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Senate Bill 2383

Testimony of Brady Pelton

Senate Finance and Taxation Committee

February 1, 2023

Chairman Kannianen and members of the Committee, my name is Brady Pelton, vice president of the North Dakota Petroleum Council ("NDPC"). The North Dakota Petroleum Council represents more than 600 companies involved in all aspects of the oil and gas industry, including oil and gas production, refining, pipeline, transportation, mineral leasing, consulting, legal work, and oilfield service activities in North Dakota. I appear before you today in opposition to Senate Bill 2383.

The bill before you removes a significant incentive to oil and gas developers by eliminating the property tax exemption for carbon dioxide pipelines and necessary associated equipment owned by entities seeking credits against federal income tax liability under Section 45Q of the United States Internal Revenue Code (45Q tax credit). The property tax exemption currently available for carbon dioxide pipelines in N.D.C.C. Section 57-06-17.1 is critical to developing pipelines transporting carbon dioxide for use in enhanced oil recovery (EOR) operations, and the potential exclusion of a pipeline simply because its owner has pursued 45Q tax credits is concerning.

As an example of the carbon dioxide pipeline property tax exemption's importance to industry and continued development of EOR in North Dakota, one need only look to the work of Denbury Inc. in the southwest corner of the state. Its Cedar Creek Anticline pipeline expansion from Montana into North Dakota has allowed carbon dioxide produced in Wyoming to be used in the first large-scale EOR project in the state's history, targeting the Cedar Hills South Unit in Bowman County. That pipeline expansion construction cost alone totaled approximately $127 million. Its pump station cost was approximately $10 million. Finally, the four carbon dioxide recycling facilities necessary to service the Cedar Hills South Unit, which are currently under construction, will cost about $92 million.

Considering the large costs involved in completing the 105-mile Denbury pipeline and its 26-mile lateral into Bowman County, availability of the existing property tax exemption for this game-changing pipeline was a critical component of the company's decision to bring the Cedar Creek Anticline lateral pipeline into North Dakota and begin carbon dioxide injection operations within the state. Denbury estimates approximately 19.5 million net barrels of oil can be recovered from the Cedar Hills South Unit using the carbon dioxide EOR techniques made possible with its pipeline expansion. This bill, if enacted, could have a large potential impact on Denbury's existing ten-year property tax exemption that the company relied on in constructing within North Dakota.

The language of Senate Bill 2383 creates confusion in that it can be read to disqualify the Denbury pipeline and the countless others needed to transport carbon dioxide to North Dakota's oil- and gas-producing fields from qualifying for the ten-year carbon dioxide property tax exemption if the pipeline transports carbon dioxide captured using the federal income tax credit designed to encourage the very carbon capture, utilization, and sequestration techniques needed for EOR activity. Eliminating a critical incentive for developing carbon dioxide pipeline infrastructure increases project costs and significantly reduces North Dakota's ability to compete with other regions of the country in further developing its natural resource production.

In essence, Senate Bill 2383 will act as a deterrent to carbon dioxide pipeline expansion critical in supporting the growth of EOR in North Dakota. For this reason alone, NDPC strongly opposes this bill, and we therefore urge a **Do Not Pass recommendation** for Senate Bill 2383.

Thank you, and I would be happy to answer any questions.