

**FIRST ENGROSSMENT  
with Conference Committee Amendments  
ENGROSSED HOUSE BILL NO. 1134**

Introduced by

Representatives Porter, Carlson, Drovdal

Senators Armstrong, Lyson, Wardner

1 A BILL for an Act to create and enact sections 57-51-02.6 and 57-51.1-02.1 of the North Dakota  
2 Century Code, relating to oil and gas gross production tax exemption for natural gas and an oil  
3 extraction tax exemption for liquids produced from natural gas extracted to encourage use of  
4 gas that might otherwise be flared; to amend and reenact sections 38-08-06.4 and 57-39.2-04.5  
5 of the North Dakota Century Code, relating to flaring restrictions for natural gas and sales tax  
6 exemption for property used to process natural gas to encourage use of gas that might  
7 otherwise be flared; and to provide an effective date.

8 **BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:**

9 **SECTION 1. AMENDMENT.** Section 38-08-06.4 of the North Dakota Century Code is  
10 amended and reenacted as follows:

11 **38-08-06.4. Flaring of gas restricted - Imposition of tax - Payment of royalties -**  
12 **Industrial commission authority.**

- 13 1. As permitted under rules of the industrial commission, gas produced with crude oil  
14 from an oil well may be flared during a one-year period from the date of first production  
15 from the well. Thereafter,
- 16 2. After the time period in subsection 1, flaring of gas from the well must cease and the  
17 well must be capped, connected to a gas gathering line, or equipped with an electrical  
18 generator that consumes at least seventy-five percent of the gas from the well.:
- 19 a. Capped;
- 20 b. Connected to a gas gathering line;
- 21 c. Equipped with an electrical generator that consumes at least seventy-five percent  
22 of the gas from the well;
- 23 d. Equipped with a system that intakes at least seventy-five percent of the gas and  
24 natural gas liquids volume from the well for beneficial consumption by means of

1                   compression to liquid for use as fuel, transport to a processing facility, production  
2                   of petrochemicals or fertilizer, conversion to liquid fuels, separating and collecting  
3                   over fifty percent of the propane and heavier hydrocarbons; or

4           e. Equipped with other value-added processes as approved by the industrial  
5                   commission which reduce the volume or intensity of the flare by more than sixty  
6                   percent.

7           3. An electrical generator and its attachment units to produce electricity from gas and a  
8                   collection system described in subdivision d of subsection 2 must be considered to be  
9                   personal property for all purposes.

10          4. For a well operated in violation of this section, the producer shall pay royalties to  
11                   royalty owners upon the value of the flared gas and shall also pay gross production tax  
12                   on the flared gas at the rate imposed under section 57-51-02.2.

13          5. The industrial commission may enforce this section and, for each well operator found  
14                   to be in violation of this section, may determine the value of flared gas for purposes of  
15                   payment of royalties under this section and its determination is final.

16          6. A producer may obtain an exemption from this section from the industrial commission  
17                   upon application ~~and a showing that~~ shows to the satisfaction of the industrial  
18                   commission that connection of the well to a natural gas gathering line is economically  
19                   infeasible at the time of the application or in the foreseeable future or that a market for  
20                   the gas is not available and that equipping the well with an electrical generator to  
21                   produce electricity from gas or employing a collection system described in  
22                   subdivision d of subsection 2 is economically infeasible.

23           **SECTION 2. AMENDMENT.** Section 57-39.2-04.5 of the North Dakota Century Code is  
24           amended and reenacted as follows:

25           **57-39.2-04.5. Sales and use tax exemption for materials used in compressing,**  
26           **processing, gathering, collecting, or refining of gas.**

27           1. Gross receipts from sales of tangible personal property used to construct or expand a  
28                   system used to compress, process, gather, collect, or refine gas recovered from an oil  
29                   or gas well in this state or used to expand or build a gas processing facility in this state  
30                   are exempt from taxes under this chapter. To be exempt, the tangible personal  
31                   property must be incorporated into a system used to compress, process, gather,

1            collect, or refine gas. Tangible personal property used to replace an existing system to  
2            compress, process, gather, collect, or refine gas does not qualify for exemption under  
3            this section unless the replacement creates an expansion of the system.

4            2. To receive the exemption under this section at the time of purchase, the owner of the  
5            gas compressing, processing, gathering, collecting, or refining system must receive  
6            from the tax commissioner a certificate that the tangible personal property used to  
7            construct or expand a system used to compress, process, gather, collect, or refine gas  
8            recovered from an oil or gas well in this state or used to expand or build a gas  
9            processing facility in this state which the owner intends to purchase qualifies for  
10           exemption. If a certificate is not received before the purchase, the owner shall pay the  
11           applicable tax imposed by this chapter and apply to the tax commissioner for a refund.

12           3. If the tangible personal property is purchased or installed by a contractor subject to the  
13           tax imposed by this chapter, the owner of the gas compressing, processing, gathering,  
14           collecting, or refining system may apply to the tax commissioner for a refund of the  
15           difference between the amount remitted by the contractor and the exemption imposed  
16           or allowed by this section. Application for a refund must be made at the times and in  
17           the manner directed by the tax commissioner and must include sufficient information  
18           to permit the tax commissioner to verify the sales and use taxes paid and the exempt  
19           status of the sale or use.

20           4. For purposes of this section, a gas collecting system means a collection system  
21           described in subdivision d of subsection 2 of section 38-08-06.4.

22           **SECTION 3.** Section 57-51-02.6 of the North Dakota Century Code is created and enacted  
23 as follows:

24           **57-51-02.6. Temporary exemption for oil and gas wells employing a system to avoid**  
25 **flaring.**

26           Gas is exempt from the tax under section 57-51-02.2 for a period of two years and thirty  
27 days from the time of first production if the gas is:

- 28           1. Collected and used at the well site to power an electrical generator that consumes at  
29 least seventy-five percent of the gas from the well; or  
30           2. Collected at the well site by a system that intakes at least seventy-five percent of the  
31 gas and natural gas liquids volume from the well for beneficial consumption by means

1           of compression to liquid for use as fuel, transport to a processing facility, production of  
2           petrochemicals or fertilizer, conversion to liquid fuels, separating and collecting over  
3           fifty percent of the propane and heavier hydrocarbons, or other value-added  
4           processes as approved by the industrial commission.

5           **SECTION 4.** Section 57-51.1-02.1 of the North Dakota Century Code is created and  
6 enacted as follows:

7           **57-51.1-02.1. Temporary exemption for oil and gas wells employing a system to avoid**  
8 **flaring.**

9           Liquids produced from a collection system described in subdivision d of subsection 2 of  
10 section 38-08-06.4 utilizing absorption, adsorption, or refrigeration are exempt from the tax  
11 under section 57-51.1-02 for a period of two years and thirty days from the time of first  
12 production.

13           **SECTION 5. EFFECTIVE DATE.** This Act becomes effective July 1, 2013.