

HOUSE BILL NO. 1341

Introduced by

Representatives Skarphol, Rennerfeldt, Wald

Senators Lyson, Wardner

1 A BILL for an Act to amend and reenact sections 15-05-10 and 38-09-18 of the North Dakota
2 Century Code, relating to royalty exemptions for oil and gas produced on public lands.

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

4 **SECTION 1. AMENDMENT.** Section 15-05-10 of the North Dakota Century Code is
5 amended and reenacted as follows:

6 **15-05-10. Royalties from oil leases - Rents from other leases - Rules.** Oil leases
7 must be made by the board of university and school lands at ~~such~~ annual minimum payments
8 ~~as are~~ determined by the board, but the royalty ~~shall be~~ may not be less than twelve and
9 one-half percent of the gross output of oil from the lands leased. However, a producer may
10 obtain from the board an exemption from royalty payments on oil and gas produced from board
11 of university and school lands. This exemption may be obtained by submitting a request for the
12 exemption at the time of filing a permit to drill a well on a spacing unit that includes the mineral
13 interests. This exemption is effective until the sum of proceeds from the sale of oil and gas
14 from the well is equal to the reasonable actual cost of drilling, excluding any charges for
15 supervision. If there is a dispute as to the determination of reasonable actual costs, the costs
16 must be determined by the industrial commission. Following the expiration of the exemption,
17 the royalty rate for the remaining term of the lease is double the rate in the lease agreement.
18 The industrial commission shall certify the exemption in writing to the producer and the
19 commissioner. The industrial commission shall enforce this section and, for each well, may
20 determine the value of oil and gas for purposes of the payment of royalties under this section.
21 Oil leases made by the board may authorize a royalty of less than twelve and one-half percent
22 for production from stripper well properties and qualifying secondary recovery and qualifying
23 tertiary recovery projects as defined in section 57-51.1-01. Leases for gas, coal, cement
24 materials, sodium sulfate, sand and gravel, road material, building stone, chemical substances,

1 metallic ores, or colloidal or other clays must be made by the board ~~in such~~ for annual
2 payments ~~as are~~ determined by the board. The board may adopt rules regarding annual
3 payments and royalties under this section.

4 **SECTION 2. AMENDMENT.** Section 38-09-18 of the North Dakota Century Code is
5 amended and reenacted as follows:

6 **38-09-18. Terms of lease - Unit operation.** All leases for the purposes as
7 ~~hereinbefore~~ provided ~~shall~~ by this chapter must be made by the state ~~of North Dakota~~ and all
8 agencies and departments and political subdivisions ~~thereof~~ of the state for not less than
9 twenty-five cents per acre [.40 hectare] per year for deferred drilling and ~~shall~~ must be made
10 with a royalty reservation of not less than one-eighth of all oil and gas produced from ~~said~~ the
11 land as long as oil and gas may be produced from ~~said~~ the land. The term one-eighth as used
12 ~~herein must be construed to mean~~ in this section means one-eighth of ~~such~~ the interest as may
13 be owned by the lessor. However, a producer may obtain from the state, agency, department,
14 or political subdivision an exemption from royalty payments on oil and gas produced from public
15 lands. This exemption may be obtained by submitting a request for the exemption at the time of
16 filing a permit to drill a well on a spacing unit that includes the mineral interests. This exemption
17 is effective until the sum of proceeds from the sale of oil and gas from the well is equal to the
18 reasonable actual cost of drilling, excluding any charges for supervision. If there is a dispute as
19 to the determination of reasonable actual costs, the costs must be determined by the industrial
20 commission. Following the expiration of the exemption, the royalty rate for the remaining term
21 of the lease is double the rate in the lease agreement. The industrial commission shall certify
22 the exemption in writing to the producer and the governing body responsible for managing the
23 public lands involved. The industrial commission shall enforce this section and, for each well,
24 may determine the value of oil and gas for purposes of the payment of royalties under this
25 section. All leases ~~hereunder~~ must be made for a period of not less than five years and must
26 continue in effect under the terms ~~thereof~~ of the lease as long as oil or gas may be produced
27 ~~thereon~~ in commercial quantities. The state ~~of North Dakota~~ and all agencies, departments,
28 and political subdivisions ~~thereof, are specifically authorized to~~ of the state may enter into
29 agreements for the consolidation of land covered by leases on lands under the jurisdiction of
30 ~~such~~ the bodies with other adjoining or neighboring lands for the purpose of joint development
31 and operation of the entire consolidated premises as a unit. In such a case, ~~such~~ the

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1 agreement must provide that the lessor ~~shall share~~ shares in the royalty on oil and gas
2 produced from a consolidated tract in the proportion that the area of the land covered by ~~such~~
3 the lease bears to the total area of ~~such~~ the consolidated tract, or upon ~~such~~ any other royalty
4 sharing basis as may appear equitable to the governing body controlling or administering ~~such~~
5 the lands; and operations or production on ~~such~~ the consolidated tract ~~shall have~~ has the same
6 effect as operations or production under the terms of each ~~such~~ lease included ~~therein~~ in the
7 agreement.