

SENATE BILL NO. 2361

Introduced by

Senators Oehlke, O'Connell, Wardner

Representatives Drovdal, Kempenich, S. Meyer

1 A BILL for an Act to create and enact a new subsection to section 57-39.2-04 and two new
2 subsections to section 57-51.1-03 of the North Dakota Century Code, relating to a sales and
3 use tax exemption for pipe for gas gathering systems and pipelines and an oil extraction tax
4 exemption for oil produced from certain new horizontal wells; to amend and reenact section
5 57-51.1-02 of the North Dakota Century Code, relating to an oil extraction tax reduction for oil
6 produced from certain new horizontal wells; and to provide an effective date.

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

8 **SECTION 1.** A new subsection to section 57-39.2-04 of the North Dakota Century Code
9 is created and enacted as follows:

10 Gross receipts from the sale of pipe used for gas gathering systems and pipelines
11 used primarily for producing oil or gas from the Bakken formation.

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 section 57-51.1-03;
23 2. For oil produced from a secondary or tertiary recovery project that was certified as
24 qualifying by the industrial commission before July 1, 1991;

- 1 3. For oil that does not qualify as incremental oil but is produced from a secondary or
2 tertiary recovery project that is certified as qualifying by the industrial commission
3 after June 30, 1991;
- 4 4. For incremental oil produced from a secondary or tertiary recovery project that is
5 certified as qualifying by the industrial commission after June 30, 1991, and which
6 production is not otherwise exempt under section 57-51.1-03; ~~or~~
- 7 5. For oil produced from a well that receives an exemption pursuant to subsection 4
8 of section 57-51.1-03 after June 30, 1993, and which production is not otherwise
9 exempt under section 57-51.1-03; or
- 10 6. For oil produced from horizontal wells drilled and completed or from horizontal
11 reentry wells which are reentered and recompleted in the Bakken formation after
12 June 30, 2007, and which production is not otherwise exempt under section
13 57-51.1-03.

14 However, if the average price of a barrel of crude oil exceeds the trigger price for each month in
15 any consecutive five-month period, then the rate of tax on oil extracted from all taxable wells
16 other than new horizontal wells and new horizontal reentry wells as provided for in subsection 6
17 is six and one-half percent of the gross value at the well of the oil extracted until the average
18 price of a barrel of crude oil is less than the trigger price for each month in any consecutive
19 five-month period, in which case the rate of tax reverts to four percent of the gross value at the
20 well of the oil extracted for any wells subject to a reduced rate under subsections 1 through 5.
21 The rate of tax on oil extracted from new horizontal wells and new horizontal reentry wells as
22 provided in subsection 6 shall remain four percent regardless of whether the trigger price is
23 exceeded.

24 **SECTION 3.** Two new subsections to section 57-51.1-03 of the North Dakota Century
25 Code are created and enacted as follows:

26 The initial production of oil from a new horizontal well drilled and completed in the
27 Bakken formation after June 30, 2007, is exempt from any taxes imposed under
28 this chapter for a period of twenty-four months. Oil recovered during testing prior
29 to well completion is exempt from the oil extraction tax.

30 The initial production of oil from a new horizontal reentry well reentered and
31 recompleted in the Bakken formation after June 30, 2007, is exempt from any

1 taxes imposed under this chapter for a period of nine months. Oil recovered during
2 testing prior to well recompletion is exempt from the oil extraction tax.

3 **SECTION 4. EFFECTIVE DATE.** This Act is effective for taxable events occurring after
4 June 30, 2007.