

April 2002

## OIL PRODUCTION, OIL MARKET PRICE, AND OIL TAX REVENUE INFORMATION FOR THE 2001-03 BIENNIUM

This memorandum provides information regarding oil production, oil market prices, and oil tax revenues, including information on the statutory provisions relating to oil and gas gross production tax, oil extraction tax, the permanent oil tax trust fund, oil production and revenues for the 2001-03 biennium, and the history of oil activity.

### **OIL AND GAS GROSS PRODUCTION TAX (NORTH DAKOTA CENTURY CODE CHAPTER 57-51)**

The gross production tax on oil is 5 percent of the gross value at the well on oil produced. The gross production tax on gas is four cents times the gas base rate adjustment for each fiscal year as calculated by the Tax Department. The oil and gas gross production tax is distributed per formula to the oil and gas impact grant fund (up to \$5 million per biennium), to the state general fund, and to political subdivisions within producing counties.

### **OIL EXTRACTION TAX (NORTH DAKOTA CENTURY CODE CHAPTER 57-51.1)**

The oil extraction tax is 6.5 percent of the gross value at the well for wells drilled prior to April 27, 1987. For oil produced from any well drilled and completed as a vertical well after April 27, 1987, there is no extraction tax levied for 15 months, and thereafter the rate is 4 percent. For oil produced from any well drilled and completed as a horizontal well after April 27, 1987, there is no extraction tax levied for 24 months, and thereafter the rate is 4 percent. The oil extraction tax rate is 4 percent for qualifying secondary and tertiary recovery projects, and production from stripper wells and enhanced oil production methods is exempt. The initial production of oil from a well is exempt from any oil extraction tax for a period of 60 months if it meets any of the following conditions: (1) is located within the boundaries of an Indian reservation; (2) is on lands held in trust for an Indian tribe or individual Indian; or (3) is on lands held by an Indian tribe as of August 1, 1997. If the average price of a barrel of oil

exceeds the trigger price for each month in any consecutive five-month period, the oil extraction tax will become 6.5 percent. The tax rate reverts to 4 percent if the average price of a barrel of oil is less than the trigger price for each month in any consecutive five-month period. The trigger price is defined in statute as \$35.50 as indexed for inflation.

Twenty percent of the oil extraction tax is allocated to the resources trust fund for water development projects, 10 percent to the common schools trust fund, 10 percent to the foundation aid stabilization fund, and 60 percent to the state general fund.

### **PERMANENT OIL TAX TRUST FUND (NORTH DAKOTA CENTURY CODE SECTION 57-51.1-07.2)**

North Dakota Century Code Section 57-51.1-07.2 (1997 Senate Bill No. 2366) establishes a permanent oil tax trust fund and provides that at the end of each biennium beginning after June 30, 1997, all revenues deposited in the general fund during that biennium and derived from taxes imposed on oil and gas under Chapters 57-51 (Oil and Gas Gross Production Tax) and 57-51.1 (Oil Extraction Tax) which exceed \$62 million are to be transferred by the State Treasurer to a special fund. The State Treasurer is to transfer the interest earnings on the fund to the general fund at the end of each fiscal year. The principal of the permanent oil tax trust fund may only be spent upon a two-thirds vote of the members elected to each house of the Legislative Assembly. At the end of the 1999-2001 biennium, approximately \$13 million was deposited into the permanent oil tax trust fund. The original estimate at the close of the 57th Legislative Assembly anticipated \$9 million to be deposited into the fund at the end of the 2001-03 biennium for an estimated fund total balance of \$22 million in July 2003. The revised revenue estimate anticipates approximately \$5 million to be deposited into the fund at the end of the 2001-03 biennium for an estimated fund total balance of \$18 million in July 2003.

## OIL PRODUCTION FOR THE 2001-03 BIENNIUM

Comparison of Forecasted Oil Production and Oil Market Prices to Actual Production and Prices for the 2001-03 Biennium						
Production Period	Oil Production (in Barrels)			Market Price (Per Barrel)		
	March 2001 Forecast	Monthly Production Totals Actual	Over (Under)	March 2001 WEFA Estimates <sup>1</sup>	Actual <sup>2,3</sup>	Over (Under)
June 2001 <sup>4</sup>	2,721,450	2,566,805	(154,645)	\$22.39	\$22.48	\$0.09
July 2001	2,818,830	2,673,681	(145,149)	\$22.39	\$21.36	(\$1.03)
August	2,826,580	2,675,289	(151,291)	\$22.39	\$22.08	(\$0.31)
September	2,742,900	2,582,286	(160,614)	\$22.39	\$20.70	(\$1.69)
Quarter total	8,388,310	7,931,256	(457,054)			
October	2,842,855	2,653,869	(188,986)	\$22.19	\$17.15	(\$5.04)
November	2,759,490	2,560,330	(199,160)	\$22.19	\$14.43	(\$7.76)
December	2,857,642	2,630,963	(226,679)	\$22.19	\$14.23	(\$7.96)
Quarter total	8,459,987	7,845,162	(614,825)			
January 2002	2,863,718	2,623,092	(240,626)	\$21.18	\$14.61	(\$6.57)
February	2,592,716	2,403,003	(189,713)	\$21.18	\$15.87	(\$5.31)
March	2,877,978			\$21.18	\$19.40	(\$1.78)
Quarter total	8,334,412					
April	2,790,810			\$20.17		
May	2,892,083			\$20.17		
June	2,810,790			\$20.17		
Quarter total	8,493,683					
July 2002	2,916,263			\$20.67		
August	2,927,423			\$20.67		
September	2,843,190			\$20.67		
Quarter total	8,686,876					
October	2,947,263			\$20.16		
November	2,860,590			\$20.16		
December	2,963,693			\$20.16		
Quarter total	8,771,546					
January 2003	2,967,413			\$19.86		
February	2,691,444			\$19.86		
March	2,992,213			\$19.86		
Quarter total	8,651,070					
April	2,907,690			\$19.25		
May	3,017,013			\$19.25		
June <sup>4</sup>						
Quarter total	5,924,703					
2001-03 biennium total	68,432,037					

<sup>1</sup> These estimates are the WEFA estimates for the refiners' acquisition cost for a barrel of oil (Amoco posted price).

<sup>2</sup> The actual market price per barrel of oil is the monthly average of the Amoco posted field prices for North Dakota sweet crude, including the Montana counties of Sheridan, Roosevelt, and Richland.

<sup>3</sup> A comparison of the average West Texas Intermediate (WTI) price and the average Amoco posted price is as follows:

	WTI	Amoco	Variance		WTI	Amoco	Variance
June 2001	\$27.60	\$22.48	\$5.12	January 2002	\$19.67	\$14.61	\$5.06
July 2001	\$26.45	\$21.36	\$5.09	February 2002	\$20.74	\$15.87	\$4.87
August 2001	\$27.47	\$22.08	\$5.39	March 2002	\$24.42	\$19.40	\$5.02
September 2001	\$25.88	\$20.70	\$5.18				
October 2001	\$22.21	\$17.15	\$5.06				
November 2001	\$19.67	\$14.43	\$5.24				
December 2001	\$19.33	\$14.23	\$5.10				

<sup>4</sup> Oil tax revenue from June 2001 oil production is collected during the 2001-03 biennium, and oil tax revenue from June 2003 oil production will be collected during the 2003-05 biennium.

## OIL REVENUES FOR THE 2001-03 BIENNIUM

Comparison of Oil and Gas Gross Production and Oil Extraction Tax Revenue Forecasts to Actual Collections for the 2001-03 Biennium						
Collection Period	Oil and Gas Gross Production Tax			Oil Extraction Tax		
	March 2001 Forecast	Actual	Over (Under)	March 2001 Forecast	Actual	Over (Under)
<b>FY 2002</b>						
July 2001	\$1,900,000	\$2,802,748	\$902,748	\$1,156,000	\$1,117,228	(\$38,772)
August	1,938,000	1,156,970	(781,030)	1,179,000	958,341	(220,659)
September	2,019,000	812,228	(1,206,772)	1,232,000	694,500	(537,500)
Quarter total	\$5,857,000	\$4,771,946	(\$1,085,054)	\$3,567,000	\$2,770,069	(\$796,931)
October	\$1,886,000	\$1,813,740	(\$72,260)	\$1,147,000	\$1,313,166	\$166,166
November	1,937,000	1,552,729	(384,271)	1,179,000	938,293	(240,707)
December	1,956,000	1,147,750	(808,250)	1,194,000	614,069	(579,931)
Quarter total	\$5,779,000	\$4,514,219	(\$1,264,781)	\$3,520,000	\$2,865,528	(\$654,472)
January 2002	\$1,948,000	\$1,614,975	(\$333,025)	\$1,185,000	\$748,506	(\$436,494)
February	1,863,000	1,406,352	(456,648)	1,133,000	574,073	(558,927)
March	1,762,000			1,076,000		
Quarter total	\$5,573,000			\$3,394,000		
April	\$1,872,000			\$1,139,000		
May	1,729,000			1,052,000		
June	1,867,000			1,140,000		
Quarter total	\$5,468,000			\$3,331,000		
FY 2002 total	\$22,677,000			\$13,812,000		
<b>FY 2003</b>						
July 2002	\$1,798,000			\$1,112,000		
August	1,821,000			1,126,000		
September	1,903,000			1,181,000		
Quarter total	\$5,522,000			\$3,419,000		
October	\$1,775,000			\$1,098,000		
November	1,795,000			1,110,000		
December	1,817,000			1,127,000		
Quarter total	\$5,387,000			\$3,335,000		
January 2003	\$1,805,000			\$1,116,000		
February	1,780,000			1,101,000		
March	1,690,000			1,049,000		
Quarter total	\$5,275,000			\$3,266,000		
April	\$1,795,000			\$1,110,000		
May	1,691,000			1,046,000		
June	1,738,000			1,079,000		
Quarter total	\$5,224,000			\$3,235,000		
FY 2003 total	\$21,408,000			\$13,255,000		
2001-03 biennium total	\$44,085,000			\$27,067,000		
Statutory transfer to the permanent oil tax trust fund	5,654,000			3,498,000		
General fund revenue	\$38,431,000			\$23,569,000		

The following table provides biennium-to-date oil and gas production tax and oil extraction tax information:

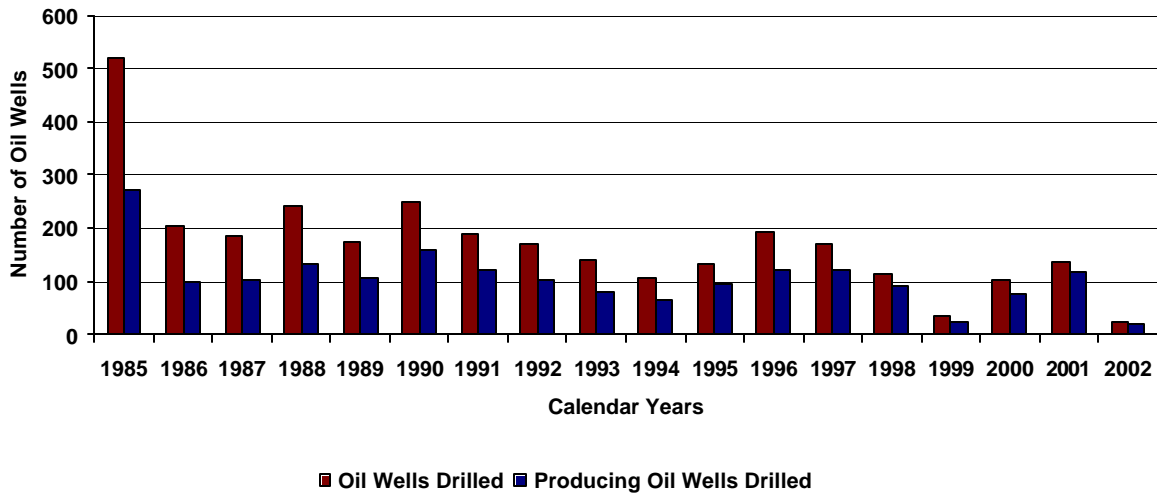
	Oil and Gas Production Tax	Oil Extraction Tax
Collected to date	\$12,307,492	\$6,958,176
March 2001 forecast	15,447,000	9,405,000
Over (under)	(\$3,139,508)	(\$2,446,824)

**NOTE:** The oil and gas production tax collections to date of \$12,307,492 are \$159,492 more than the biennium-to-date **revised** revenue forecast projection of \$12,148,000. The oil extraction tax collections to date of \$6,958,176 are \$506,824 less than the biennium-to-date **revised** revenue forecast projection of \$7,465,000.

### HISTORY OF OIL ACTIVITY

The following is information on the history of oil activity, including information on oil wells drilled in North Dakota and the average number of oil rigs working in North Dakota.

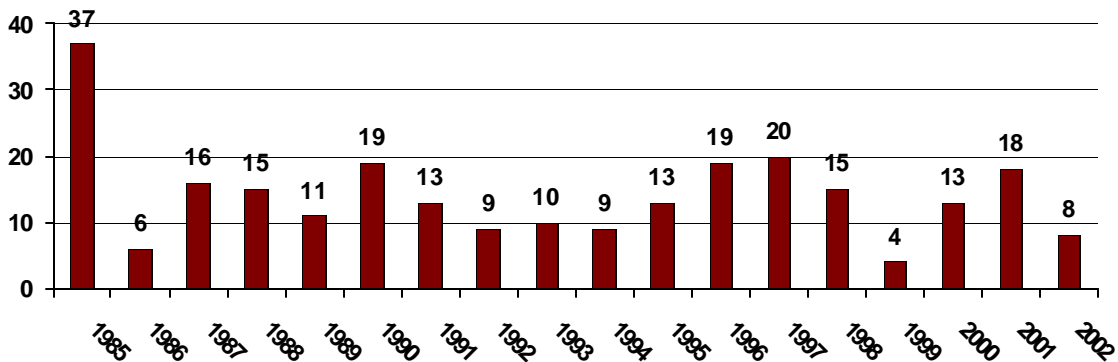
**Oil Wells Drilled in North Dakota Since January 1, 1985**



Time Period	Oil Wells Drilled	Producing Oil Wells Drilled	Time Period	Oil Wells Drilled	Producing Oil Wells Drilled
1985	519	271	1994	105	66
1986	205	100	1995	133	95
1987	185	102	1996	193	120
1988	242	132	1997	169	122
1989	176	108	1998	113	91
1990	251	160	1999	37	23
1991	191	121	2000	102	78
1992	169	103	2001	137	117
1993	139	80	2002	24	22

(through March)

**Average Number of Oil Rigs in North Dakota**



**NOTE:** The number of oil rigs reported for years 1985 through 2001 is the number of oil rigs reported for the month of July. The number of oil rigs reported for 2002 is as of March 2002.