APPENDIX D

Summary of Oil and Gas Tax Incentives and Revenue Impacts

Description	Exemption or Rate Reduction	Duration	Statute	Statutory Effective Date	Comments/Utilization/Fiscal Impact
Stripper well – A stripper well is currently defined as a well drilled and completed, or reentered and recompleted as a horizontal well, after June 30, 2013 whose average daily production during any preceding consecutive 12 month period did not exceed 35 barrels per day for wells of a depth of more than 10,000 feet in the Bakken or Three Forks formation.	OET exemption	Unlimited	57-51.1-03	July 1, 2013 for the increased allowable production from 30 to 35 barrels per day for the deepest wells	Prior to the 2013 law change, the deepest stripper wells needed to produce less than 30 barrels per day to qualify for the OET exemption. The stripper exemption has been designated for 3630 wells at a cost of -$412.1 million from July 1, 2008 through May 31, 2015. No wells have yet been certified for the expanded definition of stripper well.
Stripper well property - A stripper well property is defined as wells drilled and completed, or a well reentered and recompleted as a horizontal well, before July 1, 2013 on a property whose average daily production during any preceding consecutive 12 month period did not exceed 30 barrels per day for wells of a depth of more than 10,000 feet.	OET exemption	Unlimited	57-51.1-03	Wells completed prior to July 1, 2013	The Legislature recognized the potential for stripper property designations to result in new high producing horizontal developmental wells being designated as exempt stripper properties. This loophole was eliminated by the 2013 Legislature making each well stand on its own to reach stripper status. Although difficult to measure, this change may have saved the state hundreds of millions in oil extraction tax incentives to high producing developmental wells.

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Large trigger – OET exemption for initial production and reduced rate for production after first 24 months from a well drilled and completed as a horizontal well if the average price of oil is less than the trigger price for 5 consecutive months. (For calendar year 2015, the large trigger would require West Texas Intermediate crude oil to average less than $55.09 for five consecutive months.)	OET exemption for first 24 months; 4% OET rate for wells older than 24 months	Dependent upon the price of oil; large trigger must be in effect a minimum of 5 months	57-51.1-03	Taxable events occurring through November 30, 2015	After being enacted originally in 1987 and expanded over the years, the "large trigger" incentives triggered off in October 2004, and have remained triggered off ever since. The incentives nearly triggered back on in 2009 and again in 2015, potentially resulting in hundreds of millions of lost oil extraction tax. The 2015 Legislature removed the "large trigger" incentive for horizontal wells effective November 30, 2015, and other price trigger incentives December 31, 2015. (HB 1476)
Qualifying well that has been worked over – Effective if well operator certifies to the Industrial Commission that the cost of the work-over project exceeded $65,000 or production is increased at least 50 percent during the first two months after completion of the project. A qualifying well is one with average daily production of no more than 50 barrels per day during the latest 6 calendar months of continuous production.	OET exemption	12 month exemption from OET, beginning with the first day of the third month after completion of the work over project	57-51.1-03	Taxable events occurring through December 31, 2015. (This exemption is only in effect for months when the large trigger is in effect.)	Triggered off since October 2004. No fiscal impact for past 11 years. Provision expires December 31, 2015.
Two-year inactive well – Production from a two-year inactive well as determined by the Industrial Commission.	OET exemption	10 years	57-51.1-03	Taxable events occurring through December 31, 2015. (This exemption is only in effect for months when the large trigger is in effect.)	Triggered off since October 2004. No fiscal impact for past 11 years. Provision expires December 31, 2015.

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Horizontal reentry well – A horizontal reentry well is defined as one that was not initially drilled as a horizontal well, which is reentered and recompleted as a horizontal well.	OET exemption	9 months	57-51.1-03	Taxable events occurring through December 31, 2015. (This exemption is only in effect for months when the large trigger is in effect.)	Triggered off since October 2004. No fiscal impact for past 11 years. Provision expires December 31, 2015.
Wells within the boundaries of an Indian reservation - 60-month exemption for wells drilled before July 1, 2013 on non-trust lands within the boundaries of an Indian reservation.	OET exemption	60 months	57-51.1-03	In effect through December 31, 2015	The 2013 Legislature removed this exemption for new wells drilled after July 1, 2013. Wells that qualified before July 1, 2013 were allowed the exemption (grandfathered in) until the 2015 Legislature enacted HB 1476 which removed the incentive entirely. There are 619 wells that have utilized this incentive, reducing OET tax revenues by $392.7 million from July 1, 2008 through May 31, 2015.
Small trigger – Reduced OET rate becomes effective on the first day of the month following a month when the average price of a barrel of West Texas Intermediate crude oil is less than $57.50 and remains in effect until the average price reaches $72.50.	Reduced OET rate of 2 percent	First 75,000 barrels or first $4.5 million of gross value produced during the first 18 months	57-51.1-03	In effect for wells completed through June 30, 2015, but rate reduction terminates December 31, 2015	The June 30, 2015 sunset was enacted by the 2013 Legislature. The final termination of the incentive was enacted by the 2015 Legislature in HB 1476. This small trigger "triggered on" once from May 2009 through October 2009 during which time 98 qualifying wells received $17.1 million in OET reductions. It also triggered February 1, 2015 and remained "on" until June 30 2015. To date, there have been 544 qualifying wells receiving $22.9 million in OET reductions. This amount is expected to grow to at least $82 million in the coming months until it terminates in December 2015.

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Wells drilled outside the Bakken and Three Forks formation – Wells drilled in a formation other than the Bakken or Three Forks, and located at least 10 miles from a field containing a Bakken or Three Forks spaced well are eligible for a reduced OET rate	Reduced OET rate of 2 percent	First 75,000 barrels during first 18 months	57-51.1-03	Wells completed after June 30, 2013	To date, 128 wells have qualified for a total of $10.4 million in OET reductions.
Production from a secondary recovery project – A secondary recovery project is defined as one employing water flooding. The project must be certified by the Industrial Commission and must achieve incremental production as defined in 57-51.1-03.	OET exemption for incremental production	5 years	57-51.1-03	Projects completed after December 31, 2015	Prior to enactment of HB 1476, secondary projects received a 4% OET rate on primary production, and on all production at the close of the exemption period. This reduced rate was subject to the large trigger and had not been in effect since 2004. HB 1476 provides only for the 5 year OET exemption on incremental production. There have been a total of 4 secondary recovery projects receiving a total of $1.9 million in OET exemptions from July 1, 2008 through May 31, 2015.
Production from a tertiary recovery project – A tertiary recovery project includes a project utilizing various recovery methods identified in statute and certified by the Industrial Commission. The project must be certified as qualifying by the Industrial Commission and must have achieved incremental production as defined in 57-51.1-03.	OET exemption for incremental production for 10 years, except for a project from a horizontal well within the Bakken and Three Forks formations which is not exempt from July 1, 2015 through June 30, 2017 and is thereafter exempt for a period of 5 years	For projects outside the Bakken and Three Forks, 10 year OET exemption; for projects within the Bakken and Three Forks, 5 year exemption beginning July 1, 2017	57-51.1-03	Projects completed after December 31, 2015	Prior to enactment of HB 1476, tertiary projects received a 4% OET rate on primary production, and on all production at the close of the exemption period. The reduced rate was subject to the large trigger and had not been in effect since 2004. The exemption was 10 years for incremental production from all projects, except CO2 projects which were allowed a permanent OET exemption for incremental production. There have been limited usage tertiary recovery projects in the state.