

Sixtieth
Legislative Assembly
of North Dakota

ENGROSSED 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 two new subsections to section 57-51.1-03 of the North
2 Dakota Century Code, relating to an oil extraction tax exemption or rate reduction for oil
3 produced from certain new horizontal wells; to amend and reenact section 57-51.1-02 of the
4 North Dakota Century Code, relating to an oil extraction tax rate reduction for oil produced from
5 certain new horizontal wells; to provide an effective date; and to provide an expiration date.

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

7 **SECTION 1. AMENDMENT.** Section 57-51.1-02 of the North Dakota Century Code is
8 amended and reenacted as follows:

9 **57-51.1-02. Imposition of oil extraction tax.** There is hereby imposed an excise tax,
10 to be known as the "oil extraction tax", upon the activity in this state of extracting oil from the
11 earth, and every owner, including any royalty owner, of any part of the oil extracted is deemed
12 for the purposes of this chapter to be engaged in the activity of extracting that oil.

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

- 16 1. For oil produced from wells drilled and completed after April 27, 1987, commonly
17 referred to as new wells, and not otherwise exempt under section 57-51.1-03;
- 18 2. For oil produced from a secondary or tertiary recovery project that was certified as
19 qualifying by the industrial commission before July 1, 1991;
- 20 3. For oil that does not qualify as incremental oil but is produced from a secondary or
21 tertiary recovery project that is certified as qualifying by the industrial commission
22 after June 30, 1991;

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

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

21 **SECTION 2.** Two new subsections to section 57-51.1-03 of the North Dakota Century
22 Code are created and enacted as follows:

23 The initial production of oil from a new horizontal well drilled and completed in the
24 Bakken formation after June 30, 2007, is subject to a tax of two percent of the
25 gross value at the well of the oil extracted for a period of twenty-four months. Oil
26 recovered during testing prior to well completion is exempt from the oil extraction
27 tax.

28 The initial production of oil from a new horizontal reentry well reentered and
29 recompleted in the Bakken formation after June 30, 2007, is exempt from any
30 taxes imposed under this chapter for a period of nine months. Oil recovered
31 during testing prior to well recompletion is exempt from the oil extraction tax.

1 **SECTION 3. EFFECTIVE DATE - EXPIRATION DATE.** This Act is effective for oil
2 extracted from wells drilled and completed after June 30, 2007, and before July 1, 2011, and is
3 thereafter ineffective.