

Sixty-first
Legislative Assembly
of North Dakota

SENATE BILL NO. 2384

Introduced by

Senators Potter, Anderson, Nelson

Representatives Glassheim, Hawken, Mock

1 A BILL for an Act to create and enact a new subsection to section 57-51.1-03 of the North
2 Dakota Century Code, relating to an oil extraction tax exemption for costs of enhanced
3 production that increases production from an oil well to the extent the well loses stripper well
4 status; to amend and reenact subsection 4 of section 38-08-04, subsection 10 of section
5 57-51.1-01, subsection 1 of section 57-51.1-03.1, and section 57-51.1-06 of the North Dakota
6 Century Code, relating to annual determination of stripper well status under the oil extraction
7 tax and deposits in the enhanced oil recovery fund; and to provide an effective date.

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

9 **SECTION 1. AMENDMENT.** Subsection 4 of section 38-08-04 of the North Dakota
10 Century Code is amended and reenacted as follows:

11 4. To classify wells as oil or gas wells for purposes material to the interpretation or
12 enforcement of this chapter, to annually classify and determine the status and
13 depth of wells that are stripper well property as defined in subsection 8 10 of
14 section 57-51.1-01, to annually certify to the tax commissioner which wells are
15 stripper wells and the depth of those wells, ~~and~~ to certify to the tax commissioner
16 which wells involve secondary or tertiary recovery operations under section
17 57-51.1-01 or enhanced recovery operations under section 3 of this Act, and to
18 certify to the tax commissioner the date of qualification for the reduced rate of oil
19 extraction tax for secondary and tertiary recovery operations or for the exemption
20 under section 3 of this Act.

21 **SECTION 2. AMENDMENT.** Subsection 10 of section 57-51.1-01 of the North Dakota
22 Century Code is amended and reenacted as follows:

23 10. "Stripper well ~~property~~" means a "~~property~~" whose well for which the average daily
24 production of oil, during days of normal recovery operations, 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 the twelve-month period ending June thirtieth. 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 3. A new subsection to section 57-51.1-03 of the North Dakota Century Code is created and enacted as follows:

The production of oil from a well that qualified as a stripper well for at least a full calendar year before implementation of an enhanced recovery project for that well and which has lost stripper well status because of an increase in oil production attributable to the enhanced recovery project is exempt from taxes imposed under this chapter until the amount of taxes exempted under this subsection equals the cost of the enhanced recovery project. The exemption provided by this subsection is only effective if the well operator establishes to the satisfaction of the industrial commission upon completion of the enhanced recovery project that the cost of the enhanced recovery project exceeded twenty-five thousand dollars or production is increased by at least ten percent during the first six months after completion of the enhanced recovery project. To qualify for the exemption under this subsection, the well operator must provide the industrial commission a statement in the form prescribed by the industrial commission showing the cost of the enhanced recovery project. The industrial commission shall review the information provided and make its finding of the reasonable costs of the enhanced recovery project and notify the operator and tax commissioner that the amount determined is the limit of the amount of the exemption under this subsection for the well.

SECTION 4. AMENDMENT. Subsection 1 of section 57-51.1-03.1 of the North Dakota Century Code is amended and reenacted as follows:

- 1 1. To receive, ~~from the first day of eligibility,~~ a tax exemption on production from a
2 stripper well ~~property~~ under subsection 2 of section 57-51.1-03, the industrial
3 commission's certification of wells that qualify for stripper well status must be
4 submitted to the tax commissioner ~~within eighteen months after the end of the~~
5 ~~stripper well property's qualification period~~ by September thirtieth immediately
6 preceding the exemption period for stripper wells. The exemption period for
7 stripper wells is the twelve months beginning October first of each year. The
8 qualification period to determine stripper well status is the twelve months ending
9 June thirtieth immediately preceding the exemption period for stripper wells.
10 Applications are not required to obtain stripper well status. The industrial
11 commission annually shall determine the wells that qualify for stripper well status
12 based on production during the qualification period.

13 **SECTION 5. AMENDMENT.** Section 57-51.1-06 of the North Dakota Century Code is
14 amended and reenacted as follows:

15 **57-51.1-06. Oil extraction tax development fund ~~established~~ - Enhanced oil**
16 **recovery fund.** The tax imposed by section 57-51.1-02 must be paid to the state treasurer
17 when collected by the state tax commissioner and must be credited to a special fund in the
18 state treasury, to be known as the oil extraction tax development fund. However, the tax
19 commissioner shall determine the net amount of the increase in revenue under this chapter
20 attributable to the change in the definition of stripper well under section 57-51.1-01 effective
21 July 1, 2009, minus the reduction in revenue attributable to the exemption under section 3 of
22 this Act and advise the state treasurer of the amount so determined for each transmittal of
23 revenue under this chapter and the state treasurer shall deposit the amount so determined in
24 the enhanced oil recovery fund. The moneys accumulated in such ~~fund~~ funds must be allocated
25 as provided in this chapter and the legislative assembly shall make any appropriation of money
26 that may be necessary to accomplish the purposes of this chapter.

27 **SECTION 6. EFFECTIVE DATE.** This Act is effective for taxable events occurring after
28 June 30, 2009.