

**SENATE BILL NO.**

Introduced by

Senator Potter

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 increase 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 recertification of stripper well status under the oil extraction tax  
7 and deposits in the enhanced oil recover 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, and the date of qualification for the reduced rate of oil extraction tax for  
18 secondary and tertiary recovery operations.

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

21 10. "Stripper well ~~property~~" means a "~~property~~" whose well for which the average daily  
22 production of oil, during days of normal recovery operations, excluding condensate  
23 recovered in nonassociated production, ~~per well~~ did not exceed ten barrels per day  
24 for wells of a depth of six thousand feet [1828.80 meters] or less, fifteen barrels per

1 day for wells of a depth of more than six thousand feet [1828.80 meters] but not  
2 more than ten thousand feet [3048 meters], and thirty barrels per day for wells of a  
3 depth of more than ten thousand feet [3048 meters] during ~~any preceding~~  
4 ~~consecutive~~ the twelve-month period ending June thirtieth. Wells which did not  
5 actually yield or produce oil during the qualifying twelve-month period, including  
6 disposal wells, dry wells, spent wells, and shut-in wells, are not production wells for  
7 the purpose of determining whether the stripper well property exemption applies.

8 **SECTION 3.** A new subsection to section 57-51.1-03 of the North Dakota Century Code  
9 is created and enacted as follows:

10 The production of oil from a well that qualified as a stripper well for at least a full  
11 calendar year before implementation of an enhanced recovery project for that well  
12 and which has lost stripper well status because of an increase in oil production  
13 attributable to the enhanced recovery project is exempt from taxes imposed under  
14 this chapter until the amount of taxes exempted under this subsection equals the  
15 cost of the enhanced recovery project. The exemption provided by this subsection  
16 is only effective if the well operator establishes to the satisfaction of the industrial  
17 commission upon completion of the enhanced recovery project that the cost of the  
18 enhanced recovery project exceeded sixty-five thousand dollars or production is  
19 increased by at least fifty percent during the first two months after completion of the  
20 enhanced recovery project. To qualify for the exemption under this subsection, the  
21 well operator must provide the industrial commission a statement in the form  
22 prescribed by the industrial commission showing the cost of the enhanced recovery  
23 project. The industrial commission shall review the information provided and  
24 establish the justifiable costs of the enhanced recovery project, which shall be the  
25 limit of the amount of the exemption under this subsection for the well.

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

28 1. To receive, ~~from the first day of eligibility,~~ a tax exemption on production from a  
29 stripper well ~~property~~ under subsection 2 of section 57-51.1-03, the industrial  
30 commission's certification of wells that qualify for stripper well status must be  
31 submitted to the tax commissioner ~~within eighteen months after the end of the~~

1           ~~stripper well property's qualification period by August fifteenth immediately~~  
2           ~~preceding the exemption period for stripper wells. The exemption period for~~  
3           ~~stripper wells is the twelve months beginning September first of each year. The~~  
4           ~~qualification period to determine stripper well status is the twelve months ending~~  
5           ~~June thirtieth immediately preceding the exemption period for stripper wells.~~  
6           ~~Applications are not required to obtain stripper well status. The industrial~~  
7           ~~commission shall annually determine the wells that qualify for stripper well status~~  
8           ~~based on production during the qualification period.~~

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

11           **57-51.1-06. Oil extraction tax development fund established.** The tax imposed by  
12 section 57-51.1-02 must be paid to the state treasurer when collected by the state tax  
13 commissioner and must be credited to a special fund in the state treasury, to be known as the  
14 oil extraction tax development fund. The moneys accumulated in such fund must be allocated  
15 as provided in this chapter and the legislative assembly shall make any appropriation of money  
16 that may be necessary to accomplish the purposes of this chapter.

17           **SECTION 6. EFFECTIVE DATE.** This Act is effective for taxable events occurring after  
18 June 30, 2007.