gas, the Public Service Commission~~
39 ~~and county assessors. The reports required to be filed are largely duplicative, the compiling of the~~
40 ~~information in different formats is unnecessarily time-consuming and costly, and the filing of one~~
41 ~~report or the sharing of information by agencies of government would reduce the cost of~~
42 ~~compliance for oil and gas producers.~~

43 ~~(2) On or before July 1, 2003, the Tax Commissioner shall design a common form that~~
44 ~~may be used for each of the reports regarding production that are required to be filed by oil and~~
45 ~~gas producers, which form shall readily permit a filing without financial information when such~~
46 ~~information is unnecessary. The commissioner shall also design such forms so as to permit filings~~
47 ~~in different formats, including, but not limited to, electronic formats.~~

48 ~~(3) Effective July 1, 2006, this subsection shall have no force or effect~~

49 ~~(d) For purposes of this section, in determining the average amount of production of gas~~
50 ~~and oil in any given calendar year, a taxpayer must calculate the actual production of such well~~
51 ~~in the calendar year and divide the same by the number of days the well was in operation and~~
52 ~~producing gas or oil in such calendar year.~~

53 ~~(e) The proceeds of the tax imposed at the rate prescribed under subdivision (2),~~
54 ~~subsection (b) of this section are dedicated to the Oil and Gas Abandoned Well Plugging Fund~~
55 ~~created under §22-6-29a of this code: *Provided*, That if on June 1, 2022, or on June 1 of any year~~
56 ~~thereafter there exists in the Oil and Gas Abandoned Well Plugging Fund an amount equal to or~~
57 ~~exceeding the sum of \$4 million then the special rate of tax imposed under subdivision (2),~~
58 ~~subsection (b) of this section is reduced to zero for the taxable year beginning on and after the~~
59 ~~next succeeding January 1. The Tax Commissioner shall issue an Administrative Notice by July~~
60 ~~1 of each year indicating the balance in the fund as of the immediately preceding June 1 and the~~
61 ~~rate of tax on wells pursuant to this subsection.~~

CHAPTER 22. ENVIRONMENTAL RESOURCES.

ARTICLE 6. OFFICE OF OIL AND GAS; OIL AND GAS WELLS.

§22-6-29a. Oil and Gas Abandoned Well Plugging Fund.

1 (a)(1) This section may be referred to as the Oil and Gas Abandoned Well Plugging Fund
2 Act. There is established within the Treasury of the State of West Virginia the special use fund
3 known as the Oil and Gas Abandoned Well Plugging Fund.

4 (2) The Oil and Gas Abandoned Well Plugging Fund shall be administered by the secretary
5 solely for the purposes of carrying out the provisions of this section.

6 (3) Any balance remaining in the Oil and Gas Abandoned Well Plugging Fund at the end
7 of any state fiscal year does not revert to the General Revenue Fund but shall remain in the
8 special revenue account and may be used only as provided in this section. The revenues
9 deposited in the Oil and Gas Abandoned Well Plugging Fund may not be designated as
10 nonaligned state special revenue funds under §11B-2-32 of this code.

11 (b)(1) Using funds from the Oil and Gas Reclamation Fund and the Oil and Gas
12 Abandoned Well Plugging Fund, the secretary shall plug and reclaim abandoned oil and gas wells
13 without a responsible operator all in accordance with plans and specifications developed pursuant
14 to the provisions of this article relating to the plugging and reclamation of wells, and the rules
15 establishing well plugging standards adopted thereunder.

16 (2) Funds from the Oil and Gas Abandoned Well Plugging Fund may only be used to plug
17 abandoned oil and gas wells without a responsible operator and to reclaim the property disturbed
18 from the plugging.

19 (3) On or before July 1 of each year, the secretary shall make an annual report to the
20 Governor and the Legislature as to the use of the Oil and Gas Abandoned Well Plugging Fund
21 and the Oil and Gas Reclamation Fund. The report shall include the balance in both funds on
22 June 1 of each year. The secretary's annual report shall set forth the number of wells reclaimed

23 or plugged through the use of the Oil and Gas Reclamation Fund and the Oil and Gas Abandoned
24 Well Plugging Fund in the previous year. The report shall identify each reclamation and plugging
25 project, state the number of wells plugged thereby, show the county in which the wells are located,
26 and make a detailed accounting of all expenditures from the Oil and Gas Reclamation Fund and
27 from the Oil and Gas Abandoned Well Plugging Fund. The annual report shall also include a 5-
28 year plan detailing current and future projects and activities to plug and reclaim wells.

29 (4) Wells shall be plugged, and plugged wells reclaimed by contract entered into by the
30 secretary on a competitive bid basis as provided for under the provisions of §5A-3-1 et seq. of
31 this code and the rules promulgated thereunder.

NOTE: The purpose of this bill is to exempt low volume oil and gas wells from severance tax, and to provide for a special use fee on sales from oil and gas wells which produce more than 5,000 cubic feet of natural gas or one-half barrel of oil per day but less than 60,000 cubic feet of natural gas or for oil produced from any well which produced an average between ½ barrel per day 10 barrels of oil per day. The special use fee shall be used by the Secretary of the Department of Environmental Protection to plug abandoned oil and gas wells.

Strike-throughs indicate language that would be stricken from a heading or the present law and underscoring indicates new language that would be added.