

North Dakota Department of Mineral Resources

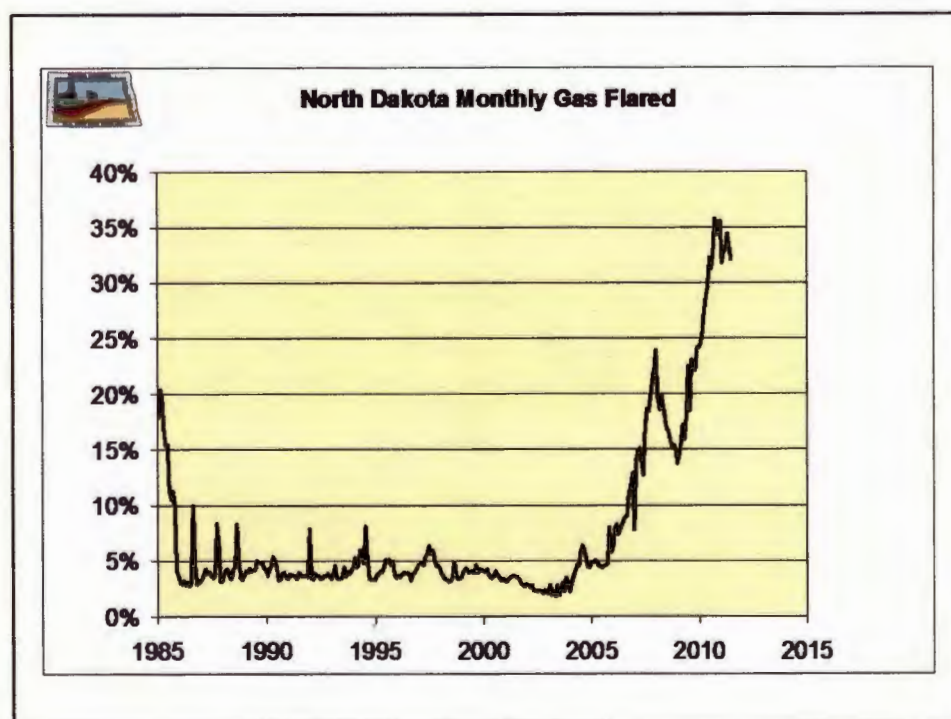
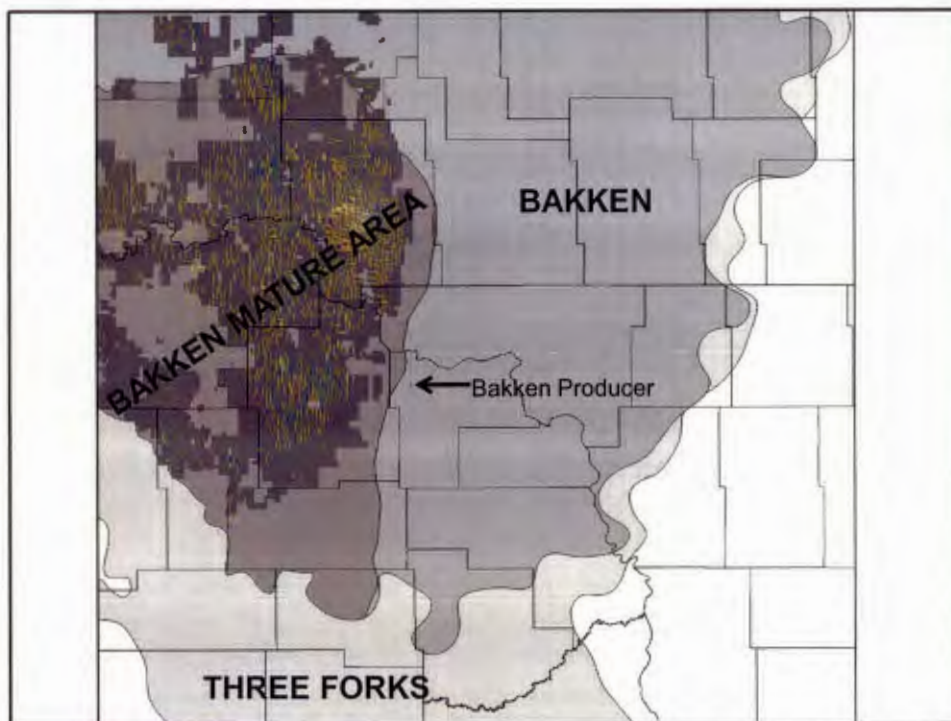


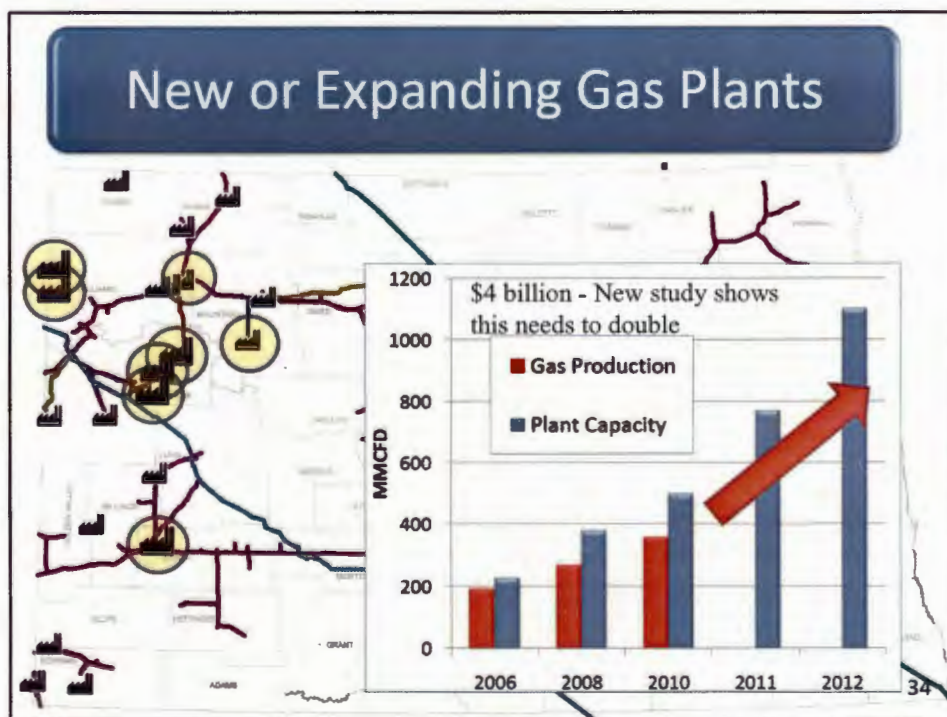
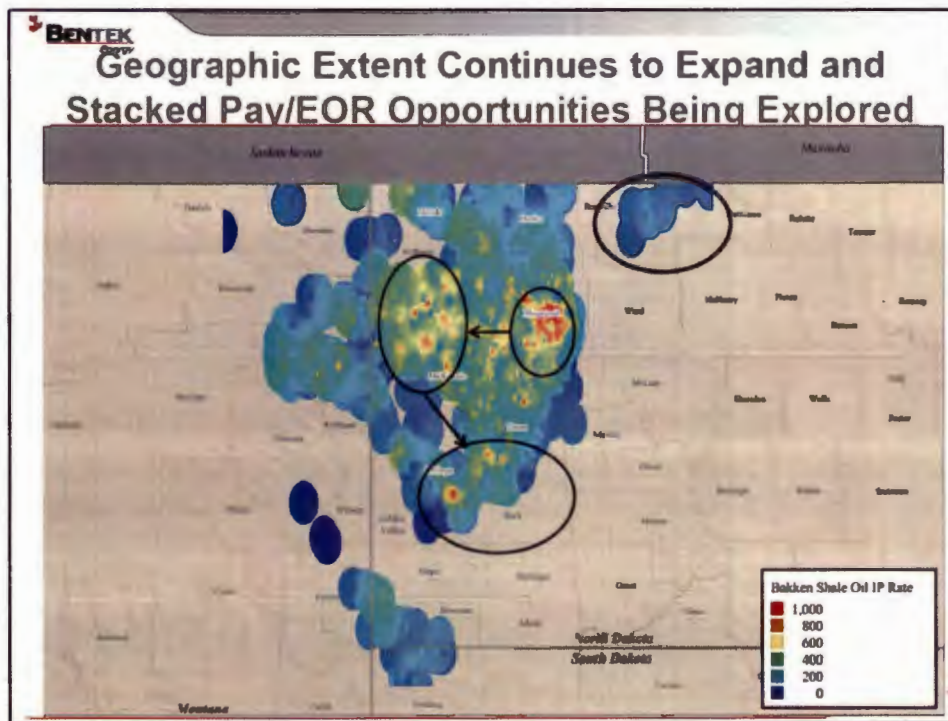
<http://www.oilgas.nd.gov>

<http://www.state.nd.us/ndgs>

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Flare Gas Technologies



SMALL-SCALE GAS PROCESSING AND NGL RECOVER

- Acid Gas Removal
- Dehydration
- Nitrogen Rejection
- NGL Recovery

CNG/LNG FOR VEHICLES

- Drilling Rig Power

ELECTRIC POWER GENERATION

- Grid Support
- Local Power
- Drilling Rig Power

CHEMICALS DERIVED FROM BAKKEN ASSOCIATED GAS

- Petrochemical Industry
- Distributed-Scale Ammonia Plants

Flare Gas Technologies



CHALLENGES

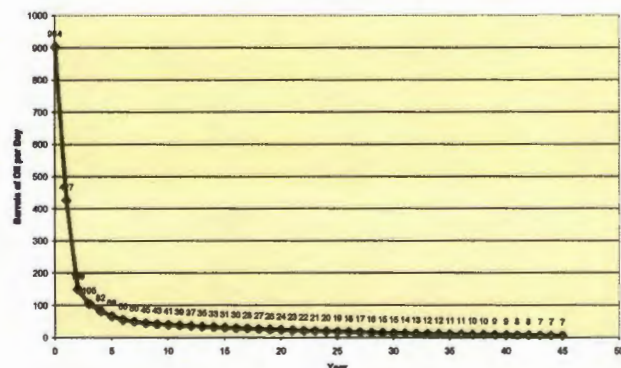
Economics

Scale

Mobility

Liability

Typical Bakken Well Production



Taxation and Royalties

38-08-06.4. FLARING OF GAS RESTRICTED - IMPOSITION OF TAX - PAYMENT OF ROYALTIES - INDUSTRIAL COMMISSION AUTHORITY.

As permitted under rules of the industrial commission, gas produced with crude oil from an oil well may be flared during a one-year period from the date of first production from the well. Thereafter, flaring of gas from the well must cease and the well must be capped, connected to a gas gathering line, or equipped with an electrical generator that consumes at least seventy-five percent of the gas from the well. An electrical generator and its attachment units to produce electricity from gas must be considered to be personal property for all purposes. For a well operated in violation of this section, the producer shall pay royalties to royalty owners upon the value of the flared gas and shall also pay gross production tax on the flared gas at the rate imposed under section 57-51-02.2. The industrial commission may enforce this section and, for each well operator found to be in violation of this section, may determine the value of flared gas for purposes of payment of royalties under this section and its determination is final. A producer may obtain an exemption from this section from the industrial commission upon application and a showing that connection of the well to a natural gas gathering line is economically infeasible at the time of the application or in the foreseeable future or that a market for the gas is not available and that equipping the well with an electrical generator to produce electricity from gas is economically infeasible.

Taxation and Royalties

43-02-03-60.1. VALUATION OF FLARED GAS. The value of gas flared from an oil well in violation of North Dakota Century Code section 38-08-06.4 shall be determined by the commission after notice and hearing.

43-02-03-60.2. FLARING EXEMPTION. The connection of a well to a natural gas gathering line is "economically infeasible" under North Dakota Century Code section 38-08-06.4, if the direct costs of connecting the well to the line and the direct costs of operating the facilities connecting the well to the line during the life of the well, are greater than the amount of money the operator is likely to receive for the gas, less production taxes and royalties, should the well be connected. In making this calculation, the applicant may add ten percent to the amount of the cost of connecting the well and of operating the connection facilities used to determine whether a connection is economically infeasible. This ten percent may be added in consideration of the cost of money and other overhead costs that are not figured in the direct costs of connecting the well and operating the connecting facilities. An applicant for an exemption under North Dakota Century Code section 38-08-06.4 must, at the minimum, present evidence covering the following areas:

1. Basis for the gas price used to determine whether it is economically infeasible to connect the well to a natural gas gathering line;
2. Cost of connecting the well to the line and operating the facilities connecting the well to the line;
3. Current daily rate of the amount of gas flared; and
4. The amount of gas reserves and the amount of gas available for sale.

Taxation and Royalties

57-51-02.2. Gross production tax - Gas.

A gross production tax is levied upon all gas produced within North Dakota except gas that is exempt from taxation. The tax levied must attach to the whole production, including the royalty interest. The tax on gas must be calculated by taking the taxable production in mcf times the gas tax rate.

1. The gas tax rate is four cents times the gas base rate adjustment for each fiscal year as calculated under subsection 2.
2. a. The tax department shall annually determine the gas base rate adjustment and the resulting gas tax rate for each fiscal year beginning on July first.
- b. The gas base rate adjustment for the fiscal year is a fraction, the numerator of which is the annual average of the gas fuels producer price index, commodity code 05-3, as calculated and published by the United States department of labor, bureau of labor statistics, for the previous calendar year, and the denominator of which is seventy-five and seven-tenths.
- c. The tax department shall provide the gas base rate adjustment and the gas tax rate for the fiscal year, as determined under this subsection, to affected producers by written notice mailed on or before June first.
- d. If the index used to determine the gas base rate adjustment is substantially revised, or if the base year for the index is changed, the department by administrative rule shall make appropriate adjustment to the method used to determine the gas base rate adjustment to ensure a result which is reasonably consistent with the result which would have been obtained had the index not been revised or the base year changed.
- e. If the gas fuels producer price index is discontinued, a comparable index must be adopted by the department by an administrative rule.

Taxation and Royalties

57-51-02.4. Shallow gas - Gross production tax exemption.

Shallow gas produced during the first twenty-four 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 levied under section 57-51-02.2. Gas produced from such a well during testing prior to well completion or connection to a pipeline is also exempt from the gross production tax.

57-51-02.5. Exemption of gas for electrical generation at well site.

Gas burned at the well site to power an electrical generator that consumes at least seventy-five percent of the gas from the well is exempt from the tax under section 57-51-02.2.

57-39.2-04.5. Sales and use tax exemption for materials used in compressing, processing, gathering, or refining of gas.

1. Gross receipts from sales of tangible personal property used to construct or expand a system used to compress, process, gather, or refine gas recovered from an oil or gas well in this state or used to expand or build a gas processing facility in this state are exempt from taxes under this chapter. To be exempt, the tangible personal property must be incorporated into a system used to compress, process, gather, or refine gas. Tangible personal property used to replace an existing system to compress, process, gather, or refine gas does not qualify for exemption under this section unless the replacement creates an expansion of the system.
2. To receive the exemption under this section at the time of purchase, the owner of the gas compressing, processing, gathering, or refining system must receive from the tax commissioner a certificate that the tangible personal property used to construct or expand a system used to compress, process, gather, or refine gas recovered from an oil or gas well in this state or used to expand or build a gas processing facility in this state which the owner intends to purchase qualifies for exemption. If a certificate is not received before the purchase, the owner shall pay the applicable tax imposed by this chapter and apply to the tax commissioner for a refund.
3. If the tangible personal property is purchased or installed by a contractor subject to the tax imposed by this chapter, the owner of the gas compressing, processing, gathering, or refining system may apply to the tax commissioner for a refund of the difference between the amount remitted by the contractor and the exemption imposed or allowed by this section. Application for a refund must be made at the times and in the manner directed by the tax commissioner and must include sufficient information to permit the tax commissioner to verify the sales and use taxes paid and the exempt status of the sale or use.