staff for the Government Performance and Accountability Committee

June 2004

# OIL PRODUCTION, OIL MARKET PRICE, AND OIL TAX REVENUE INFORMATION

This memorandum provides information regarding oil production, oil market prices, and oil tax revenues, including information on the statutory provisions relating to oil and gas gross production tax, oil extraction tax, the permanent oil tax trust fund, the oil and gas research fund, oil production and revenues for the 2001-03 and 2003-05 bienniums, and the history of oil activity.

## OIL AND GAS GROSS PRODUCTION TAX (NORTH DAKOTA CENTURY CODE CHAPTER 57-51)

The gross production tax on oil is 5 percent of the gross value at the well on oil produced. The gross production tax on gas is four cents times the gas base rate adjustment for each fiscal year as calculated by the Tax Department. Shallow gas produced during the first 24 months of production from and after the date of first sales of gas from a well completed or recompleted in a shallow gas zone after June 30, 2003, is exempted from the gross production tax (effective through June 30, 2007) (2003 House Bill No. 1145). The oil and gas gross production tax is distributed per formula to the oil and gas impact grant fund (up to \$5 million per biennium), to the state general fund, and to political subdivisions within producing counties.

# OIL EXTRACTION TAX (NORTH DAKOTA CENTURY CODE CHAPTER 57-51.1)

The oil extraction tax is 6.5 percent of the gross value at the well for wells drilled prior to April 27, 1987. For oil produced from any well drilled and completed as a vertical well after April 27, 1987, there is no extraction tax levied for 15 months, and thereafter the rate is 4 percent. For oil produced from any well drilled and completed as a horizontal well after April 27, 1987, there is no extraction tax levied for 24 months, and thereafter the rate is 4 percent. The oil extraction tax rate is 4 percent for qualifying secondary and tertiary recovery projects, and production from stripper wells and enhanced oil production methods is exempt. The initial production of oil from a well is exempt from any oil extraction tax for a period of 60 months if it meets any of the (1) is located within the following conditions: boundaries of an Indian reservation; (2) is on lands held in trust for an Indian tribe or individual Indian; or (3) is on lands held by an Indian tribe as of August 1, 1997. If the average price of a barrel of oil exceeds the trigger price for each month in any consecutive five-month period, the oil extraction tax will become 6.5 percent. The tax rate reverts to 4 percent if the average price of a barrel of oil is less than the trigger

price for each month in any consecutive five-month period. The trigger price is defined in statute as \$35.50 as indexed for inflation.

Twenty percent of the oil extraction tax is allocated to the resources trust fund for water development projects, 10 percent to the common schools trust fund, 10 percent to the foundation aid stabilization fund, and 60 percent to the state general fund.

## PERMANENT OIL TAX TRUST FUND (NORTH DAKOTA CENTURY CODE SECTION 57-51.1-07.2)

North Dakota Century Code (NDCC) Section 57-51.1-07.2 (1997 Senate Bill No. 2366) establishes a permanent oil tax trust fund and provides that at the end of each biennium beginning after June 30, 1997, all revenues deposited in the general fund during that biennium and derived from taxes imposed on oil and gas under Chapters 57-51 (Oil and Gas Gross Production Tax) and 57-51.1 (Oil Extraction Tax) which exceed \$71 million are to be transferred by the The State State Treasurer to a special fund. Treasurer is to transfer the interest earnings on the fund to the general fund at the end of each fiscal year. The principal of the permanent oil tax trust fund may only be spent upon a two-thirds vote of the members elected to each house of the Legislative Assembly. At the end of the 2001-03 biennium, approximately \$7.6 million was deposited into the permanent oil tax trust fund, resulting in a July 1, 2003, fund balance of approximately \$12.8 million. In August 2003, \$11.91 million was transferred from the permanent oil tax trust fund to the general fund, pursuant to Section 6 of 2003 Senate Bill No. 2015, and approximately \$684,000 is estimated to be deposited into the fund at the end of the 2003-05 biennium, for an estimated total fund balance of approximately \$1.6 million in July 2005.

#### OIL AND GAS RESEARCH FUND (NORTH DAKOTA CENTURY CODE SECTION 57-51.1-07.3)

North Dakota Century Code Section 57-51.1-07.3 (2003 Senate Bill No. 2311) establishes an oil and gas research fund. Section 57-51.1-07.3 provides that in the 2003-05 biennium, the first \$50,000 of revenue from the state's share of the oil and gas production tax and oil extraction tax be deposited in the oil and gas research fund. After the 2003-05 biennium, two percent of the state's share of the oil and gas gross production tax and oil extraction tax revenues, up to \$1.3 million per biennium, are to be deposited into the oil and gas research fund. All money deposited in the oil and gas research fund is

appropriated as a continuing appropriation to the Oil and Gas Research Council.

#### OIL PRODUCTION AND REVENUES FOR THE 2001-03 BIENNIUM

Summary of Forecasted Oil Production and Actual Production (In Barrels) for the 2001-03 Biennium				
Forecasted Actual	68,432,037 61,407,216			
Over (under)	(7,024,821)			

Summary of Oil and Gas Gross Production and Oil Extraction Tax Revenue Forecasts and Actual Collections for the 2001-03 Biennium						
	Oil and Gas Gross Oil Extraction Production Tax Tax					
Forecasted Actual	\$44,085,000 45,516,520	\$27,067,000 24,048,705				
Over (under)	\$1,431,520	(\$3,018,295)				

**NOTE:** Section 26 of 2003 Senate Bill No. 2015 amended North Dakota Century Code (NDCC) Section 57-51.1-07.2 so that all revenues deposited in the general fund during a biennium that are derived from the oil and gas gross production tax and the oil extraction tax which exceed \$71 million are to be transferred into the permanent oil tax trust fund, instead of the prior \$62 million limit. The revenues generated by the oil and gas gross production tax and the oil extraction tax during the 2001-03 biennium totaled \$69,565,225 and therefore the excess over \$62,000,000 of \$7,565,225 was transferred to the permanent oil tax trust fund.

#### **OIL PRODUCTION FOR THE 2003-05 BIENNIUM**

Comparison of Forecasted Oil Production and Oil Market Prices to Actual Production and Prices for the 2003-05 Biennium							
		Oil Production (In Barrels) Market Price (Per Barrel)				rrel)	
		Monthly		March 2003		<i></i>	
	March 2003	Production	Over	WEFA		Over	
Production Period	Forecast	<b>Totals Actual</b>	(Under)	Estimates <sup>1</sup>	Actual <sup>2,3</sup>	(Under)	
June 2003 <sup>4</sup>	2,604,000	2,384,749	(219,251)	\$28.84	\$25.50	(\$3.34)	
July 2003	2,550,000	2,465,624	(84,376)	\$28.84	\$25.78	(\$3.06)	
August	2,635,000	2,452,187	(182,813)	\$24.94	\$26.66	\$1.72	
September	2,635,000	2,399,508	(235,492)	\$24.94	\$23.11	(\$1.83)	
Quarter total	7,820,000	7,317,319	(502,681)	Ψ=σ.	Ψ20	(455)	
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October	2,550,000	2,435,249	(114,751)	\$24.94	\$25.00	\$0.06	
November	2,635,000	2,363,785	(271,215)	\$23.46	\$25.47	\$2.01	
December	2,550,000	2,496,340	(53,660)	\$23.46	\$26.86	\$3.40	
Quarter total	7,735,000	7,295,374	(439,626)				
January 2004	2,635,000	2,455,290	(179,710)	\$23.46	\$28.23	\$4.77	
February	2,635,000	2,307,538	(327,462)	\$23.11	\$28.73	\$5.62	
March	2,380,000	2,539,017	159,017	\$23.11	\$31.38	\$8.27	
Quarter total	7,650,000	7,301,845	(348,155)				
April	2,635,000	2,489,875 (Preliminary)	(145,125)	\$23.11	\$31.11	\$8.00	
May	2,550,000	(1.10))		\$23.03	\$34.51	\$11.48	
June	2,635,000			\$23.03	<b>4</b> 5 11 5 1	******	
Quarter total	7,820,000			,			
July 2004	2,550,000			\$23.03			
August	2,635,000			\$22.77			
September	2,635,000			\$22.77			
Quarter total	7,820,000			ΨΖΖ			
	1,020,000						
October	2,550,000			\$22.77			
November	2,635,000			\$21.81			
December	2,550,000			\$21.81			
Quarter total	7,735,000						
January 2005	2,635,000			\$21.81			
February	2,635,000			\$20.94			
March	2,380,000			\$20.94			
Quarter total	7,650,000						
April	2,635,000			\$20.94			
May	2,550,000			\$20.94			
June <sup>4</sup>	2,330,000			φ20.42			
Quarter total	5,185,000						
2003-05 biennium total	62,019,000						

<sup>&</sup>lt;sup>1</sup>These estimates are the WEFA estimates for the refiners' acquisition cost for a barrel of oil (Tesoro posted price).

<sup>&</sup>lt;sup>3</sup>A comparison of the average West Texas Intermediate (WTI) price and the average Amoco posted price is as follows:

	WTI	Amoco	Variance		WTI	Amoco	Variance
June 2003	\$30.72	\$25.50	\$5.22	December 2003	\$32.12	\$26.86	\$5.26
July 2003	\$30.76	\$25.78	\$4.98	January 2004	\$34.27	\$28.23	\$6.04
August 2003	\$31.59	\$26.66	\$4.93	February 2004	\$34.74	\$28.73	\$6.01
September 2003	\$28.29	\$23.11	\$5.18	March 2004	\$36.73	\$31.38	\$5.35
October 2003	\$30.34	\$25.00	\$5.34	April 2004	\$36.69	\$31.11	\$5.58
November 2003	\$31.10	\$25.47	\$5.63	May 2004	\$40.29	\$34.51	\$5.78

<sup>&</sup>lt;sup>4</sup>Oil tax revenue from June 2003 oil production is collected during the 2003-05 biennium, and oil tax revenue from June 2005 oil production will be collected during the 2005-07 biennium.

<sup>&</sup>lt;sup>2</sup>The actual market price per barrel of oil is the monthly average of the Tesoro posted field prices for North Dakota sweet crude, including the Montana counties of Sheridan, Roosevelt, and Richland.

# **OIL REVENUES FOR THE 2003-05 BIENNIUM**

Comparison of Oil and Gas Gross Production and Oil Extraction Tax Revenue Forecasts to Actual Collections for the 2003-05 Biennium						
Oil and Gas Gross Production Tax Oil Extraction Tax						
	March 2003		Over	March 2003		Over
Collection Period	Forecast	Actual	(Under)	Forecast	Actual	(Under)
FY 2004			` '			, ,
July 2003	\$2,147,647	\$2,964,412	\$816,765	\$1,456,132	\$1,354,977	(\$101,155)
August	1,919,131	1,571,999	(347,132)	1,301,195	1,107,711	(193,484)
September	1,994,131	1,355,502	(638,629)	1,351,195	1,263,377	(87,818)
Quarter total	\$6,060,909	\$5,891,913	(\$168,996)	\$4,108,522	\$3,726,065	(\$382,457)
			,			(0400.070)
October	\$1,857,223	\$1,580,069	(\$277,154)	\$1,259,221	\$1,136,849	(\$122,372)
November	1,805,245	1,459,017	(346,228)	1,223,979	922,746	(301,233)
December	1,822,011	2,075,248	253,237	1,234,495	1,163,136	(71,359)
Quarter total	\$5,484,479	\$5,114,334	(\$370,145)	\$3,717,695	\$3,222,731	(\$494,964)
January 2004	\$1,805,245	\$2,820,644	\$1,015,399	\$1,223,979	\$1,307,429	\$83,450
February	1,778,312	1,879,217	100,905	1,205,718	866,473	(339,245)
March	1,681,218	3,358,519	1,677,301	1,139,036	1,810,079	671,043
Quarter total	\$5,264,775	\$8,058,380	\$2,793,605	\$3,568,733	\$3,983,981	\$415,248
April	\$1,778,312	\$2,992,108	\$1,213,796	\$1,205,718	\$1,436,197	\$230,479
May	1,714,990			1,162,785		
June	1,847,156			1,251,544		
Quarter total	\$5,340,458			\$3,620,047		
FY 2004 total	\$22,150,621			\$15,014,997		
FY 2005						
July 2004	\$1,774,128			\$1,198,021		
August	1,812,568			1,223,979		
II ~						
September	1,887,568			1,273,979		
Quarter total	\$5,474,264			\$3,695,979		
October	\$1,754,098			\$1,184,495		
November	1,736,149			1,172,375		
December	1,755,144			1,184,556		
Quarter total	\$5,245,391			\$3,541,426		
January 2005	\$1,736,149			\$1,172,375		
February	1,666,894			1,125,609		
March	1,580,582			1,066,679		
Quarter total	\$4,983,625			\$3,364,663		
Quarter total	ψ4,905,025			ψ3,304,003		
April	\$1,666,894			\$1,125,609		
May	1,573,065			1,062,248		
June	1,700,500			1,147,657		
Quarter total	\$4,940,459			\$3,335,514		
FY 2005 total	\$20,643,739			\$13,937,582		
2003-05 biennium total	\$42,794,360			\$28,952,579		
				,		
Oil and gas research fund (NDCC Section 57-51.1-07.3)	(50,000)					
Shallow gas gross	(13,300)					
production tax exemption (NDCC Section 57-51-02.4)	(13,300)					
Statutory transfer to the permanent oil tax trust fund (NDCC Section 57-51.1-07.2)	(683,639)					
General fund revenue	\$42,047,421			\$28,952,579		
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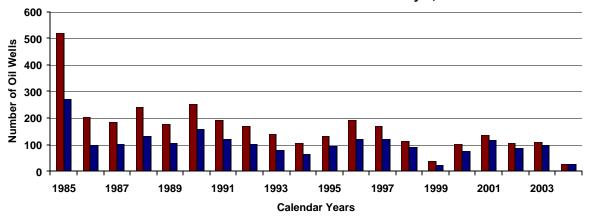
The following table provides biennium-to-date oil and gas production tax and oil extraction tax information:

	Oil and Gas Production Tax	Oil Extraction Tax
Collected to date	\$22,056,735	\$12,368,974
March 2003 forecast	18,588,475	12,600,668
Over (under)	\$3,468,260	(\$231,694)

#### HISTORY OF OIL ACTIVITY

The following is information on the history of oil activity, including information on oil wells drilled in North Dakota and the average number of oil rigs working in North Dakota.

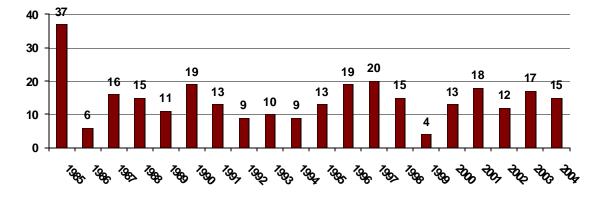




■ Oil Wells Drilled ■ Producing Oil Wells Drilled

Time Period	Oil Wells Drilled	Producing Oil Wells Drilled	Time Period	Oil Wells Drilled	Producing Oil Wells Drilled
1985	519	271	1995	133	95
1986	205	100	1996	193	120
1987	185	102	1997	169	122
1988	242	132	1998	113	91
1989	176	108	1999	37	23
1990	251	160	2000	102	78
1991	191	121	2001	137	117
1992	169	103	2002	108	89
1993	139	80	2003	111	100
1994	105	66	2004	29	28
		(through April)			

#### Average Number of Oil Rigs in North Dakota



**NOTE:** The number of oil rigs reported for years 1985 through 2003 is the number of oil rigs reported for the month of July. The number of oil rigs reported for 2004 is as of April 2004.