

October 1999

## OIL TAX REVENUES, OIL PRODUCTION, AND OIL MARKET PRICES FOR THE 1999-2001 BIENNIUM

The following is information on oil wells drilled in North Dakota since January 1, 1985:

Time Period	Number of Oil Wells Drilled	Number of Producing Oil Wells Drilled
Calendar year 1985	519	271
Calendar year 1986	205	100
Calendar year 1987	185	102
Calendar year 1988	242	132
Calendar year 1989	176	108
Calendar year 1990	251	160
Calendar year 1991	191	121
Calendar year 1992	169	103
Calendar year 1993	139	80
Calendar year 1994	105	66
Calendar year 1995	133	95
Calendar year 1996	193	120
Calendar year 1997	169	122
Calendar year 1998	113	91
Calendar year 1999 (through September)	16	10

The following is the average number of oil rigs in North Dakota:

July 1985 - 37	July 1993 - 10
July 1986 - 6	July 1994 - 9
July 1987 - 16	July 1995 - 13
July 1988 - 15	July 1996 - 19
July 1989 - 11	July 1997 - 20
July 1990 - 19	July 1998 - 15
July 1991 - 13	July 1999 - 4
July 1992 - 9	September 1999 - 8

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

The gross production tax on oil is five percent of the gross value at the well on oil produced.

The gross production tax on gas is four cents on all gas produced. Beginning July 1, 1992, the tax rate will be adjusted based on the gas fuels producer price index.

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 wells drilled after April 27, 1987, there is no extraction tax levied for 15 months, and thereafter the rate is four percent. The initial production of oil from a well drilled and completed after July 31, 1997, 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. For oil produced from any well drilled and completed as a horizontal well after March 31, 1995, there is no extraction tax levied for 24 months, and thereafter the rate is four percent. The oil extraction tax rate is four percent for qualifying secondary and tertiary recovery projects, and production from stripper wells and enhanced oil production methods is exempt. If the average price of a barrel of oil is \$33 or more for a five-month period, the oil extraction tax will become 6.5 percent. The tax rate reverts to four percent if the average price of a barrel of oil is less than \$33 for any consecutive five-month period.

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. To date no transfers have been made to the permanent oil tax trust fund.

COMPARISON OF GENERAL FUND OIL AND GAS PRODUCTION AND OIL EXTRACTION TAX REVENUE FORECASTS TO ACTUAL COLLECTIONS FOR THE 1999-2001 BIENNIUM						
Collection Period	Oil and Gas Production Tax			Oil Extraction Tax		
	Forecasted	Actual	Over (Under)	Forecasted	Actual	Over (Under)
<b>FY 2000</b>						
July 1999	\$827,000	\$1,253,234	\$426,234	\$502,000	\$460,032	(\$41,968)
August	880,000	1,086,769	206,769	534,000	926,788	392,788
September	949,000			581,000		
Quarter total	\$2,656,000			\$1,617,000		
October	\$844,000			\$512,000		
November	902,000			547,000		
December	947,000			579,000		
Quarter total	\$2,693,000			\$1,638,000		
January 2000	\$891,000			\$541,000		
February	917,000			556,000		
March	897,000			549,000		
Quarter total	\$2,705,000			\$1,646,000		
April	\$914,000			\$555,000		
May	901,000			547,000		
June	1,010,000			618,000		
Quarter total	\$2,825,000			\$1,720,000		
FY 2000 total	\$10,879,000			\$6,621,000		
<b>FY 2001</b>						
July 2000	\$909,000			\$552,000		
August	955,000			580,000		
September	1,030,000			630,000		
Quarter total	\$2,894,000			\$1,762,000		
October	\$915,000			\$555,000		
November	982,000			596,000		
December	1,028,000			628,000		
Quarter total	\$2,925,000			\$1,779,000		
January 2001	\$973,000			\$591,000		
February	1,017,000			618,000		
March	999,000			611,000		
Quarter total	\$2,989,000			\$1,820,000		
April	\$1,023,000			\$621,000		
May	998,000			606,000		
June	1,109,000			676,000		
Quarter total	\$3,130,000			\$1,903,000		
FY 2001 total	\$11,938,000			\$7,264,000		
1999-2001 biennium total	\$22,817,000			\$13,885,000		

COMPARISON OF FORECASTED OIL PRODUCTION AND OIL MARKET PRICES TO ACTUAL PRODUCTION AND PRICES FOR THE 1999-2001 BIENNIUM						
Production Period	Oil Production (In Barrels)			Market Price (Per Barrel)		
	Forecasted	Actual	Over (Under)	March 1999 WEFA Estimates <sup>1</sup>	Actual <sup>2,3</sup>	Over (Under)
June 1999 <sup>4</sup>	2,858,790	2,726,480	(132,310)	\$10.44	\$13.88	\$3.44
July 1999	2,976,124	2,782,804	(172,364)	\$10.68	\$15.89	\$5.21
August	2,955,168	2,743,468	(211,700)	\$10.68	\$17.02	\$6.34
September	2,854,080			\$10.68	\$19.51	\$8.83
Quarter total	8,785,372					
October	2,979,658			\$10.93		
November	2,879,700			\$10.93		
December	2,943,326			\$10.93		
Quarter total	8,802,684					
January 2000	2,976,620			\$11.12		
February	2,670,220			\$11.12		
March	2,966,576			\$11.12		
Quarter total	8,613,416					
April	2,856,990			\$11.39		
May	2,963,848			\$11.39		
June	2,881,140			\$11.39		
Quarter total	8,701,978					
July 2000	2,954,176			\$11.67		
August	2,955,633			\$11.67		
September	2,829,540			\$11.67		
Quarter total	8,739,349					
October	2,970,141			\$11.94		
November	2,880,780			\$11.94		
December	2,942,148			\$11.94		
Quarter total	8,793,069					
January 2001	2,955,509			\$12.43		
February	2,685,340			\$12.43		
March	2,970,792			\$12.43		
Quarter total	8,611,641					
April	2,868,660			\$12.56		
May	2,972,745			\$12.56		
June <sup>4</sup>						
Quarter total	5,841,405					
1999-2001 biennium total	69,747,704					

<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
June 1999	\$17.89	\$13.88	\$4.01
July 1999	\$20.10	\$15.89	\$4.21
August 1999	\$21.30	\$17.02	\$4.28
September 1999	\$23.88	\$19.51	\$4.37

<sup>4</sup> Oil tax revenue from June 1999 oil production is collected during the 1999-2001 biennium, and oil tax revenue from June 2001 oil production will be collected during the 2001-2003 biennium.