

Fifty-ninth
Legislative Assembly
of North Dakota

ENGROSSED HOUSE BILL NO. 1530

Introduced by

Representatives Berg, Drovdal, Kempenich, Norland, Rennerfeldt, Skarphol

(Approved by the Delayed Bills Committee)

1 A BILL for an Act to create and enact a new subsection to section 57-51.1-01 and a new
2 subsection to section 57-51.1-03 of the North Dakota Century Code, relating to an oil extraction
3 tax exemption for oil from new wells; to amend and reenact section 57-51.1-02 and
4 subsection 3 of section 57-51.1-03 of the North Dakota Century Code, relating to an oil
5 extraction tax rate reduction and exemption for oil from new wells; and to provide an effective
6 date.

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

8 **SECTION 1.** A new subsection to section 57-51.1-01 of the North Dakota Century
9 Code is created and enacted as follows:

10 "Wildcat well" means a well drilled more than one mile [1.61 kilometers] outside the
11 boundaries of an established oilfield.

12 **SECTION 2. AMENDMENT.** Section 57-51.1-02 of the North Dakota Century Code is
13 amended and reenacted as follows:

14 **57-51.1-02. Imposition of oil extraction tax.** There is hereby imposed an excise tax,
15 to be known as the "oil extraction tax", upon the activity in this state of extracting oil from the
16 earth, and every owner, including any royalty owner, of any part of the oil extracted is deemed
17 for the purposes of this chapter to be engaged in the activity of extracting that oil.

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

21 1. For oil produced from wells drilled and completed after April 27, 1987, commonly
22 referred to as new wells, ~~and~~ not otherwise exempt under subsection 3 of section
23 57-51.1-03, not subject to subsection 6, and for which the election under section 3
24 of this Act does not apply;

- 1 2. For oil produced from a secondary or tertiary recovery project that was certified as
2 qualifying by the industrial commission before July 1, 1991;
- 3 3. For oil that does not qualify as incremental oil but is produced from a secondary or
4 tertiary recovery project that is certified as qualifying by the industrial commission
5 after June 30, 1991;
- 6 4. For incremental oil produced from a secondary or tertiary recovery project that is
7 certified as qualifying by the industrial commission after June 30, 1991, and which
8 production is not otherwise exempt under section 57-51.1-03; ~~or~~
- 9 5. For oil produced from a well that receives an exemption pursuant to subsection 4
10 of section 57-51.1-03 after June 30, 1993, and which production is not otherwise
11 exempt under section 57-51.1-03- ; or
- 12 6. For oil produced from wells spudded after June 30, 2005, and not otherwise
13 exempt under section 57-51.1-03, oil extracted is subject to a reduced rate of five
14 percent of the gross value at the well under this section for production through
15 June 30, 2006, and a reduced rate of four percent for production after June 30,
16 2006. If a well taxed at the rate under this section spudded before July 1, 2007,
17 becomes eligible for exemption under subsection 3 of section 57-51.1-03, the
18 exemption does not apply to production from that well until three additional months
19 of production from that well is taxed under this subsection after the exemption
20 would otherwise have applied.

21 However, if the average price of a barrel of crude oil exceeds the trigger price for each month in
22 any consecutive five-month period, then the rate of tax on oil extracted from ~~all taxable those~~
23 wells identified in subsections 1 through 5 and not otherwise exempt under section 57-51.1-03
24 is six and one-half percent of the gross value at the well of the oil extracted until the average
25 price of a barrel of crude oil is less than the trigger price for each month in any consecutive
26 five-month period, in which case the rate of tax reverts to four percent of the gross value at the
27 well of the oil extracted for any wells subject to a reduced rate under subsections 1 through 5.

28 **SECTION 3. AMENDMENT.** Subsection 3 of section 57-51.1-03 of the North Dakota
29 Century Code is amended and reenacted as follows:

- 30 3. For a well drilled and completed as a vertical well, the initial production of oil from
31 the well is exempt from any taxes imposed under this chapter for a period of fifteen

1 months, except that oil produced from any well drilled and completed as a
2 horizontal well is exempt from any taxes imposed under this chapter for a period of
3 twenty-four months. The exemption under this subsection for a well spudded after
4 June 30, 2005, and before July 1, 2007, applies to only the first one hundred ten
5 thousand barrels of oil produced from the well or to the time period specified in this
6 subsection, whichever is reached first. Oil recovered during testing prior to well
7 completion is exempt from the oil extraction tax. The exemption under this
8 subsection becomes ineffective if the average price of a barrel of crude oil exceeds
9 the trigger price for each month in any consecutive five-month period. However,
10 the exemption is reinstated if, after the trigger provision becomes effective, the
11 average price of a barrel of crude oil is less than the trigger price for each month in
12 any consecutive five-month period.

13 **SECTION 4.** A new subsection to section 57-51.1-03 of the North Dakota Century
14 Code is created and enacted as follows:

15 If an election to apply the exemption under this subsection is filed by the well
16 operator with the application on or after the effective date of this Act for a permit or
17 renewal of a permit to drill for a wildcat well under section 38-08-05, the initial
18 production of one hundred thousand barrels of oil from that wildcat well is exempt
19 from taxes imposed under this chapter. An election under this subsection is
20 revocable until the well is spudded but after spudding this election is irrevocable.
21 The industrial commission shall notify the tax commissioner of wells that have
22 been spudded and for which the election under this subsection is in effect.

23 **SECTION 5. EFFECTIVE DATE.** This Act is effective for oil produced from wells that
24 are spudded on or after the effective date of this Act.