2025 HOUSE FINANCE AND TAXATION

HB 1295

2025 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Room JW327E, State Capitol

HB 1295
2/3/2025

Relating to the carbon dioxide pipeline exemption, payments in lieu of taxes for certain carbon dioxide pipeline property, and the carbon dioxide capture and injection sales tax exemption; and to provide an effective date.

10:15 a.m. Chairman Headland opened the hearing.

Members Present: Chairman Headland, Vice Chair Hagert, Representatives Anderson, Dockter, Dressler, Foss, Grueneich, Ista, Motschenbacher, Nehring, Olson, Porter, Steiner, Toman

Discussion Topics:

- Striking "secure geologic storage"
- New industry
- Keeping industry in ND
- Intermittent power supply

10:15 a.m. Representative SuAnn Olson introduced the bill, proposed an amendment and submitted testimony #33354 and #33773.

10:36 a.m. Zachary Cassidy, Organizer, Dakota Resource Council, testified in favor and submitted testimony #33321.

10:47 a.m. Lanny Kenner testified in favor and submitted testimony #33439.

10:50 a.m. Brady Pelton, VP, ND Petroleum Council, testified in opposition and submitted testimony #33646, #33647 and #33648.

11:00 a.m. Dave Nehring, Summit Carbon Solutions, testified in opposition and submitted testimony #33673.

11:04 a.m. Laura Lacher, Executive Director, The North Dakota Ethanol Producers Association, testified in opposition and submitted testimony #33828.

11:05 a.m. Johnathan Fortner, VP Government relations, Lignite Energy Council, submitted testimony in opposition #33559.

11:08 a.m. Andrea Pfennig, VP Government Affairs, GNDC, submitted testimony in opposition #33493.

Additional written testimony:

Andrew Varvel submitted testimony in opposition #33627.

Doug Sharbono submitted testimony in favor #33675.

11:09 a.m. Chairman Headland closed the hearing.

Janae Pinks, Committee Clerk

Zach Cassidy
Organizer
DRC

Greetings Mr. Chairman and member of the Committee.
I am Zachary Cassidy, writing in support of HB 1295.

Firstly, this bill would remove the evaluation of C02 Pipelines in Economic Development Tax Incentives. With C02 Carbon Capture Utilization and Storage being already funded by the federal government, the state does not need to explore further tax benefits for already wealthy companies.

Furthermore, this bill would remove the Use Tax Exemption for contractors purchasing any materials needed for carbon capture, transport, or storage. Again, we believe that with these projects already being highly profitable and already taxpayer-funded these projects can reasonably be expected to pay their fair share of taxes.

As such we request a DO PASS on this bill.

25.0948.01002
Title.

Prepared by the Legislative Council staff for Representative S. Olson
January 29, 2025

Sixty-ninth
Legislative Assembly
of North Dakota

PROPOSED AMENDMENTS TO

HOUSE BILL NO. 1295

Introduced by

Representatives S. Olson, Heilman, D. Johnston, Kasper, Maki, Toman, Nehring

Senators Enget, Magrum

A BILL for an Act to amend and reenact ~~subsection 3 of section 54-35-26 and sections 57-40.2-03.3 and 57-60-06 of the North Dakota Century Code, relating to the evaluation of economic development tax incentives, the carbon dioxide capture and injection use tax exemption, and the ad valorem property tax exemption for carbon dioxide capture equipment used for enhanced oil recovery and secure geologic storage; to repeal~~ sections 57-06-17.1~~, 57-06-17.2,~~ and 57-39.2-04.14 of the North Dakota Century Code, relating to the carbon dioxide pipeline exemption~~, payments in lieu of taxes for certain carbon dioxide pipeline property,~~ and the carbon dioxide capture and injection sales tax exemption; and to provide an effective date.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

~~**SECTION 1. AMENDMENT.** Subsection 3 of section 54-35-26 of the North Dakota Century Code is amended and reenacted as follows:~~

~~3. The legislative management interim committee assigned the study responsibility under this section may examine economic development tax incentives, shall complete analysis of the incentives it designates for analysis during the interim, and shall approve a plan to provide that each of the economic development tax incentives listed in this subsection is subject to a complete analysis within each six-year period. The interim committee may include in its recommendations any amendments to this section, including amendments to add or remove incentives from the list of incentives subject to analysis under this subsection. Analysis must be completed for economic development tax incentives, including each of the following:~~

~~a. Renaissance zone credits and exemptions.~~

~~b. Research expense credit.~~

~~c. Agricultural commodity processing facility investment credit.~~

~~d. Biodiesel fuel production facility construction or retrofit credit, biodiesel fuel blending credit, and biodiesel fuel equipment credit.~~

~~e. Seed capital investment credit.~~

~~f. Internship program credit.~~

~~g. Angel fund investment credit.~~

~~h. Workforce recruitment credit.~~

~~i. Soybean or canola crushing facility construction or retrofit credit.~~

~~j. Twenty-first century manufacturing and animal agricultural workforce incentive.~~

~~k. New or expanding business exemption.~~

~~l. Manufacturing and recycling equipment sales tax exemption.~~

~~m. Coal severance and conversion tax exemptions.~~

~~n. Oil and gas gross production and oil extraction tax exemptions.~~

~~o. Fuel tax refunds for certain users.~~

~~p. New jobs credit from income tax withholding.~~

~~q. Development or renewal area incentives.~~

~~r. Sales and use tax exemption for materials used to construct a fertilizer or chemical processing facility.~~

~~s. Sales and use tax exemption for materials used in compressing, gathering, collecting, storing, transporting, or injecting carbon dioxide for use in enhanced recovery of oil or natural gas.~~

~~t. Sales and use tax exemption for enterprise information technology equipment and computer software used in a qualified data center.~~

~~u.~~t. ~~Sales and use tax exemption for raw materials, single-use product contact systems, and reagents used for biologic manufacturing.~~

~~v.~~u. ~~Sales and use tax exemption for materials used to construct or expand a coal processing facility that utilizes coal as a feedstock.~~

~~**SECTION 2. AMENDMENT.** Section 57-40.2-03.3 of the North Dakota Century Code is amended and reenacted as follows:~~

~~**57-40.2-03.3. Use tax on contractors. (Effective through June 30, 2025)**~~

~~1. When a contractor or subcontractor uses tangible personal property in the performance of that person's contract, or to fulfill contract or subcontract obligations, whether the title to the property be in the contractor, subcontractor, contractee, subcontractee, or any other person, or whether the titleholder of the property would be subject to pay the sales or use tax, the contractor or subcontractor shall pay a use tax at the rate prescribed by section 57-40.2-02.1 measured by the purchase price or fair market value of such property, whichever is greater, unless the property has been previously subjected to a sales tax or use tax by this state, and the tax due has been paid. This section does not apply to a contractor or subcontractor that does not enter a contract for the purchase of the tangible personal property.~~

~~2. The provisions of this chapter pertaining to the administration of the tax imposed by section 57-40.2-02.1, not in conflict with the provisions of this section, govern the administration of the tax levied by this section.~~

~~3. The tax imposed by this section does not apply to:~~

~~a. Production equipment or tangible personal property as authorized or approved for exemption by the tax commissioner under section 57-39.2-04.2.~~

~~b. Machinery, equipment, or other tangible personal property used to construct an agricultural commodity processing facility as authorized or approved for exemption by the tax commissioner under section 57-39.2-04.3 or 57-39.2-04.4.~~

~~c. 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 as authorized or approved for exemption by the tax commissioner under section 57-39.2-04.5.~~

~~d. Tangible personal property used to construct or expand a qualifying oil refinery as authorized or approved for exemption by the tax commissioner under section 57-39.2-04.6.~~

~~e. Tangible personal property used to construct or expand a qualifying facility as authorized or approved for exemption by the tax commissioner under section 57-39.2-04.10.~~

~~f. Tangible personal property used to construct or expand a qualifying facility as authorized or approved for exemption by the tax commissioner under section 57-39.2-04.11.~~

~~g. Materials used in compressing, gathering, collecting, storing, transporting, or injecting carbon dioxide for use in enhanced recovery of oil or natural gas as provided in section 57-39.2-04.14.~~

~~h. Tangible personal property used to construct a qualifying fertilizer or chemical processing facility as authorized or approved for exemption by the tax commissioner under section 57-39.2-04.15.~~

~~i.~~h. ~~Tangible personal property used to construct a qualified straddle plant, a qualified fractionator, or qualified associated infrastructure as authorized or approved for exemption by the tax commissioner under section 57-39.2-04.16.~~

~~j.~~i. ~~Tangible personal property as authorized or approved for exemption by the tax commissioner as provided in section 57-39.2-04.21.~~

~~k.~~j. ~~Tangible personal property as authorized or approved for exemption by the tax commissioner as provided in section 57-39.2-04.20.~~

~~l.~~k. ~~Raw materials, single-use product contact systems, and reagents used for biologic manufacturing as authorized or approved for exemption by the tax commissioner under section 57-39.2-04.19.~~

~~m.~~l. ~~Tangible personal property used to construct, expand, or upgrade a facility that refines renewable feedstock into sustainable aviation fuel as authorized or approved by the tax commissioner under section 57-39.2-04.18.~~

~~**Use tax on contractors. (Effective after June 30, 2025, and through June 30, 2029)**~~

~~1. When a contractor or subcontractor uses tangible personal property in the performance of that person's contract, or to fulfill contract or subcontract obligations, whether the title to the property be in the contractor, subcontractor, contractee, subcontractee, or any other person, or whether the titleholder of the property would be subject to pay the sales or use tax, the contractor or subcontractor shall pay a use tax at the rate prescribed by section 57-40.2-02.1 measured by the purchase price or fair market value of such property, whichever is greater, unless the property has been previously subjected to a sales tax or use tax by this state, and the tax due has been~~

~~paid. This section does not apply to a contractor or subcontractor that does not enter a contract for the purchase of the tangible personal property.~~

~~2. The provisions of this chapter pertaining to the administration of the tax imposed by section 57-40.2-02.1, not in conflict with the provisions of this section, govern the administration of the tax levied by this section.~~

~~3. The tax imposed by this section does not apply to:~~

~~a. Production equipment or tangible personal property as authorized or approved for exemption by the tax commissioner under section 57-39.2-04.2;~~

~~b. Machinery, equipment, or other tangible personal property used to construct an agricultural commodity processing facility as authorized or approved for exemption by the tax commissioner under section 57-39.2-04.3 or 57-39.2-04.4;~~

~~c. 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 as authorized or approved for exemption by the tax commissioner under section 57-39.2-04.5;~~

~~d. Tangible personal property used to construct or expand a qualifying oil refinery as authorized or approved for exemption by the tax commissioner under section 57-39.2-04.6;~~

~~e. Tangible personal property used to construct or expand a qualifying facility as authorized or approved for exemption by the tax commissioner under section 57-39.2-04.10;~~

~~f. Tangible personal property used to construct or expand a qualifying facility as authorized or approved for exemption by the tax commissioner under section 57-39.2-04.11;~~

~~g. Materials used in compressing, gathering, collecting, storing, transporting, or injecting carbon dioxide for use in enhanced recovery of oil or natural gas as provided in section 57-39.2-04.14;~~

~~h. Tangible personal property used to construct a qualifying fertilizer or chemical processing facility as authorized or approved for exemption by the tax commissioner under section 57-39.2-04.15; or~~

~~i.~~h. ~~Tangible personal property used to construct a qualified straddle plant, a qualified fractionator, or qualified associated infrastructure as authorized or approved for exemption by the tax commissioner under section 57-39.2-04.16.~~

~~j.~~i. ~~Tangible personal property as authorized or approved for exemption by the tax commissioner as provided in section 57-39.2-04.21.~~

~~k.~~j. ~~Tangible personal property as authorized or approved for exemption by the tax commissioner as provided in section 57-39.2-04.20.~~

~~l.~~k. ~~Raw materials, single-use product contact systems, and reagents used for biologic manufacturing as authorized or approved for exemption by the tax commissioner under section 57-39.2-04.19.~~

~~**Use tax on contractors. (Effective after June 30, 2029)**~~

~~1. When a contractor or subcontractor uses tangible personal property in the performance of that person's contract, or to fulfill contract or subcontract obligations, whether the title to the property be in the contractor, subcontractor, contractee, subcontractee, or any other person, or whether the titleholder of the property would be subject to pay the sales or use tax, the contractor or subcontractor shall pay a use tax at the rate prescribed by section 57-40.2-02.1 measured by the purchase price or fair market value of such property, whichever is greater, unless the property has been previously subjected to a sales tax or use tax by this state, and the tax due has been paid. This section does not apply to a contractor or subcontractor that does not enter a contract for the purchase of the tangible personal property.~~

~~2. The provisions of this chapter pertaining to the administration of the tax imposed by section 57-40.2-02.1, not in conflict with the provisions of this section, govern the administration of the tax levied by this section.~~

~~3. The tax imposed by this section does not apply to:~~

~~a. Production equipment or tangible personal property as authorized or approved for exemption by the tax commissioner under section 57-39.2-04.2;~~

~~b. Machinery, equipment, or other tangible personal property used to construct an agricultural commodity processing facility as authorized or approved for exemption by the tax commissioner under section 57-39.2-04.3 or 57-39.2-04.4;~~

~~c. 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 as authorized or approved for exemption by the tax commissioner under section 57-39.2-04.5;~~

~~d. Tangible personal property used to construct or expand a qualifying oil refinery as authorized or approved for exemption by the tax commissioner under section 57-39.2-04.6;~~

~~e. Tangible personal property used to construct or expand a qualifying facility as authorized or approved for exemption by the tax commissioner under section 57-39.2-04.10;~~

~~f. Tangible personal property used to construct or expand a qualifying facility as authorized or approved for exemption by the tax commissioner under section 57-39.2-04.11;~~

~~g. Materials used in compressing, gathering, collecting, storing, transporting, or injecting carbon dioxide for use in enhanced recovery of oil or natural gas as provided in section 57-39.2-04.14;~~

~~h. Tangible personal property used to construct a qualifying fertilizer or chemical processing facility as authorized or approved for exemption by the tax commissioner under section 57-39.2-04.15; or~~

~~i.~~h. ~~Tangible personal property used to construct a qualified straddle plant, a qualified fractionator, or qualified associated infrastructure as authorized or approved for exemption by the tax commissioner under section 57-39.2-04.16.~~

~~j.~~i. ~~Tangible personal property as authorized or approved for exemption by the tax commissioner as provided in section 57-39.2-04.21.~~

~~k.~~j. ~~Tangible personal property as authorized or approved for exemption by the tax commissioner as provided in section 57-39.2-04.20.~~

~~**SECTION 3. AMENDMENT.** Section 57-60-06 of the North Dakota Century Code is amended and reenacted as follows:~~

~~**57-60-06. Property classified and exempted from ad valorem taxes - In lieu of certain other taxes - Credit for certain other taxes.**~~

~~Each coal conversion facility and any carbon dioxide capture system located at the coal conversion facility, and any equipment directly used for secure geologic storage of carbon dioxide or enhanced recovery of oil or natural gas must be classified as personal property and is exempt from all ad valorem taxes except for taxes on the land on which the facility, capture system, or equipment is located. The exemption provided by this section may not be interpreted to apply to tangible personal property incorporated as a component part of a carbon dioxide pipeline but this restriction does not affect eligibility of such a pipeline for the exemption under section 57-06-17.1. The taxes imposed by this chapter are in lieu of ad valorem taxes on the property so classified as personal property.~~

~~**SECTION 4. REPEAL.** Sections 57-06-17.1 and 57-06-17.2 of the North Dakota Century Code are repealed.~~

~~**SECTION 5. REPEAL.** Section 57-39.2-04.14 of the North Dakota Century Code is repealed.~~

SECTION 1. AMENDMENT. Section 57-06-17.1 of the North Dakota Century Code is amended and reenacted as follows:

57-06-17.1. Carbon dioxide pipeline exemption.

Property, not including land, is exempt from taxation during construction and for the first ten full taxable years following initial operation if it consists of a pipeline, constructed after 1996, and necessary associated equipment for the transportation or storage of carbon dioxide for ~~secure geologic storage or~~exclusive use in enhanced recovery of oil or natural gas.

SECTION 2. AMENDMENT. Section 57-39.2-04.14 of the North Dakota Century Code is amended and reenacted as follows:

57-39.2-04.14. Sales and use tax exemption for materials used in compressing, gathering, collecting, storing, transporting, or injecting carbon dioxide for ~~secure geologic storage or~~exclusive use in enhanced recovery of oil or natural gas.

1. Gross receipts from sales of tangible personal property used to construct or expand a system used to compress, gather, collect, store, transport, or inject carbon dioxide for ~~secure geologic storage or~~exclusive use in enhanced recovery of oil or natural gas 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, gather, collect, store, transport, or inject carbon dioxide for ~~secure geologic storage or~~exclusive use in enhanced recovery of oil or natural gas. Tangible personal property used to replace an existing system to compress, gather, collect, store, transport, or inject carbon dioxide for ~~secure geologic storage or~~exclusive use in enhanced recovery of oil or natural 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, gathering, collecting, storing, transporting, or injecting system must receive from the tax commissioner a certificate that the tangible personal property used to construct or expand a system used to compress, gather, collect, store, transport, or inject carbon dioxide for ~~secure geologic storage or~~exclusive use in enhanced recovery of oil or natural gas qualifies for the 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, gathering, collecting, storing, transporting, or injecting 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 time 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.

4. This chapter and chapter 57-40.2 apply to the exemption under this section.

SECTION 3. EFFECTIVE DATE. ~~Sections 2 and 5~~Section 2 of this Act ~~are~~is effective for taxable events occurring after June 30, 2025. ~~Sections 3 and 4~~Section 1 of this Act ~~are~~is effective for taxable years beginning after December 31, 2024.

Lanny Kenner
District 7
Bismarck North Dakota 58503
House Bill 1295 in favor

Commissioner Headland and committee members of the finance and taxation committee,

My name is Lanny Kenner and I am speaking in favor of House Bill 1295. In my opinion any company using the 45q tax credits which are made possible by taxing the people of the United States and creating a huge national deficit should not get more tax exemptions in property or state taxes while the good folks of North Dakota struggle to make ends meet. Taking plant food out of the air from multiple states and transporting it by pipeline with pressures as high as an oxygen tank and pumping 100 percent of it into a high price dump ground in North Dakota is awful. Less than 2% of the CO2 would be coming from North Dakota! It would be like a slap in the face for citizens of North Dakota if big private Chinese/US companies are given property and state tax breaks.

Please show the ND citizens you care about them by passig HB 1295. Thank you all for your service to us and thank you listening. Lanny Kenner

Greater North Dakota Chamber

GREATER NORTH DAKOTA CHAMBER
HB 1295
House Finance & Taxation Committee
Chair Craig Headland
February 3, 2025

Mr. Chairman and members of the Committee, my name is Andrea Pfennig, and I am the Vice President of Government Affairs for the Greater North Dakota Chamber. GNDC is North Dakota's largest statewide business advocacy organization, with membership represented by small and large businesses, local chambers, and trade and industry associations across the state. We stand in **opposition** of House Bill 1295.

We support the advancement of innovation and entrepreneurship through targeted incentives and economic development policies that position North Dakota to be globally competitive. We recognize the benefits of a diversified economy for the economic health of North Dakota.

Two of our major industries, energy and agriculture, are continually adapting and innovating to meet consumer demands by investing in new technologies. These investments take significant amounts of time and resources. By excluding carbon dioxide pipelines from the exemption at this juncture, North Dakota would be creating an inconsistent, unstable policy environment that would have a chilling effect on attraction of capital.

Our state has worked for decades to lead the nation when it comes to innovation, especially in the energy sector. Now is not the time to go backwards. Smart approaches to infrastructure are vital to ensure that North Dakota has the infrastructure necessary to support and grow a thriving economy. We hope you will OPPOSE HB 1295.

701.222.0929 ndchamber@ndchamber.com ndchamber.com PO Box 2639 • Bismarck, ND 58502

Lignite Energy Council
LEADING THROUGH ADVOCACY AND INNOVATION

February 3, 2025

Chairman Headland and Members of the House Finance and Taxation Committee,

Thank you for the opportunity to testify in opposition to HB 1295 on behalf of the Lignite Energy Council. The LEC has played a key role in crafting North Dakota's CCUS tax policies, which have positioned our state as a national leader in carbon capture and storage. This bill undoes years of progress by repealing essential sales, use, and property tax exemptions for CO_2 capture, transport, and storage.

HB 1295 eliminates tax exemptions for CO_2 pipelines and storage infrastructure, significantly increasing costs for carbon sequestration projects. These policies were enacted to support North Dakota's energy economy, ensuring that industries investing in CCUS—such as power generation, ethanol production, and enhanced oil recovery—have the financial certainty needed to move forward. By removing these incentives, the bill discourages investment, delays projects, and makes CCUS development less viable in our state.

Furthermore, repealing these incentives undercuts North Dakota's leadership in carbon management. Our state has successfully positioned itself as a national leader in CO_2 storage, securing EPA Class VI primacy and drawing federal and private investment. Weakening this framework risks losing future projects to other states with more competitive policies.

North Dakota needs consistent, pro-growth policies, not sudden reversals that create uncertainty for businesses. HB 1295 sends the wrong signal to investors and industries that have already committed millions to CCUS projects under the current tax structure. We urge the committee to defeat this bill with a "Do Not Pass" recommendation and maintain North Dakota's momentum as a leader in carbon capture and energy innovation.

Thank you for your consideration,

Jonathan Fortner
VP of Government Relations
Lignite Energy Council

House Finance & Taxation Committee

House Bill 1295

Andrew Alexis Varvel

Written Testimony

February 3, 2025

Chairman Headland and Members of the Committee:

My name is Andrew Alexis Varvel.

I live in Bismarck, District 47.

I like this bill.

I do not regard underground carbon dioxide storage to be a public good, merely a publicly funded boondoggle. Research into secondary plumes of carbon dioxide (plumes of carbon dioxide gas that wander off from their original storage site) is still in its infancy.

With the dearth of information about secondary plumes of CO2, we should not feel as certain in our knowledge as ChatGPT would be.

Given the dangers from large scale and high pressure carbon dioxide transport and storage, cutting off state subsidies is prudent.

So, please give this bill a **DO PASS** recommendation.

Thank you.

North Dakota CO_2-EOR Financial Analysis

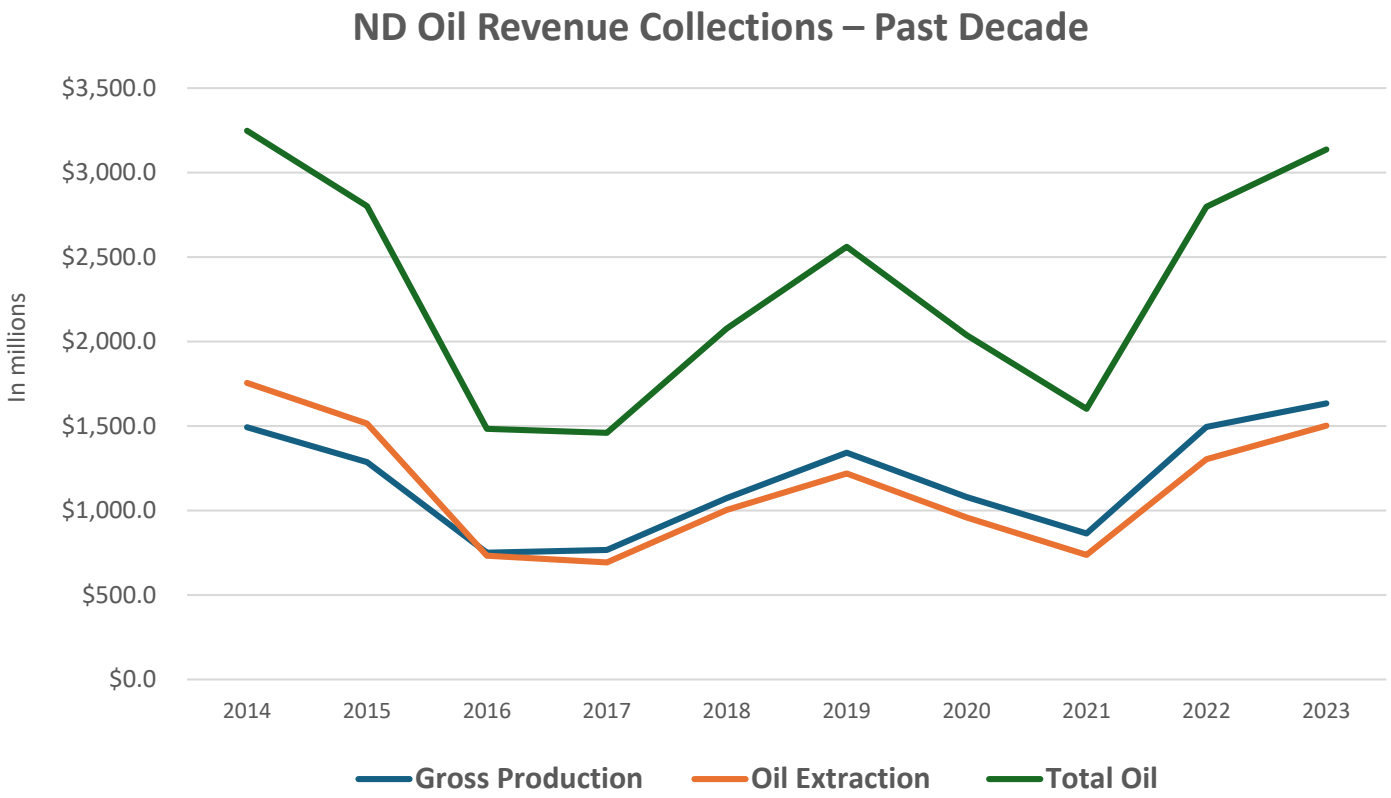
By: Brian Kroshus
Tax Commissioner
January 28, 2025

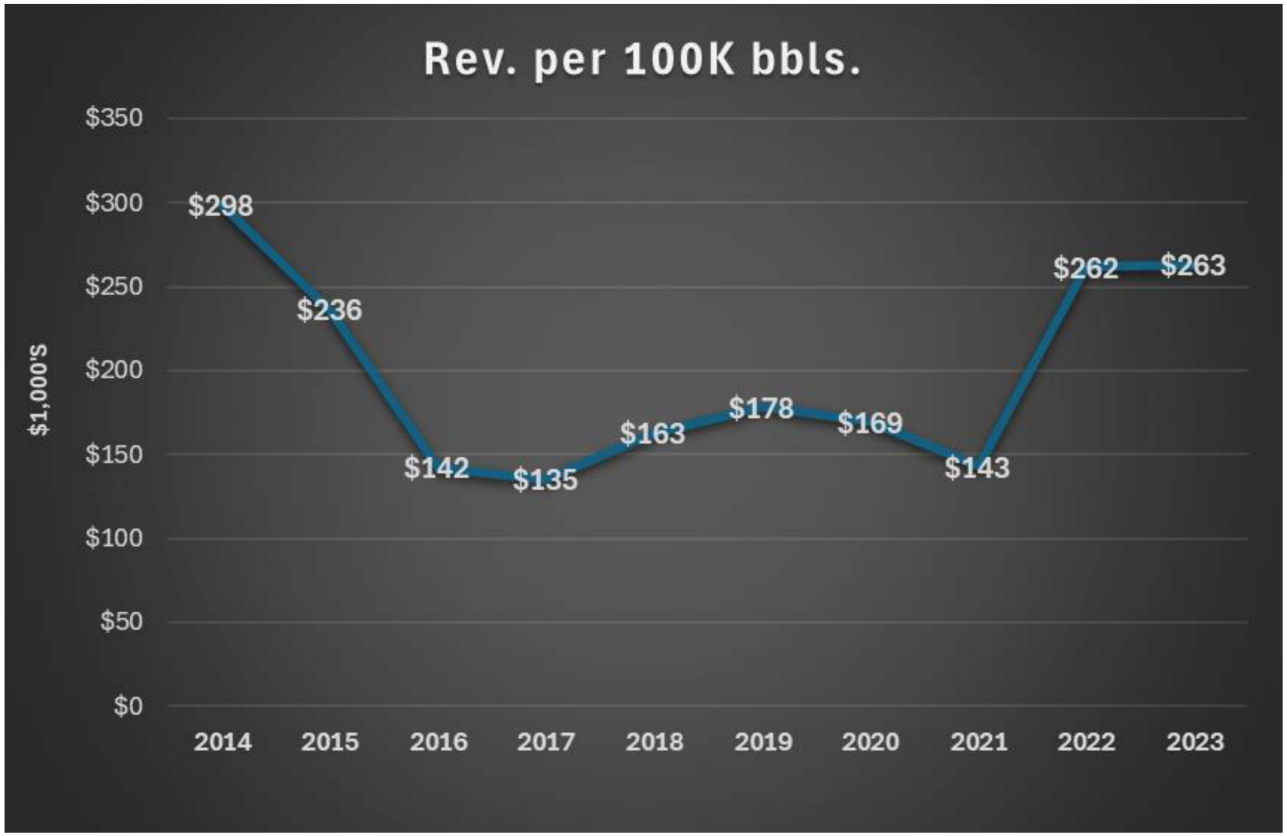
CO_2-EOR in North Dakota

- CO_2-EOR represents a significant opportunity for North Dakota
- The CO_2-EOR landscape is becoming increasingly competitive – being "next to market" is critical
- North Dakota is strategically positioned to implement CO_2-EOR
  - Size and scope of interrelated industry resources
  - Reasonable, fair and consistent regulatory framework
  - Favorable tax policy to incentivize investment
- CO_2-EOR further monetizes existing assets, minimizing surface disturbance
- The U.S. Geological Survey estimates that up to 3.3 billion barrels of undiscovered, technically recoverable oil are in the Bakken Formation
  - This equates to **$33 billion dollars** in additional oil production and extraction tax revenues, alone

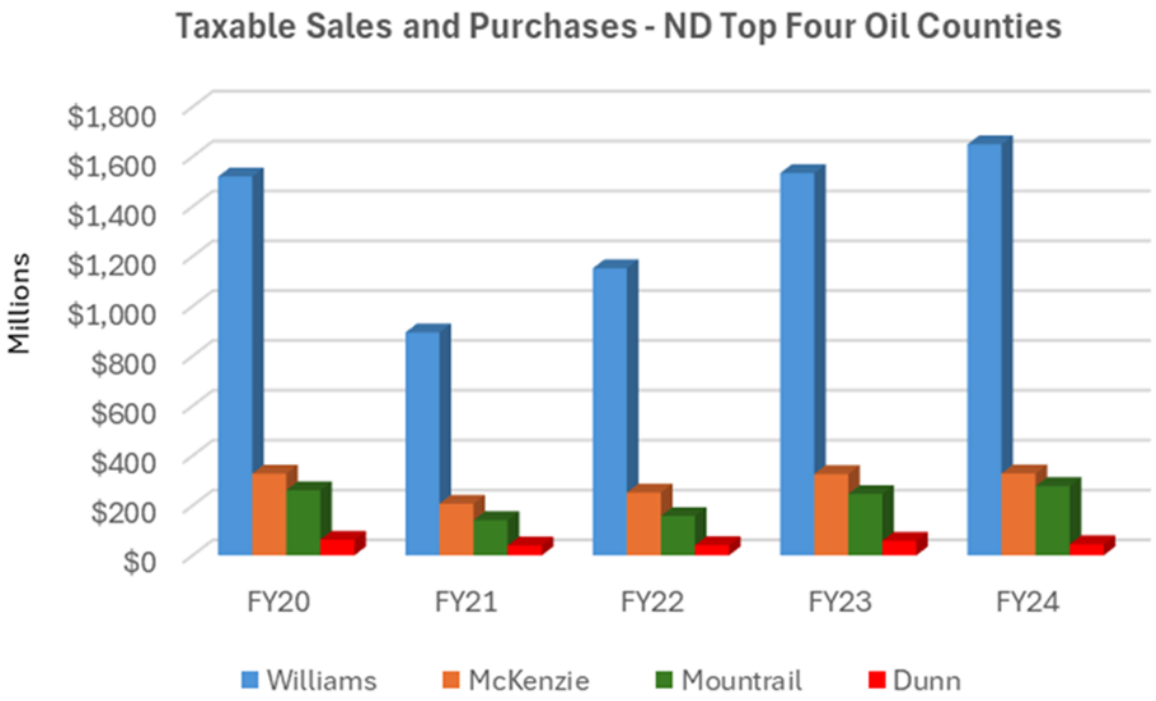
Oil and gas production helps drive the North Dakota economy

- Oil production and extraction tax collections have generated more than **$23 billion in revenue** to the state over the past decade
- Beyond oil production and extraction tax, billions more in both direct and indirect revenue collections from:
  - Sales and use tax
  - Corporate income tax
  - Individual income tax
- Oil-driven, legacy fund contributions and associated earnings, support important state priorities including providing property tax relief to citizens
- Oil and gas activity plays an integral role in directly supporting communities and main street businesses in western North Dakota
- North Dakota oil production plays a vital role in funding state priorities

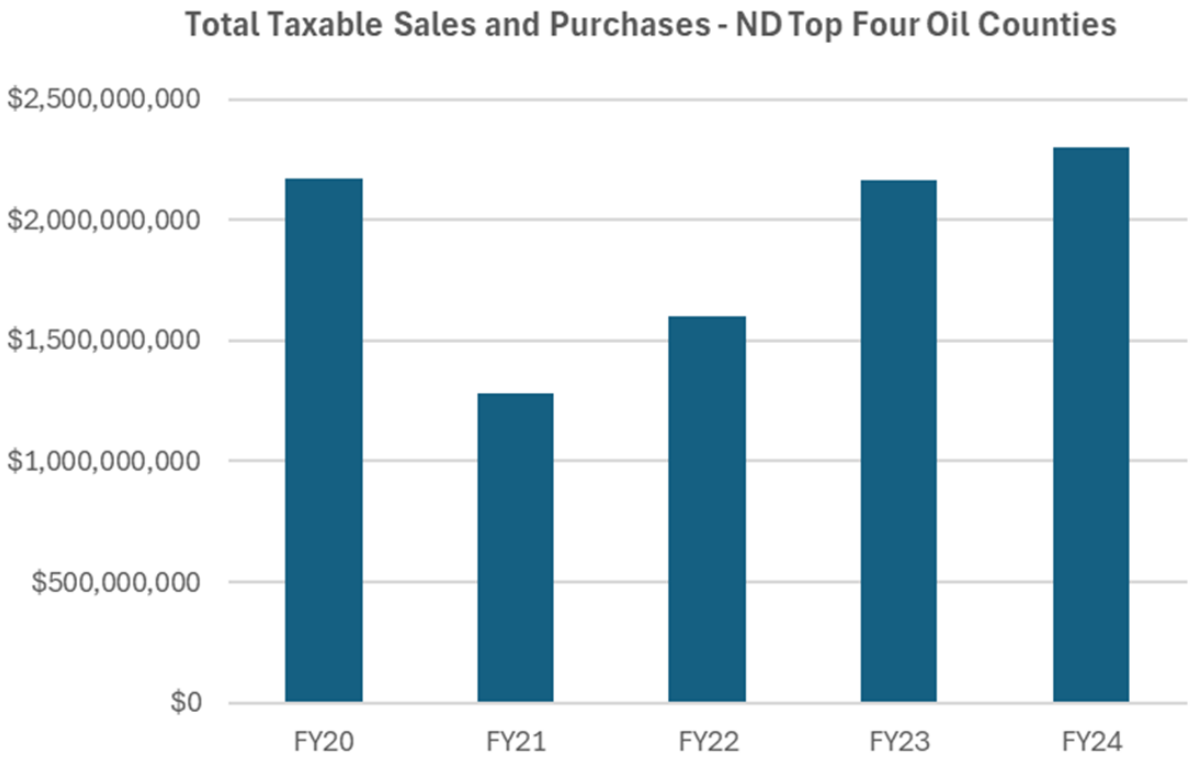

ND Oil Revenue Collections – Past Decade
In millions
$3,500.0
$3,000.0
$2,500.0
$2,000.0
$1,500.0
$1,000.0
$500.0
$0.0
2014
2015
2016
2017
2018
2019
2020
2021
2022
2023
Gross Production
Oil Extraction
Total Oil


Rev. per 100K bbls.
$1,000'S
$350
$300
$250
$200
$150
$100
$50
$0
$298
$236
$142
$135
$163
$178
$169
$143
$262
$263
2014
2015
2016
2017
2018
2019
2020
2021
2022
2023

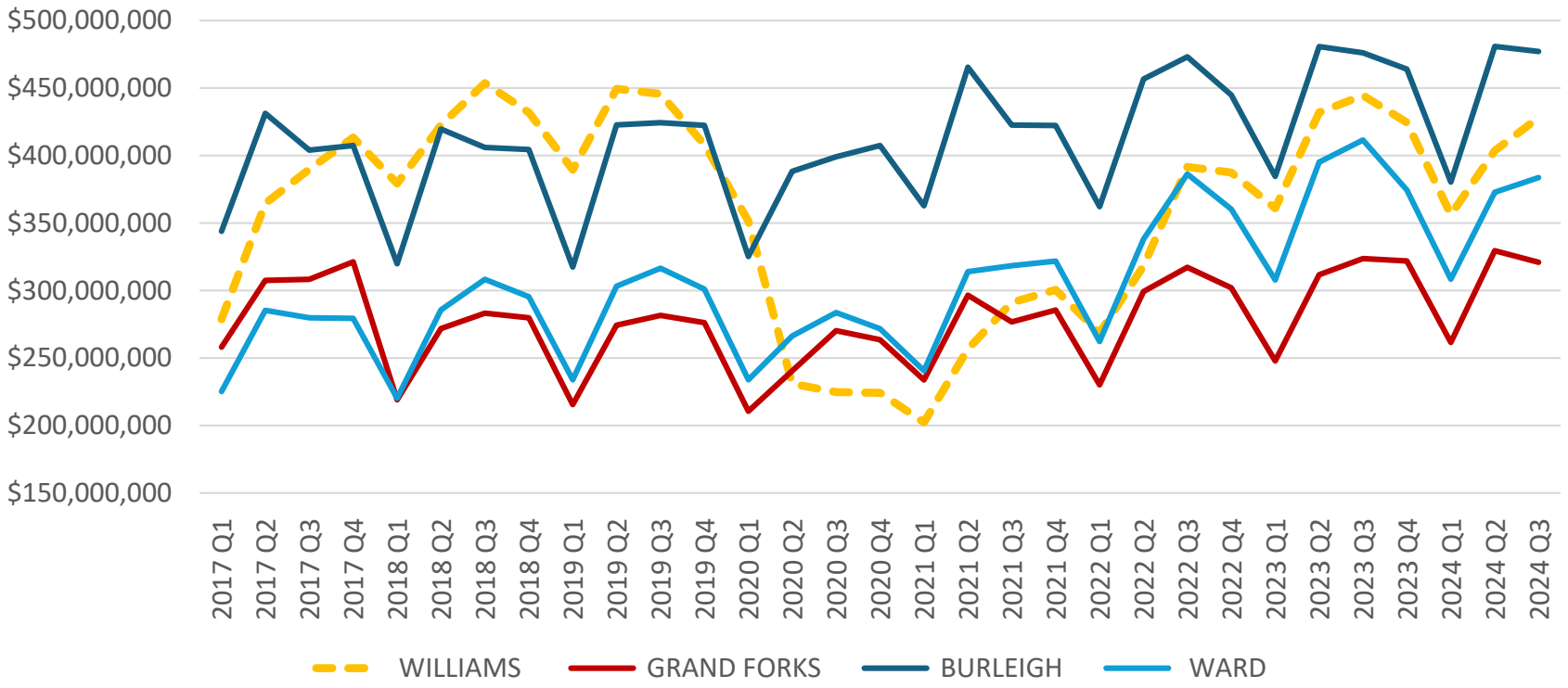
ND Oil Producing Counties "Big Four"



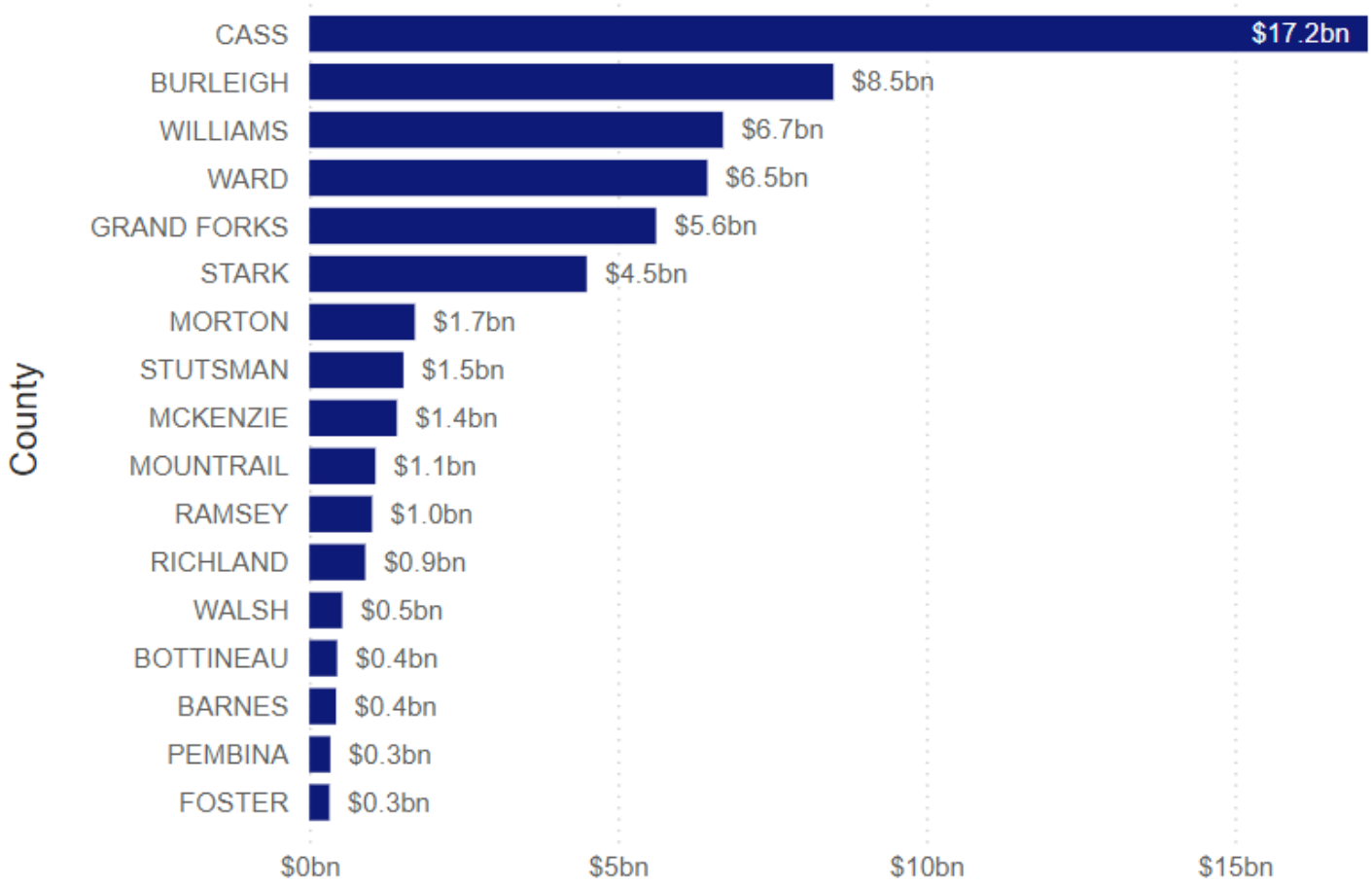
ND Oil Producing Counties "Big Four"



Taxable Sales and Purchases by ND County



Taxable Sales and Purchases by ND County[1]



[1]Taxable Sales and Purchases – past five years, 2020-2024 (Q4, 2019 through Q3, 2024)

Single Well CO_2-EOR– 5-yr. extraction tax exempt[1]

		Total Annual Production bbls.	Legacy Production bbls.	Incremental Production bbls.	Ave. price Bakken Crude	Incremental Production Tax Revenue	Incremental Extraction Tax Revenue	Total Incremental Revenue
2028	yr 1	71,781	9,211	62,570	$80.00	$250,280	$0	$250,280
2029	yr 2	45,192	7,375	37,817	$80.00	$151,268	$0	$151,268
2030	yr 3	33,222	5,905	27,317	$80.00	$109,268	$0	$109,268
2031	yr 4	20,043	4,728	15,315	$80.00	$61,260	$0	$61,260
2032	yr 5	12,911	3,785	9,126	$80.00	$36,504	$0	$36,504
2033	yr 6	8,719	3,030	5,689	$80.00	$22,756	$22,756	$45,512
2034	yr 7	6,016	2,426	3,590	$80.00	$14,360	$14,360	$28,720
2035	yr 8	4,148	1,943	2,205	$80.00	$8,820	$8,820	$17,640
2036	yr 9	3,010	1,555	1,455	$80.00	$5,820	$5,820	$11,640
2037	yr 10	1,732	1,392	340	$80.00	$1,360	$1,360	$2,720
	Total	**206,774**	**41,350**	**165,424**		**$661,696**	**$53,116**	**$714,812**

[1]Based on 10 yr. average price of $80.00

Single Well Revenue Model	Incremental Production Tax Revenue	Incremental Extraction Tax Revenue	Total - Single Well
EOR 10-year model - EIA Pricing	$502,149	$0	$502,149
EOR 10-year model - $80.00 WTI	$661,696	$0	$661,696
EOR 5-year model - EIA Pricing	$502,149	$46,248	$548,396
EOR 5-year model - $80.00 WTI	$661,696	$53,116	$714,812

CO_2-EOR Incremental Revenue Models North Dakota

**As indicated, if every certified, low-producing or stripper well currently identified in North Dakota is targeted for CO_2-EOR, the economic benefit is significantly higher in comparison to the low estimate, even with low-producing wells in the state being exempted from extraction tax for the life of the well under current statute. Conversely, the opportunity cost or potential revenue loss absent CO_2-EOR as demonstrated, equates to billions of dollars in unrealized collections.*

Single Well Revenue Model	Total - 5,744 Wells	Total - 12,515 Wells* (*Stripper Well Count - 7-24)
EOR 10-year model - EIA Pricing	$2,884,341,547	$6,284,389,704
EOR 10-year model - $80.00 WTI	$3,800,781,824	$8,281,125,440
EOR 5-year model - EIA Pricing	$3,149,988,103	$6,863,179,163
EOR 5-year model - $80.00 WTI	$4,105,880,128	$8,945,872,180

CO_2-EOR Incremental Revenue Models North Dakota

**As indicated, if every certified, low-producing or stripper well currently identified in North Dakota is targeted for CO_2-EOR, the economic benefit is significantly higher in comparison to the low estimate, even with low-producing wells in the state being exempted from extraction tax for the life of the well under current statute. Conversely, the opportunity cost or potential revenue loss absent CO_2-EOR as demonstrated, equates to billions of dollars in unrealized collections.*

CO_2-EOR Production Cost Model (single well)

Expense/Savings Centers	Cost per bbl.	Tax savings/bbl.	Tax savings/tonne CO_2	Net Cost/bbl.
CO_2 Transportation [1,2]	$5.00	$0	$0	$5.00
CO_2 price/bbl. ($30/t = 3 bbls.) [2]	$10.00	$0.50	$1.50	$9.50
Royalty payment est. (19% of $80/bbl. Oil)	$15.20	$0	$0	$15.20
Well and surface (taxable) [3]	$17.50	$0.88	$2.63	$16.63
Well and surface (non-taxable)[4]	$7.50	$0	$0	$7.50
Extraction tax savings - $80/bbl.*5%	$0	$4.00	$12.00	($4.00)
Totals	**$55.20**	**$5.38**	**$16.13**	**$49.83**

[1]Primary distribution delivery cost est. = $15/tonne
[2]Per bbl. based on $30/tonne CO2 and 3:1 bbl. oil/tonne CO2
[3]Includes well, distribution infrastructure & production costs
[4]Labor cost

CO_2-EOR Challenges and Opportunities

- 45Q incentive gap currently exists between EOR application and sequestration
  - EOR - $60 per metric tonne
  - Sequestration - $85 per metric tonne
- Closing the incentive gap is critical
- Competitive landscape – other oil producing states are aggressively pursuing mechanisms to incentivize CO_2-EOR within their borders
- Creating new efficiencies through advancements in technology represents a significant return on investment for North Dakota
- Shale plays like the Bakken experience rapid depletion rates
  - CO_2-EOR production revitalizes existing assets (wells) with minimal surface disturbance, within the same footprint
  - Creates greater, long-term assurances for oil producers which in turn, creates greater long-term financial certainty for North Dakota

Final Thoughts

- CO_2-EOR signifies the next chapter in North Dakota energy production
- Opportunity to accentuate existing and create new energy partnerships - increased value proposition
- CO_2-EOR and the race for capital will continue to intensify in what can best be described as a highly competitive landscape
- The ability to attract capital will be influenced by a multitude of factors, including advancements in technology - “cracking the code”
- Technology – tremendous progress to date, but more resources are needed to support continued advancement
- North Dakota is recognized as a global leader in shale oil production and can be in CO_2-EOR, as well

In closing, CO_2-EOR, represents a significant and exciting economic opportunity current and future generations can benefit from.

North Dakota CO_2-EOR Financial Analysis

November 15, 2024

Summary

The following document explores and evaluates various financial considerations related to CO2-EOR in North Dakota, potential synergies across multiple energy-sectors, and the influence policy will have on future CO2-based tertiary efforts in the state.

The U.S. Geological Survey estimates that up to 3.3 billion barrels of undiscovered, technically recoverable oil are in the Bakken formation, with much of that oil in North Dakota. CO2-EOR can play a central role in the recovery of these untapped resources.

By: Brian Kroshus
North Dakota Tax Commissioner

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Introduction

Enhanced oil recovery (EOR) development in North Dakota utilizing CO_2, particularly from CO_2 feedstocks sourced from in-state coal conversion facilities, biofuel plants and synfuels production, represents a significant economic opportunity.

Supporting and further enhancing an already favorable economic and regulatory environment to encourage CO_2-EOR versus CO_2 sequestration and permanent, geologic storage, will require evaluating both existing and new policy offerings to mitigate the current $25 differential between two of the three primary 45Q tax credit incentives currently available.

These incentives and economics on the surface favor sequestration over enhanced oil recovery. However, state policy from both a tax and regulatory perspective at least in part, holds the potential to offset the monetary gap and positively influence adoption of CO_2-EOR within our borders, promoting new, long-term capital investment in North Dakota.

From an industry perspective, beyond production-related economics, CO_2-EOR can play a key role in addressing and meeting corporate sustainability objectives, serving as a valuable extension of existing ecocentric practices.

Both internal and external factors will invariably influence CO_2 usage patterns. They include commodity pricing, other investment and capital deployment opportunities, and the regulatory and tax policy environment at the federal, state and local levels.

Further, recognizing the importance of fostering an environment that supports effective public-private partnerships and working collaboratively with tribal interests, is essential.

Arguably, CO_2-EOR in conjunction with existing energy resources in the state signifies the next chapter of oil production in North Dakota. For industry and public sector alike, there exists the potential to further monetize current oil, lignite, and biofuel energy infrastructure.

As North Dakota evaluates a path forward, it is important to recognize other oil and gas producing states including Texas, Oklahoma, New Mexico, and in proximity to North Dakota, Wyoming, are also actively positioning and competing to attract the same CO_2 supplies and capital investment dollars necessary to advance CO_2-EOR projects within their respective geographies.

To counter that reality, new incentive opportunities from a tax policy perspective to complement existing mechanisms and encourage CO_2-EOR and supporting infrastructure development, may be required to attract in-state capital investment for conventional and unconventional oil production alike, where CO_2-EOR is deemed economically viable and applied.

Further, supporting the development of critical CO_2 transportation infrastructure necessary to move feedstock from point-of-capture to application in North Dakota oil fields, will also play an important role in advancing CO_2-EOR efforts in the state.

The ability to establish greater CO_2 supply assurances necessary for industry to justify capital investment within and outside the Bakken, will be an essential element in the level of success experienced. Potential in-state supplies of CO_2 are optimal in the sense they support multiple industrial energy segments including oil, lignite, and agriculture, each playing an important role in the state's economy.

In essence, state regulatory and tax policy as previously mentioned will play a key role in advancing CO_2-EOR in what can best be described as a rapidly developing and highly competitive landscape.

It is important to emphasis that the benefits of CO_2-EOR are not exclusive to the production of oil. North Dakota's fleet of coal-fired plants in proximity to the Bakken and lone synfuels plant, Dakota Gasification, are also strategically positioned to benefit from the application of CO_2-EOR as suppliers and sellers of CO_2. That in turn supports the advancement of carbon capture technology and ultimately, implementation of CO_2-EOR.

North Dakota, with its diverse energy resource portfolio, is arguably more strategically positioned to implement CO_2-EOR in comparison to other oil-producing states, again in large part due to proximity and volume of interrelated energy resources.

While CO_2 transport challenges from an infrastructure placement standpoint currently exist, the ability to move feedstock from point-of-capture to actual use, while not entirely removed, is arguably less pronounced due to the relatively short distance between in-state supplies of CO_2 and oil field application.

North Dakota is in a unique position in that it also has very favorable geology for the sequestration and permanent storage of CO_2. Still, an equally compelling if not stronger argument to support CO_2-EOR can be made, the latter providing a broader and in effect, more favorable long-term economic platform to support incremental production in the Bakken. That in turn provides an attractive return on investment not only in the state, but nation from an energy production and security perspective.

Ultimately, the potential to sustain and increase oil production in North Dakota and subsequently, support and bolster associated revenue collections resulting from carbon capture and EOR, is significant. However, for that to become a reality, it is essential that the economic potential of CO_2-EOR exceeds sequestration.

Conversely, the opportunity cost and loss in potential revenue if sequestration instead displaces CO_2-EOR, particularly in oil-producing states like North Dakota, cannot be overlooked as the following analysis explains.

CO_2 EOR Incentives and Infrastructure by State

As previously noted, effectively competing for investment dollars targeted for carbon capture and transportation, whether from existing industry reserves or venture capital groups, will be paramount in determining the level of success experienced in North Dakota.

In many respects, North Dakota already heavily incentivizes utilizing CO_2 for EOR development. Numerous tax incentives currently exist to support CO_2-EOR, including as specified in NDCC § 57-51.1-02:

- Incremental production from a qualifying tertiary recovery project is exempt for a period of 10 years.
- Incremental production from a qualifying tertiary recovery project located outside the Bakken or Three Forks formations and that injects more than fifty percent carbon dioxide produced from coal, is exempt for twenty years from the date incremental production begins.
- Incremental production from a qualifying tertiary recovery project located within the Bakken or Three Forks formations and that injects more than fifty percent carbon dioxide produced from coal, is exempt for ten years from the date incremental production begins.

Beyond CO_2-EOR incentives, North Dakota exempts low-producing or marginal wells from the oil extraction tax. These wells, often referred to as "stripper wells," can qualify for tax-reduction incentives based on production and location criteria and then be exempt from the state's oil extraction tax for the remaining life of the well, once designated as a stripper well by the North Dakota Industrial Commission. While not necessarily a direct CO_2-EOR incentive, the net effect is still the same through elimination of the extraction tax obligation.

Additionally in North Dakota, the oil extraction tax rate for restimulated wells, identified as previously completed and producing oil and subsequently treated with an application of fluid under pressure for the purpose of creating additional fractures in a targeted geological formation outside the Bakken and Three Forks formations, is reduced from 5% to 2%,

effective for the first 75,000 barrels (bbl) or 18 months, whichever occurs first, after restimulation is complete.

To encourage carbon capture projects and development of infrastructure to support EOR, state policy provides a sales and use tax exemption for materials used in compressing, gathering, collecting, storing, transporting, or injecting carbon dioxide for secure geological storage or use in enhanced recovery of oil or natural gas (NDCC § 57-39.2-04.14) The incentive is broad-based in nature, applying not only to primary pipeline transportation projects but oilfield distribution networks as well.

For projects to be exempt under NDCC § 57-39.2-04.14, tangible personal property must be incorporated into a system used to compress, gather, collect, store, transport, or inject carbon dioxide for secure geologic storage or use in enhanced recovery of oil or natural gas.

Tangible personal property to replace an existing system to compress, gather, collect, store, transport, or inject carbon dioxide for secure geologic storage or use in enhanced recovery of oil or natural gas qualifies as sales tax exempt if the replacement creates an expansion of the original system.

Additionally, a CO_2 pipeline project exemption as specified in NDCC § 57-06-17.1, exempts property, not including land, from taxation during construction and for the first 10 full taxable years following initial operation. Associated equipment necessary for the transportation or storage of CO_2 for secure geological storage or for use in enhanced recovery of oil or natural gas, is also exempt.

Finally, under NDCC § 57-39.2-04.49, Gross receipts from sales of carbon dioxide used for enhanced recovery of oil or natural gas, or secure geologic storage, are exempt from sales tax.

Similarly, other oil-producing states in the U.S. are also aggressively positioning and engaging in policy discussions to incentivize CO_2-EOR within their borders and capture market share.

Virtually all oil producing states in the U.S. currently have mechanisms in place to address low-price cycles for crude oil, similar to previous North Dakota statute which established a low-price trigger and subsequent suspension of the oil extraction tax during market downturns to protect oil producers in the state. While the low-price trigger protection was repealed by North Dakota lawmakers in exchange for a permanent reduction in the extraction tax rate, from 6% to 5%, that same concept is still applicable in other states.

In Texas, the Texas Railroad Commission, the counterpart to North Dakota Public Service Commission, has the authority to incentivize CO_2-EOR projects. Under their current incentive, the producer of oil recovered through a CO_2-EOR project that qualifies, is entitled to an additional 50% reduction in the oil tax rate in Texas if in the recovery of the oil the EOR project uses CO_2 that:

- Is captured from an anthropogenic source in this state;
- Would otherwise be released into the atmosphere as industrial emissions;
- Is measurable at the source of capture; and
- Is sequestered in one or more geological formations as part of the enhanced oil recovery process

Other states, like Wyoming, continue to actively pursue new legislation to support CO_2-EOR development, to effectively compete for regional supplies of CO_2.

In some cases, CO_2 transportation infrastructure designated for CO_2-EOR is already operational, including the Kinder Morgan Cortez Pipeline, delivering approximately 800 million cubic feet or 22,654 metric tonnes of naturally occurring CO_2 daily from the McElmo Dome site in southwest Colorado to oil fields in the Permian Basin in New Mexico and West Texas. Incremental oil production attributed to that project is approximately 50,000 barrels per day (bbl/d).

Active CO_2-EOR projects in North Dakota include the Denbury CO_2 pipeline, stretching 105 miles from Wyoming to Southeast Montana and Southwest North Dakota, targeting the Cedar Creek Anticline.

Additionally, Dakota Gasification Company, a subsidiary of Basin Electric Power Cooperative, has been transporting CO_2 since October 2000 from the Great Plains Synfuels Plant through a 205-mile pipeline operated by Souris Valley Pipeline, Ltd. to the Weyburn-Midale oil fields in Canada, currently shipping up to 155 million cubic feet, or 4,389 tonnes of CO_2 daily for EOR.

In 2022, Red Trail Energy located outside of Richardton began operating North Dakota's first CO_2 storage well in June of 2022. Preceding that effort, test wells were drilled in Mercer and Oliver counties located in North Dakota, in 2018 to study the geologic potential for CO_2 sequestration sourced from North Dakota coal-conversion facilities.

While CO_2-EOR production accounts for only a small fraction of oil currently produced in the U.S. and even globally, new CO_2-EOR policy and projects as previously mentioned continue to be actively explored both in North Dakota and throughout the U.S.

While advancements in carbon capture technology and associated capital investment are rightfully at the forefront of the discussion, the ability to secure, transport and distribute economically viable volumes of CO_2 necessary to support large-scale CO_2-EOR is equally important, particularly from a North Dakota perspective given the opportunity to link multiple energy industry segments to one another.

In summary, North Dakota energy resources and current policy, will serve as a benchmark for future discussions supporting the advancement and application of CO_2-EOR in the state.

Economic Analysis – Current Oil and Gas Collections

Economic estimates are often constructed from a direct or linear, incremental gains' perspective, with limited focus placed on opportunity cost. In evaluating the application and potential economic benefit of CO_2-EOR in North Dakota, it not only has the potential to provide incremental benefits to the state as referenced, but equally important, help preserve existing production levels and associated revenue streams.

That latter aspect or preservation will be particularly evident during periods of oil price declines, whether cyclical or due to unanticipated market conditions, unfavorable supply and demand dynamics, or consequential geopolitical events.

The North Dakota Legislature, recognizing the finite nature of oil resources in the state, has established various reserve funds, most notably the Legacy Fund, intended to benefit future generations by protecting revenue streams should production levels drop below the current range.

Until that time, however, oil production and associated revenue collections in the state can be better optimized through strategic initiatives intended to improve recovery rates in western North Dakota, including CO_2-EOR.

As an energy producing state, North Dakota relies heavily on oil-related revenue to fund state and local government both within and beyond oil producing counties. Oil production and extraction tax collections alone are substantial, most recently exceeding $3 billion in FY2023 and FY2024 respectively, as illustrated in Figure 1. Beyond those collections, associated economic activity plays a vital role in supporting the state's economy, covered later in this document.

As shown on the following graph, oil revenue collections in aggregate over just the past decade, equate to $23 billion.

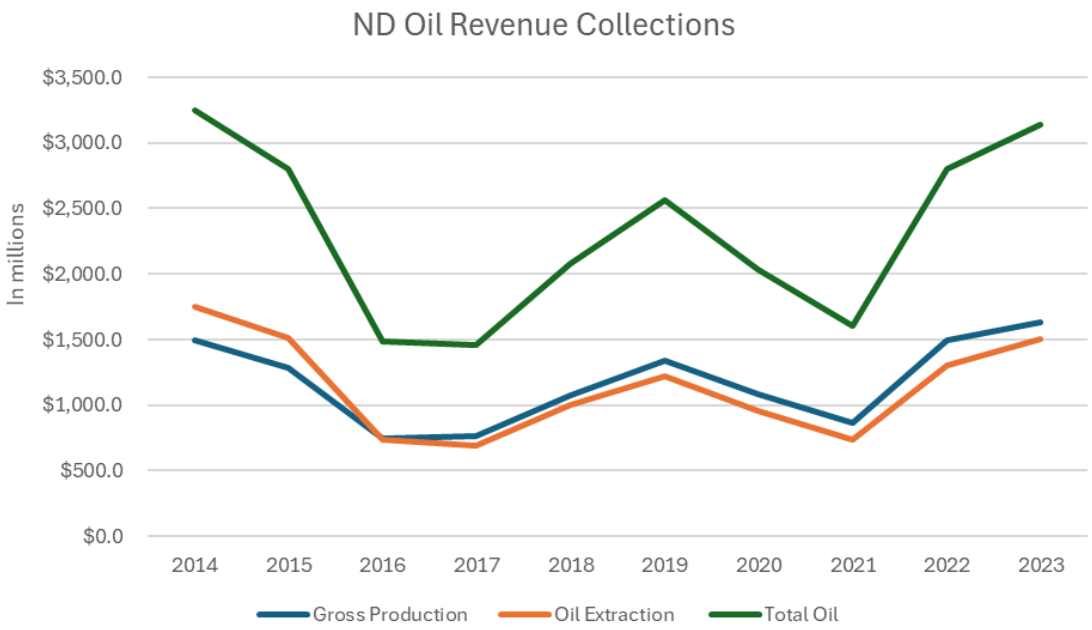

Figure 1

Figure 1 underscores the financial significance associated with oil production in North Dakota and illustrates the impact cyclical pricing, particularly price spikes and declines at various times (Figure 2), predictably has on revenue collections. This is most pronounced during the 2016-2017, 2020 and 2022 timeframes.

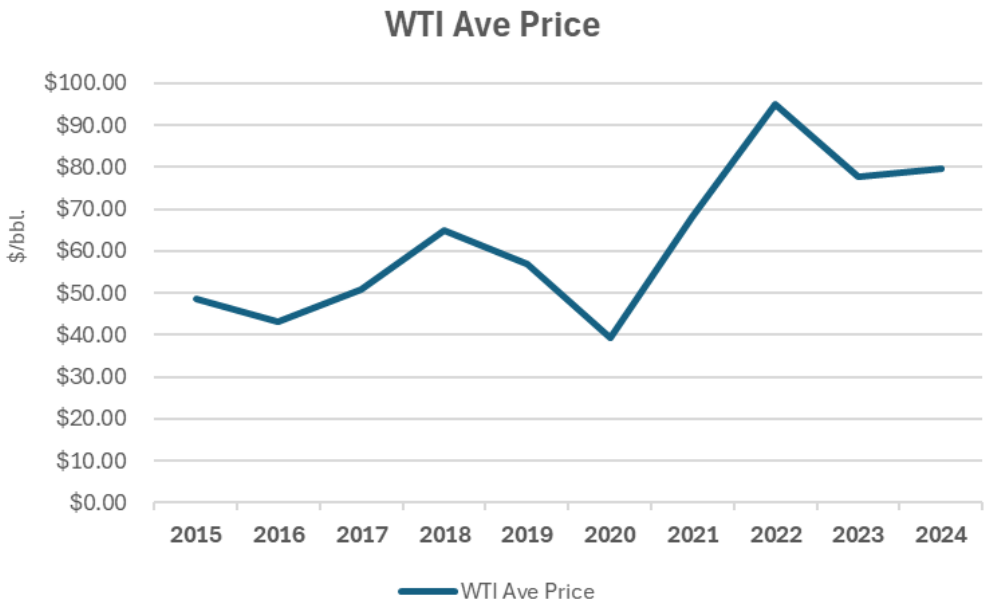

Figure 2

As noted, CO_2-EOR efforts have the potential to increase revenue collections, but equally importantly, preserve existing revenue streams by mitigating market-influenced price declines that inhibit drilling activity and subsequently, negatively impact production.

Historically, the ability to increase or maintain oil production levels in North Dakota has predominately correlated to drilling activity and the introduction of new wells. Absent that, output predictably declines due to high depletion rates experienced by wells drilled in shale plays like the Bakken, often exceeding 50% during the first year of production and falling below 10% of initial production, within 5 to 7 years.

Figure 3 illustrates shifts in economic value or revenue collected from a production and extraction tax standpoint, between 2014 and 2023, for every 100,000 bbl produced. The economic impact shown underscores the importance of maintaining production, particularly when oil prices are depressed over prolonged periods of time.

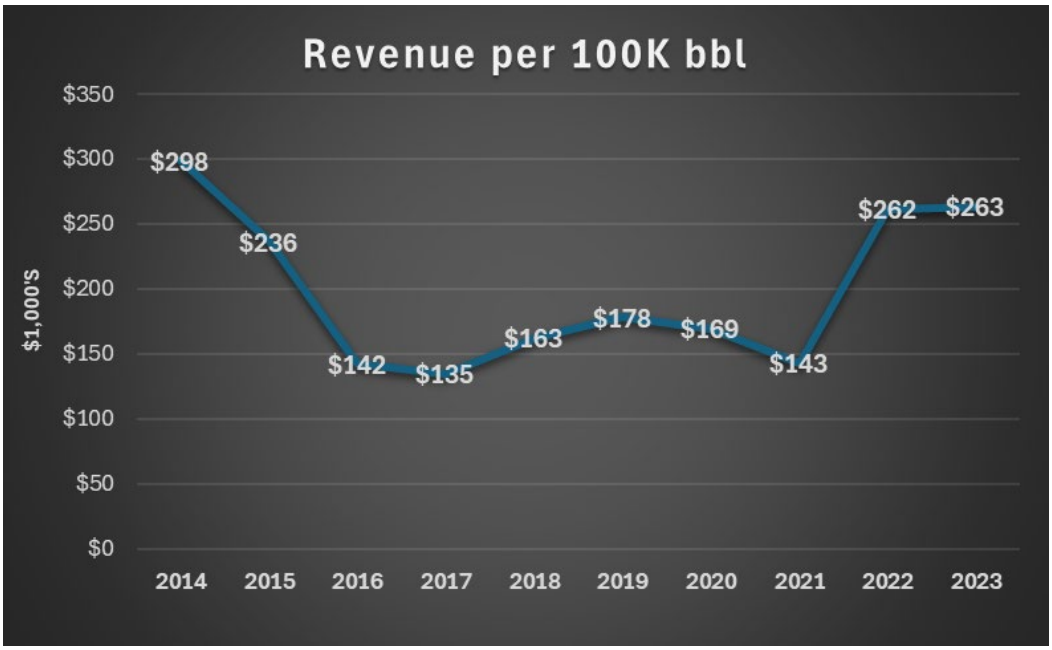

Figure 3

CO_2-EOR Fiscal Impact

Future commodity pricing combined with input costs including the cost of CO_2 itself, will significantly influence the degree of opportunity producers have to pursue CO_2-EOR. Unlocking additional crude oil from existing wells in inventory, reflected in the CO_2-EOR single well revenue models shown in Tables 2-5 to follow, demonstrate the revenue potential to the state, primarily from oil production tax collected on incremental barrels produced, based on different incentive scenarios including:

- 5-year extraction tax exempt models
- 10-year extraction tax exempt models

Models are formulated using the same, single well production estimates over the first 10 years following initiation of CO_2-EOR. Twenty-year and low producing, or stripper well models, are not calculated due to relatively immaterial, residual oil output and respective collections beyond the 10-year mark, resulting from rapid depletion rates associated with and prevalent in shale plays.

The following calculations (Tables 2-5) are based on oil pricing estimates over both 5-year and 10-year timeframes, using the U.S. Energy Information Administration (EIA) price outlook for Brent Crude as of June 2024 (Table 1) for the years 2028-2037 and for comparative purposes, applying an average net price of $80.00/bbl for Bakken crude.

U.S EIA Price Estimates/bbl – June 2024

Year range	Brent crude price projections (ave.)*	WTI after discount to Brent (3%)	Bakken discount to WTI ($3.75-$2.65)	Net price to Bakken producers
2025-2029	$61.00	$59.17	$3.20	$55.97
2030-2034	$73.00	$70.81	$3.20	$67.61
2035-2039	$80.00	$77.60	$3.20	$74.40
2040-2044	$87.00	$84.39	$3.20	$81.19
2045-2049	$91.00	$88.27	$3.20	$85.07
2050	$95.00	$92.15	$3.20	$88.95

Table 1

Net prices reflected in Table 1 and received by Bakken producers are extrapolated from EIA Brent price projections, applying a 3% discount to approximate the price for West Texas Intermediate and assuming an additional average discount rate of $3.20/bbl for Bakken crude, to determine net price.

Single Well CO_2-EOR – 10 yr. extraction tax exempt

Based on EIA 2028-2037 Price Estimates (Table 1)

	Total Annual Production bbl	Legacy Production bbl	Incremental Production bbl	Ave. price Bakken Crude	Incremental Production Tax Revenue	Incremental Extraction Tax Revenue	Total Incremental Revenue
yr 1	71,781	9,211	62,570	$55.97	$175,102	$0	$175,102
yr 2	45,192	7,375	37,817	$55.97	$105,831	$0	$105,831
yr 3	33,222	5,905	27,317	$67.61	$92,345	$0	$92,345
yr 4	20,043	4,728	15,315	$67.61	$51,772	$0	$51,772
yr 5	12,911	3,785	9,126	$67.61	$30,850	$0	$30,850
yr 6	8,719	3,030	5,689	$67.61	$19,232	$0	$19,232
yr 7	6,016	2,426	3,590	$67.61	$12,136	$0	$12,136
yr 8	4,148	1,943	2,205	$74.40	$8,203	$0	$8,203
yr 9	3,010	1,555	1,455	$74.40	$5,413	$0	$5,413
yr 10	1,732	1,392	340	$74.40	$1,265	$0	$1,265
Total	**206,774**	**41,350**	**165,424**		**$502,149**	**$0**	**$502,149**

Table 2

Single Well CO_2-EOR - 10-yr. extraction tax exempt

Based on 10 yr. average price of $80

	Legacy Production bbl	Incremental Production bbl	Total Annual Production bbl	Ave. price Bakken Crude	Incremental Production Tax Revenue	Incremental Extraction Tax Revenue	Total Incremental Revenue
yr 1	9,211	62,570	71,781	$80.00	$250,280	$0	$250,280
yr 2	7,375	37,817	45,192	$80.00	$151,268	$0	$151,268
yr 3	5,905	27,317	33,222	$80.00	$109,268	$0	$109,268
yr 4	4,728	15,315	20,043	$80.00	$61,260	$0	$61,260
yr 5	3,785	9,126	12,911	$80.00	$36,504	$0	$36,504
yr 6	3,030	5,689	8,719	$80.00	$22,756	$0	$22,756
yr 7	2,426	3,590	6,016	$80.00	$14,360	$0	$14,360
yr 8	1,943	2,205	4,148	$80.00	$8,820	$0	$8,820
yr 9	1,555	1,455	3,010	$80.00	$5,820	$0	$5,820
yr 10	1,392	340	1,732	$80.00	$1,360	$0	$1,360
Total	**41,350**	**165,424**	**206,774**		**$661,696**	**$0**	**$661,696**

Table 3

Single Well – CO_2-EOR – 5 yr. extraction tax exempt

Based on EIA 2028-2037 Price Estimates (Table 1)

	Total Annual Production bbl	Legacy Production bbl	Incremental Production bbl	Ave. price Bakken Crude	Incremental Production Tax Revenue	Incremental Extraction Tax Revenue	Total Incremental Revenue
yr 1	71,781	9,211	62,570	$55.97	$175,102	$0	$175,102
yr 2	45,192	7,375	37,817	$55.97	$105,831	$0	$105,831
yr 3	33,222	5,905	27,317	$67.61	$92,345	$0	$92,345
yr 4	20,043	4,728	15,315	$67.61	$51,772	$0	$51,772
yr 5	12,911	3,785	9,126	$67.61	$30,850	$0	$30,850
yr 6	8,719	3,030	5,689	$67.61	$19,232	$19,232	$38,463
yr 7	6,016	2,426	3,590	$67.61	$12,136	$12,136	$24,272
yr 8	4,148	1,943	2,205	$74.40	$8,203	$8,203	$16,405
yr 9	3,010	1,555	1,455	$74.40	$5,413	$5,413	$10,825
yr 10	1,732	1,392	340	$74.40	$1,265	$1,265	$2,530
Total	**206,774**	**41,350**	**165,424**		**$502,149**	**$46,248**	**$548,396**

Table 4

Single Well CO_2-EOR– 5-yr. extraction tax exempt

Based on 10 yr. average price of $80.00

	Total Annual Production bbl	Legacy Production bbl	Incremental Production bbl	Ave. price Bakken Crude	Incremental Production Tax Revenue	Incremental Extraction Tax Revenue	Total Incremental Revenue
yr 1	71,781	9,211	62,570	$80.00	$250,280	$0	$250,280
yr 2	45,192	7,375	37,817	$80.00	$151,268	$0	$151,268
yr 3	33,222	5,905	27,317	$80.00	$109,268	$0	$109,268
yr 4	20,043	4,728	15,315	$80.00	$61,260	$0	$61,260
yr 5	12,911	3,785	9,126	$80.00	$36,504	$0	$36,504
yr 6	8,719	3,030	5,689	$80.00	$22,756	$22,756	$45,512
yr 7	6,016	2,426	3,590	$80.00	$14,360	$14,360	$28,720
yr 8	4,148	1,943	2,205	$80.00	$8,820	$8,820	$17,640
yr 9	3,010	1,555	1,455	$80.00	$5,820	$5,820	$11,640
yr 10	1,732	1,392	340	$80.00	$1,360	$1,360	$2,720
Total	**206,774**	**41,350**	**165,424**		**$661,696**	**$53,116**	**$714,812**

Table 5

Using the single well production model provided by the Energy & Environmental Research Center (EERC) North Dakota 20-year CO_2-EOR Forecast, incremental tax revenues generated on a per well basis range from $502,149 to $714,812 (Table 6) over the initial 10-year period of production following commencement of CO_2-EOR, depending on various pricing scenarios for crude oil.

Single Well CO_2-EOR - Revenue Model Comparisons

Single Well Revenue Model	Incremental Production Tax Revenue	Incremental Extraction Tax Revenue	Total - Single Well
EOR 10-year model - EIA Pricing	$502,149	$0	$502,149
EOR 10-year model - $80.00 WTI	$661,696	$0	$661,696
EOR 5-year model - EIA Pricing	$502,149	$46,248	$548,396
EOR 5-year model - $80.00 WTI	$661,696	$53,116	$714,812

Table 6

Applying the single well model to the estimated 271 grids and 5,744 associated EOR wells targeted in the EERC study, under the high-case scenario and current stripper well count in North Dakota as of July 2024 (12,515), in conjunction with EIA price estimates for Brent crude as illustrated in Tables 2 and 4 and average price of $80/bbl (Tables 3 and 5), generates approximately $2.9 to $9 billion in incremental revenue (Table 7) to the state, alone.

It's worth noting that high-end estimates exceed the available supply of CO_2 required to achieve production estimates, but nonetheless demonstrate the economic potential of CO_2-EOR from an incremental oil production and associated tax revenue perspective.

Overall CO_2-EOR Incremental Revenue Model - North Dakota

Single Well Revenue Model	Total - 5,744 Wells	Total - 12,515 Wells* (*Stripper Well Count - 7-24)
EOR 10-year model - EIA Pricing	$2,884,341,547	$6,284,389,704
EOR 10-year model - $80.00 WTI	$3,800,781,824	$8,281,125,440
EOR 5-year model - EIA Pricing	$3,149,988,103	$6,863,179,163
EOR 5-year model - $80.00 WTI	$4,105,880,128	$8,945,872,180

Table 7

As indicated, if every certified, low-producing or stripper well currently identified in North Dakota is targeted for CO_2-EOR, the economic benefit is significantly higher in comparison to the low estimate, even with low-producing wells in the state being exempted from extraction tax for the life of the well under current statute. Conversely, the opportunity cost or potential revenue loss absent CO_2-EOR as demonstrated, equates to billions of dollars in unrealized collections.

Associated Fiscal Impact – Oil Producing Counties in North Dakota

Beyond direct benefits resulting from incremental oil production, associated economic impacts for CO_2-EOR extend exponentially beyond revenues generated from production and oil extraction tax levied on oil produced in North Dakota.

Target energy sectors including oil and coal, support state and local economies through employment opportunities, sales and use tax collections, property tax or equivalent of, and a plethora of other economic benefits.

Over the most recent five-year period roughly $10 billion in purchases, with associated state sales tax collections totaling approximately $500 million, can be attributed to oil-induced economic activity in the state's four largest oil and gas producing counties comprised of McKenzie, Dunn, Mountrail and Williams.

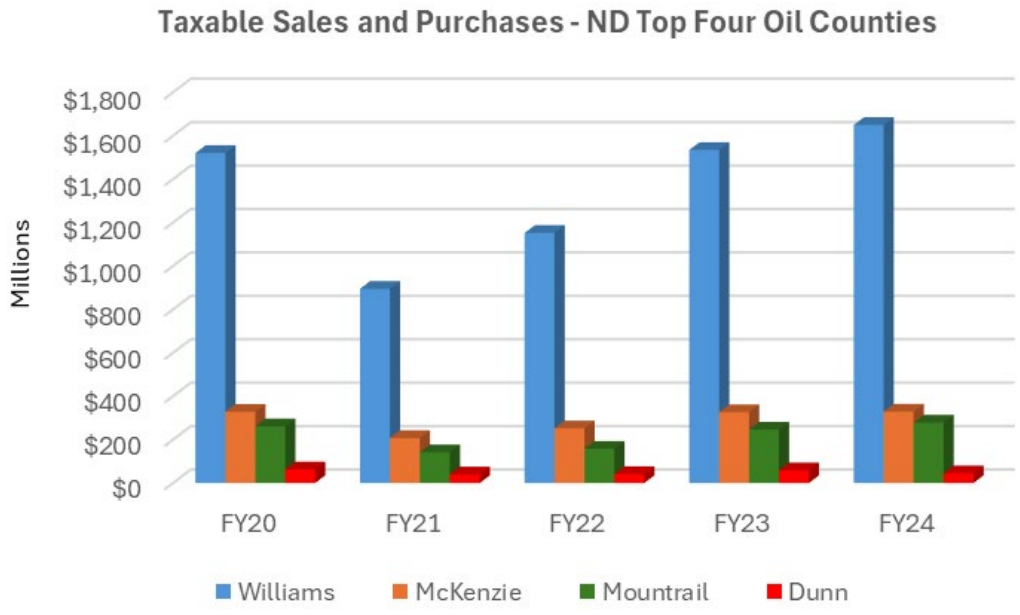

Figure 4

As shown in Figure 4, Williams County, including the city of Williston, continues to be an economic powerhouse in the region with approximately $7 billion in taxable purchases taking place over the past five fiscal years (FY20-FY24). While seemingly overshadowed by their larger economic cousin, the counties of McKenzie, Mountrail and Dunn combined still represent significant economic activity, approaching $3 billion in taxable sales and purchases over the same timeframe.

In addition to the 5% state sales and use tax rate, both cities and counties can levy and collect local sales and use tax in addition to the state requirement, with funds collected channeling directly back to the respective political subdivision.

While rates vary depending on location, the additional local options tax on qualifying purchases yields incremental collections equal to approximately one-third of the amount collected by the state, or $160-$170 million during the same 5-year period.

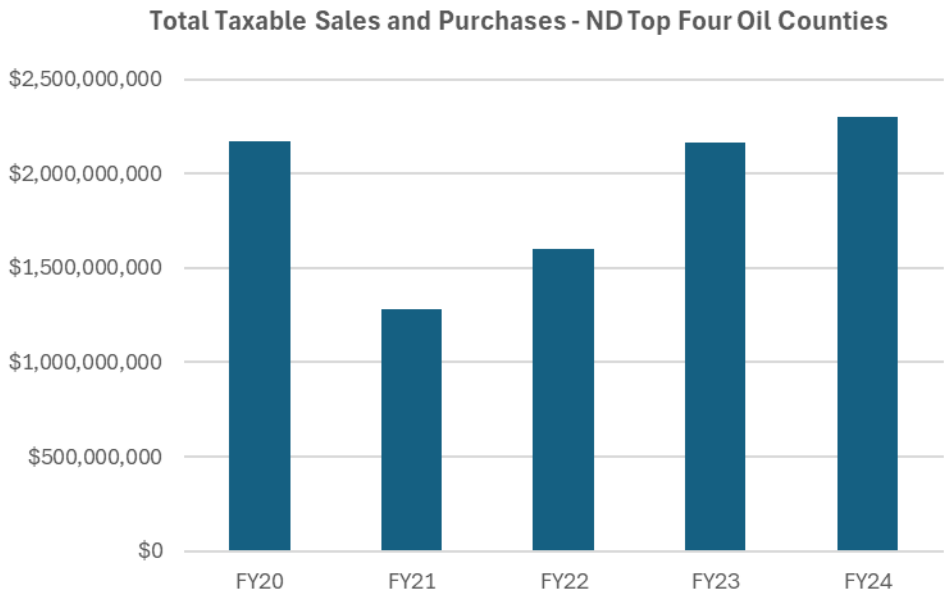

Figure 5

In aggregate, economic activity for North Dakota's four largest oil producing counties (Figures 4 and 5) is significant, despite challenges within the reflected period due to the effects of the pandemic, negatively impacting purchasing activity in FY20, FY21 and FY22.

While the agriculture sector throughout the state including in northwestern North Dakota continues to serve as the foundation of the state's economy, a predominant driver of the forementioned economic activity in the referenced region is energy, or more specifically oil-related, further supporting the case to advance CO_2-EOR in North Dakota.

Addressing the 45Q Incentive Gap

Given the significant economic opportunity related to CO_2-EOR development in North Dakota, ongoing discussions to evaluate and where applicable, improve upon existing policies and incentives to accentuate their influence on pricing models, are warranted.

Gaining a better understanding of the plethora of financial considerations and decisions industry is faced with, including addressing the $25 tax credit incentive differential between CO_2-EOR and permanent sequestration, and how policy-driven incentives and offsets can reduce the 45Q delta, will also be an important part of the conversation.

Production and infrastructure costs associated with CO_2-EOR and incurred by industry should also be recognized as key points of discussion, as prominent expense categories.

Specifically, primary expense centers include CO_2 acquisition cost, associated transportation and distribution costs, and well surface costs to support effective, large-scale implementation of CO_2-EOR, each an equally important factor in determining the financial outlook for tertiary recovery projects utilizing CO_2.

The cost model estimate below (Table 8) is based on the following criteria:

- Well development and surface costs represent approximately two-thirds of total project cost
- CO_2 supply expense equaling approximately one-third of total project cost
- No additional CO_2 compression costs
- Limited cost associated with filtration systems, waste fluid injection and electricity

CO_2-EOR Production Cost Model (Single Well)

Expense/Savings Centers	Cost per bbl	Tax savings/bbl	Tax savings/tonne CO_2	Net Cost/bbl
CO_2 Transportation [1,2]	$5.00	$0	$0	$5.00
CO_2 price/bbl ($30/t = 3 bbl) [2]	$10.00	$0.50	$1.50	$9.50
Royalty payment est. (19% of $80/bbl)	$15.20	$0	$0	$15.20
Well and surface (taxable) [3]	$17.50	$0.88	$2.63	$16.63
Well and surface (non-taxable)[4]	$7.50	$0	$0	$7.50
Extraction tax savings - $80/bbl*5%	$0	$4.00	$12.00	($4.00)
Totals	**$55.20**	**$5.375**	**$16.13**	**$49.83**

Table 8

[1] Primary distribution delivery cost est. = $15/tonne
[2] Per bbl based on $30/tonne CO2 and 3:1 bbl oil/tonne CO_2
[3] Includes well, distribution infrastructure & production costs
[4] Labor cost

Numerous price projection models for CO_2 exist with some in the $10-20 per tonne range. However, like other commodities, CO_2 pricing will vary by region and be influenced by a variety of factors including transportation capacity, available supply, industry demand, and proximity to end use whether geological storage or oil fields targeted for CO_2-EOR. Based on what is anticipated to be a highly competitive landscape for CO_2 acquisition in North Dakota, a $30/tonne estimate is used and reflected in Table 8.

Compression costs as previously noted are determined to be relatively inconsequential based on the assumption that CO_2 transportation projects, i.e. pipelines required to move CO_2 from point-of-origin to oil field distribution networks and ultimately targeted wells, will be accomplished with new infrastructure placement and not through the repurposing of existing facilities, which may be pressure limited.

A high percentage of project cost impacting economic performance is expected to originate from three primary areas including well and surface costs, royalty payments, and CO_2 acquisition costs. While not absent from the equation, filtration system, waste fluid injection, and electricity costs are anticipated to be relatively limited in scope compared to overall project costs and embedded in the "well and surface" cost category.

As demonstrated, tax savings resulting from various state-supported incentives are reflected in the cost model, representing an estimated savings of $5.375 per bbl of incremental oil produced, and based on a bbl of oil produced per tonne CO_2 ratio of 3:1, $16.13 in tax-related incentives per tonne of CO_2 acquired and deployed.

While the $25 credit differential for 45Q as described is not entirely removed through available North Dakota state tax incentives, current exemptions whether direct or indirect are nevertheless material from an economic standpoint, in the sense they offset approximately 64.5%, or almost two-thirds, of the 45Q tax credit differential per tonne of CO_2.

In aggregate, the model (Table 8) equates to $889,000 in tax-related savings, on a per well basis, assuming 165,424 bbl in incremental production over the immediate 10-year period following commencement of CO_2-EOR.

From a state revenue collection perspective using the same production estimates, taxes levied on incremental oil production generate an additional $502,000 to $715,000 (Table 6) in new revenue per well through production and extraction taxes levied, funds that would otherwise not materialize.

Summary

Encouraging industry to pursue CO_2-EOR, sets the stage to further monetize North Dakota energy resources in the Bakken and southwestern portion of the state, well into the future.

From a state perspective, CO_2-EOR certainly provides a considerably greater economic return in comparison to permanent geological storage, with no incremental oil production and associated benefits. Mineral owners, shareholders, and North Dakota citizens benefit as well whether in the form of royalty payments, dividends, or tax-related collections used to fund state priorities.

Similar to the introduction of new wells in unconventional shale plays like the Bakken, CO_2-EOR can serve as a profit center and help mitigate risk for producers, particularly during an oil price downturn, if large volumes of CO_2 can be effectively secured and transported to distribution networks and targeted oil plays.

Producers, in order to justify significant upfront capital investment needed to support CO_2-EOR, will require long-term CO_2 supply contracts structured in a manner that ensures acceptable pricing, whether pricing is fixed or as a percentage of WTI, and the reliable delivery of economic viable quantities of CO_2.

Effectively addressing the 45Q incentive gap between CO_2-EOR and sequestration or permanent storage, will again require adequately incentivizing industry to pursue CO_2-EOR by:

- Funding research to advance technology
- Supporting the development of new energy infrastructure
- Maintaining a reasonable and consistent regulatory environment
- Promoting existing and exploring new CO_2-EOR tax-related policy deemed mutually beneficial to industry and state alike

As emphasized, CO_2-EOR development in states like North Dakota can assist energy producers in addressing increasingly rigid social and environmental standards, challenging federal emissions requirements and aggressive, self-identified sustainability targets.

Even though a federal carbon tax is not currently in place, discussion surrounding that topic will undoubtedly continue but even absent that, a growing number of states have either adopted or are considering cap-and-trade systems and regulations. California has a cap-and-trade program and Washington, a cap-and-invest program.

Eleven northeastern states have organized and participate in a program referred to as the Regional Greenhouse Gas Initiative (RGGI) including Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Rhode Island, Vermont, and Virginia.

Under RGGI, which was established in 2005 as the first market-based regulatory program in the United States, CO_2 emissions from power plants operating in that region are capped and the regulated power plants, participate in a program to auction or trade emission allowances, with each "allowance" permitting the holder to emit one short ton (2,000 lbs.) of CO_2.

Although these programs are beyond North Dakota's borders, state-driven greenhouse gas reduction initiatives arguably pose a future challenge from a trade standpoint. Subsequently, if not effectively countered, they create long-term risk to both industry and the state's ability to continue as a major exporter of energy and agriculture products, key contributors to the North Dakota economy.

CO_2-EOR as a mechanism to permanently store CO_2 in the reservoir, does not entirely remove those concerns, but holds the potential to certainly lessen the potential impact and reduce CO_2 intensity levels across multiple energy sectors operating in North Dakota.

Despite sequestration appearing to hold an economic advantage over CO_2-EOR due to the $25 dollar tax credit differential, CO_2-EOR nonetheless presents a unique and attractive opportunity for industry to further monetize existing holdings and more effectively distribute previously established costs over new, incremental barrels produced within the same geographic footprint.

While a degree of uncertainty exists regarding the direction federal policy will take long-term and future of the 45Q tax credit program, there remains an exceptional opportunity to pursue CO_2-EOR in North Dakota, given a current construction deadline date of January 1, 2033, and subsequent 12-year timeframe in which tax credits can be received under the program.

In closing, CO_2-EOR presents a significant opportunity to monetize existing resources, create new synergies among critical energy sectors in the state, and act as a catalyst to effectively enhance and extend the life of the Bakken for decades to come.

NORTH DAKOTA PETROLEUM COUNCIL
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701.223.6380 | ndpc@ndoil.org | www.NDOil.org

House Bill 1295
Testimony of Brady Pelton
House Finance and Taxation Committee
February 3, 2025

Chairman Headland 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 550 companies involved in all aspects of the oil and gas industry, including oil and gas production, refining, pipeline development, transportation, mineral leasing, consulting, legal work, and oilfield service activities in North Dakota, South Dakota, and the Rocky Mountain region. I appear before you today in opposition to House Bill 1295.

North Dakota has long been a national leader in energy innovation, fostering an investment-friendly environment that supports the development of critical infrastructure. Recognizing the long-term economic benefits of carbon capture, utilization, and storage ("CCUS"), previous legislatures enacted a ten-year property tax exemption, a sales and use tax exemption, and payment-in-lieu-of-taxes provisions for carbon dioxide pipelines. These policies have been essential in attracting investment and advancing enhanced oil recovery ("EOR") efforts in the state.

The bill before you proposes to remove these significant incentives to oil and gas developers interested in further exploring EOR technologies. The recently completed North Dakota CO_2-EOR Financial Analysis, prepared by the Office of the State Tax Commissioner, underscores the immense economic potential of enhanced oil recovery using carbon dioxide. The study confirms that enhanced oil recovery is a critical tool in maintaining and increasing North Dakota's oil production. It creates a circular economic model, capturing CO_2 from industrial sources and using it to extend the productive life of North Dakota's oil fields. The key economic benefits outlined in the study are billions of dollars in additional oil tax revenue, long-term stability of oil production in the state, and ensuring that North Dakota remains at the forefront of responsible energy

production, while also creating synergies between the oil industry and other energy sectors, such as coal and biofuels.

The removal of these exemptions would make CO_2 pipeline projects less economically viable, leading to decreased private sector investment and limiting North Dakota's ability to remain competitive in the energy sector. At a time when investment in CO_2 EOR is accelerating and the economic benefits are becoming even more apparent, eliminating these exemptions would send a chilling message to investors that North Dakota is retreating from its long-standing pro-business, pro-energy stance.

The economic benefits of carbon dioxide EOR are too great to ignore. Removing an incentive that improves project feasibility will stifle investment, hinder oil recovery, and weaken North Dakota's energy future. Instead of repealing these provisions, the state should continue supporting policies that encourage investment in CO_2 infrastructure and maximize the economic benefits of carbon capture technology. Removing these incentives now would significantly hinder progress and weaken North Dakota's leadership in carbon management and oil recovery efforts.

North Dakota's previous legislatures recognized the long-term economic and energy security benefits of CO_2 pipeline development. This bill represents a step backward in North Dakota's commitment to fostering energy development and economic growth. Repealing the sales and use tax exemption and the ten-year property tax exemption for carbon dioxide pipelines would create unnecessary financial barriers, discourage investment, negatively impact the state's energy industry, and undermine North Dakota's leadership in CCUS and enhanced oil recovery.

For these reasons, NDPC strongly opposes this bill, and we urge a **Do Not Pass recommendation** for House Bill 1295.

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

Summit Carbon Solutions Testimony on House Bill 1295
February 3, 2025, 9:30 A.M.
House Finance and Tax Committee
Representative Headland, Chairman

Dave Nehring – Ag & Stakeholder Relations
Summit Carbon Solutions

Opposition to HB 1295

Chairman Headland, and members of the committee. My name is Dave Nehring, and I am a Director of Ag and Stakeholder Relations for **Summit Carbon Solutions (SCS)**. I am here today in opposition to House Bill 1295.

HB 1295 proposes to remove economic development (sales and uses) tax incentives for projects involving carbon capture when used for either permanent storage or enhanced oil recovery.

The legislature has worked for many years to create a legal, tax, and regulatory framework to lead the world in CO_2 development: such as, the definition of pore space, the fee structure at the ND Industrial Commission, the long-term accountability for CO_2 storage, exempting CO_2 from sales and use tax, encouraging important investments and furthering research and development. This bill intends to remove specific tax incentives that were put in place through the wisdom of prior legislative action to promote the development of carbon capture storage and utilization. The future of agriculture and energy – our two most important industries – depends on stable and predictable CO_2 policies. We are asking that you do not start repealing or changing laws before you've even given the well thought out policies a chance to work. Incentivize the activities that you want to continue and tax the things you want to end.

MARKETS DEMAND LOW CARBON FUEL

Regardless of perspectives on CO_2 - markets are demanding low-emission energy. ND has invested millions in anticipation of this market, and ND ideally positioned to thrive and take advantage of this market for the prosperity and continued growth of our agriculture and energy industries.

Summit Carbon Solutions Testimony on House Bill 1295
February 3, 2025, 9:30 A.M.
House Finance and Tax Committee
Representative Headland, Chairman

Dave Nehring – Ag & Stakeholder Relations
Summit Carbon Solutions

Opposition to HB 1295

Current Projects

The regulatory, tax, and legal regime is working, and investments to extend the life of our agriculture and energy industries have been made. A few prime examples include:

- Oil - Cedar Hills EOR project, Dakota Gasification Company/Weyburn EOR project
- Coal - Project Tundra, Dakota Gasification Company CO_2 Sequestration Project, Rainbow Energy Center/Coal Creek Station
- Agriculture - Red Trail Energy Ethanol Plant, Blue Flint Ethanol, Summit Carbon Solutions/Tharaldson Ethanol
- . . . and more to come.

CONCLUSION

HB 1295 is targeted legislation. It is primarily intended to negatively impact projects related to Carbon Capture, disregarding the importance of developing this new industry. It is for these reasons that we respectfully ask this committee's recommendation of DO NOT PASS on HB 1295. This concludes my testimony, and I am happy to answer any questions. Thank you.

Do Pass Testimony
of Doug Sharbono, citizen of North Dakota
on HB1295
in the Sixty-ninth Legislative Assembly of North Dakota

Dear Chairman Headland and members of the House Finance and Taxation Committee,

I am writing as a citizen and believe HB1295 is much needed legislation. This legislation fairly ensures that the carbon sequestration industry pays their fair share of taxes just like everyone else. I am unsure how the tax earmark for the carbon sequestration industry got written into law in previous sessions. However, it is there and needs to be corrected.

Carbon sequestration in terms of science is a fool's errand and particularly does not deserve a tax exemption. Carbon sequestration is the equivalent of paying someone to dig a ditch and placing the soil excavation from side to side just to do it.

We live in a very special place and increased concentrations of carbon dioxide are beneficial to plant growth using the God-given process of photosynthesis. This flourishing of increased vegetation draws more Carbon Dioxide out of the air and in balance. Historical records indicate the carbon dioxide records have varied very little during the industrial revolution. Burning of fossil fuels and exhausting the carbon dioxide directly to the atmosphere has had no affect when looking at the data. All of this points to the fool's errand of carbon sequestration.

In light of recent property tax controversies in North Dakota and much increased property taxes, the citizens have a keen interest in ensuring there is no special favor for handpicked groups friendly to those in governance. The carbon sequestration industry needs to pay their fair share of tax.

Please give HB1295 a Do Pass.

Thank you,

Doug Sharbono
1708 9th St S
Fargo, ND 58103

HB 1295: Removal of Tax Exemptions for CO2 Sequestration
House Finance & Taxation Committee
February 3, 2015
Presented by Rep. SuAnn Olson

Mr. Chairman and members of the committee, please note that I am presenting HB 1295 with an amendment.

The intent of HB 1295 is to remove the property tax and sales tax exemptions on CO2 pipelines when their use is related to CO2 sequestration. The amended language now doesn't start until Page 8.

Section 1 amends NDCC 57-06-17.1 of the code for Taxation of Public Utilities and is the centrally assessed tax, which is the property tax, that utilities pay. I might first argue that this is not where rules regarding carbon dioxide pipelines should be placed because they are in no way a public utility but that is an argument for another day or unless the committee wants to it take up.
State law currently allows a CO2 pipeline a 10 year exemption. This subsection removes pipelines used for sequestration from that exemption by striking out "secure geologic storage" and adds the word "exclusive" to use in enhanced recovery of oil or natural gas.

Section 2 of the bill removes the sales and use tax exemption by striking "secure geologic storage" and adds the word "exclusive" to the use in enhanced recover of oil or natural gas to the sales and use tax exemption of NDSS 57-39.2-04.14.

Let's first talk about how the property tax exemption for CO2 pipelines came about. Attached are excerpts from the 1991 Legislative session which is when this exemption was enacted. Note that the bill summary prepared by Legislative council makes clear that the state will reimburse the counties for tax that would have been payable for property tax. The following pages from testimony at the committee meeting in 1991 explain that that this legislation was needed because Dakota Gasification Company was "trying hang on for dear life." And on the next page, the representative from DGC commented that the deciding factor to build the pipeline wouldn't be the tax exemption. Clearly, that the property tax exemption was enacted for a very specific purpose. Commercial, 2500-mile pipelines were never contemplated. Allowing a 10-year exemption to continue will be very costly

for the state, which must make that payment to the counties. If this pipeline route becomes a corridor, the cost of a continuing exemption will multiply as more lines are built.

If CO2 sequestration is going to become an industry in ND, it must bear a proper share of the tax burden as compared to other centrally assessed industries. See the 2024 Summary of Centrally Assessed industries which is included.

Turning to the sales and use tax exemption, the exemption for enhanced oil recovery was added in 2015. The addition of secure geologic storage to the exemption was later. The laws at that time didn't contemplate a 2500-mile pipeline either.

Currently, there is only one proposed CO2 pipeline that is affected by this law change. Their own website reports that they will generate nearly a billion dollars of taxes during the construction and operational phases of the project. With ND's current 10-year exemption for property tax and sales and use tax exemptions, very little of that is going to North Dakota.

The exemptions currently in law were meant to support our own industries and that is where they should remain. Other testimony will likely say that ND's oil and gas industry needs these exemptions. However, the current exemptions don't benefit North Dakota oil and gas since current federal law induces the CO2 to be buried for 12 years.

The goal of this bill is to limit the exemption to activities that benefit industries located within the state. Both sections of the bill could be further amended to add coal mining behind "natural gas" to ensure that the state remains committed to supporting our coal industry. A similar exclusion could be prepared for ethanol plants that are sequestering carbon near their own plants in ND by amending the specific code section that allows various exemptions to those facilities. If the committee has an appetite for either of those changes, I would be happy to work with Legislative Council on those.

Mr. Chairman and members of the committee, I respectfully urge you to give HB 1295 as amended a DO PASS recommendation. Thank you.

CHAPTER 652

SENATE BILL NO. 2249
(Senators Streibel, Naaden, DeKrey)
(Representatives Brown, Rennerfeldt, Whalen)

CARBON DIOXIDE PIPELINES

AN ACT to create and enact two new sections to chapter 57-06 of the North Dakota Century Code, relating to a property tax exemption for certain centrally assessed pipeline and associated property used to promote enhanced recovery of oil or natural gas and to provide for payments in lieu of taxes; and to provide an effective date.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

SECTION 1. A new section to chapter 57-06 of the North Dakota Century Code is created and enacted as follows:

Carbon dioxide pipeline exemption. Property, not including land, is exempt from taxation for the first ten full taxable years after commencement of construction if it consists of a pipeline and necessary associated equipment for the transportation or storage of carbon dioxide to an oilfield in this state for use in enhanced recovery of oil or natural gas.

SECTION 2. A new section to chapter 57-06 of the North Dakota Century Code is created and enacted as follows:

Payments in lieu of taxes. Carbon dioxide pipeline property described in section 1 of this Act is subject to payments in lieu of property taxes during the time it is exempt from taxation under section 1 of this Act. For the purpose of these payments, carbon dioxide pipeline property described in section 1 of this Act must be valued annually by the state board of equalization in the manner that other pipeline valuations are certified. The county auditor shall calculate taxes on the carbon dioxide pipeline property described in section 1 of this Act in the same manner that taxes are calculated on other pipeline property. Not later than December twenty-sixth of each year, each county auditor shall submit a statement of the amount of taxes that would have been assessed against carbon dioxide pipeline property, exempted under section 1 of this Act, to the state treasurer for payment. The state treasurer shall make the required payment to each county not later than March first of the following year, and the county auditor shall distribute the payments to the political subdivisions in which the exempt pipeline property is located.

SECTION 3. EFFECTIVE DATE. This Act is effective for taxable years beginning after December 31, 1990.

Approved April 11, 1991
Filed April 12, 1991

BILL SUMMARY: SB 2249 Prepared by the Legislative Council staff

DATE: March 21, 1991

SUBJECT: Tax exemption for carbon dioxide pipeline

GENERALLY, THIS BILL:

As amended, exempts a carbon dioxide pipeline from property taxes if it is used to transport carbon dioxide for enhanced oil recovery and provides that the counties in which the tax would have been payable are entitled to reimbursement of the lost property tax revenues by the state.

REP. WARDNER Then at this time the counties wouldn't be receiving any revenue from these pipelines, so then the part about the state treasurer having to send money to the counties, the counties would end up getting more out of it?

REP. BROWN That is the way I see it.

LOWELL RIDGEWAY, ND PETROLEUM COUNCIL Testified in support of the bill. When we had HB 1414 before this committee, we shared with you a study that showed that there is about three hundred and forty three point eight million barrels of oil that have been identified from seventy reservoirs that could be brought to the surface with tertiary production which is carbon dioxide, in this case. That is the market for CO_2. We think this type of legislation could possibly prove to be a partial carrot to encourage the construction of such a line. The original bill as was discussed with you did provide for a property tax exemption on a CO_2 line built from the gasification plant to the oil fields to be exempt from taxation. We are aware of at least one other potential CO_2 pipeline, referred to as the Amoco one, actually it is the EXON one from Wyoming. They explored the idea of bringing natural CO_2 from Wyoming to western North Dakota and perhaps even to Canada. Those are the two potential pipelines I am aware of. I think the committee should understand that if there ever is a CO_2 pipeline built in North Dakota, there is probably going to be one built, not two or three. There seemed to be some question about the gathering lines, gathering lines traditionally, were exempt from property taxes, rightly or wrongly. Our Supreme Court, couple of years ago ruled that gathering lines are subject to taxes, many companies that have gathering lines are paying taxes today.

GARY JACOBSON, MGR. OF GOVERNMENT RELATIONS DIV. OF BASIN ELECTRIC POWER COOPERATIVE. Testified in support of the bill. There is a little confusion about where is Dakota Gasification Company on this issue. Dakota Gas Company is a subsidiary of Basin Electric Power Cooperative. It is a for profit company. When we are talking about the ability of Dakota Gasification Company to produce CO_2, we are talking about the fact that it does produce a loss fuel too, it does not produce a purified CO_2. In order to produce a purified CO_2 it would require a tremendous investment at that gasification plant. Yes, we can produce CO_2. Because CO_2 is a byproduct of the process out there, it would require a tremendous investment on our part. At this point, the company is trying to hang on for dear life right now, with the falling of the oil prices and the world situation right now. We have been producing at record level for the last two years. We are encouraging the development of the tertiary recovery process, CO_2 is part of that process. Everybody is a gainer on this, that is what we are supporting.

REP. TIMM What do you do now with the CO_2?

GARY JACOBSON I am not sure, I will get a response on that.

COMMITTEE ACTION Tape #2, Side A, Meter 2140

REP. ANDERSON Made a motion to adopt the amendments as presented #10341.0301. REP. GROSZ Second the motion. Motion carried by voice vote.

REP. ANDERSON Made a motion for a Do Not Pass
REP. LINDERMAN Second the motion. Motion carried

12 Yes 4 No 0 Absent

REP. LINDERMAN Was given the floor assignment.

COMMITTEE ACTION 3-18-91 SB 2249 Tape 1, Side A Meter 800

The committee met again to reconsider the action by which the bill was passed out of committee with a Do Not Pass As Amended.

BARRY HASTI, STATE TAX DEPARTMENT Appeared before the committee to answer questions the committee might have.

REP. NICHOLS Would there be a cost to the state if the tax exemption were granted to the pipeline, is there an in lieu of payment that goes to the counties that would have to be paid by the state?

BARRY HASTI In Section 2, there would be a negative impact on the state.

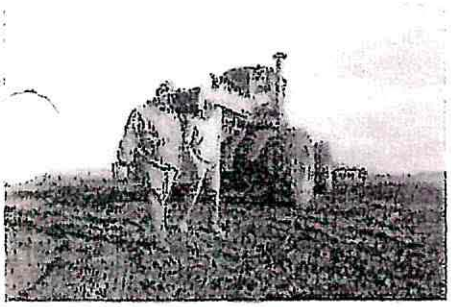
REP. WARDNER How long does this exemption go?

BARRY HASTI If it is added as a section to 57-02-08, there is no limiting language on here so it would be perpetual.

REP. TIMM When Gary Jacobson was testifying I was surprised at how unenthusiastic he was about the pipeline, in fact, in talking to him privately, he stated that if they got a contract with some oil company out in Williston, got a thirty or forty year contract to send them CO_2, that would be their deciding factor to build this pipeline. It wouldn't be a tax exemption that would be the deciding factor.

REP. FREIER If section 2 is the problem, why don't we just amend it out.

REP. FREIER Made a motion to reconsider the action by which the bill was passed out of committee 3-13-91. REP. BELTEP Second the motion. Motion carried 9 Yes 6 No 1 Absent



Decision Innovation Services (DIS) conducted a study that found Summit Carbon Solutions' proposed carbon capture, transportation, and storage project will create jobs, generate new tax revenue for local communities, support local suppliers, and strengthen the Midwest regional economy.

Project-Wide Findings (*Construction* Phase)

Total Investment	$8.9 billion*
Total Average Annual Jobs Created	12,293
Total Federal, State, Local Taxes Generated by the Project	$752 million
Total Income Paid	$2.1 billion
Total Right-of-Way and Other Landowner Payments	$776 million

*this number is subject to change and based on internal calculations

Project-Wide Findings (*Operations* Phase)

Annual Expenditures	$377 million
Total Jobs Supported	1,200+
Total Labor Paid	$122 million
Total Federal, State, Local Taxes Generated by the Project	$206 million

ENVIRONMENTAL BENEFITS

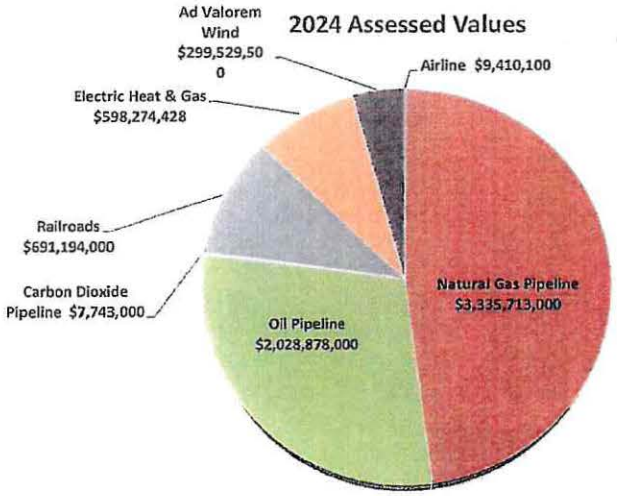
Once completed, Summit Carbon Solutions' Project will be the largest carbon capture and storage project in the world. This project will have the capacity to capture and permanently store up to 18 million tons of CO_2 every year. That's the equivalent of removing 3.9 million vehicles from our roads annually.

NORTH DAKOTA STATE BOARD OF EQUALIZATION

CENTRAL ASSESSMENT - 2024 SUMMARY

2024 CENTRALLY ASSESSED - ASSESSED VALUES

Airline	$	9,410,100
Natural Gas Pipeline	$	3,335,713,000
Oil Pipeline	$	2,028,878,000
Carbon Dioxide Pipeline	$	7,743,000
Railroads	$	691,194,000
Electric Heat & Gas	$	598,274,428
Ad Valorem Wind	$	299,529,500

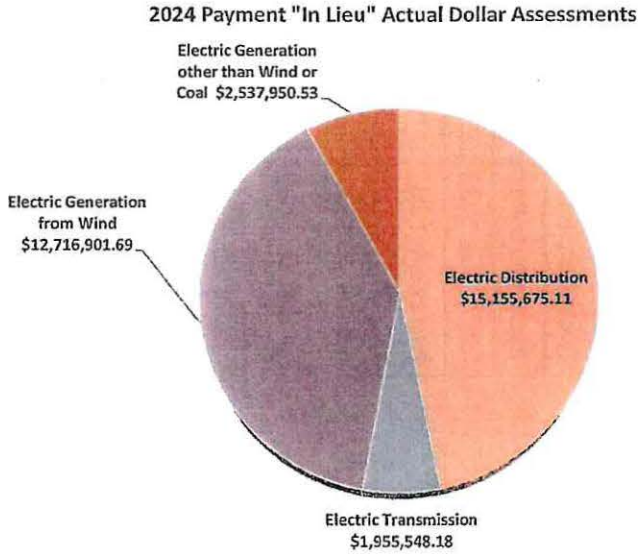


NORTH DAKOTA STATE BOARD OF EQUALIZATION

CENTRAL ASSESSMENT - 2024 SUMMARY

2024 CENTRALLY ASSESSED - PAYMENT "IN LIEU"

Electric Distribution	$	15,155,675.11
Electric Transmission	$	1,955,548.18
Electric Generation from Wind	$	12,716,901.69
Electric Generation other than Wind or Coal	$	2,537,950.53



SUMMIT CARBON SOLUTIONS, LLC

INVESTOR LIST

Investor	Website
Continental Resources, Inc	https://www.clr.com
TPG Rise Climate CHINA	https://therisefund.com/tpgriseclimate
Summit Agricultural Group	https://www.summitag.com
SK Group SOUTH KOREA	https://www.sk-perspectives.com
Tiger Infrastructure Partners SAUDI ARABIA	https://www.tigerinfrastructure.com

NDEPA
NORTH DAKOTA ETHANOL PRODUCERS ASSOCIATION

Testimony of Ryan Carter, Chief Operating Officer of Tharaldson Ethanol

North Dakota Ethanol Producers Association

Opposition of HB 1295

February 3, 2025

Chairman Headland and members of the House Finance and Taxation committee,

I am Ryan Carter, Chief Operating Officer of Tharaldson Ethanol in Casselton, ND. Our facility is the ninth largest ethanol manufacturing facility in the United States and produces a high-octane, clean burning fuel that reduces our nation's dependence on foreign oil, while utilizing our locally grown, renewable agricultural resources. In total our plant produces 175 million gallons of ethanol every year.

I am also the vice president of the North Dakota Ethanol Producers Association (NDEPA), which represents North Dakota's six ethanol plants, industry stakeholders and associated businesses. On behalf of NDEPA, I am here to oppose HB 1295, which proposes to amend and repeal various tax incentives and exemptions that are crucial to North Dakota's economic development and continued viability of the ethanol industry.

The ethanol industry plays a significant role in North Dakota's economy, providing jobs, supporting rural communities and contributing to energy independence. The proposed change in HB 1295 would undermine the industry's ability to remain competitive by removing important economic tax incentives, including those related to carbon capture and storage (CCS).

North Dakota has been a leader in developing CCS as a part of its strategy to achieve low-carbon fuel standards and access premium markets for ethanol. The removal of tax exemptions for carbon capture, injection and transportation will deter investment in CCS infrastructure, making it more difficult for ethanol producers to meet low-carbon fuel requirements and maintain market access. This, in turn, threatens the economic stability of our industry and the broader agricultural sector that supplies our feedstocks.

1605 E. Capitol Avenue
PO Box 1091 • Bismarck, ND 58502
701.355.4458 • 701.223.4645 (fax) • www.ndethanol.org

Furthermore, repealing the carbon dioxide pipeline exemption and associated tax incentives will have a negative consequence beyond the ethanol industry. These incentives have encouraged private sector investment in infrastructure that supports not only ethanol production but also secures geologic storage. Eliminating them could lead to the end of existing or new projects, job losses, and diminished economic activity in communities that rely on these industries.

The ethanol industry provides a stable and growing market for North Dakota farmers, supporting rural economies and contributing to the state's tax base. Weakening the policy framework that has enabled our industry's success will jeopardize these benefits and risk shifting investment to states with more favorable tax policies.

For these reasons, we respectfully urge the committee to urge a "Do Not Pass" on HB 1295 and preserve the incentives that have made North Dakota a leader in biofuels and carbon management. Thank you for your time and consideration.

2025 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Room JW327E, State Capitol

HB 1295
2/12/2025

Relating to the carbon dioxide pipeline exemption, payments in lieu of taxes for certain carbon dioxide pipeline property, and the carbon dioxide capture and injection sales tax exemption; and to provide an effective date.

11:10 a.m. Chairman Headland opened the meeting.

Members Present: Chairman Headland, Vice Chairman Hagert, Representatives Anderson, Dockter, Dressler, Foss, Grueneich, Ista, Motschenbacher, Nehring, Olson, Porter, Steiner, Toman

Discussion Topics:

- Committee action

11:12 a.m. Representative Porter moved a Do Not Pass.

11:12 a.m. Representative Ista seconded the motion.

Representatives	Vote
Representative Craig Headland	Y
Representative Jared Hagert	Y
Representative Dick Anderson	Y
Representative Jason Dockter	Y
Representative Ty Dressler	Y
Representative Jim Grueneich	Y
Representative Mike Motschenbacher	Y
Representative Dennis Nehring	N
Representative Jeremy Olson	Y
Representative Todd Porter	Y
Representative Vicky Steiner	Y
Representative Nathan Toman	Y
Representative Austin Foss	Y
Representative Zachary Ista	Y

11:13 a.m. Motion passed 13-1-0.

11:13 a.m. Representative D. Anderson will carry the bill.

11:13 a.m. Chairman Headland closed the meeting.

Janae Pinks, Committee Clerk

REPORT OF STANDING COMMITTEE
HB 1295 (25.0948.01000)

Finance and Taxation Committee (Rep. Headland, Chairman) recommends **DO NOT PASS** (13 YEAS, 1 NAY, 0 ABSENT AND NOT VOTING). HB 1295 was placed on the Eleventh order on the calendar.