



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2025 Biennium

**Bill information:**

HB0469 - Revise taxation of horizontally recompleted wells (Brewster, Larry )

**Status:** As Introduced

- |   |  |  |
|---|--|--|
| <input type="checkbox"/> Significant Local Gov Impact     | <input type="checkbox"/> Needs to be included in HB 2  | <input checked="" type="checkbox"/> Technical Concerns   |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

### FISCAL SUMMARY

|   | <b>FY 2024<br/>Difference</b> | <b>FY 2025<br/>Difference</b> | <b>FY 2026<br/>Difference</b> | <b>FY 2027<br/>Difference</b> |
|---|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| <b>Expenditures:</b>                    |                               |                               |                               |                               |
| General Fund                            | unknown                       | unknown                       | unknown                       | unknown                       |
| State Special Revenue                   | unknown                       | unknown                       | unknown                       | unknown                       |
| <b>Revenue:</b>                         |                               |                               |                               |                               |
| General Fund                            | unknown                       | unknown                       | unknown                       | unknown                       |
| State Special Revenue                   | unknown                       | unknown                       | unknown                       | unknown                       |
| <b>Net Impact-General Fund Balance:</b> | unknown                       | unknown                       | unknown                       | unknown                       |

**Description of fiscal impact:** HB 469 lowers the tax rate assessed on the first 18 months of oil production from horizontally recompleted wells from 5.5% to 0.5%. It also establishes separate tax rates for gas production from a horizontally recompleted well. The Montana Board of Oil and Gas Conservation (BOGC) must certify a horizontal well recompletion project for it to qualify for the specific associated tax rates. It is unknown how many of these projects the BOGC might certify during the FY 2024 – FY 2027 period; thus, the fiscal impact of HB 469 cannot be accurately quantified.

### FISCAL ANALYSIS

**Assumptions:**

**Department of Revenue**

1. HB 469 adds the volume of oil sourced from the recompletion of an existing horizontal well to the definition of incremental production.
2. The tax rate for the first 18 months of oil production from horizontally recompleted wells is reduced from 5.5% to 0.5%. The new tax rates for gas production from horizontally recompleted wells are 0.5% for the first 18 months, then 12.5% for wells completed before 1999 and 9% for wells completed after 1999.
3. For production from a horizontally recompleted well to qualify for the special, lower tax rates, the BOGC must certify the horizontal recompletion project to the department.

- There are currently no active BOGC-certified horizontal recompletion projects. Projecting how many projects the BOGC might certify during the FY 2024 – FY 2027 analysis window, and the timing of such certifications, is subject to much uncertainty. Therefore, the fiscal impact of HB 469 cannot be comfortably quantified.

|   | <u>FY 2024</u><br><u>Difference</u> | <u>FY 2025</u><br><u>Difference</u> | <u>FY 2026</u><br><u>Difference</u> | <u>FY 2027</u><br><u>Difference</u> |
|---|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| <b><u>Fiscal Impact:</u></b>  |                                     |                                     |                                     |                                     |
| <b><u>Expenditures:</u></b>   |                                     |                                     |                                     |                                     |
| Personal Services   | \$0                                 | \$0                                 | \$0                                 | \$0                                 |
| Operating Expenses  | \$0                                 | \$0                                 | \$0                                 | \$0                                 |
| <b>TOTAL Expenditures</b>   | <b>\$0</b>                          | <b>\$0</b>                          | <b>\$0</b>                          | <b>\$0</b>                          |
| <b><u>Funding of Expenditures:</u></b>  |                                     |                                     |                                     |                                     |
| General Fund (01)   | \$0                                 | \$0                                 | \$0                                 | \$0                                 |
| State Special Revenue (02)  | \$0                                 | \$0                                 | \$0                                 | \$0                                 |
| <b>TOTAL Funding of Exp.</b>  | <b>\$0</b>                          | <b>\$0</b>                          | <b>\$0</b>                          | <b>\$0</b>                          |
| <b><u>Revenues:</u></b>   |                                     |                                     |                                     |                                     |
| General Fund (01)   | unknown                             | unknown                             | unknown                             | unknown                             |
| State Special Revenue (02)  | unknown                             | unknown                             | unknown                             | unknown                             |
| <b>TOTAL Revenues</b>   | <b>unknown</b>                      | <b>unknown</b>                      | <b>unknown</b>                      | <b>unknown</b>                      |
| <b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u></b> |                                     |                                     |                                     |                                     |
| General Fund (01)   | unknown                             | unknown                             | unknown                             | unknown                             |
| State Special Revenue (02)  | unknown                             | unknown                             | unknown                             | unknown                             |

**Technical Notes:**

- One of the changes the bill makes is to add an incremental production tax rate for horizontally recompleted wells for gas. Gas has never been included in the definitions for “enhanced recovery projects, expanded enhanced recovery projects, incremental production, or production decline rate” as those had up until now only dealt with oil. This bill amends the definition of “incremental production” and “production decline rate” to include horizontal wells that are recompleted as horizontal, but none of the above definitions have been amended to account for the addition of gas, they still only reference oil.
- Section 1 of the bill adds “recompletion of an existing horizontal well” to the definition of incremental production in 15-36-303(9), MCA, and to the definition of production decline rate in 15-36-303(20), MCA. Incremental production is taxed according to 15-36-304(5)(e), MCA. Production from a horizontally recompleted well is taxed according to 15-36-304(5)(f), MCA. It may be useful to clarify, in either subsection (e) or (f) of 15-36-304(5), MCA, that the tax rate for a horizontally recompleted well is to be assessed on the incremental production from the well. Alternatively, the last sentence in the definition of production decline rate in 15-36-303(9), MCA, could be amended to read something like “the certified rate of future oil production must be used to determine the volume of incremental production that qualifies for the rates imposed under 15-36-304(5)(e) or 15-36-304(5)(f).” Changes of this nature could help clarify the intent of the bill and aid in the administration of the tax.



Sponsor's Initials

2-17-23

Date



Budget Director's Initials

2-16-23

Date