

HOUSE BILL NO. 1439

Introduced by

Representatives Porter, Delzer, Dockter, Headland, Howe, Mock, Pollert

Senators Cook, Dotzenrod, Meyer, Unruh, Wardner

1 A BILL for an Act to create and enact section 47-31-09 of the North Dakota Century Code,
2 relating to injecting substances for oil, gas, and mineral production; to amend and reenact
3 subsection 3 of section 57-51.1-03 of the North Dakota Century Code, relating to an oil
4 extraction tax exemption for the incremental production from tertiary recovery projects using
5 carbon dioxide; and to provide an effective date.

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

7 **SECTION 1.** Section 47-31-09 of the North Dakota Century Code is created and enacted as
8 follows:

9 **47-31-09. Injection of substances to facilitate production of oil, gas, or other**
10 **minerals.**

11 This chapter may not be construed to limit the rights or dominance of a mineral estate to
12 drill or recomplete a well under chapter 38-08. Injection or migration of substances into pore
13 space for disposal operations, for secondary or tertiary oil recovery operations, or otherwise to
14 facilitate production of oil, gas, or other minerals is not unlawful and, by itself, does not
15 constitute trespass, nuisance, or other tort.

16 **SECTION 2. AMENDMENT.** Subsection 3 of section 57-51.1-03 of the North Dakota
17 Century Code is amended and reenacted as follows:

- 18 3. a. The incremental production from a secondary recovery project which has been
19 certified as a qualified project by the industrial commission after July 1, 1991, is
20 exempt from any taxes imposed under this chapter for a period of five years from
21 the date the incremental production begins.
- 22 b. The incremental production from a tertiary recovery project which has been
23 certified as a qualified project by the industrial commission is exempt from any
24 taxes imposed under this chapter for a period of ten years from the date the

1 incremental production begins. Incremental production from a tertiary recovery
2 project from a horizontal well drilled and completed within the Bakken and Three
3 Forks formations which has been certified as a qualified project by the industrial
4 commission is not exempt from July 1, 2015, through June 30, 2017, and is
5 thereafter exempt from any taxes imposed under this chapter for a period of five
6 years from July 1, 2017, or the date the incremental production begins,
7 whichever is later.

8 c. The incremental production from a tertiary recovery project that injects more than
9 fifty percent carbon dioxide produced from coal and has been certified as a
10 qualified project by the industrial commission is exempt from any taxes imposed
11 under this chapter for a period of twenty years from the date the incremental
12 production begins or from the date the project is certified by the industrial
13 commission as meeting the fifty percent or more carbon dioxide produced from
14 coal injection requirement, whichever is later. To qualify for the exemption under
15 this subsection, the project must be located outside the Bakken and/or Three
16 Forks formations and must use carbon dioxide produced from coal. The
17 incremental production that has been certified by the industrial commission under
18 this section must be used to calculate the exemption under this subdivision.

19 d. The incremental production from a tertiary recovery project that injects more than
20 fifty percent carbon dioxide produced from coal and has been certified as a
21 qualified project by the industrial commission is exempt from any taxes imposed
22 under this chapter for a period of ten years from the date the incremental
23 production begins or from the date the project is certified by the industrial
24 commission as meeting the fifty percent or more carbon dioxide produced from
25 coal injection requirement, whichever is later. To qualify for the exemption under
26 this subsection, the project must be located within the Bakken and/or Three Forks
27 formations and must use carbon dioxide produced from coal. The incremental
28 production that has been certified by the industrial commission under this section
29 must be used to calculate the exemption under this subdivision.

30 e. For purposes of this subsection, incremental production is defined in the following
31 manner:

- 1 (1) For purposes of determining the exemption provided for in subdivision a and
2 with respect to a unit where there has not been a secondary recovery
3 project, incremental production means the difference between the total
4 amount of oil produced from the unit during the secondary recovery project
5 and the amount of primary production from the unit. For purposes of this
6 paragraph, primary production means the amount of oil which would have
7 been produced from the unit if the secondary recovery project had not been
8 commenced. The industrial commission shall determine the amount of
9 primary production in a manner which conforms to the practice and
10 procedure used by the commission at the time the project is certified.
- 11 (2) For purposes of determining the exemption provided for in subdivision a and
12 with respect to a unit where a secondary recovery project was in existence
13 prior to July 1, 1991, and where the industrial commission cannot establish
14 an accurate production decline curve, incremental production means the
15 difference between the total amount of oil produced from the unit during a
16 new secondary recovery project and the amount of production which would
17 be equivalent to the average monthly production from the unit during the
18 most recent twelve months of normal production reduced by a production
19 decline rate of ten percent for each year. The industrial commission shall
20 determine the average monthly production from the unit during the most
21 recent twelve months of normal production and must upon request or upon
22 its own motion hold a hearing to make this determination. For purposes of
23 this paragraph, when determining the most recent twelve months of normal
24 production the industrial commission is not required to use twelve
25 consecutive months. In addition, the production decline rate of ten percent
26 must be applied from the last month in the twelve-month period of time.
- 27 (3) For purposes of determining the exemption provided for in subdivision a and
28 with respect to a unit where a secondary recovery project was in existence
29 before July 1, 1991, and where the industrial commission can establish an
30 accurate production decline curve, incremental production means the
31 difference between the total amount of oil produced from the unit during the

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

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

22 (5) For purposes of determining the exemption provided for in subdivision b and
23 with respect to a unit where there is or has been a secondary recovery
24 project, incremental production means the difference between the total
25 amount of oil produced during the tertiary recovery project and the amount
26 of production which would be equivalent to the average monthly production
27 from the unit during the most recent twelve months of normal production
28 reduced by a production decline rate of ten percent for each year. The
29 industrial commission shall determine the average monthly production from
30 the unit during the most recent twelve months of normal production and
31 must upon request or upon its own motion hold a hearing to make this

1 determination. For purposes of this paragraph, when determining the most
2 recent twelve months of normal production the industrial commission is not
3 required to use twelve consecutive months. In addition, the production
4 decline rate of ten percent must be applied from the last month in the
5 twelve-month period of time.

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

21 (7) For purposes of determining the exemption provided for in subdivisions c
22 and d, and with respect to a unit where a tertiary recovery project was in
23 existence, and where the industrial commission cannot establish an
24 accurate production decline curve, incremental production means the
25 difference between the total amount of oil produced from the unit during a
26 new tertiary recovery project and the amount of production which would be
27 equivalent to the average monthly production from the unit during the most
28 recent twelve months of normal production reduced by a production decline
29 rate of ten percent for each year. The industrial commission shall determine
30 the average monthly production from the unit during the most recent twelve
31 months of normal production and shall upon request or upon its own motion

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

6 (8) For purposes of determining the exemption provided for in subdivisions c
7 and d, and with respect to a unit where a tertiary recovery project was in
8 existence, and where the industrial commission can establish an accurate
9 production decline curve, incremental production means the difference
10 between the total amount of oil produced from the unit during the new
11 tertiary recovery project and the total amount of oil that would have been
12 produced from the unit if the new tertiary recovery project had not been
13 commenced. For purposes of this paragraph, the total amount of oil that
14 would have been produced from the unit if the new tertiary recovery project
15 had not been commenced includes both primary production and production
16 that occurred as a result of the tertiary recovery project that was previously
17 in existence. The industrial commission shall determine the amount of oil
18 that would have been produced from the unit if the new tertiary recovery
19 project had not been commenced in a manner that conforms to the practice
20 and procedure used by the commission at the time the new tertiary recovery
21 project is certified.

22 d-f. The industrial commission shall adopt rules relating to this exemption ~~that~~ which
23 must include procedures for determining incremental production as defined in
24 subdivision ee.

25 **SECTION 3. EFFECTIVE DATE.** This Act becomes effective on July 1, 2019.