

HOUSE BILL NO. HB0211

Oil production projects.

Sponsored by: Representative(s) Simpson

A BILL

for

1 AN ACT relating to taxation and revenue; providing for a
 2 severance tax credit for certain oil production projects as
 3 specified; providing for reporting; providing a definition;
 4 amending related provisions; and providing for an effective
 5 date.

6

7 *Be It Enacted by the Legislature of the State of Wyoming:*

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9 **Section 1.** W.S. 39-14-201(a) by creating a new
 10 paragraph (xi) and by renumbering paragraphs (xi) through
 11 (xxxii) as (xii) through (xxxiii), 39-14-202(a)(iv)(intro),
 12 (B) and (v) through (x) and 39-14-205(k) and by creating a
 13 new subsection (m) are amended to read:

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15 **39-14-201. Definitions.**

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17 (a) As used in this article:

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(xi) "Improved recovery project" means the crude oil recovered from a petroleum reservoir by means of an improved oil recovery project to which one (1) or more recovery techniques meeting the approval of the Wyoming oil and gas conservation commission is applied;

~~(xi)~~ (xii) "Lease" means the area encompassed in the leasehold granting the right to explore for or produce crude oil or natural gas, which may include a single tract or multiple tracts of land described in the instrument granting the leasehold;

~~(xii)~~ (xiii) "Lease automatic custody transfer unit (LACT)" means a device which automatically and mechanically measures and at which point custody of crude oil transfers from the producer to the purchaser;

~~(xiii)~~ (xiv) "Lease condensate" means liquid hydrocarbons which are separated from other components of the natural gas production stream on the lease or before the inlet to a natural gas processing facility;

1 ~~(xiv)~~ (xv) "Mine product valuation amendment"
2 means a valuation adjustment determination made by the
3 department including special directives;

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5 ~~(xv)~~ (xvi) "Natural gas" means all gases, both
6 hydrocarbon and nonhydrocarbon, that occur naturally
7 beneath the earth's crust and are produced from an oil or
8 gas well. For the purposes of taxation, the term natural
9 gas includes products separated for sale or distribution
10 during processing of the natural gas stream including, but
11 not limited to plant condensate, natural gas liquids and
12 sulfur;

13
14 ~~(xvi)~~ (xvii) "Purchaser" means the first
15 purchaser who acquires the produced crude oil, lease
16 condensate or natural gas from the taxpayer for value;

17
18 ~~(xvii)~~ (xviii) "Previously shut-in well" means a
19 well from which crude oil previously has been produced and
20 from which no production has occurred for at least the two
21 (2) consecutive years prior to January 1, 1995;

22
23 ~~(xviii)~~ (xix) "Processing" means any activity
24 occurring beyond the inlet to a natural gas processing

1 facility that changes the well stream's physical or
2 chemical characteristics, enhances the marketability of the
3 stream, or enhances the value of the separate components of
4 the stream. Processing includes, but is not limited to
5 fractionation, absorption, adsorption, flashing,
6 refrigeration, cryogenics, sweetening, dehydration within a
7 processing facility, beneficiation, stabilizing,
8 compression (other than production compression such as
9 reinjection, wellhead pressure regulation or the changing
10 of pressures and temperatures in a reservoir) and
11 separation which occurs within a processing facility;

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13 ~~(xix)~~ (xx) "Property" means lease or unit. The
14 term "property" is synonymous with the term "mining claim";

15

16 ~~(xx)~~ (xxi) "Recompletion" means any downhole
17 operation that is conducted to establish production of an
18 oil or gas well in any geological interval not currently
19 completed or producing which has been approved as a
20 recompletion by the Wyoming oil and gas conservation
21 commission;

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23 ~~(xxi)~~ (xxii) "Reservoir" means an underground
24 accumulation of oil or gas or both characterized by a

1 single pressure system which is segregated from other such
2 accumulations;

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4 ~~(xxii)~~ (xxiii) "Separating" means the isolation
5 of the well stream into discrete gas, liquid hydrocarbons,
6 liquid water and solid components;

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8 ~~(xxiii)~~ (xxiv) "Severance tax" means an excise
9 tax imposed on the present and continuing privilege of
10 removing, extracting, severing or producing any mineral in
11 this state;

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13 ~~(xxiv)~~ (xxv) "Stripper production" means the
14 production from a property or lease whose average daily
15 production of crude petroleum from wells reported as oil
16 wells to the Wyoming oil and gas commission did not exceed:

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18 (A) Ten (10) barrels per day per well
19 during the preceding calendar year if the average price
20 received by the producer for production from the property
21 was twenty dollars (\$20.00) or more per barrel; or

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23 (B) Fifteen (15) barrels per day per well
24 during the preceding calendar year if the average price

1 received by the producer for production from the property
2 was less than twenty dollars (\$20.00) per barrel.

3

4 ~~(xxv)~~ (xxvi) "Sweetening" means any activity that
5 removes acid gases, such as hydrogen sulfide and carbon
6 dioxide, from the well stream. Sweetening includes, but is
7 not limited to absorption, stabilization, thermal and
8 catalytic conversions, chemical reaction and regeneration;

9

10 ~~(xxvi)~~ (xxvii) "Tertiary production" means the
11 crude oil recovered from a petroleum reservoir by means of
12 a tertiary enhanced recovery project to which one (1) or
13 more tertiary enhanced recovery techniques meeting the
14 certification requirements of the Wyoming oil and gas
15 conservation commission or the United States government are
16 being applied;

17

18 ~~(xxvii)~~ (xxviii) "Unit" means the total area
19 incorporated in a unitization agreement providing for a
20 consolidated development and operational plan to recover
21 oil or gas from the lease areas incorporated in the unit.
22 Participating areas of units as designated by the Wyoming
23 oil and gas conservation commission may be designated as
24 separate units for production tax purposes;

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2 ~~(xxviii)~~(xxix) "Unreported production" means
3 production volume for which no tax report was filed for the
4 reporting period by the taxpayer or his agent;

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6 ~~(xxix)~~(xxx) "Value of the gross product" means
7 fair market value as prescribed by W.S. 39-14-203(b), less
8 any deductions and exemption allowed by Wyoming law or
9 rules;

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11 ~~(xxx)~~(xxxii) "Well" means a hole drilled in the
12 earth for the purpose of finding or producing crude oil or
13 natural gas;

14

15 ~~(xxxii)~~(xxxiii) "Wildcat well" means any crude oil
16 or natural gas well designated as a wildcat well by the
17 Wyoming oil and gas conservation commission. The Wyoming
18 oil and gas conservation commission shall adopt rules and
19 criteria to implement this designation process. The rules
20 and criteria shall provide that wildcat wells are wells
21 outside known fields or new wells which are determined by
22 the commission to have discovered crude oil or natural gas
23 in a pool not previously proven productive;

24

1 ~~(xxxii)~~(xxxiii) "Workover" means any downhole
 2 operation that is designed to sustain, restore or increase
 3 the production rate or the ultimate recovery in the
 4 geologic interval in which an oil or gas well or group of
 5 wells is currently completed and producing and approved as
 6 a workover by the Wyoming oil and gas conservation
 7 commission.

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9 **39-14-202. Administration; confidentiality.**

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11 (a) Administration. The following shall apply:

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13 (iv) To promote research that will lead to
 14 expanded production or processing of oil or natural gas in
 15 Wyoming, there is created the oil and gas research review
 16 committee consisting of the following members:

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18 (B) ~~Two (2) other members~~ The state oil and
 19 gas supervisor and one (1) member of the oil and gas
 20 conservation commission appointed by the governor;

21

22 (v) The ~~state~~ oil and gas ~~supervisor shall be an~~
 23 ~~ex officio member of the committee and~~ conservation

1 commission shall provide administrative support to the
2 committee as necessary;

3

4 (vi) The oil and gas research review committee
5 shall review applications from taxpayers who have or will
6 have a liability for severance tax on the production of oil
7 or natural gas under W.S. ~~39-14-204(a)(i), (ii) and (iii)~~
8 39-14-204 for certification of research projects to be
9 conducted primarily in Wyoming for the purpose of expanding
10 the production or processing of oil or natural gas in
11 Wyoming. If the committee certifies a project, it shall
12 provide a notice of the certification to the department of
13 revenue, including the total amount approved as an
14 investment, which shall be used by the department to
15 compute a credit against the severance tax liability of the
16 taxpayer as provided in W.S. 39-14-205(k) or (m). The
17 department of revenue shall promulgate rules to implement
18 paragraphs (iv) through (x) of this subsection;

19

20 (vii) The oil and gas research review committee
21 shall certify ~~research~~ projects submitted for certification
22 by a taxpayer under paragraphs (iv) through (x) of this
23 subsection subject to the following terms and conditions:

24

1 (A) As determined by the committee, the
2 results of the ~~research~~ project, if successful, would be
3 commercially applicable to the development of oil or
4 natural gas resources and could reasonably be expected to
5 result in increased production or processing of oil or
6 natural gas within Wyoming within three (3) years after
7 work on the ~~research~~ project begins;

8
9 (B) ~~A majority~~ Not less than seventy-five
10 percent (75%) of the total expenditures for the ~~research~~
11 project will occur within Wyoming;

12
13 (C) The taxpayer shall submit a proposed
14 budget for the research, including the expected level of
15 expenditures during each calendar year of project activity.
16 The amount approved as an investment and certified annually
17 to the department of revenue for the purposes of granting a
18 credit shall be limited to actual expenditures by the
19 taxpayer for the ~~research~~ project, and shall not include
20 any in kind services or materials;

21
22 (D) Nothing in this paragraph limits a
23 taxpayer from entering into an agreement with another
24 Wyoming entity, including an educational institution, under

1 which that entity will actually perform the research on the
2 project;

3

4 (E) Progress reports on each ~~research~~
5 project shall be required by the committee as necessary to
6 evaluate compliance with paragraphs (iv) through (x) of
7 this subsection;

8

9 (F) The total amount approved for all
10 projects in any calendar year as an investment under
11 paragraphs (iv) through (x) of this subsection shall not
12 exceed ~~four million dollars (\$4,000,000.00)~~ thirty million
13 dollars (\$30,000,000.00), thereby resulting in a tax credit
14 for any calendar year of not more than ~~two million dollars~~
15 ~~(\$2,000,000.00)~~ fifteen million dollars (\$15,000,000.00),
16 and not more than fifty percent (50%) of this credit shall
17 be received by any one (1) taxpayer in any calendar year.

18

19 (viii) The committee shall annually report to
20 the governor and the legislature not later than thirty (30)
21 days before the convening of a regularly scheduled session
22 of the legislature regarding the progress of each project
23 for which a credit has been granted under W.S. 39-14-205(k)
24 or (m), including the extent to which it appears that oil

1 or natural gas production or processing has increased as a
2 result of the implementation of the results of ~~research~~
3 projects certified under paragraphs (iv) through (x) of
4 this subsection;

5
6 (ix) On or before December 1 of ~~1995, 1996,~~
7 ~~1997, 1998 and 1999~~ 2004, 2005, 2006 and 2007, the oil and
8 gas research review committee, the oil and gas commission
9 and the mineral tax division within the department of
10 revenue shall report to the joint revenue interim committee
11 on the results of the incentives provided to projects under
12 paragraphs (iv) through (x) of this subsection. The report
13 shall include the production from the projects, the
14 operators, the number of wells involved, the amount of any
15 ad valorem and sales taxes paid on that production and on
16 the project, the amount of severance taxes which would have
17 been paid on that production under W.S. 39-14-204(a)(ii)
18 ~~and (iii)~~ through (iv) and the amount of the credit earned
19 to the date of the report for the project;

20
21 (x) Paragraphs (iv) through (ix) of this
22 subsection and this paragraph are not effective after ~~June~~
23 ~~30, 1999~~ December 1, 2007, unless specifically extended by
24 the legislature;

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39-14-205. Exemptions.

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4 (k) A taxpayer who is liable for payment of taxes
5 under W.S. 39-14-204(a)(i), (ii) and (iii) on the
6 production of natural gas is entitled to a credit against
7 those taxes in an amount equal to fifty percent (50%) of
8 the amount certified by the oil and gas research review
9 committee under W.S. 39-14-202(a)(iv) through (x) as a
10 qualifying investment by that taxpayer in a research
11 project. Credits under this section shall first be applied
12 to tax liability under W.S. 39-14-204(a)(iii) and then to
13 the tax liability under W.S. 39-14-204(a)(ii).

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15 (m) Any taxpayer liable for taxes under W.S.
16 39-14-204(a)(ii) through (iv) on the production of oil
17 resulting from an improved recovery project certified under
18 W.S. 39-14-202(a)(iv) through (x) on or after January 1,
19 2004 but prior to December 1, 2007 shall be entitled to a
20 credit against those taxes in an amount not to exceed one
21 hundred percent (100%) of the actual expenditures by the
22 taxpayer for the cost of each improved recovery project
23 that was certified under W.S. 39-14-202(a)(iv) through (x),
24 but shall not include any in-kind services or materials.

1 Credits under this section shall first be applied to tax
2 liability under W.S. 39-14-204(a)(iii) and then to the tax
3 liability under W.S. 39-14-204(a)(ii), with any remaining
4 liability applied to the tax liability under W.S.
5 39-14-204(a)(iv). For any taxpayer to become eligible for
6 final certification of any improved recovery project by the
7 oil and gas research review committee and the corresponding
8 severance tax credits allowed to offset the taxpayer's
9 severance tax obligations in any calendar year, the
10 taxpayer shall contract in writing with the state land and
11 investment board, subject to full certification of each
12 improved oil recovery project, to:

13
14 (i) Transfer, sell or lease to a Wyoming
15 nonprofit entity whose sole purpose is to promote economic
16 and educational development in the state of Wyoming, such
17 buildings, lands, facilities or other improvements having a
18 total appraised value of not less than ninety percent (90%)
19 of any certified severance tax credits allowed to offset
20 the taxpayer's severance tax obligations in any calendar
21 year. The transfer, sale or lease may be for a nominal fee
22 or less than fair market value and upon such terms and
23 conditions as mutually agreed upon between the taxpayer and
24 the Wyoming nonprofit entity;

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2 (ii) Invest the full amount of any certified
3 severance tax credit toward only those production projects
4 certified under W.S. 39-14-202(a)(iv) through (x) within
5 the state and within eighteen (18) months of the full
6 certification of the project;

7

8 (iii) Provide all nonproprietary engineering,
9 production and technology data and information generated
10 from any certified production project to the Wyoming oil
11 and gas conservation commission so that the data and
12 information generated and knowledge gained shall become
13 public property; and

14

15 (iii) Record, track, quantify and report
16 drilling and production results to the Wyoming oil and gas
17 conservation commission on a quarterly basis for all
18 certified production projects for eighteen (18) months
19 following certification of the project.

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1 **Section 2.** This act is effective immediately upon
2 completion of all acts necessary for a bill to become law
3 as provided by Article 4, Section 8 of the Wyoming
4 Constitution.

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(END)