FISCAL NOTE
HOUSE BILL NO. 1427
LC# 23.1026.02000
02/15/2023

1 - State Fiscal Effect

Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.

	2021-2023 Biennium		2023-2025 Biennium		2025-2027 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures						
Appropriations						

2 - County, City, School District, and Township Fiscal Effect

Identify the fiscal effect on the appropriate political subdivision.

	2021-2023 Biennium	2023-2025 Biennium	2025-2027 Biennium
Counties			
Cities			
School Districts			
Townships			

3 - Bill and Fiscal Impact Summary

Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).

Engrossed HB 1427 creates an oil extraction tax rate reduction on production from a restimulation well.

4 - Fiscal Impact Sections Detail

Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.

Section 1 of engrossed HB 1427 adds a definition for a “restimulation well”. It excludes wells that have less than 60 months of production or wells that are producing more than 125 barrels of oil per day before completion of the restimulation treatment. Wells that are part of a qualifying secondary recovery project, qualifying tertiary recovery project, stripper wells, or wells that are drills but not completed and do not have a record of oil production are also excluded.

Section 2 of engrossed HB 1427 states that the incremental production from a restimulation well that has been certified by the industrial commission after 08/01/2023 is subject to a reduced tax rate of 2% of the gross value at the well of the oil extracted for the first 75,000 barrels of incremental production or for a period of 18 months from the date the incremental period begins, whichever occurs first.

This rate reduction does not apply to a well located within the exterior boundaries of a reservation, a well located on trust properties outside reservation boundaries, or a straddle well located on reservation trust land unless a tribe makes an election to opt-in.

Incremental production is defined as the different between the total amount of oil produced from the well during the restimulation well recovery and the amount of primary production from the well.

Primary production is defined as the amount of oil that would have been produced from the well if the restimulation had not begun.

The industrial commission shall determine the amount of primary production in a manner that conforms to the practice and procedure used by the commission at the time the restimulation well is certified.

The industrial commission shall adopt rules relating to the exemption which must include procedures for determining incremental production.

5 - Revenues Detail

For information shown under state fiscal effect in 1 or 2, please explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.

If enacted, engrossed HB 1427 could create decreases across the oil extraction tax revenue distribution. This distribution is handled by the North Dakota Office of State Treasurer and impacts a variety of different funds.

In conferring with the North Dakota Petroleum Council, roughly 132,500 barrels of oil could potentially be incrementally produced from a Bakken or Three Forks restimulated well over a two-year period.

To create an estimated reduction in revenue, one would need the number of wells restimulated. With the number of wells restimulated, we can multiply it by the average number of restimulated barrels produced in two years (capped at 75,000), the proposed average North Dakota price per barrel ($67.50), and again by the Oil Extraction Tax Rate minus the reduced rate (3%). This equation would look like the following:
Revenue Reduction = Number of Wells * Restimulated Barrels Produced * ND Price Per Barrel * OET Rate - Reduced Rate
Revenue Reduction = Number of Wells * 75,000 * 67.50 * 0.03

The actual reduction in revenue is based on the number of restimulation wells certified, incremental production, primary production, as well as future oil prices. Since these factors are unknown, the Office of State Tax Commissioner is unable to provide a reliable estimate for this revenue reduction amount.

6 - Expenditures Detail

For information shown under state fiscal effect in 1 or 2, please explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.

7 - Appropriations Detail

For information shown under state fiscal effect in 1 or 2, please explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation or a part of the appropriation is included in the executive budget or relates to a continuing appropriation.

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