

Sixty-third
Legislative Assembly
of North Dakota

HOUSE BILL NO. 1234

Introduced by

Representatives Streyle, Owens, Thoreson

Senator Armstrong

1 A BILL for an Act to amend and reenact section 15-05-10, subsection 4 of section 38-08-04, and
2 sections 57-51.1-01, 57-51.1-02, 57-51.1-03, and 57-51.1-03.1 of the North Dakota Century
3 Code, relating to oil extraction tax rates and exemptions; and to provide an effective date.

4 **BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:**

5 **SECTION 1. AMENDMENT.** Section 15-05-10 of the North Dakota Century Code is
6 amended and reenacted as follows:

7 **15-05-10. Royalties from oil leases - Rents from other leases - Rules.**

8 Oil leases must be made by the board of university and school lands at such annual
9 minimum payments as are determined by the board, but the royalty shall be not less than
10 twelve and one-half percent of the gross output of oil from the lands leased. Oil leases made by
11 the board may authorize a royalty of less than twelve and one-half percent for production from
12 stripper well properties or individual stripper wells and qualifying secondary recovery and
13 qualifying tertiary recovery projects as defined in section 57-51.1-01. Leases for gas, coal,
14 cement materials, sodium sulfate, sand and gravel, road material, building stone, chemical
15 substances, metallic ores, or colloidal or other clays must be made by the board in such annual
16 payments as are determined by the board. The board may adopt rules regarding annual
17 payments and royalties under this section.

18 **SECTION 2. AMENDMENT.** Subsection 4 of section 38-08-04 of the North Dakota Century
19 Code is amended and reenacted as follows:

20 4. To classify wells as oil or gas wells for purposes material to the interpretation or
21 enforcement of this chapter, to classify and determine the status and depth of wells
22 that are stripper well property or individual stripper wells as defined in ~~subsection 8 of~~
23 section 57-51.1-01, to certify to the tax commissioner which wells are stripper wells
24 and the depth of those wells, and to certify to the tax commissioner which wells involve

secondary or tertiary recovery operations under section 57-51.1-01, and the date of qualification for the reduced rate of oil extraction tax for secondary and tertiary recovery operations.

SECTION 3. AMENDMENT. Section 57-51.1-01 of the North Dakota Century Code is amended and reenacted as follows:

57-51.1-01. Definitions for oil extraction tax.

For the purposes of the oil extraction tax law, the following words and terms shall have the meaning ascribed to them in this section~~this chapter~~:

1. "Average daily production" of a well means the qualified maximum total production of barrels of oil from the well during a calendar month period divided by the number of calendar days in that period; month and "qualified maximum total production" of a well means that the well must have been maintained at the maximum efficient rate of production as defined and determined by rule adopted by the industrial commission in ~~furtherance of its authority~~ under chapter 38-08.
2. "Average price" of a barrel of crude oil means ~~the monthly average of the daily closing price for a barrel of west Texas intermediate cushing crude oil, as those prices appear in the Wall Street Journal, midwest edition, minus two dollars and fifty cents. When computing the monthly average price, the most recent previous daily closing price must be considered the daily closing price for the days on which the market is closed~~statewide production" means the number of barrels of oil produced from wells within this state during a calendar month divided by the number of calendar days in that month, as determined by the industrial commission.
3. "Horizontal reentry well" means a well that was not initially drilled and completed as a horizontal well, including any well initially plugged and abandoned as a dry hole, which is reentered and recompleted as a horizontal well.
4. "Horizontal well" means a well with a horizontal displacement of the well bore drilled at an angle of at least eighty degrees within the productive formation of at least three hundred feet ~~[91.44 meters]~~.
5. "Oil" means petroleum, crude oil, mineral oil, casinghead gasoline, and all liquid hydrocarbons that are recovered from gas on the lease incidental to the production of the gas.

1 ~~6.4.~~ "Property" means the right which arises from a lease or fee interest, as a whole or any
2 designated portion thereof, to produce oil. A producer shall treat as a separate
3 property each separate and distinct producing reservoir subject to the same right to
4 produce crude oil; ~~provided, that such~~ if the reservoir is recognized by the industrial
5 commission as a producing formation that is separate and distinct from, and not in
6 communication with, any other producing formation.

7 ~~7.5.~~ "Qualifying secondary recovery project" means a project employing water flooding. ~~To~~
8 ~~be eligible for the tax reduction provided under section 57-51.1-02, a secondary~~
9 ~~recovery project must be certified as qualifying by the industrial commission and the~~
10 ~~project operator must have achieved for six consecutive months an average~~
11 ~~production level of at least twenty-five percent above the level that would have been~~
12 ~~recovered under normal recovery operations. To be eligible for the tax exemption~~
13 ~~provided under section 57-51.1-03 and subsequent thereto the rate reduction provided~~
14 ~~under section 57-51.1-02, a secondary recovery project must be, certified as qualifying~~
15 ~~by the industrial commission, and~~ from which the project operator ~~must have~~ has
16 ~~obtained incremental production as defined in subsection 5 of section 57-51.1-03~~ rules
17 of the industrial commission.

18 ~~8.6.~~ "Qualifying tertiary recovery project" means a project for enhancing recovery of oil
19 which meets the requirements of section 4993(c), Internal Revenue Code of 1954, as
20 amended through December 31, 1986, and includes the following methods for
21 recovery:

- 22 a. Miscible fluid displacement.
- 23 b. Steam drive injection.
- 24 c. Microemulsion.
- 25 d. In situ combustion.
- 26 e. Polymer augmented water flooding.
- 27 f. Cyclic steam injection.
- 28 g. Alkaline flooding.
- 29 h. Carbonated water flooding.
- 30 i. Immiscible carbon dioxide displacement.
- 31 j. New tertiary recovery methods certified by the industrial commission.

1 It does not include water flooding, unless the water flooding is used as an element of
2 one of the qualifying tertiary recovery techniques described in this subsection, or
3 immiscible natural gas injection. ~~To be eligible for the tax reduction provided under~~
4 ~~section 57-51.1-02, a tertiary recovery project must be certified as qualifying by the~~
5 ~~industrial commission, the project operator must continue to operate the unit as a~~
6 ~~qualifying tertiary recovery project, and the project operator must have achieved for at~~
7 ~~least one month a production level of at least fifteen percent above the level that would~~
8 ~~have been recovered under normal recovery operations. To be eligible for the tax~~
9 ~~exemption provided under section 57-51.1-03 and subsequent thereto the rate~~
10 ~~reduction provided under section 57-51.1-02, a tertiary recovery project must be~~
11 ~~certified as qualifying by the industrial commission, the project operator must continue~~
12 ~~to operate the unit as a qualifying tertiary recovery project, and the project operator~~
13 ~~must have obtained incremental production as defined in subsection 5 of section~~
14 ~~57-51.1-03~~rules of the industrial commission.

15 9.7. "Royalty owner" means an owner of what is commonly known as the royalty interest
16 and shall not include the owner of any overriding royalty or other payment carved out
17 of the working interest.

18 10.8. "Stripper well" means a well inside the Bakken or Three Forks formations whose
19 average daily production of oil, excluding condensate recovered in nonassociated
20 production, per well did not exceed ten barrels per day for wells of a depth of six
21 thousand feet [1828.80 meters] or less, fifteen barrels per day for wells of a depth of
22 more than six thousand feet [1828.80 meters] but not more than ten thousand feet
23 [3048 meters], and fifty barrels per day for wells of a depth of more than ten thousand
24 feet [3048 meters] during any preceding consecutive twelve-month period. "Stripper
25 well" also includes a well inside the Bakken or Three Forks formations which was
26 drilled and completed before July 1, 2013, and was considered part of a stripper well
27 property for purposes of this chapter on June 30, 2013.

28 9. "Stripper well property" means a "property" outside the Bakken and Three Forks
29 formations whose average daily production of oil, excluding condensate recovered in
30 nonassociated production, per well did not exceed ten barrels per day for wells of a
31 depth of six thousand feet [1828.80 meters] or less, fifteen barrels per day for wells of

a depth of more than six thousand feet [1828.80 meters] but not more than ten thousand feet [3048 meters], and thirty barrels per day for wells of a depth of more than ten thousand feet [3048 meters] during any preceding consecutive twelve-month period. Wells which did not actually yield or produce oil during the qualifying twelve-month period, including disposal wells, dry wells, spent wells, and shut-in wells, are not production wells for the purpose of determining whether the stripper well property exemption applies.

~~11. "Trigger price" means thirty-five dollars and fifty cents, as indexed for inflation. By December thirty-first of each year, the tax commissioner shall compute an indexed trigger price by applying to the current trigger price the rate of change of the producer price index for industrial commodities as calculated and published by the United States department of labor, bureau of labor statistics, for the twelve months ending June thirtieth of that year and the indexed trigger price so determined is the trigger price for the following calendar year.~~

~~12. "Two-year inactive well" means any well certified by the industrial commission that did not produce oil in more than one month in any consecutive twenty-four month period before being recompleted or otherwise returned to production after July 31, 1995. A well that has never produced oil, a dry hole, and a plugged and abandoned well are eligible for status as a two-year inactive well.~~

SECTION 4. AMENDMENT. Section 57-51.1-02 of the North Dakota Century Code is amended and reenacted as follows:

57-51.1-02. Imposition of oil extraction tax rate.

There is hereby imposed an excise tax, to be known as the "oil extraction tax", upon the activity in this state of extracting oil from the earth, and every owner, including any royalty owner, of any part of the oil extracted is deemed for the purposes of this chapter to be engaged in the activity of extracting that oil.

The rate of tax is six and one-half percent of the gross value at the well of the oil extracted, except that the rate of tax is four percent of the gross value at the well of the oil extracted in the following situations:

1. ~~For oil produced from wells drilled and completed after April 27, 1987, commonly referred to as new wells, and not otherwise exempt under section 57-51.1-03;~~

2. For oil produced from a secondary or tertiary recovery project that was certified as qualifying by the industrial commission before July 1, 1991;
3. For oil that does not qualify as incremental oil but is produced from a secondary or tertiary recovery project that is certified as qualifying by the industrial commission after June 30, 1991;
4. For incremental oil produced from a secondary or tertiary recovery project that is certified as qualifying by the industrial commission after June 30, 1991, and which production is not otherwise exempt under section 57-51.1-03; or
5. For oil produced from a well that receives an exemption pursuant to subsection 4 of section 57-51.1-03 after June 30, 1993, and which production is not otherwise exempt under section 57-51.1-03.

However, if the average price of a barrel of crude oil exceeds the trigger price for each month in any consecutive five-month period, then the rate of tax on oil extracted from all taxable wells is six and one-half percent of the gross value at the well of the oil extracted until the average price of a barrel of crude oil is less than the trigger price for each month in any consecutive five-month period, in which case the rate of tax reverts to four percent of the gross value at the well of the oil extracted for any wells subject to a reduced rate under subsections 1 through 5.

1. Six percent ~~beginning~~for production from wells drilled and completed on or after the first day of the third calendar month following a period of three consecutive calendar months in which average statewide daily production exceeds eight hundred thousand barrels per day, which must remain the rate unless a lower rate is determined under subsections 2 through 5.
2. Five and one-half percent ~~beginning~~for production from wells drilled and completed on or after the first day of the third calendar month following a period of three consecutive calendar months in which average statewide daily production exceeds nine hundred thousand barrels per day, which must remain the rate unless a lower rate is determined under subsections 3 through 5.
3. Five percent ~~beginning~~for production from wells drilled and completed on or after the first day of the third calendar month following a period of three consecutive calendar months in which average statewide daily production exceeds one million-one hundred thousand barrels per day, which must remain the rate unless a lower rate is

determined under subsection 4 or 5 or for production from wells drilled and completed on or after the first day of July 2015, whichever event occurs first.

~~4. Four and one-half percent beginning on the first day of the third calendar month following a period of three consecutive calendar months in which average statewide daily production exceeds one million two hundred fifty thousand barrels per day, which must remain the rate unless a lower rate is determined under subsection 5.~~

~~5. Four percent beginning on the first day of the third calendar month following a period of three consecutive calendar months in which average statewide daily production exceeds one million five hundred thousand barrels per day.~~

SECTION 5. AMENDMENT. Section 57-51.1-03 of the North Dakota Century Code is amended and reenacted as follows:

57-51.1-03. (Effective through June 30, 2013) Exemptions from oil extraction tax.

The following activities are specifically exempted from the oil extraction tax:

1. The activity of extracting from the earth any oil that is exempt from the gross production tax imposed by chapter 57-51.
2. The activity of extracting from the earth any oil from a stripper well property or individual stripper well. On or after the first day of the third calendar month following a period of three consecutive calendar months in which average statewide daily production exceeds seven hundred twenty-five thousand barrels per day, a well drilled and completed in the Bakken or Three Forks formation and which is within a stripper well property is not exempt under this subsection until production from that well individually meets the requirements of the definition for stripper well status under section 57-51.1-01. A well in the Bakken or Three Forks formation which was certified as a stripper well or as part of a stripper well property at the time it is reentered or reworked retains its stripper well or stripper well property exempt status for the first twelve months of production from that well after completion of the reentry or reworking project. After that period, the stripper well or stripper well property exempt status is lost after the average daily production of the well exceeds one hundred barrels per day for a calendar month and the well is then subject to a reduced tax rate of two percent under this chapter until production from that well individually meets the requirements of the definition of stripper well under section 57-51.1-01.

- 1 3. For a well drilled and completed as a vertical well, the initial production of oil from the
2 well is exempt from any taxes imposed under this chapter for a period of fifteen
3 months, except that oil produced from any well drilled and completed as a horizontal
4 well is exempt from any taxes imposed under this chapter for a period of twenty-four
5 months. Oil recovered during testing prior to well completion is exempt from the oil
6 extraction tax. The exemption under this subsection becomes ineffective if the average
7 price of a barrel of crude oil exceeds the trigger price for each month in any
8 consecutive five-month period. However, the exemption is reinstated if, after the
9 trigger provision becomes effective, the average price of a barrel of crude oil is less
10 than the trigger price for each month in any consecutive five-month period.
- 11 4. The production of oil from a qualifying well that was worked over is exempt from any
12 taxes imposed under this chapter for a period of twelve months, beginning with the
13 first day of the third calendar month after the completion of the work-over project. The
14 exemption provided by this subsection is only effective if the well operator establishes
15 to the satisfaction of the industrial commission upon completion of the project that the
16 cost of the project exceeded sixty-five thousand dollars or production is increased at
17 least fifty percent during the first two months after completion of the project. A
18 qualifying well under this subsection is a well with an average daily production of no
19 more than fifty barrels of oil during the latest six calendar months of continuous
20 production. A work-over project under this subsection means the continuous
21 employment of a work-over rig, including recompletions and reentries. The exemption
22 provided by this subsection becomes ineffective if the average price of a barrel of
23 crude oil exceeds the trigger price for each month in any consecutive five-month
24 period. However, the exemption is reinstated if, after the trigger provision becomes
25 effective, the average price of a barrel of crude oil is less than the trigger price for
26 each month in any consecutive five-month period.
- 27 5. a. The incremental production from a secondary recovery project which has been
28 certified as a qualified project by the industrial commission after July 1, 1991, is
29 exempt from any taxes imposed under this chapter for a period of five years from
30 the date the incremental production begins.

- 1 b. The incremental production from a tertiary recovery project that does not use
2 carbon dioxide and which has been certified as a qualified project by the
3 industrial commission is exempt from any taxes imposed under this chapter for a
4 period of ten years from the date the incremental production begins. Incremental
5 production from a tertiary recovery project that uses carbon dioxide and which
6 has been certified as a qualified project by the industrial commission is exempt
7 from any taxes imposed under this chapter from the date the incremental
8 production begins.
- 9 c. ~~For purposes of this subsection, incremental production is defined in the following~~
10 ~~manner:~~
- 11 (1) ~~For purposes of determining the exemption provided for in subdivision a and~~
12 ~~with respect to a unit where there has not been a secondary recovery~~
13 ~~project, incremental production means the difference between the total~~
14 ~~amount of oil produced from the unit during the secondary recovery project~~
15 ~~and the amount of primary production from the unit. For purposes of this~~
16 ~~paragraph, primary production means the amount of oil which would have~~
17 ~~been produced from the unit if the secondary recovery project had not been~~
18 ~~commenced. The industrial commission shall determine the amount of~~
19 ~~primary production in a manner which conforms to the practice and~~
20 ~~procedure used by the commission at the time the project is certified.~~
- 21 (2) ~~For purposes of determining the exemption provided for in subdivision a and~~
22 ~~with respect to a unit where a secondary recovery project was in existence~~
23 ~~prior to July 1, 1991, and where the industrial commission cannot establish~~
24 ~~an accurate production decline curve, incremental production means the~~
25 ~~difference between the total amount of oil produced from the unit during a~~
26 ~~new secondary recovery project and the amount of production which would~~
27 ~~be equivalent to the average monthly production from the unit during the~~
28 ~~most recent twelve months of normal production reduced by a production~~
29 ~~decline rate of ten percent for each year. The industrial commission shall~~
30 ~~determine the average monthly production from the unit during the most~~
31 ~~recent twelve months of normal production and must upon request or upon~~

its own motion hold a hearing to make this determination. For purposes of this paragraph, when determining the most recent twelve months of normal production the industrial commission is not required to use twelve consecutive months. In addition, the production decline rate of ten percent must be applied from the last month in the twelve-month period of time.

(3) For purposes of determining the exemption provided for in subdivision a and with respect to a unit where a secondary recovery project was in existence before July 1, 1991, and where the industrial commission can establish an accurate production decline curve, incremental production means the difference between the total amount of oil produced from the unit during the new secondary recovery project and the total amount of oil that would have been produced from the unit if the new secondary recovery project had not been commenced. For purposes of this paragraph, the total amount of oil that would have been produced from the unit if the new secondary recovery project had not been commenced includes both primary production and production that occurred as a result of the secondary recovery project that was in existence before July 1, 1991. The industrial commission shall determine the amount of oil that would have been produced from the unit if the new secondary recovery project had not been commenced in a manner that conforms to the practice and procedure used by the commission at the time the new secondary recovery project is certified.

(4) For purposes of determining the exemption provided for in subdivision b and with respect to a unit where there has not been a secondary recovery project, incremental production means the difference between the total amount of oil produced from the unit during the tertiary recovery project and the amount of primary production from the unit. For purposes of this paragraph, primary production means the amount of oil which would have been produced from the unit if the tertiary recovery project had not been commenced. The industrial commission shall determine the amount of primary production in a manner which conforms to the practice and procedure used by the commission at the time the project is certified.

1 (5) ~~For purposes of determining the exemption provided for in subdivision b and~~
2 ~~with respect to a unit where there is or has been a secondary recovery~~
3 ~~project, incremental production means the difference between the total~~
4 ~~amount of oil produced during the tertiary recovery project and the amount~~
5 ~~of production which would be equivalent to the average monthly production~~
6 ~~from the unit during the most recent twelve months of normal production~~
7 ~~reduced by a production decline rate of ten percent for each year. The~~
8 ~~industrial commission shall determine the average monthly production from~~
9 ~~the unit during the most recent twelve months of normal production and~~
10 ~~must upon request or upon its own motion hold a hearing to make this~~
11 ~~determination. For purposes of this paragraph, when determining the most~~
12 ~~recent twelve months of normal production the industrial commission is not~~
13 ~~required to use twelve consecutive months. In addition, the production~~
14 ~~decline rate of ten percent must be applied from the last month in the~~
15 ~~twelve-month period of time.~~

16 (6) ~~For purposes of determining the exemption provided for in subdivision b and~~
17 ~~with respect to a unit where there is or has been a secondary recovery~~
18 ~~project and where the industrial commission can establish an accurate~~
19 ~~production decline curve, incremental production means the difference~~
20 ~~between the total amount of oil produced from the unit during the tertiary~~
21 ~~recovery project and the total amount of oil that would have been produced~~
22 ~~from the unit if the tertiary recovery project had not been commenced. For~~
23 ~~purposes of this paragraph, the total amount of oil that would have been~~
24 ~~produced from the unit if the tertiary recovery project had not been~~
25 ~~commenced includes both primary production and production that occurred~~
26 ~~as a result of any secondary recovery project. The industrial commission~~
27 ~~shall determine the amount of oil that would have been produced from the~~
28 ~~unit if the tertiary recovery project had not been commenced in a manner~~
29 ~~that conforms to the practice and procedure used by the commission at the~~
30 ~~time the tertiary recovery project is certified.~~

1 d. The industrial commission shall adopt rules relating to ~~this~~the exemption
2 thatunder this subsection which must include procedures for determining
3 incremental production as ~~defined in subdivision e.~~

4 6. ~~The production of oil from a two-year inactive well, as determined by the industrial~~
5 ~~commission and certified to the state tax commissioner, for a period of ten years after~~
6 ~~the date of receipt of the certification. The exemption under this subsection becomes~~
7 ~~ineffective if the average price of a barrel of crude oil exceeds the trigger price for~~
8 ~~each month in any consecutive five-month period. However, the exemption is~~
9 ~~reinstated if, after the trigger provision becomes effective, the average price of a barrel~~
10 ~~of crude oil is less than the trigger price for each month in any consecutive five-month~~
11 ~~period.~~

12 7. ~~The production of oil from a horizontal reentry well, as determined by the industrial~~
13 ~~commission and certified to the state tax commissioner, for a period of nine months~~
14 ~~after the date the well is completed as a horizontal well. The exemption under this~~
15 ~~subsection becomes ineffective if the average price of a barrel of crude oil exceeds the~~
16 ~~trigger price for each month in any consecutive five-month period. However, the~~
17 ~~exemption is reinstated if, after the trigger provision becomes effective, the average~~
18 ~~price of a barrel of crude oil is less than the trigger price for each month in any~~
19 ~~consecutive five-month period.~~

20 8.4. The initial production of oil from a well is exempt from any taxes imposed under this
21 chapter for a period of sixty months if:

- 22 a. The well is located within the boundaries of an Indian reservation;
23 b. The well is drilled and completed on lands held in trust by the United States for
24 an Indian tribe or individual Indian; or
25 c. The well is drilled and completed on lands held by an Indian tribe if the interest is
26 in existence on August 1, 1997.

27 9. ~~The first seventy-five thousand barrels or the first four million five hundred thousand~~
28 ~~dollars of gross value at the well, whichever is less, of oil produced during the first~~
29 ~~eighteen months after completion, from a horizontal well drilled and completed after~~
30 ~~April 30, 2009, is subject to a reduced tax rate of two percent of the gross value at the~~
31 ~~well of the oil extracted under this chapter. A well eligible for a reduced tax rate under~~

1 this subsection is eligible for the exemption for horizontal wells under subsection 3, if
2 the exemption under subsection 3 is effective during all or part of the first twenty-four
3 months after completion. The rate reduction under this subsection becomes effective
4 on the first day of the month following a month for which the average price of a barrel
5 of crude oil is less than fifty-five dollars. The rate reduction under this subsection
6 becomes ineffective on the first day of the month following a month in which the
7 average price of a barrel of crude oil exceeds seventy dollars. If the rate reduction
8 under this subsection is effective on the date of completion of a well, the rate reduction
9 applies to production from that well for up to eighteen months after completion, subject
10 to the other limitations of this subsection. If the rate reduction under this subsection is
11 ineffective on the date of completion of a well, the rate reduction under this subsection
12 does not apply to production from that well at any time.

13 **(Effective after June 30, 2013) Exemptions from oil extraction tax.** The following
14 activities are specifically exempted from the oil extraction tax:

- 15 1. The activity of extracting from the earth any oil that is exempt from the gross
16 production tax imposed by chapter 57-51.
- 17 2. The activity of extracting from the earth any oil from a stripper well property.
- 18 3. For a well drilled and completed as a vertical well, the initial production of oil from the
19 well is exempt from any taxes imposed under this chapter for a period of fifteen
20 months, except that oil produced from any well drilled and completed as a horizontal
21 well is exempt from any taxes imposed under this chapter for a period of twenty-four
22 months. Oil recovered during testing prior to well completion is exempt from the oil
23 extraction tax. The exemption under this subsection becomes ineffective if the average
24 price of a barrel of crude oil exceeds the trigger price for each month in any
25 consecutive five-month period. However, the exemption is reinstated if, after the
26 trigger provision becomes effective, the average price of a barrel of crude oil is less
27 than the trigger price for each month in any consecutive five-month period.
- 28 4. The production of oil from a qualifying well that was worked over is exempt from any
29 taxes imposed under this chapter for a period of twelve months, beginning with the
30 first day of the third calendar month after the completion of the work-over project. The
31 exemption provided by this subsection is only effective if the well operator establishes

1 to the satisfaction of the industrial commission upon completion of the project that the
2 cost of the project exceeded sixty-five thousand dollars or production is increased at
3 least fifty percent during the first two months after completion of the project. A
4 qualifying well under this subsection is a well with an average daily production of no
5 more than fifty barrels of oil during the latest six calendar months of continuous
6 production. A work-over project under this subsection means the continuous
7 employment of a work-over rig, including recompletions and reentries. The exemption
8 provided by this subsection becomes ineffective if the average price of a barrel of
9 crude oil exceeds the trigger price for each month in any consecutive five-month
10 period. However, the exemption is reinstated if, after the trigger provision becomes
11 effective, the average price of a barrel of crude oil is less than the trigger price for
12 each month in any consecutive five-month period.

- 13 5. a. The incremental production from a secondary recovery project which has been
14 certified as a qualified project by the industrial commission after July 1, 1991, is
15 exempt from any taxes imposed under this chapter for a period of five years from
16 the date the incremental production begins.
- 17 b. The incremental production from a tertiary recovery project that does not use
18 carbon dioxide and which has been certified as a qualified project by the
19 industrial commission is exempt from any taxes imposed under this chapter for a
20 period of ten years from the date the incremental production begins. Incremental
21 production from a tertiary recovery project that uses carbon dioxide and which
22 has been certified as a qualified project by the industrial commission is exempt
23 from any taxes imposed under this chapter from the date the incremental
24 production begins.
- 25 c. For purposes of this subsection, incremental production is defined in the following
26 manner:
- 27 (1) For purposes of determining the exemption provided for in subdivision a and
28 with respect to a unit where there has not been a secondary recovery
29 project, incremental production means the difference between the total
30 amount of oil produced from the unit during the secondary recovery project
31 and the amount of primary production from the unit. For purposes of this

paragraph, primary production means the amount of oil which would have been produced from the unit if the secondary recovery project had not been commenced. The industrial commission shall determine the amount of primary production in a manner which conforms to the practice and procedure used by the commission at the time the project is certified.

(2) For purposes of determining the exemption provided for in subdivision a and with respect to a unit where a secondary recovery project was in existence prior to July 1, 1991, and where the industrial commission cannot establish an accurate production decline curve, incremental production means the difference between the total amount of oil produced from the unit during a new secondary recovery project and the amount of production which would be equivalent to the average monthly production from the unit during the most recent twelve months of normal production reduced by a production decline rate of ten percent for each year. The industrial commission shall determine the average monthly production from the unit during the most recent twelve months of normal production and must upon request or upon its own motion hold a hearing to make this determination. For purposes of this paragraph, when determining the most recent twelve months of normal production the industrial commission is not required to use twelve consecutive months. In addition, the production decline rate of ten percent must be applied from the last month in the twelve-month period of time.

(3) For purposes of determining the exemption provided for in subdivision a and with respect to a unit where a secondary recovery project was in existence before July 1, 1991, and where the industrial commission can establish an accurate production decline curve, incremental production means the difference between the total amount of oil produced from the unit during the new secondary recovery project and the total amount of oil that would have been produced from the unit if the new secondary recovery project had not been commenced. For purposes of this paragraph, the total amount of oil that would have been produced from the unit if the new secondary recovery project had not been commenced includes both primary production and

1 production that occurred as a result of the secondary recovery project that
2 was in existence before July 1, 1991. The industrial commission shall
3 determine the amount of oil that would have been produced from the unit if
4 the new secondary recovery project had not been commenced in a manner
5 that conforms to the practice and procedure used by the commission at the
6 time the new secondary recovery project is certified.

7 (4) For purposes of determining the exemption provided for in subdivision b and
8 with respect to a unit where there has not been a secondary recovery
9 project, incremental production means the difference between the total
10 amount of oil produced from the unit during the tertiary recovery project and
11 the amount of primary production from the unit. For purposes of this
12 paragraph, primary production means the amount of oil which would have
13 been produced from the unit if the tertiary recovery project had not been
14 commenced. The industrial commission shall determine the amount of
15 primary production in a manner which conforms to the practice and
16 procedure used by the commission at the time the project is certified.

17 (5) For purposes of determining the exemption provided for in subdivision b and
18 with respect to a unit where there is or has been a secondary recovery
19 project, incremental production means the difference between the total
20 amount of oil produced during the tertiary recovery project and the amount
21 of production which would be equivalent to the average monthly production
22 from the unit during the most recent twelve months of normal production
23 reduced by a production decline rate of ten percent for each year. The
24 industrial commission shall determine the average monthly production from
25 the unit during the most recent twelve months of normal production and
26 must upon request or upon its own motion hold a hearing to make this
27 determination. For purposes of this paragraph, when determining the most
28 recent twelve months of normal production the industrial commission is not
29 required to use twelve consecutive months. In addition, the production
30 decline rate of ten percent must be applied from the last month in the
31 twelve-month period of time.

(6) ~~For purposes of determining the exemption provided for in subdivision b and with respect to a unit where there is or has been a secondary recovery project and where the industrial commission can establish an accurate production decline curve, incremental production means the difference between the total amount of oil produced from the unit during the tertiary recovery project and the total amount of oil that would have been produced from the unit if the tertiary recovery project had not been commenced. For purposes of this paragraph, the total amount of oil that would have been produced from the unit if the tertiary recovery project had not been commenced includes both primary production and production that occurred as a result of any secondary recovery project. The industrial commission shall determine the amount of oil that would have been produced from the unit if the tertiary recovery project had not been commenced in a manner that conforms to the practice and procedure used by the commission at the time the tertiary recovery project is certified.~~

d. ~~The industrial commission shall adopt rules relating to this exemption that must include procedures for determining incremental production as defined in subdivision c.~~

6. ~~The production of oil from a two-year inactive well, as determined by the industrial commission and certified to the state tax commissioner, for a period of ten years after the date of receipt of the certification. The exemption under this subsection becomes ineffective if the average price of a barrel of crude oil exceeds the trigger price for each month in any consecutive five-month period. However, the exemption is reinstated if, after the trigger provision becomes effective, the average price of a barrel of crude oil is less than the trigger price for each month in any consecutive five-month period.~~

7. ~~The production of oil from a horizontal reentry well, as determined by the industrial commission and certified to the state tax commissioner, for a period of nine months after the date the well is completed as a horizontal well. The exemption under this subsection becomes ineffective if the average price of a barrel of crude oil exceeds the trigger price for each month in any consecutive five-month period. However, the~~

1 exemption is reinstated if, after the trigger provision becomes effective, the average
2 price of a barrel of crude oil is less than the trigger price for each month in any
3 consecutive five-month period.

4 8. The initial production of oil from a well is exempt from any taxes imposed under this
5 chapter for a period of sixty months if:

6 a. The well is located within the boundaries of an Indian reservation;

7 b. The well is drilled and completed on lands held in trust by the United States for
8 an Indian tribe or individual Indian; or

9 c. The well is drilled and completed on lands held by an Indian tribe if the interest is
10 in existence on August 1, 1997.

11 9. The first seventy-five thousand barrels of oil produced during the first eighteen months
12 after completion, from a horizontal well drilled and completed in the Bakken formation
13 after June 30, 2007, and before July 1, 2008, is subject to a reduced tax rate of two
14 percent of the gross value at the well of the oil extracted under this chapter. A well
15 eligible for a reduced tax rate under this subsection is eligible for the exemption for
16 horizontal wells under subsection 3, if the exemption under subsection 3 is effective
17 during all or part of the first twenty-four months after completion.

18 **SECTION 6. AMENDMENT.** Section 57-51.1-03.1 of the North Dakota Century Code is
19 amended and reenacted as follows:

20 **57-51.1-03.1. Stripper well, ~~new well, work-over,~~ and secondary or tertiary project**
21 **certification for tax exemption ~~or rate reduction~~ - Filing requirement.**

22 To receive the benefits of a tax exemption or tax rate reduction, a certification of qualifying
23 well status prepared by the industrial commission must be submitted to the tax commissioner as
24 follows:

25 1. To receive, from the first day of eligibility, a tax exemption or rate reduction on
26 production from a stripper well property or individual stripper well under subsection 2
27 of section 57-51.1-03, the industrial commission's certification must be submitted to
28 the tax commissioner within eighteen months after the end of the stripper well
29 property's or individual stripper well's qualification period.

30 2. ~~To receive, from the first day of eligibility, a tax exemption under subsection 3 of~~
31 ~~section 57-51.1-03 and a rate reduction on production from a new well under section~~

- 1 ~~57-51.1-02, the industrial commission's certification must be submitted to the tax-~~
2 ~~commissioner within eighteen months after a new well is completed.~~
- 3 3. ~~To receive, from the first day of eligibility, a tax exemption under subsection 4 of~~
4 ~~section 57-51.1-03 and a rate reduction for a work-over well under section 57-51.1-02,~~
5 ~~the industrial commission's certification must be submitted to the tax commissioner~~
6 ~~within eighteen months after the work-over project is completed.~~
- 7 4. To receive, from the first day of eligibility, a tax exemption under subsection 5 of
8 section 57-51.1-03 and a tax rate reduction under section 57-51.1-02 on production
9 from a secondary or tertiary project, the industrial commission's certification must be
10 submitted to the tax commissioner within the following time periods:
- 11 a. ~~For a tax exemption, within eighteen months after the month in which the first~~
12 ~~incremental oil was produced.~~
- 13 b. ~~For a tax rate reduction, within eighteen months after the end of the period~~
14 ~~qualifying the project for the rate reduction.~~
- 15 5. ~~To receive, from the first day of eligibility, a tax exemption or the reduction on~~
16 ~~production for which any other tax exemption or rate reduction may apply, the~~
17 ~~industrial commission's certification must be submitted to the tax commissioner within~~
18 ~~eighteen months of the completion, recompletion, or other qualifying date.~~
- 19 6. To receive, from the first day of eligibility, a tax exemption under subsection 6 of
20 section 57-51.1-03 on production from a two-year inactive well, the industrial
21 commission's certification must be submitted to the tax commissioner within eighteen
22 months after the end of the two-year inactive well's qualification period.
- 23 If the industrial commission's certification is not submitted to the tax commissioner within the
24 eighteen-month period provided in this section, then the exemption or rate reduction does not
25 apply for the production periods in which the certification is not on file with the tax
26 commissioner. When the industrial commission's certification is submitted to the tax
27 commissioner after the eighteen-month period, the tax exemption or rate reduction applies to
28 prospective production periods only and the exemption or rate reduction is effective the first day
29 of the month in which the certification is received by the tax commissioner.

30 **SECTION 7. EFFECTIVE DATE.** This Act is effective for taxable events occurring after
31 June 30, 2013.