MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION
SFN 2053 (2/85) 5M

ROLL NUMBER

DESCRIPTION

2367

2007 SENATE NATURAL RESOURCES

SB 2367

2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. SB 2367

Senate Natural Resources Committee

☐ Check here for Conference Committee

Hearing Date: February 2, 2007

Recorder Job Number: # 2717

Committee Clerk Signature	Janet James

Minutes:

Senator Stanley Lyson, Chairman of the Senate Natural Resources Committee brought the committee to order.

All members of the committee were present except **Senator Ben Tollefson.**

Senator Lyson opened the hearing on SB 2367 relating to annual recertification of stripper well status under the oil extraction tax; to provide an effective date.

Senator Tracy Potter from District 35, sponsor of the SB 2367 introduced the bill (See attachment # 1.)

Senator Lyson asked for testimony in opposition of SB 2367.

Senator Lyson announced he distributed to the committee written testimony from **Richard Broschat** of Broschat Engineering and Management Services opposing SB 2367 (See attachment #2).

Ron Ness, President of the North Dakota Petroleum testified in opposition of SB 2367 (See attachment # 3)

Senator Lyson asked if he knew why there was no other testimony in support of SB 2367.

Ron Ness responded the legislative process is about ideas.

Jeff Herman a regional land manager for Petro-Hunt, LLC testified in opposition to SB 2367 stating they operate a number of marginal stripper wells and they are barely economical but the tax does keep them alive in an effort to improve production.

Senator Constance Triplett asked if the testifier could attest to the fiscal note.

Jeff Herman commented he thought the fiscal note was estimated high, but thought perhaps that the number of wells was anticipated to go over the current limit to go up to 11 ½ %.

Senator Triplett stated if that is the assumption and the bill was passed, the stripper wells would no longer be defined as stripper wells, so the tax on them would increase so would these wells then be closed down.

Jeff Herman agreed that this would most likely happen when a well would increase production from 30 gallons to 40 gallons and would then no longer be considered stripper wells and the tax would increase to 11 ½ %.

Lynn Helms, Director of the Department of the Mineral Resources testified in opposition to SB 2367 stating he has great concern regarding section 3 of the bill because the June production numbers are not due into their office until August 1st. The way section 3 is written they would only have 14 days to process those numbers to identify all the wells in the state that still qualify as stripper wells. That information would then be turned over to the tax department and it would be impossible to accomplish. If the bill was amended to change the dates or the agency would have to contract the job in order to crunch the numbers in time to meet the deadline. If the bill is passed they would like to offer an amendment for better management.

Senator Lyson questioned the fiscal note.

Lynn Helms stated the head of the department had not reviewed the fiscal note but they would be happy to provide information to Legislative Council, but there will certainly be a cost associated with this bill and estimate $50,000.00 per biennium for the outside contract.

Senator Constance Triplett asked again if the agency was consulted about the assumptions developing the fiscal note and about the accuracy of the numbers.

Lynn Helms responded they were not consulted and the numbers came from the tax department and believes the assumption made was that half of the stripper wells would no longer be stripper wells, so the tax rate on them would double. The number is accurate based on the oil price projections that the tax department is using for the governors revenue forecast. The production numbers are provided to the tax department every month, so the numbers are based on valid data.

Senator Joel Heitkamp commented the fiscal note is a moving target due to the fact that if the stripper wells are declared to not be stripper wells, their taxes increases and they will then be closed down resulting in less revenue than estimated.

Lynn Helms agreed that the fiscal note is based on an assumption that all the stripper wells would continue to produce no matter what was done with the tax rate and that half of them would no longer qualify so their tax rate would double. The truth is that a significant number of wells would be abandoned. These wells would have an economic impact on the communities.

Robert Harms, President of the Northern alliance of Independent Producers testified in opposition to SB 2367 (See attachment # 4).

Senator Lyson asked for neutral testimony of SB 2367.

Kevin Schatz of the North Dakota Tax Department testified in a neutral position of SB 2367 stating the tax department used the data submitted by the Industrial Commission for production of the wells they certified.

Senator Triplett clarified the tax department looked at the production numbers and assumed the tax has not impact one way or other in decision making and just multiply to create the numbers.

Kevin Schatz confirmed the tax department took the production data and looked at the statute and based the fiscal note on those that qualified or not qualified for recertification.

Senator Lyson closed the hearing on SB 2367.

Senator Herbert Urlacher made a motion for a Do Not Pass of SB 2367.

Senator Triplett second the motion.

Senator Lyson asked for further discussion.

Senator Triplett commended maybe there needs to a new law as to how fiscal notes are developed. She understands how the tax department is constrained to a formula that says if this bill passes, then nothing else changes so this is what happens, but if a bill has a large amount of fiscal impact more follow up needs to happen. Although no one can predict exactly what will happen there should be some kind of assumption made. She further commented it is criminal of the tax department to developing fiscal notes that are so unrealistic.

Senator Lyson commented almost everyone in the legislature has made that same remark.

Senator Heitkamp said not to disagree, but when assumptions are made on fiscal notes are difficult to gage and can cause the most trouble.

A roll vote for a Do Not Pass of SB 2367 was taken indicating 6 Yeas, 0 Nays and 1 absent.

Senator Jim Pomeroy will carry SB 2367.

FISCAL NOTE
Requested by Legislative Council
01/23/2007

Bill/Resolution No.: SB 2367

1A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2005-2007 Biennium		2007-2009 Biennium		2009-2011 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues				$24,850,000		
Expenditures						
Appropriations						

1B. **County, city, and school district fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

2005-2007 Biennium			2007-2009 Biennium			2009-2011 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

2A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

SB 2367 requires an annual determination of strippper well status for the purpose of the exemption from the oil extraction tax, and removes the statutory reference to "stripper property".

B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

Section 1 of SB 2367 requires the annual classification of stripper status. Section 2 removes the definition of stripper property. Section 3 sets out procedures relative to the re-classification of stripper wells.

Currently, approximately 26% of the state's oil production is classified as being produced from stripper wells or stripper properties. Approximately one-half of that production is from wells that currently produce at a level in excess of the statutory definitions of strippper wells. That production -- estimated at approximately 5.46 million barrels annually -- would become subject to the oil extraction tax under the provisions of this bill.

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*
   A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

Removing the oil extraction tax exemption for non-qualifying stripper wells and properties would increase oil extraction tax revenues by approximately $24.85 million in the 2007-09 biennium. This revenue would be distributed as follows: 60% to the permanent oil tax trust fund, 20% to the resources trust fund, and 20% according to Article X of the Constitution.

B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*

Name:	Kathryn L. Strombeck	**Agency:**	Office of Tax Commissioner
Phone Number:	328-3402	**Date Prepared:**	02/01/2007

Date: 2-2-07

Roll Call Vote #: #1

2007 SENATE STANDING COMMITTEE ROLL CALL VOTES

BILL/RESOLUTION NO. 2367

Senate **Natural Resources** Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number

Action Taken Do Not Pass

Motion Made By Urlacher Seconded By Triplett

Senators	Yes	No	Senators	Yes	No
Sen. Stanley Lyson, Chairman	✓		Sen. Joel Heitkamp	✓	
Sen. Ben Tollefson, ViceChairman			Sen. Jim Pomeroy	✓	
Sen. Layton Freborg	✓		Sen. Constance Triplett	✓	
Sen. Herbert Urlacher	✓				

Total (Yes) 6 No 0

Absent 1

Floor Assignment Pomeroy

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

SB 2367: Natural Resources Committee (Sen. Lyson, Chairman) recommends **DO NOT PASS** (6 YEAS, 0 NAYS, 1 ABSENT AND NOT VOTING). SB 2367 was placed on the Eleventh order on the calendar.

2007 TESTIMONY

SB 2367

Attachment #1

Testimony of Tracy Potter on SB 2367, Senate Natural Resources Committee

SB 2367 says that a well receiving tax exemptions as a "stripper well," must actually be a stripper well.

Stripper wells are marginal. They are classified by daily production and depth of the well. At less than 6,000 feet, wells producing less than 10 barrels a day get an exemption from the oil extraction tax. It goes up to 15 barrels a day down to 10,000 feet and 30 barrels a day below that.

[I am far from expert on oil production - may suffer from delusions of adequacy - but if I say anything incorrect, I'm sure I can be corrected by the experts in the room]

Production from oil wells is not a constant thing. Naturally it can fall as a deposit is depleted, but it can also rise for various natural or manmade reasons. According to the estimates contained in the fiscal note, it has risen past the point of qualifying for the exemption for almost half of the wells now receiving it. In July, 2006, there were 3.4 million barrels produced in North Dakota. About 26% of wells are classified as strippers, and half of those wouldn't have qualified based on the standards of the Century Code.

In North Dakota they say, "Once a stripper, always a stripper." This bill would end that by requiring an annual review of production reported by the oil companies to the Oil and Gas Division. The companies will not have to produce a single extra sheet of paper - the review might require a half-time fte added to the state payroll.

Other oil-producing states not only monitor annually, but will adjust the tax rates quarterly or monthly based on actual production. Some have price points, like $20 or 30 a barrel, where tax incentives come off. But in North Dakota, once a stripper, always a stripper.

In contemplating this bill I considered putting a price point on, even as high as $50 a barrel, where exemptions would come off. Clearly a well that is marginal at $15 a barrel is not so marginal at $50 a barrel. In the end, however, the bill has a very narrow focus. All it does is say that a well must actually qualify for an exemption to get one.

As to the fiscal note - that's a lot of money. As you've all seen this Session, there are plenty of places to put it. The oil industry is asking for tax cuts. Renewable energy projects require funds. Pipelines, power lines, economic development. If the legislature in its wisdom chooses to lower oil tax rates, if it chooses to build a pipeline or a refinery, if it chooses to provide tax incentives to launch new exploration of the Bakken formation - there will be no shortage of uses for $24 million. But the purpose of this bill is not about producing revenue. It's about a fair application of law. Why should wells that don't qualify get the same exemption as those that do? Why should one well get an exemption while one producing less gets no exemption? I don't mean anything disparaging to the people receiving this unwarranted benefit - they have played by the rules. What's wrong here - are the rules. This bill corrects them.

Attachment # 2

501 E. Broadway, Suite 101
P.O. Box 399
Williston, ND 58802-0399
701-572-8075

BROSCHAT ENGINEERING AND MANAGEMENT SERVICES

DRILLING, PRODUCTION AND RESERVOIR ENGINEERING
PETROLEUM PROPERTY MANAGEMENT

John M. Broschat
President

Richard E. Broschat
Vice President

January 26, 2007

Chairman Senator Stan Lyson and Committee
Members of Senate Natural Resources Committee:

Re: Senate Bill 2367

Dear Sir or Madam:

My company is a small independent producer located in Williston. My company is one of thousands of small independent oil producers in the United States that operate stripper wells. Many of these wells were purchased from major companies.

Raising taxes and requiring annual certification of stripper wells would discourage companies like mine from investing in these wells to keep them going. With small profit margins, small companies need certainty to continue to operate.

I urge the Committee to vote no on this Bill so that we can continue to operate these stripper wells to a lower economic limit. Thank you.

Very truly yours,

Richard E. Broschat

cc: North Dakota Petroleum Council

WARD WILLISTON OIL COMPANY

January 29, 2007

Senator Stan Lyson
Chairman Senate Natural Resources Committee
600 East Boulevard Avenue
Bismarck, ND 58505-0001

Dear Chairman Senator Lyson and Committee Members,

We are opposed to bill SB-2367 being presented before the North Dakota Legislature and we would appreciate your considering our position.

Ward Williston is an oil and gas producer and an oilfield service company with operations in the Williston basin of North Dakota. At the present time we employ over 65 people in the state of North Dakota.

Bill SB-2367 proposes increased taxes on stripper properties, which will make the majority of our wells subject to plugging and abandonment. Over ninety-five percent of our production comes from stripper wells. Each of these wells has higher than normal lifting costs and even at the current tax rate they are close to being plugged and abandoned. I estimate that 95% of our service revenues from other companies are generated from their stripper wells. If this bill passes many of their wells will be plugged also and we will have to lay off employees.

I urge the Senate to defeat bill SB-2367. It will cause wells to be plugged, it will be the direct cause of layoffs, it will make our country more dependent on imports, including countries that are our enemies, and will result in less oil tax revenues to the state.

Sincerely,

T Cunnington

Thomas W. Cunnington
CEO

9926 Hwy 83, PO Box 172 • Westhope, North Dakota 58793
(701) 245-6479 • FAX: (701) 245-6416
www.wardwilliston.com
"The Business of Oil Since 1952"

LUFF
EXPLORATION Co.

January 30, 2007

Mr. Ron Ness
Executive Director
North Dakota Petroleum Council
Box 1395
Bismarck, ND 58502

RE: Proposed Legislation Regarding
Severance (Extraction) Tax Incentive For
Incremental Secondary Oil Recovery

Dear Ron:

Luff Exploration Company would like to comment on proposed legislation to eliminate the severance (extraction) tax incentives on incremental secondary oil recovery.

Secondary recovery projects are very capital intensive, and take time to bear fruit, often requiring the short term deferment (or loss, if it does not work) of existing production when wells are converted to injection. Producers have to spend significant amounts of capital, make painful conversions of some oil wells to water injection wells, and hope for success. One important economic factor that makes this process a bit more tolerable has been the secondary recovery tax incentive for the incremental oil, which is not subject to oil price triggers. Secondary recovery is a prudent way of getting more oil from existing domestic fields, and it optimizes the prudent development of the state's natural resources. It also reduces the amount of foreign oil imported. States and their citizens should be doing everything possible to encourage this technology. It would be tragic and unjust to change the rules after oil and gas companies have spent significant capital and taken field-wide risk on secondary recovery projects. It is hard (and in some cases impossible) to "undo" a secondary recovery project after it is underway.

Additionally, the severance (extraction) tax incentive for incremental secondary recovery oil applies (in North Dakota) to royalty owners as well. Therefore, landowners and their families with minerals under all of the secondary recovery projects in North Dakota would be economically impacted if the incentive were eliminated.

Very Truly Yours,
Luff Exploration Company

Richard D. George, P.E.
Manager of Engineering

1580 LINCOLN STREET • SUITE 850 • DENVER, COLORADO • 80203 • 303.861.2468 • FAX 303.861.2481

NANCE PETROLEUM CORPORATION

A Subsidiary of
St. Mary Land & Exploration Co.

P.O. BOX 7168 • BILLINGS, MT 59103
550 N. 31ST ST, SUITE 500 • BILLINGS, MT 59101
PHONE: (406) 245-6248 • FAX: (406) 245-9106

Mr. Ron Ness - Director
North Dakota Petroleum Council
P.O. Box 1395
Bismarck, ND 58502

Date: 1/29/07

Re: SB-2367

Dear Ron,

Nance Petroleum Corporation strongly opposes the proposed stripper tax law changes intended by SB-2367. We offer to the NDPC the following arguments:

Stripper "units" status –vs- individual well stripper status

Horizontal drilling within a unit has proven to be a tremendous opportunity for the state, for mineral owners, and for oil companies. Units allow long laterals and optimum well placement. Drillling activity will more likely occur in units particularly where the tax climate is favorable. If that happens to be in ND, fine. If not, the drilling dollars go elsewhere.

We are presently budgeting for 4 such wells in ND in 1st & 2nd qtr 2007, to be drilled on the condition that the units are certified as and/or remain qualified stripper units. We have not been previously able to justify that drilling.

Stripper wells – Re-qualifying yearly

Wells do not **incline**, unless they are advantageously affected by a waterflood; or improved by a workover/reentry drilling. These events involve the oil company risking money, to try to improve production. If the production increase does happen, the state receives its 5% tax revenue on a higher volume. If the production increase doesn't happen, the oil company shoulders the burden for its investment efforts. The state should support that investment effort, because investment equates to both jobs and tax revenues.

Respectfully submitted,

Eric R. Percy

Eric R. Percy
Operations Manager – ND
Nance Petroleum Corp.

From: Jeff Vickers [mailto:JeffV@geoi.net]
Sent: Monday, January 29, 2007 2:15 PM
Cc: ronness@ndoil.org; slyson@nd.gov
Subject: Re: Stripper Tax

Ron,

Thank you for your message John, and yes Ron had sent me notice on this one which is a BAD one and I have been intending to reply and I can schedule to talk to Stan also. This is a real kick in the ASS to the very few E&P companies that will even mess with troublesome stripper wells and the LAST thing we need is a bunch of costly administrative burden wiping out the only small advantage stripper wells have. If there are any land owner associations we can loop-in the should be vehemently opposed to this bill. One "talking point" I don't think I have seen yet is the COST of constant re-certifications, both to operators and to ND through the NDIC? In the shallowest 10 BOPD case, let us assume that a well becomes stripper at 10 BOPD and is plugged at 4 BOPD? Average "stripper life" then is 7 BOPD or 2500 BO per year. 100% value at the wellhead with current $40 per Bbl net to WTI is $100,000. At 15% royalty average each portion of tax is as follows:

Mineral owner 5% - $750 for year
Mineral owner 11.5% - $1725 for the year
Operator 5% - $4250 for the year
Operator 11.5% - $9775 for the year

In this example the difference in the operators taxes are a meaningful $5525 luring the operator to continue production a few more precious years, however now state law would require us to make time consuming (hence costly) re-certifications to maintain the favorable tax status???? With the administrative load that almost all operators have today they are going to be very leery about spending $3000 dollars worth of administrative time to recertify for a $5500 tax advantage. The costs don't end there either as some group of State employees, presumably with the NDIC is going to have to administer all these recertification's for what ever number of stripper wells there are currently in ND now. If that cost was $2500 then what has society gained, we tax $5500 per year less, then the operator spends $3000 to gain each recertification and the State spends $2500 to monitor each. Sounds like a lose,, lose situation to me. Some might contend that less stripper properties will be approved and that might be true, but the bad end to that is that operators will cease to bother with all the administrative and operational hassles associated with them and more wells will just be plugged. Keep in mind lower taxes on stripper wells are their ONLY advantage, everything else is disadvantages, high maintenance cost of old surface equipment, little gas for treating oil on the lease, expensive wintertime operations, frequent repairs due to old downhole equipment, high incremental energy (electricity) costs to lift very small volumes, etc. etc. etc. My overall summary point with picking on the tax rate of stripper wells and my example above is that it is counter-productive due to the wells very nature. It might be considered similar to making welfare recipients pay taxes on the meager proceeds they are given to live on.

One more point might be that the average stripper well produces as a stripper at only the extreme end of its life and that stripper production is only a tiny fraction of its total recovery. Personally my guess is that stripper production represents something less than 10% of an average wells total recovery? (Any better number for that from sources other than me Ron?) Stripper designations and rules were adopted decades ago by Federal and State jurisdictions just to preserve as many old wells as possible without clobbering them with taxes and administrative burdens. Now when we need stripper production more than ever, and when State coffers are brimming with funds from newer highly productive wells.............now........now we want to slam stripper wells with more tax that would only provide a petty amount of funds to the State but would decimate the stripper well population????????? I don't get it??

Jeff Vickers.

Ballantyne Oil
Independent Producers
P.O. Box 397 • Westhope, ND 58793 • 701-245-6143 • Fax 701-245-6149

Senator Stan Lyson
Senate Natural Resources Committee

RE: Senate Bill 2367

Dear Senator Lyson,

My name is Allen Boettcher. Along with my wife, Jackie, we manage Ballantyne Oil, which owns and operates about 110 wells across the northern tier of North Dakota from Bottineau through Burke Counties. We operate out of Westhope, ND and we are a local ND oil company, small though it is. Almost all of the wells we own and operate are stripper well properties and are exempted from the 6.5% extraction tax. Historically, most of these stripper wells have been economically marginal, and the only thing that has kept most from being plugged and abandoned, has been the stripper well exemption. Many of these wells were operated at a loss for months or years, waiting for oil prices to increase, in the hope that they would eventually make money.

Senate Bill 2367 will require that all stripper wells be re-certified each year. This process is quite involved and would require a considerable amount of effort to gather production data, fill out forms, wait for the NDIC Oil and Gas Division verification, and then wait for a final OK on the exemption from the ND Tax Department. This would be very burdensome for our small operation and would require several man-hours per well to re-certify each well. More importantly, it is a disincentive for an operator to make large investments in forming a unit for secondary recovery operations, increase production on marginal wells and then have that tax or incentive revoked by requiring recertification. The current tax incentive for stripper wells encourages operators to establish units and invest capital to extract additional reserves. Requiring annual recertifications will take away that incentive and result in marginal wells being plugged and abandoned before unitization.

In the past, the extraction tax exemption has given small operators like us a chance to improve well production. In this business, like farming, everything we do to try and improve production is a gamble. The extraction tax exemption helped to lessen the risk by allowing us to recoup faster, the cost of a work over (overhaul), deeper drill, or horizontal sidetrack, in the hope of improving production. These operations have become very costly. Without this added incentive, most stripper wells would be produced until they are no longer economic, and then plugged. The stripper well exemption, increases the revenue stream to the operator, the royalty owners, and ultimately results in more taxes paid to the state, because a stripper well has had a prolonged life.

Please consider my request for a no vote on this bill.

Sincerely Yours,

Allen Boettcher

Allen Boettcher

Lyson, Stanley

From: Russell Evitt II [r2d2@doubleee.com]
Sent: Friday, January 26, 2007 5:17 PM
To: Lyson, Stanley
Subject: SB-2367 - Disapprove

Dear Senator Lyson,

Greetings from Williston! As to the above referenced bill - we wish to inform you of our disapproval.
What is funding a lot of the states windfall? Oil revenues right?
Let us not be hasty then to further burden oil companies with paper work for already marginal yet productive properties.
One would much rather have them producing creating revenue as opposed to Not.
Also, this bill would send a message of alienation to the oil companies who work in this State.
We have finally got something going in this oil patch, let us not be looking for ways to stop the progression.

Thank you, Sincerely,

Russell Evitt II
Double (EE) Service, Inc.
r2d2@doubleee.com
1800-932-8803

Lyson, Stanley

From: Robert Johnson [ndgeol@btinet.net]
Sent: Saturday, January 27, 2007 12:22 PM
To: Lyson, Stanley
Cc: Ron Ness
Subject: SB-2367

Dear Senator Lyson,
I am concerned about the annual re-certification of ND stripper wells in order to exempt the well from paying the oil extraction tax. This would be very time consuming for small operators who would have to spend considerable amounts of time and effort to gather the data, and fill out the forms every year in order to qualify for the tax.

One of the benefits of this bill in the past, has been the encouragement offered by the exemption, to try to improve well performance by re-working, deepening, or drilling horizontally, a marginal well. The decrease in the tax, helped to lessen the risk, by providing a faster pay back on the work performed, increasing revenues to the operator and royalty owners, and eventually increasing tax revenues to the state, because a stripper well was saved from being plugged and abandoned. Re-certification would destroy any incentive to try to increase production.

The high crude oil prices over the last couple of years have been a godsend to our industry, but at the same time costs have skyrocketed. Small operators need this excemption to preserve stripper wells by offsetting the high cost of workovers, etc.

I would hope that your committee would give this bill a do not pass recommendation.

Thanks for your consideration,

Robert Post Johnson
Consulting Geologist

Lyson, Stanley

From: Gaylon Baker [gaylon@starkdev.com]
Sent: Monday, January 29, 2007 9:54 AM
To: Lyson, Stanley
Cc: ronness@ndoil.org
Subject: SB 2367

Honorable Senator Lyson,
I would like to urge a No vote on SB 2367. Effectively increasing the tax on "stripper" wells now could have a drastic negative effect in the long run for North Dakota. The oil surge will not last forever, and when it does we will need stripper well production to support our tax base as it is structured now.
Thank you for your consideration,
Gaylon Baker
Executive Vice President
Stark Development Corporation
Dickinson, ND
(701) 225-5997

Attachment # 3

NORTH DAKOTA PETROLEUM COUNCIL

Ron Ness
President

Marsha Reimnitz
Office Manager

120 N. 3rd Street • Suite 225 • P.O. Box 1395 • Bismarck, ND 58502-1395
Phone: 701-223-6380 • Fax: 701-222-0006 • Email: ndpc@ndoil.org

Senate Bill 2367

Senate Natural Resources Committee

February 2, 2007

Chairman Lyson and Members of the Committee, my name is Ron Ness. I am President of the North Dakota Petroleum Council. The North Dakota Petroleum Council represents 130 companies involved in all aspects of the oil and gas industry including oil and gas production, refining, pipeline, transportation, mineral leasing, consulting, legal work, and oil field service activities in North Dakota, South Dakota, and the Rocky Mountain Region. Petroleum Council members produced 80% of the nearly 36 million barrels of oil produced in North Dakota in 2006. I appear before you today in opposition to Senate Bill 2367.

OIL INDUSTRY FACTS:

- **North Dakota ranks 9th among the nation's oil producing states**
- **North Dakota produces 113,000 barrels of oil per day**
- **There are currently 42 rigs drilling new wells**
- **Industry produced 36 million barrels of oil last year**
- **Currently, there are more than 3,600 producing oil wells in the state**
- **Average production per well is about 30 barrels per day**
- **160 oil companies own and operate wells in North Dakota**
- **Industry has added an estimated 2,500 jobs in the past 30 months**

OIL AND GAS INDUSTRY TAX REVENUES:

- **$152 million in 2005 in oil and gas production taxes**
- **A 63% increase in oil tax revenues from 2004**
- **3rd largest source of revenue to the general fund behind sales and income taxes**
- **$102 million to Permanent Oil Tax Trust Fund through December 31, 2006**
- **$167 million in oil tax collection in fiscal year 2006**

The Governor's budget projects that the oil and gas industry will pay more than $600 million in oil and gas production taxes in this and the next biennium. **Does SB 2367 help sustain this incredible economic growth and help expand our state's oil production to 150,000 or 200,000 barrels of oil per day?** No. SB 2367 places an additional tax burden on a segment of the state's oil industry that is important to the stability of industry and helps provide jobs during the peaks and valleys that the oil industry experiences. Stripper properties, or marginal wells, are a foundation for the domestic oil industry. Marginal oil wells represent 17% of our domestic oil production. These wells are generally owned by small independent operators who have purchased them from large operators and these operators take the risk of trying to increase production of these wells. This risk has to have a financial incentive in order to keep these wells active and continue to invest in new technology or production techniques that increase their production. Oil industry investment is always driven by price and economics. North Dakota competes with the rest of the nation and the world to attract investment. In the last several years, the state's oil patch has become a hotbed in the United States for interest and investment and our economy is certainly seeing the benefits. Bills such as SB 2367 do not encourage investment.

Reasons why stripper wells are taxed at fixed rates:

- Producers need certainty to justify maintaining production from stripper wells.
- Capital expenditures on low rate wells are very risky. Decline rates for wells are very steep, so increase in rate is not long-lasting. To encourage operators to enhance production (via stimulation, work over, or re-entry), maintaining the 5% - 6.25% tax on strippers is beneficial to the state.
- There is a sound business case for the stripper wells. Production from these wells contributes greatly to North Dakota's tax surplus. Maintaining activity level is essential.
- It takes nearly as many employees to run a small well as a large well.