Oil and Gas Production Flaring

By
CSG Committee on Suggested State Legislation [1]
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Oil and Gas Production Flaring [2]

This act creates tax incentives to encourage the collection and use of natural gas that would otherwise be flared. The act:

- Expands a sales tax exemption to include tangible personal property used to construct or expand gas collection systems.
- Creates a gross production tax exemption for certain gas collected and used at the well site.
- Creates an oil extraction tax exemption for the liquids produced in association with a collection system.

North Dakota Industrial Commission Department of Mineral Resources, Oil and Gas Division (NDIC) rules allow for the flaring of natural gas for a period of one year from the date of first production. After the one-year period, the NDIC requires flaring to cease and the producer must begin to pay royalties to royalty owners for the value of any flared gas. Producers are also required to pay gross production tax on the flared gas.

When the one-year period for flaring expires, the producer must cap the well or connect it to a gas gathering line, unless the NDIC approves an exemption. A temporary exemption from the gross production tax is available for a period of two years and 30 days from the time of first production. This applies to oil and gas wells employing a collection system to avoid flaring if the well is:

- Equipped with an electrical generator that consumes at least 75% of the gas from the well; or
- Equipped with a system that intakes at least 75% of the gas and gas liquids from the well for beneficial consumption by means of compression to liquid for use as fuel, transport to a processing facility, production of petrochemicals or fertilizer, conversion to liquid fuels, or separating and collecting in excess of 50% of the propane and heavier hydrocarbons; or
- Equipped with other value-added processes as approved by the NDIC, which reduce the volume or intensity of the flare by more than 60%.

Liquids produced from a qualifying collection system utilizing absorption, adsorption, or refrigeration are exempt from oil extraction tax for a period of two years and thirty days from the time of first production. Upon application to, and approval by, the NDIC for qualification of a collection system, the Tax Commissioner’s Office will issue a notice informing the producer that a well has qualified for the applicable exemption and provide the required reporting procedures. Sales and use tax exemptions are available for material used in the construction or expansion of a facility to compress, process, gather, collect, or refine gas.
Submitted as:
North Dakota
HB 1134 [3]

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Natural Gas [10]

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