2023 HOUSE FINANCE AND TAXATION

HB 1427

2023 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Room JW327E, State Capitol

HB 1427
2/1/2023

A bill relating to an oil extraction tax exemption on production from a restimulation well and relating to the definition and certification of a restimulation well.

Vice Chairman Hagert opened the hearing at 9:00AM.

Members present: Chairman Headland, Vice Chairman Hagert, Representative Anderson, Representative Bosch, Representative Dockter, Representative Fisher, Representative Grueneich, Representative Hatlestad, Representative Motschenbacher, Representative Olson, Representative Steiner, Representative Toman, Representative Finley-DeVille. Members absent: Representative Ista.

Discussion Topics:

- Restimulation wells
- Restimulation well production
- Oil extraction tax

Chairman Headland verbally introduced the bill in support.

Zachary Weis, representing Marathon Oil Company, testified in support (#18450).

Lynn Helms, Director of the Department of Mineral Resources, verbally testified in a neutral capacity.

Mark Fox, Tribal Chairman of Mandan, Hidatsa, and Arikara Nation (MHA), verbally testified in a neutral capacity.

Vice Chairman Hagert closed the hearing at 10:03AM.

Mary Brucker, Committee Clerk

2023 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Room JW327E, State Capitol

HB 1427
2/14/2023

A bill relating to an oil extraction tax exemption on production from a restimulation well and relating to the definition and certification of a restimulation well.

Chairman Headland opened the meeting at 10:20AM.

Members present: Chairman Headland, Vice Chairman Hagert, Representative Anderson, Representative Bosch, Representative Dockter, Representative Fisher, Representative Grueneich, Representative Hatlestad, Representative Motschenbacher, Representative Olson, Representative Steiner, Representative Finley-DeVille, and Representative Ista. Members absent: Representative Toman.

Discussion Topics:

- Proposed amendment 23.1026.01002
- Committee vote

Dee Wald, General Counsel with the State Tax Commissioner's Office, explained the proposed amendment 23.1026.01002.

Chairman Headland distributed the proposed amendment 23.1026.01002 (#20806).

Dee Wald, General Counsel with the State Tax Commissioner's Office, continued to explain the proposed amendment.

Mark Fox, Tribal Chairman for MHA Nation, answered questions from the committee.

Zac Weis, Government and Community Relations with Marathon Oil, answered questions from the committee.

Mark Fox, Tribal Chairman for MHA Nation, continued answering questions from the committee.

Chairman Headland asked the committee to also add in the amendment the definition of what wells qualify.

Zac Weis, Government and Community Relations with Marathon Oil, continued answering questions from the committee.

Dee Wald, General Counsel with the State Tax Commissioner's Office, assisted the committee with an additional amendment to include page 3, line 5, replace "24 months" with "60 months" then after insert "of production or producing more than 125 barrels of oil a day."

Representative Olson moved amendment 23.1026.01002.

Representative Bosch seconded the motion.

Roll call vote:

Representatives	Vote
Representative Craig Headland	Y
Representative Jared Hagert	Y
Representative Dick Anderson	Y
Representative Glenn Bosch	Y
Representative Jason Dockter	Y
Representative Lisa Finley-DeVille	Y
Representative Jay Fisher	Y
Representative Jim Grueneich	Y
Representative Patrick Hatlestad	Y
Representative Zachary Ista	Y
Representative Mike Motschenbacher	Y
Representative Jeremy Olson	Y
Representative Vicky Steiner	Y
Representative Nathan Toman	AB

Motion carried13-0-1

Representative Hatlestad moved the proposed amendment on page 3, line 5, replacing "24 months" with "60 months" then inserting "of production or producing more than 125 barrels of oil a day." (20898)

Representative Olson seconded the motion.

Roll call vote:

Representatives	Vote
Representative Craig Headland	Y
Representative Jared Hagert	Y
Representative Dick Anderson	Y
Representative Glenn Bosch	Y
Representative Jason Dockter	Y
Representative Lisa Finley-DeVille	Y
Representative Jay Fisher	Y
Representative Jim Grueneich	Y
Representative Patrick Hatlestad	Y
Representative Zachary Ista	Y
Representative Mike Motschenbacher	Y
Representative Jeremy Olson	Y
Representative Vicky Steiner	Y
Representative Nathan Toman	AB

Motion carried 13-0-1

Representative Olson moved a Do Pass as Amended.

Representative D. Anderson seconded the motion.

Roll call vote:

Representatives	Vote
Representative Craig Headland	Y
Representative Jared Hagert	Y
Representative Dick Anderson	Y
Representative Glenn Bosch	Y
Representative Jason Dockter	Y
Representative Lisa Finley-DeVille	Y
Representative Jay Fisher	Y
Representative Jim Grueneich	Y
Representative Patrick Hatlestad	Y
Representative Zachary Ista	Y
Representative Mike Motschenbacher	Y
Representative Jeremy Olson	Y
Representative Vicky Steiner	Y
Representative Nathan Toman	AB

Motion carried 13-0-1

Representative Steiner is the bill carrier.

Chairman Headland adjourned at 11:10AM.

Mary Brucker, Committee Clerk

Adopted by the House Finance and Taxation Committee

February 14, 2023

2-14-23

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1427

Page 1, line 2, replace "exemption" with "rate reduction"

Page 3, line 5, replace "twenty-four" with "sixty"

Page 3, line 5, after "production" insert "or is producing more than one hundred and twenty-five barrels of oil per day"

Page 4, line 7, remove "exempt from any"

Page 4, line 8, replace "taxes imposed" with "subject to a reduced tax rate of two percent of the gross value at the well of the oil extracted"

Page 4, line 8, replace "a period of five years" with "the first seventy-five thousand barrels of incremental production or for a period of eighteen months"

Page 4, line 9, after "begins" insert ", whichever occurs first. The tax rate reduction under this subsection does not apply to a well located within the exterior boundaries of a reservation, a well located on trust properties outside reservation boundaries as defined in section 57-51.2-02, or a straddle well located on reservation trust land as defined in section 57-51.1-07.10, unless a tribe makes an irrevocable election to opt-in to the tax rate reduction by providing written notice to the tax commissioner. If a tribe provides notice of its election to opt-in to the tax rate reduction, the tax commissioner shall apply the tax rate reduction beginning in the month of production after the notice is received by the tax commissioner"

Page 4, line 10, replace "exemption" with "tax rate reduction"

Page 4, line 19, replace "exemption" with "tax rate reduction"

Page 5, line 12, replace "exemption" with "rate reduction"

Page 5, line 24, replace "events occurring" with "production beginning"

Renumber accordingly

REPORT OF STANDING COMMITTEE

HB 1427: Finance and Taxation Committee (Rep. Headland, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (13 YEAS, 0 NAYS, 1 ABSENT AND NOT VOTING). HB 1427 was placed on the Sixth order on the calendar.

Page 1, line 2, replace "exemption" with "rate reduction"

Page 3, line 5, replace "twenty-four" with "sixty"

Page 3, line 5, after "production" insert "or is producing more than one hundred and twenty-five barrels of oil per day"

Page 4, line 7, remove "exempt from any"

Page 4, line 8, replace "taxes imposed" with "subject to a reduced tax rate of two percent of the gross value at the well of the oil extracted"

Page 4, line 8, replace "a period of five years" with "the first seventy-five thousand barrels of incremental production or for a period of eighteen months"

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Page 5, line 24, replace "events occurring" with "production beginning"

Renumber accordingly

2023 SENATE FINANCE AND TAXATION

HB 1427

2023 SENATE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Fort Totten Room, State Capitol

HB 1427
3/8/2023

Relating to an oil extraction tax rate reduction on production from a restimulation well, relating to the definition and certification of a restimulation well.

9:02 AM Chairman Kannianen opened hearing.

Senator Present: **Kannianen, Weber, Patten, Rummel, Piepkorn, Magrum.**

Discussion Topics:

- Production rate
- Estimated cost
- Well number
- Sales tax estimation
- Suggested amendment

9:02 AM Representative Headland introduced bill.

9:08 AM Zac Weis, Marathon Oil Company, testified in favor. #23045

9:33 AM Ron Ness, ND Petroleum Council, verbally testified in favor.

9:37 AM Representative Headland provided suggestion**.**

9:38 AM Bruce Hicks, Assistant Director for Oil and Gas Industrial Commision, verbally testified neutral.

9:44 AM Chairman Kannianen adjourned hearing.

Nathan Liesen, Committee Clerk

2023 SENATE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Fort Totten Room, State Capitol

HB 1427
3/15/2023

Relating to an oil extraction tax rate reduction on production from a restimulation well, relating to the definition and certification of a restimulation well.

10:00 AM Chairman Kannianen opened meeting.
Senator Present: **Kannianen, Weber, Patten, Rummel, Piepkorn, Magrum.**

Discussion Topics:

- Committee Action

9:45 AM Senator Patten moved Amendment LC 23.1026.02001.
9:45 AM Senator Rummel seconded.

Roll call vote.

Senators	Vote
Senator Jordan Kannianen	Y
Senator Mark F. Weber	Y
Senator Jeffery J. Magrum	Y
Senator Dale Patten	Y
Senator Merrill Piepkorn	Y
Senator Dean Rummel	Y

Passed 6-0-0

9:48 AM Senator Patten moved Do Pass as Amended.
9:48 AM Senator Weber seconded.

Roll call vote.

Senators	Vote
Senator Jordan Kannianen	Y
Senator Mark F. Weber	Y
Senator Jeffery J. Magrum	Y
Senator Dale Patten	Y
Senator Merrill Piepkorn	N
Senator Dean Rummel	Y

Passed 5-1-0

Senator Patten will carry the bill.

9:52 AM Chairman Kannianen closed the meeting.

Nathan Liesen, Committee Clerk

Adopted by the Senate Finance and Taxation Committee

March 15, 2023

3-15-23

PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1427

Page 4, line 7, remove "incremental"

Page 4, line 10, remove "incremental"

Page 4, line 11, replace "from the date the incremental period begins" with "after the month in which oil was first produced from the restimulation well"

Page 4, remove lines 21 through 26

Page 4, line 27, remove "b."

Page 4, line 27, replace "determine the amount of primary production" with "certify whether the well qualifies as a restimulation well under section 1 of this Act"

Page 4, remove lines 30 and 31

Page 5, line 24, replace "eighteen" with "six"

Page 5, line 25, remove "incremental"

Renumber accordingly

REPORT OF STANDING COMMITTEE

HB 1427, as engrossed: Finance and Taxation Committee (Sen. Kannianen, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (5 YEAS, 1 NAY, 0 ABSENT AND NOT VOTING). Engrossed HB 1427 was placed on the Sixth order on the calendar. This bill affects workforce development.

Page 4, line 7, remove "incremental"

Page 4, line 10, remove "incremental"

Page 4, line 11, replace "from the date the incremental period begins" with "after the month in which oil was first produced from the restimulation well"

Page 4, remove lines 21 through 26

Page 4, line 27, remove "b."

Page 4, line 27, replace "determine the amount of primary production" with "certify whether the well qualifies as a restimulation well under section 1 of this Act"

Page 4, remove lines 30 and 31

Page 5, line 24, replace "eighteen" with "six"

Page 5, line 25, remove "incremental"

Renumber accordingly

TESTIMONY

HB 1427

House Bill 1427
Testimony of Zachary Weis
Marathon Oil Company
House Finance and Taxation Committee
February 1, 2023

Good morning, Chairman Headland and members of the House Finance and Taxation Committee. My name is Zac Weis and I represent Marathon Oil Company, a US resource play focused exploration and production company based in Houston, Texas. Our operations footprint includes the Eagle Ford in south Taxes, Stack/Scoop in Oklahoma, the Permian in both the Texas and New Mexico side and here in the Bakken. With operations in all the major oil producing resource plays, Marathon has a unique prospective of the challenges and opportunities that come with operating in these states.

I am here today to speak in support of HB 1427. We see this concept as a tool for North Dakota to stay competitive with other resource play states and is a way for you the policy makers to establish pro-business legislation that will encourage reinvestment into older Bakken wells that will spur increase revenues generated for the state, the mineral owners and local governments.

HB 1427 introduces the term "restimulation well" into century code. A restimulated well is a previously completed oil well that, after it has been producing oil for an extended period of time and into the decline curve, undergoes a newer modern completion treatment to enhance production of oil in the aging well. The restimulation is a significant investment into the older producing well, with many of the associated costs of drilling and completing a new well. The process involves the shut down and preparation of the wellsite. A drilling crew will come onto the location to drill out and clean the well, followed by setting a new smaller diameter liner within the existing production liner far into the curve of the well. That is followed by our completions operations to perform the new stimulation of the well.

the clear goal of the restimulation is to bring new life to older producing wells. The benefits however extend to the state, mineral owners and operators. Restimulations help keep older Bakken wells active and not plugged, maintaining the significant geological potential we continue to hear of the Bakken and the future the basin has through further enhancement of oil recovery. Restimulations increase the ultimate recoverable barrels of oil, meaning more overarching economic value for the state at every level. Mineral owners who are seeing declining royalty payments will prosper from additional royalties paid on the incremental production. Additionally, restimulations are a net positive for the environment through continued use of existing infrastructure, wellsite footprints, natural gas pipelines, etc.

This incentive will also make it more attractive for companies to spend capital on these older wells, which I believe is essential to maintain oil production levels out in the future. One look at the production breakdown for the Bakken, which I have included on the last page of my testimony, shows what we are up against. In order to maintain the production forecast you all look at for setting budgets and planning for the state's future, depends on new production to continue to occur. Thankfully, throughout the Bakken we have many more years of new wells to drill and our companies are continuing to push the boundaries of the core of the Bakken. However, there are opportunities for incremental production to occur that we should not be overlooking.

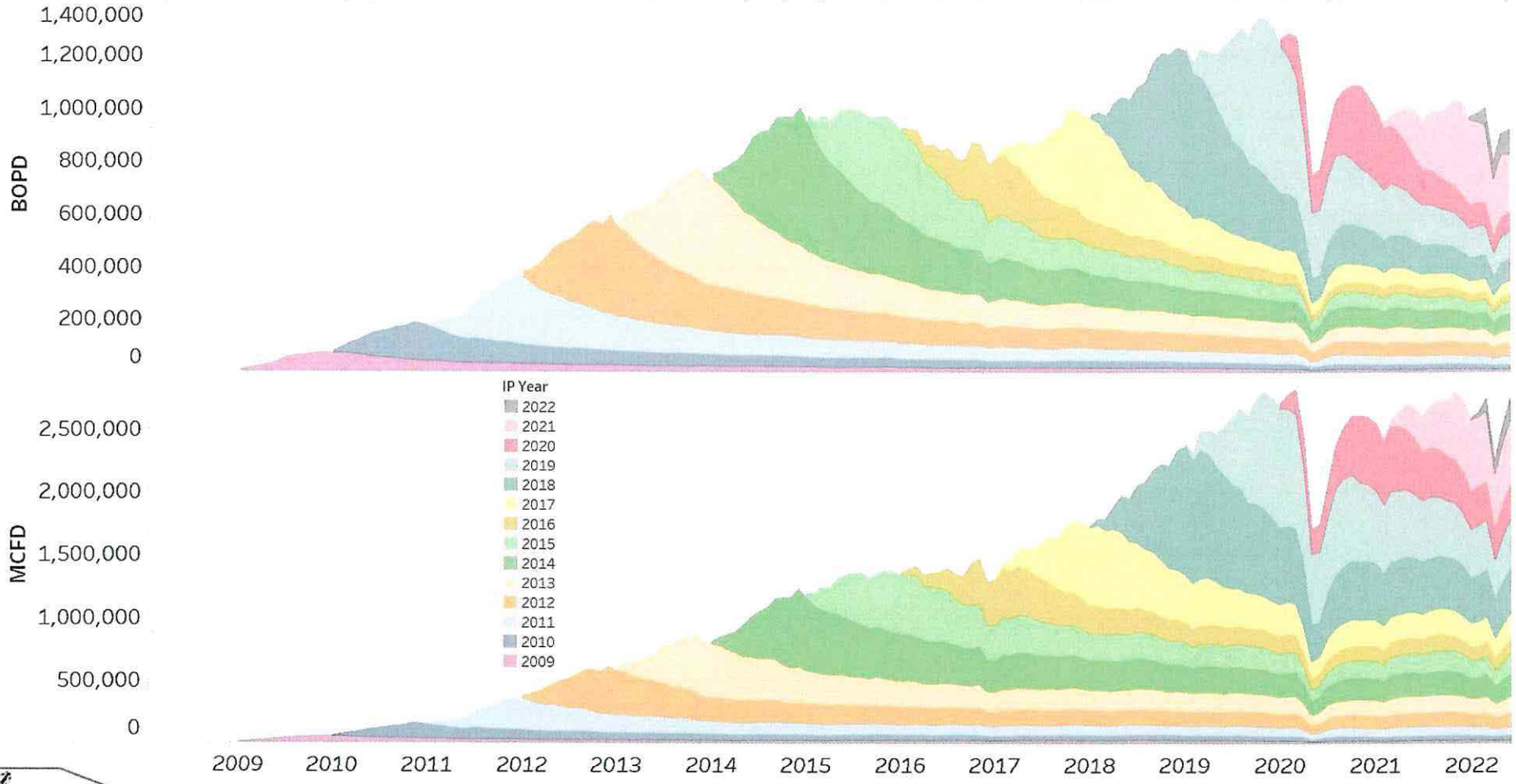
The powerful part of a concept like this is that the extraction tax incentive is only on the incremental new production and does not apply to existing production from the well. The state could look at this proportion of extraction tax not collected as an investment to recovering more Bakken barrels resulting in more economic impact. Also, a second round of sales tax is collected on all associated inputs for drilling and completion work needed for the restimulation and there is no impact to the local governments share of production tax.

From the operator's perspective, the potential benefit of a restimulation comes with technology. Similar to the advances our state has promoted in the innovations of modern farming, we are seeing advances in completions technology that are innovating the way wells are completed. Smart completions technology is using fiberoptic cabling that provide on the spot data for the use of advanced real-time learning for completions optimization. We are able to adjust pumping rates, modify stages and perforation clusters and spacing, see real time well interference and able to optimize the use of recycled water and chemical performance. All this to say there can be an opportunity to bring this technology into older producing wells through restimulation and drive more production out of this amazing resource.

As you can imagine this all comes with a price tag. When it comes down to making decisions for where companies like mine are going to spend our capital, we will always go after the highest rate of return. Drilling new wells is still the hands down best use of capital for a return on investment. However, programs like this are an encouraging factor for operators when looking for production and reassessing our total recoverable barrels in the Bakken.

I see HB 1427 as a message that North Dakota is open for business, that you want to stay competitive with other states and that you encourage companies to spend their capital here. It benefits both the state and the producer by increasing the ultimate recoverable barrels of oil, reducing environmental impacts, and providing an incentive for investment in older wells. I urge the committee to support this bill. Thank you and I'm happy to answer any questions you have.

Base Production Decline



23.1026.01002
Title.

Prepared by the Legislative Council staff for
Representative Headland
February 13, 2023

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1427

Page 1, line 2, replace "exemption" with "rate reduction"

Page 4, line 7, remove "exempt from any"

Page 4, line 8, replace "taxes imposed" with "subject to a reduced tax rate of two percent of the gross value at the well of the oil extracted"

Page 4, line 8, replace "a period of five years" with "the first seventy-five thousand barrels of incremental production or for a period of eighteen months"

Page 4, line 9, after "begins" insert ", whichever occurs first. The tax rate reduction under this subsection does not apply to a well located within the exterior boundaries of a reservation, a well located on trust properties outside reservation boundaries as defined in section 57-51.2-02, or a straddle well located on reservation trust land as defined in section 57-51.1-07.10, unless a tribe makes an irrevocable election to opt-in to the tax rate reduction by providing written notice to the tax commissioner. If a tribe provides notice of its election to opt-in to the tax rate reduction, the tax commissioner shall apply the tax rate reduction beginning in the month of production after the notice is received by the tax commissioner"

Page 4, line 10, replace "exemption" with "tax rate reduction"

Page 4, line 19, replace "exemption" with "tax rate reduction"

Page 5, line 12, replace "exemption" with "rate reduction"

Page 5, line 24, replace "events occurring" with "production beginning"

Renumber accordingly

Sixty-eighth
Legislative Assembly
of North Dakota

HOUSE BILL NO. 1427

Introduced by

Representatives Headland, D. Anderson, Bosch, Dockter

Senators Kannianen, Meyer, Patten

A BILL for an Act to create and enact a new subsection to section 57-51.1-03 of the North Dakota Century Code, relating to an oil extraction tax ~~exemption~~rate reduction on production from a restimulation well; to amend and reenact sections 57-51.1-01 and 57-51.1-03.1 of the North Dakota Century Code, relating to the definition and certification of a restimulation well; and to provide an effective date.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

SECTION 1. AMENDMENT. Section 57-51.1-01 of the North Dakota Century Code is amended and reenacted as follows:

57-51.1-01. Definitions for oil extraction tax.

For the purposes of this chapter:

1. "Average daily production" of a well means the qualified maximum total production of oil from the well during a calendar month period divided by the number of calendar days in that period, and "qualified maximum total production" of a well means that the well must have been maintained at the maximum efficient rate of production as defined and determined by rule adopted by the industrial commission in furtherance of its authority under chapter 38-08.
2. "Horizontal well" means a well with a horizontal displacement of the well bore drilled at an angle of at least eighty degrees within the productive formation of at least three hundred feet [91.44 meters].
3. "Oil" means petroleum, crude oil, mineral oil, casinghead gasoline, and all liquid hydrocarbons that are recovered from gas on the lease incidental to the production of the gas.
4. "Property" means the right which arises from a lease or fee interest, as a whole or any designated portion thereof, to produce oil. A producer shall treat as a separate

property each separate and distinct producing reservoir subject to the same right to produce crude oil; provided, that such reservoir is recognized by the industrial commission as a producing formation that is separate and distinct from, and not in communication with, any other producing formation.

5. "Qualifying secondary recovery project" means a project employing water flooding. To be eligible for the tax exemption provided under section 57-51.1-03, a secondary recovery project must be certified as qualifying by the industrial commission and the project operator must have obtained incremental production as defined in subsection 3 of section 57-51.1-03.

6. "Qualifying tertiary recovery project" means a project for enhancing recovery of oil which meets the requirements of section 4993(c), Internal Revenue Code of 1954, as amended through December 31, 1986, and includes the following methods for recovery:

   a. Miscible fluid displacement.
   b. Steam drive injection.
   c. Microemulsion.
   d. In situ combustion.
   e. Polymer augmented water flooding.
   f. Cyclic steam injection.
   g. Alkaline flooding.
   h. Carbonated water flooding.
   i. Immiscible carbon dioxide displacement.
   j. New tertiary recovery methods certified by the industrial commission.

It does not include water flooding, unless the water flooding is used as an element of one of the qualifying tertiary recovery techniques described in this subsection, or immiscible natural gas injection. To be eligible for the tax exemption provided under section 57-51.1-03, a tertiary recovery project must be certified as qualifying by the industrial commission, the project operator must continue to operate the unit as a qualifying tertiary recovery project, and the project operator must have obtained incremental production as defined in subsection 3 of section 57-51.1-03.

7. "Restimulation well" means a previously completed oil or gas well that, following completion and production of oil, has been treated with an application of fluid under pressure for the purpose of initiating or propagating fractures in a target geologic formation to enhance production of oil. The term does not include a well that:
   a. Has less than twenty-four months of production reported to the industrial commission before completion of the restimulation treatment;
   b. Is part of a qualifying secondary recovery project, qualifying tertiary recovery project, or stripper well or stripper well property as defined under this section; or
   c. Is drilled but not completed and does not have a record of oil production reported to the industrial commission.

8. "Royalty owner" means an owner of what is commonly known as the royalty interest and shall not include the owner of any overriding royalty or other payment carved out of the working interest.

~~8.~~9. "Stripper well" means a well drilled and completed, or re-entered and recompleted as a horizontal well, after June 30, 2013, whose average daily production of oil during any preceding consecutive twelve-month period, excluding condensate recovered in nonassociated production, per well did not exceed ten barrels per day for wells of a depth of six thousand feet [1828.80 meters] or less, fifteen barrels per day for wells of a depth of more than six thousand feet [1828.80 meters] but not more than ten thousand feet [3048 meters], and thirty barrels per day for wells of a depth of more than ten thousand feet [3048 meters] outside the Bakken and Three Forks formations, and thirty-five barrels per day for wells of a depth of more than ten thousand feet [3048 meters] in the Bakken or Three Forks formation.

~~9.~~10. "Stripper well property" means wells drilled and completed, or a well re-entered and recompleted as a horizontal well, before July 1, 2013, on a "property" whose average daily production of oil, excluding condensate recovered in nonassociated production, per well did not exceed ten barrels per day for wells of a depth of six thousand feet [1828.80 meters] or less, fifteen barrels per day for wells of a depth of more than six thousand feet [1828.80 meters] but not more than ten thousand feet [3048 meters], and thirty barrels per day for wells of a depth of more than ten thousand feet [3048 meters] during any preceding consecutive twelve-month period. Wells which did not

actually yield or produce oil during the qualifying twelve-month period, including disposal wells, dry wells, spent wells, and shut-in wells, are not production wells for the purpose of determining whether the stripper well property exemption applies.

SECTION 2. A new subsection to section 57-51.1-03 of the North Dakota Century Code is created and enacted as follows:

The incremental production from a restimulation well that has been certified as a qualified well by the industrial commission after August 1, 2023, is ~~exempt from any taxes imposed~~subject to a reduced tax rate of two percent of the gross value at the well of the oil extracted under this chapter for ~~a period of five years~~the first seventy-five thousand barrels of incremental production or for a period of eighteen months from the date the incremental period begins, whichever occurs first. The tax rate reduction under this subsection does not apply to a well located within the exterior boundaries of a reservation, a well located on trust properties outside reservation boundaries as defined in section 57-51.2-02, or a straddle well located on reservation trust land as defined in section 57-51.1-07.10, unless a tribe makes an irrevocable election to opt-in to the tax rate reduction by providing written notice to the tax commissioner. If a tribe provides notice of its election to opt-in to the tax rate reduction, the tax commissioner shall apply the tax rate reduction beginning in the month of production after the notice is received by the tax commissioner.

a. For purposes of determining the ~~exemption~~tax rate reduction in this subsection:

(1) "Incremental production" means the difference between the total amount of oil produced from the well during the restimulation well recovery and the amount of primary production from the well.

(2) "Primary production" means the amount of oil that would have been produced from the well if the restimulation had not begun.

b. 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.

c. The industrial commission shall adopt rules relating to the ~~exemption~~tax rate reduction which must include procedures for determining incremental production.

SECTION 3. AMENDMENT. Section 57-51.1-03.1 of the North Dakota Century Code is amended and reenacted as follows:

57-51.1-03.1. Stripper well, new well, ~~and~~ secondary or tertiary project, and restimulation well certification for tax exemption or rate reduction - Filing requirement.

1. To receive the benefits of a tax exemption or tax rate reduction, a certification of qualifying well status prepared by the industrial commission must be submitted to the tax commissioner as follows:
   a. To receive, from the first day of eligibility, a tax exemption on production from a stripper well property or individual stripper well under subsection 2 of section 57-51.1-03, the industrial commission's certification must be submitted to the tax commissioner within eighteen months after the end of the stripper well property's or stripper well's qualification period.
   b. To receive, from the first day of eligibility, a tax exemption under subsection 3 of section 57-51.1-03 on production from a secondary or tertiary project, the industrial commission's certification must be submitted to the tax commissioner within eighteen months after the month in which the first incremental oil was produced.
   c. To receive, from the first day of eligibility, a tax exemption or the reduction on production for which any other tax exemption or rate reduction may apply, the industrial commission's certification must be submitted to the tax commissioner within eighteen months of the completion, recompletion, or other qualifying date.
   d. To receive, from the first day of eligibility, a tax ~~exemption~~rate reduction under section 2 of this Act on production from a restimulation well, the industrial commission's certification must be submitted to the tax commissioner within eighteen months after the month in which the first incremental oil was produced.
2. If the industrial commission's certification is not submitted to the tax commissioner within the eighteen-month period provided in this section, then the exemption or rate reduction does not apply for the production periods in which the certification is not on file with the tax commissioner. When the industrial commission's certification is submitted to the tax commissioner after the eighteen-month period, the tax exemption or rate reduction applies to prospective production periods only and the exemption or

rate reduction is effective the first day of the month in which the certification is received by the tax commissioner.

SECTION 4. EFFECTIVE DATE. This Act is effective for taxable ~~events occurring~~production beginning after June 30, 2023.

23.1026.01003
Title.02000

Adopted by the House Finance and Taxation Committee

February 14, 2023

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1427

Page 1, line 2, replace "exemption" with "rate reduction"

Page 3, line 5, replace "twenty-four" with "sixty"

Page 3, line 5, after "production" insert "or is producing more than one hundred and twenty-five barrels of oil per day"

Page 4, line 7, remove "exempt from any"

Page 4, line 8, replace "taxes imposed" with "subject to a reduced tax rate of two percent of the gross value at the well of the oil extracted"

Page 4, line 8, replace "a period of five years" with "the first seventy-five thousand barrels of incremental production or for a period of eighteen months"

Page 4, line 9, after "begins" insert ", whichever occurs first. The tax rate reduction under this subsection does not apply to a well located within the exterior boundaries of a reservation, a well located on trust properties outside reservation boundaries as defined in section 57-51.2-02, or a straddle well located on reservation trust land as defined in section 57-51.1-07.10, unless a tribe makes an irrevocable election to opt-in to the tax rate reduction by providing written notice to the tax commissioner. If a tribe provides notice of its election to opt-in to the tax rate reduction, the tax commissioner shall apply the tax rate reduction beginning in the month of production after the notice is received by the tax commissioner"

Page 4, line 10, replace "exemption" with "tax rate reduction"

Page 4, line 19, replace "exemption" with "tax rate reduction"

Page 5, line 12, replace "exemption" with "rate reduction"

Page 5, line 24, replace "events occurring" with "production beginning"

Renumber accordingly

House Bill 1427
Testimony of Zachary Weis
Marathon Oil Company
Senate Finance and Taxation Committee
March 8, 2023

Good morning, Chairman Kannianen and members of the Senate Finance and Taxation Committee. My name is Zac Weis and I represent Marathon Oil Company, a US resource play focused exploration and production company based in Houston, Texas. Our operations footprint includes the Eagle Ford in south Texas, Stack/Scoop in Oklahoma, the Permian in both the Texas and New Mexico side and here in the Bakken. With operations in all the major oil producing resource plays, Marathon has a unique prospective of the challenges and opportunities that come with operating in these states.

I am here today to speak in support of HB 1427. We see the program in this bill as a tool for North Dakota to stay competitive with other resource play states and is a way for you the policy makers to establish pro-business legislation that will encourage reinvestment into older Bakken wells that will spur increase revenues generated for the state, the mineral owners and local governments.

HB 1427 introduces the term "restimulation well" into century code. A restimulated well is a previously completed oil well that, after it has been producing oil for an extended period of time and the production is far into the decline curve, undergoes a newer modern completion treatment to enhance production of oil in the aging well. The restimulation is a significant investment into the older producing well, with many of the associated costs of drilling and completing a new well. The process involves the shut down and preparation of the wellsite. A drilling crew will come onto the location to drill out and clean the well, followed by setting a new smaller diameter liner within the existing production liner far into the curve of the well. That is followed by our completions operations to perform the new stimulation of the well.

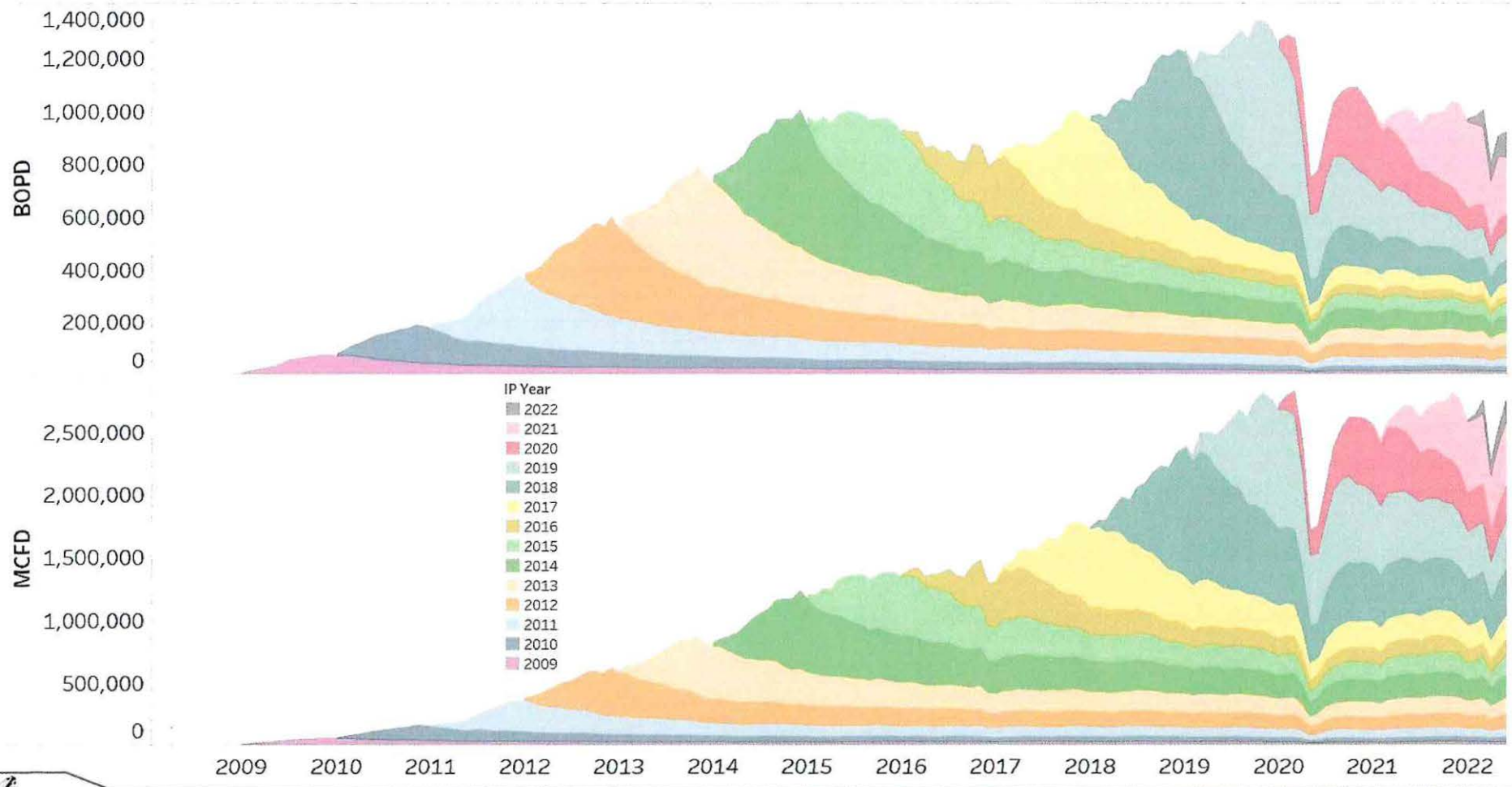
the clear goal of the restimulation is to bring new life to older producing wells. The benefits however extend to the state, mineral owners and operators. Restimulations help keep older Bakken wells active and not plugged, maintaining the significant geological potential we continue to hear of the Bakken and the future the basin has through further enhancement of oil recovery. Restimulations increase the ultimate recoverable barrels of oil, meaning more overarching economic value for the state at every level. Mineral owners who are seeing declining royalty payments will prosper from additional royalties paid on the incremental production. Additionally, restimulations are a net positive for the environment through continued use of existing infrastructure, wellsite footprints, natural gas pipelines, etc.

This incentive will also make it more attractive for companies to spend capital on these older wells, which I believe is essential to maintain oil production levels out in the future. One look at the production breakdown for the Bakken, which I have included on the last page of my testimony, shows what we are up against. In order to maintain the production forecasts the state uses for setting budgets and planning for the state's future, depends on new production to continue to occur. Thankfully, throughout the Bakken we have many more years of new wells to drill and our companies are continuing to push the boundaries of the core of the Bakken. However, there are opportunities for incremental production to occur that we should not be overlooking.

The powerful part of a concept like this is that the extraction tax incentive is only on the incremental new production and does not apply to existing production from the well. The state could look at this as an investment to recovering more Bakken barrels resulting in more economic impact. Also, a second round of sales tax is collected on all associated inputs for drilling and completion work needed for the restimulation and there is no impact to the local governments share of production tax.

From the operator's perspective, the potential benefit of a restimulation comes with technology. Similar to the advances our state has promoted in the innovations of modern farming, we are seeing advances in completions technology that are innovating the way wells are completed. Smart completions technology is using fiberoptic cabling that provide on the spot data for the use of advanced real-time learning for completions optimization. We are able to adjust pumping rates, modify stages and perforation clusters and spacing, see real time well interference and able to optimize the use of recycled water and chemical performance. All this to say there can be an opportunity to bring this technology into older producing wells through restimulation and drive more production out of this amazing resource.

As you can imagine this all comes with a price tag. When it comes down to making decisions for where companies like mine are going to spend our capital, we will always go after the highest rate of return. Drilling new wells is still the hands down best use of capital for a return on investment. However, programs like this are an encouraging factor for operators when looking for production and reassessing our total recoverable barrels in the Bakken.

I see HB 1427 as a message that North Dakota is open for business, that you want to stay competitive with other states and that you encourage companies to spend their capital here. It benefits both the state and the producer by increasing the ultimate recoverable barrels of oil, reducing environmental impacts, and providing an incentive for investment in older wells. I urge the committee to support this bill. Thank you and I'm happy to answer any questions you have.

Base Production Decline