

**HB 1295: Removal of Tax Exemptions for CO2 Sequestration**  
**House Finance & Taxation Committee**  
**February 3, 2015**  
**Presented by Rep. SuAnn Olson**

Mr. Chairman and members of the committee, please note that I am presenting HB 1295 with an amendment.

The intent of HB 1295 is to remove the property tax and sales tax exemptions on CO2 pipelines when their use is related to CO2 sequestration. The amended language now doesn't start until Page 8.

Section 1 amends NDCC 57-06-17.1 of the code for Taxation of Public Utilities and is the centrally assessed tax, which is the property tax, that utilities pay. I might first argue that this is not where rules regarding carbon dioxide pipelines should be placed because they are in no way a public utility but that is an argument for another day or unless the committee wants to it take up.

State law currently allows a CO2 pipeline a 10 year exemption. This subsection removes pipelines used for sequestration from that exemption by striking out "secure geologic storage" and adds the word "exclusive" to use in enhanced recovery of oil or natural gas.

Section 2 of the bill removes the sales and use tax exemption by striking "secure geologic storage" and adds the word "exclusive" to the use in enhanced recover of oil or natural gas to the sales and use tax exemption of NDSS 57-39.2-04.14.

Let's first talk about how the property tax exemption for CO2 pipelines came about. Attached are excerpts from the 1991 Legislative session which is when this exemption was enacted. Note that the bill summary prepared by Legislative council makes clear that the state will reimburse the counties for tax that would have been payable for property tax. The following pages from testimony at the committee meeting in 1991 explain that that this legislation was needed because Dakota Gasification Company was "trying hang on for dear life." And on the next page, the representative from DGC commented that the deciding factor to build the pipeline wouldn't be the tax exemption. Clearly, that the property tax exemption was enacted for a very specific purpose. Commercial, 2500-mile pipelines were never contemplated. Allowing a 10-year exemption to continue will be very costly

for the state, which must make that payment to the counties. If this pipeline route becomes a corridor, the cost of a continuing exemption will multiply as more lines are built.

If CO2 sequestration is going to become an industry in ND, it must bear a proper share of the tax burden as compared to other centrally assessed industries. See the 2024 Summary of Centrally Assessed industries which is included.

Turning to the sales and use tax exemption, the exemption for enhanced oil recovery was added in 2015. The addition of secure geologic storage to the exemption was later. The laws at that time didn't contemplate a 2500-mile pipeline either.

Currently, there is only one proposed CO2 pipeline that is affected by this law change. Their own website reports that they will generate nearly a billion dollars of taxes during the construction and operational phases of the project. With ND's current 10-year exemption for property tax and sales and use tax exemptions, very little of that is going to North Dakota.

The exemptions currently in law were meant to support our own industries and that is where they should remain. Other testimony will likely say that ND's oil and gas industry needs these exemptions. However, the current exemptions don't benefit North Dakota oil and gas since current federal law induces the CO2 to be buried for 12 years.

The goal of this bill is to limit the exemption to activities that benefit industries located within the state. Both sections of the bill could be further amended to add coal mining behind "natural gas" to ensure that the state remains committed to supporting our coal industry. A similar exclusion could be prepared for ethanol plants that are sequestering carbon near their own plants in ND by amending the specific code section that allows various exemptions to those facilities. If the committee has an appetite for either of those changes, I would be happy to work with Legislative Council on those.

Mr. Chairman and members of the committee, I respectfully urge you to give HB 1295 as amended a DO PASS recommendation. Thank you.



## CHAPTER 652

SENATE BILL NO. 2249  
(Senators Streibel, Naaden, DeKrey)  
(Representatives Brown, Rennerfeldt, Whalen)

## CARBON DIOXIDE PIPELINES

AN ACT to create and enact two new sections to chapter 57-06 of the North Dakota Century Code, relating to a property tax exemption for certain centrally assessed pipeline and associated property used to promote enhanced recovery of oil or natural gas and to provide for payments in lieu of taxes; and to provide an effective date.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

SECTION 1. A new section to chapter 57-06 of the North Dakota Century Code is created and enacted as follows:

Carbon dioxide pipeline exemption. Property, not including land, is exempt from taxation for the first ten full taxable years after commencement of construction if it consists of a pipeline and necessary associated equipment for the transportation or storage of carbon dioxide to an oilfield in this state for use in enhanced recovery of oil or natural gas.

SECTION 2. A new section to chapter 57-06 of the North Dakota Century Code is created and enacted as follows:

Payments in lieu of taxes. Carbon dioxide pipeline property described in section 1 of this Act is subject to payments in lieu of property taxes during the time it is exempt from taxation under section 1 of this Act. For the purpose of these payments, carbon dioxide pipeline property described in section 1 of this Act must be valued annually by the state board of equalization in the manner that other pipeline valuations are certified. The county auditor shall calculate taxes on the carbon dioxide pipeline property described in section 1 of this Act in the same manner that taxes are calculated on other pipeline property. Not later than December twenty-sixth of each year, each county auditor shall submit a statement of the amount of taxes that would have been assessed against carbon dioxide pipeline property, exempted under section 1 of this Act, to the state treasurer for payment. The state treasurer shall make the required payment to each county not later than March first of the following year, and the county auditor shall distribute the payments to the political subdivisions in which the exempt pipeline property is located.

SECTION 3. EFFECTIVE DATE. This Act is effective for taxable years beginning after December 31, 1990.

Approved April 11, 1991  
Filed April 12, 1991

BILL SUMMARY: SB 2249

Prepared by the Legislative Council staff

DATE: March 21, 1991

SUBJECT: Tax exemption for carbon dioxide pipeline

GENERALLY, THIS BILL:

As amended, exempts a carbon dioxide pipeline from property taxes if it is used to transport carbon dioxide for enhanced oil recovery and provides that the counties in which the tax would have been payable are entitled to reimbursement of the lost property tax revenues by the state.



REP. WARDNER Then at this time the counties wouldn't be receiving any revenue from these pipelines, so then the part about the state treasurer having to send money to the counties, the counties would end up getting more out of it?

REP. BROWN That is the way I see it.

LOWELL RIDGEWAY, ND PETROLEUM COUNCIL Testified in support of the bill. When we had HB 1414 before this committee, we shared with you a study that showed that there is about three hundred and forty three point eight million barrels of oil that have been identified from seventy reservoirs that could be brought to the surface with tertiary production which is carbon dioxide, in this case. That is the market for CO<sub>2</sub>. We think this type of legislation could possibly prove to be a partial carrot to encourage the construction of such a line. The original bill as was discussed with you did provide for a property tax exemption on a CO<sub>2</sub> line built from the gasification plant to the oil fields to be exempt from taxation. We are aware of at least one other potential CO<sub>2</sub> pipeline, referred to as the Amoco one, actually it is the EXON one from Wyoming. They explored the idea of bringing natural CO<sub>2</sub> from Wyoming to western North Dakota and perhaps even to Canada. Those are the two potential pipelines I am aware of. I think the committee should understand that if there ever is a CO<sub>2</sub> pipeline built in North Dakota, there is probably going to be one built, not two or three. There seemed to be some question about the gathering lines, gathering lines traditionally, were exempt from property taxes, rightly or wrongly. Our Supreme Court, couple of years ago ruled that gathering lines are subject to taxes, many companies that have gathering lines are paying taxes today.

GARY JACOBSON, MGR. OF GOVERNMENT RELATIONS DIV. OF BASIN ELECTRIC POWER COOPERATIVE, Testified in support of the bill. There is a little confusion about where is Dakota Gasification Company on this issue. Dakota Gas Company is a subsidiary of Basin Electric Power Cooperative. It is a for profit company. When we are talking about the ability of Dakota Gasification Company to produce CO<sub>2</sub>, we are talking about the fact that it does produce a loss fuel too, it does not produce a purified CO<sub>2</sub>. In order to produce a purified CO<sub>2</sub> it would require a tremendous investment at that gasification plant. Yes, we can produce CO<sub>2</sub>. Because CO<sub>2</sub> is a byproduct of the process out there, it would require a tremendous investment on our part. At this point, the company is trying to hang on for dear life right now, with the falling of the oil prices and the world situation right now. We have been producing at record level for the last two years. We are encouraging the development of the tertiary recovery process, CO<sub>2</sub> is part of that process. Everybody is a gainer on this, that is what we are supporting.

REP. TIMM What do you do now with the CO<sub>2</sub>?

GARY JACOBSON I am not sure, I will get a response on that.



COMMITTEE ACTION Tape #2, Side A, Meter 2140

REP. ANDERSON Made a motion to adopt the amendments as presented #10341.0301. REP. GROSZ Second the motion. Motion carried by voice vote.

REP. ANDERSON Made a motion for a Do Not Pass  
REP. LINDERMAN Second the motion. Motion carried

12 Yes                      4 No                      0 Absent

REP. LINDERMAN Was given the floor assignment.

COMMITTEE ACTION 3-18-91 SB 2249 Tape 1, Side A Meter 800

The committee met again to reconsider the action by which the bill was passed out of committee with a Do Not Pass As Amended.

BARRY HASTI, STATE TAX DEPARTMENT Appeared before the committee to answer questions the committee might have.

REP. NICHOLS Would there be a cost to the state if the tax exemption were granted to the pipeline, is there an in lieu of payment that goes to the counties that would have to be paid by the state?

BARRY HASTI In Section 2, there would be a negative impact on the state.

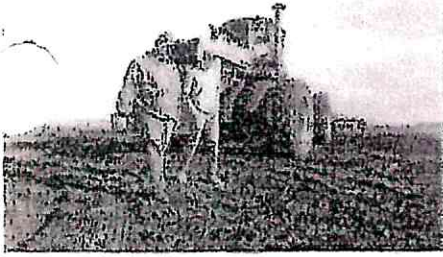
REP. WARDNER How long does this exemption go?

BARRY HASTI If it is added as a section to 57-02-08, there is no limiting language on here so it would be perpetual.

REP. TIMM When Gary Jacobson was testifying I was surprised at how unenthusiastic he was about the pipeline, in fact, in talking to him privately, he stated that if they got a contract with some oil company out in Williston, got a thirty or forty year contract to send them CO<sub>2</sub>, that would be their deciding factor to build this pipeline. It wouldn't be a tax exemption that would be the deciding factor.

REP. FREIER If section 2 is the problem, why don't we just amend it out.

REP. FREIER Made a motion to reconsider the action by which the bill was passed out of committee 3-13-91. REP. BELTEP Second the motion. Motion carried                      9 Yes                      6 No                      1 Absent



Decision Innovation Services (DIS) conducted a study that found Summit Carbon Solutions' proposed carbon capture, transportation, and storage project will create jobs, generate new tax revenue for local communities, support local suppliers, and strengthen the Midwest regional economy.

**Project-Wide Findings (*Construction* Phase)**

Total Investment	\$8.9 billion*
Total Average Annual Jobs Created	12,293
Total Federal, State, Local Taxes Generated by the Project	\$752 million
Total Income Paid	\$2.1 billion
Total Right-of-Way and Other Landowner Payments	\$776 million

\*this number is subject to change and based on internal calculations

**Project-Wide Findings (*Operations* Phase)**

Annual Expenditures	\$377 million
Total Jobs Supported	1,200+
Total Labor Paid	\$122 million
Total Federal, State, Local Taxes Generated by the Project	\$206 million

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## ENVIRONMENTAL BENEFITS

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Once completed, Summit Carbon Solutions' Project will be the largest carbon capture and storage project in the world. This project will have the capacity to capture and permanently store up to 18 million tons of CO2 every year. That's the equivalent of removing 3.9 million vehicles from our roads annually.

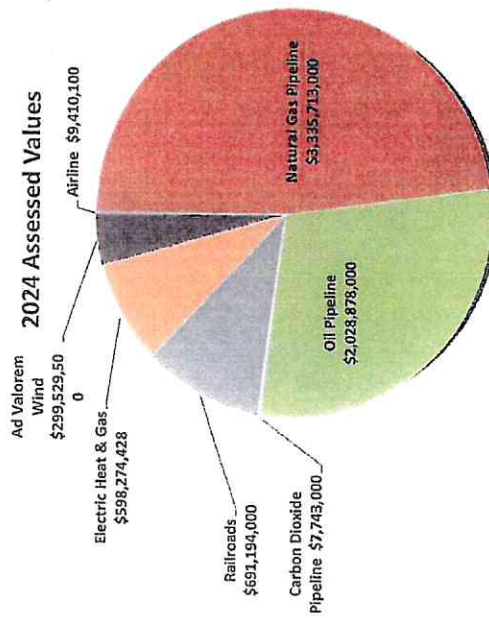


**NORTH DAKOTA STATE BOARD OF EQUALIZATION  
CENTRAL ASSESSMENT - 2024 SUMMARY**

2024 CENTRALLY ASSESSED - ASSESSED VALUES

Airline	\$	9,410,100
Natural Gas Pipeline	\$	3,335,713,000
Oil Pipeline	\$	2,028,878,000
Carbon Dioxide Pipeline	\$	7,743,000
Railroads	\$	691,194,000
Electric Heat & Gas	\$	598,274,428
Ad Valorem Wind	\$	299,529,500

**2024 Assessed Values**

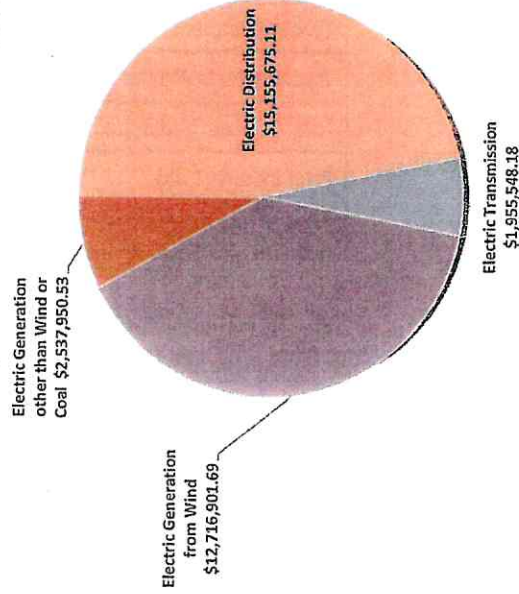


**NORTH DAKOTA STATE BOARD OF EQUALIZATION  
CENTRAL ASSESSMENT - 2024 SUMMARY**

2024 CENTRALLY ASSESSED - PAYMENT "IN LIEU"

Electric Distribution	\$	15,155,675.11
Electric Transmission	\$	1,955,548.18
Electric Generation from Wind	\$	12,716,901.69
Electric Generation other than Wind or Coal	\$	2,537,950.53

**2024 Payment "In Lieu" Actual Dollar Assessments**







SUMMIT CARBON SOLUTIONS, LLC

INVESTOR LIST

Investor	Website
Continental Resources, Inc	<a href="https://www.clr.com">https://www.clr.com</a>
TPG Rise Climate <i>CHINA</i>	<a href="https://therisefund.com/tpgriseclimate">https://therisefund.com/tpgriseclimate</a>
Summit Agricultural Group	<a href="https://www.summitag.com">https://www.summitag.com</a>
SK Group <i>SOUTH KOREA</i>	<a href="https://www.sk-perspectives.com">https://www.sk-perspectives.com</a>
Tiger Infrastructure Partners <i>SAUDI ARABIA</i>	<a href="https://www.tigerinfrastructure.com">https://www.tigerinfrastructure.com</a>