

## 1 SENATE BILL NO. 240

2 INTRODUCED BY W. MCNUTT, BALES, CLANCY, COLE, DEVLIN, G. FORRESTER, HEDGES,  
3 R. HOLDEN, OLSON

4  
5 A BILL FOR AN ACT ENTITLED: "AN ACT ELIMINATING PROJECT DEVELOPMENT DEADLINES THAT ARE  
6 REQUIRED TO QUALIFY FOR REDUCED OIL PRODUCTION TAX RATES FOR CERTAIN OIL WELL  
7 ENHANCED RECOVERY PROJECTS; REVISING DEFINITIONS; AMENDING SECTION 15-36-303, MCA;  
8 AND PROVIDING AN IMMEDIATE EFFECTIVE DATE."

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10 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

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12 **Section 1.** Section 15-36-303, MCA, is amended to read:

13 **"15-36-303. Definitions.** As used in this part, the following definitions apply:

14 (1) "Board" means the board of oil and gas conservation provided for in 2-15-3303.

15 (2) "Department" means the department of revenue provided for in 2-15-1301.

16 (3) "Enhanced recovery project" means the use of any process for the displacement of oil from  
17 the earth other than primary recovery and includes the use of an immiscible, miscible, chemical, thermal,  
18 or biological process.

19 (4) "Existing enhanced recovery project" means an enhanced recovery project that began  
20 development before January 1, 1994.

21 (5) "Expanded enhanced recovery project" or "expansion" means the addition of injection wells  
22 or production wells, the recompletion of existing wells as horizontally completed wells, the change of an  
23 injection pattern, or other operating changes to an existing enhanced recovery project that will result in  
24 the recovery of oil that would not otherwise be recovered. The project must be developed after December  
25 31, 1993, ~~and before January 1, 2002.~~

26 (6) "Gross taxable value", for the purpose of computing the oil and natural gas production tax,  
27 means the gross value of the product as determined in 15-36-305.

28 (7) "Horizontal drain hole" means that portion of a well bore with 70 degrees to 110 degrees  
29 deviation from the vertical and a horizontal projection within the common source of supply, as that term  
30 is defined by the board, that exceeds 100 feet.

- 1 (8) "Horizontally completed well" means:
- 2 (a) a well with one or more horizontal drain holes; and
- 3 (b) any other well classified by the board as a horizontally completed well.
- 4 (9) "Incremental production" means:
- 5 (a) the volume of oil produced by a new enhanced recovery project, by a well in primary recovery
- 6 recompleted as a horizontally completed well, or by an expanded enhanced recovery project, which volume
- 7 of production is in excess of the production decline rate established under the conditions existing before:
- 8 (i) the commencement of the recompletion of a well as a horizontally completed well;
- 9 (ii) expansion of the existing enhanced recovery project; or
- 10 (iii) commencing a new enhanced recovery project; or
- 11 (b) in the case of any project that had no taxable production prior to commencing the enhanced
- 12 recovery project, all production of oil from the enhanced recovery project.
- 13 (10) "Natural gas" or "gas" means natural gas and other fluid hydrocarbons, other than oil,
- 14 produced at the wellhead.
- 15 (11) "New enhanced recovery project" means an enhanced recovery project that began
- 16 development after December 31, 1993,~~and before January 1, 2002.~~
- 17 (12) "Nonworking interest owner" means any interest owner who does not share in the
- 18 exploration, development, and operation costs of the lease or unit, except for production taxes.
- 19 (13) "Oil" means crude petroleum or mineral oil and other hydrocarbons, regardless of gravity, that
- 20 are produced at the wellhead in liquid form and that are not the result of condensation of gas after it leaves
- 21 the wellhead.
- 22 (14) "Operator" or "producer" means a person who produces oil or natural gas within this state
- 23 or who owns, controls, manages, leases, or operates within this state any well or wells from which any
- 24 marketable oil or natural gas is extracted or produced.
- 25 (15) "Post-1999 well" means an oil or natural gas well drilled on or after January 1, 1999, that
- 26 produces oil or natural gas or a well that has not produced oil or natural gas during the 5 years immediately
- 27 preceding the first month of qualifying as a post-1999 well.
- 28 (16) "Pre-1999 well" means an oil or natural gas well that was drilled before January 1, 1999.
- 29 (17) "Primary recovery" means the displacement of oil from the earth into the well bore by means
- 30 of the natural pressure of the oil reservoir and includes artificial lift.

1 (18) "Production decline rate" means the projected rate of future oil production, extrapolated by  
2 a method approved by the board, that must be determined for a project area prior to commencing a new  
3 or expanded enhanced recovery project or the recompletion of a well as a horizontally completed well. The  
4 approved production decline rate must be certified in writing to the department by the board. In that  
5 certification, the board shall identify the project area and shall specify the projected rate of future oil  
6 production by calendar year and by calendar quarter within each year. The certified rate of future oil  
7 production must be used to determine the volume of incremental production that qualifies for the tax rate  
8 imposed under 15-36-304(5)(e).

9 (19) (a) "Qualifying production" means the first 12 months of production of oil or natural gas from  
10 a well ~~drilled after December 31, 1998~~, DRILLED AFTER DECEMBER 31, 1998, or the first 18 months of  
11 production of oil or natural gas from a horizontally completed well ~~drilled after December 31, 1998~~, DRILLED  
12 AFTER DECEMBER 31, 1998, or from a well that has not produced oil or natural gas during the 5 years  
13 immediately preceding the first month of qualifying production.

14 (b) Qualifying production does not include oil production from a horizontally recompleted well.

15 (20) "Secondary recovery project" means an enhanced recovery project, other than a tertiary  
16 recovery project, that commenced or was expanded after December 31, 1993, ~~and before January 1,~~  
17 ~~2002~~, and meets each of the following requirements:

18 (a) The project must be certified as a secondary recovery project to the department by the board.  
19 The certification may be extended only after notice and hearing in accordance with Title 2, chapter 4.

20 (b) The property to be affected by the project must be adequately delineated according to the  
21 specifications required by the board.

22 (c) The project must involve the application of secondary recovery methods that can reasonably  
23 be expected to result in an increase, determined by the board to be significant in light of all the facts and  
24 circumstances, in the amount of oil that may potentially be recovered. For purposes of this part, secondary  
25 recovery methods include but are not limited to:

26 (i) the injection of water into the producing formation for the purposes of maintaining pressure in  
27 that formation or for the purpose of increasing the flow of oil from the producing formation to a producing  
28 well bore; or

29 (ii) any other method approved by the board as a secondary recovery method.

30 (21) "Stripper natural gas" means the natural gas produced from any well that produces less than

1 60,000 cubic feet of natural gas a day during the calendar year immediately preceding the current year.  
2 Production must be determined by dividing the amount of production from a lease or unitized area for the  
3 year immediately preceding the current calendar year by the number of producing wells in the lease or  
4 unitized area and by dividing the resulting quotient by 365.

5 (22) "Stripper oil" means the oil produced from any well that produces less than 15 barrels a day  
6 for the calendar year immediately preceding the current year if the average price for a barrel of oil as  
7 reported in the Wall Street Journal for west Texas intermediate crude oil during a calendar quarter is less  
8 than \$30 a barrel. If the price of oil is equal to or greater than \$30 a barrel in a calendar quarter, there is  
9 no stripper tax rate, including stripper well exemption tax rate, in that quarter. The average price for a  
10 barrel is computed by dividing the sum of the daily price for west Texas intermediate crude oil as reported  
11 in the Wall Street Journal for the calendar quarter by the number of days on which the price was reported  
12 in the quarter. Production must be determined by dividing the amount of production from a lease or  
13 unitized area for the year immediately preceding the current calendar year by the number of producing  
14 wells in the lease or unitized area and by dividing the resulting quotient by 365.

15 (23) "Stripper well exemption" means petroleum and other mineral or crude oil produced by a  
16 stripper well that produces 3 barrels a day or less.

17 (24) "Tertiary recovery project" means an enhanced recovery project, other than a secondary  
18 recovery project, using a tertiary recovery method that meets the following requirements:

19 (a) The project must be certified as a tertiary recovery project to the department by the board. The  
20 certification may be extended only after notice and hearing in accordance with Title 2, chapter 4.

21 (b) The property to be affected by the project must be adequately delineated in the certification  
22 according to the specifications required by the board.

23 (c) The project must involve the application of one or more tertiary recovery methods that can  
24 reasonably be expected to result in an increase, determined by the board to be significant in light of all the  
25 facts and circumstances, in the amount of crude oil that may potentially be recovered. For purposes of this  
26 part, tertiary recovery methods include but are not limited to:

27 (i) miscible fluid displacement;

28 (ii) steam drive injection;

29 (iii) micellar/emulsion flooding;

30 (iv) in situ combustion;

1 (v) polymer augmented water flooding;

2 (vi) cyclic steam injection;

3 (vii) alkaline or caustic flooding;

4 (viii) carbon dioxide water flooding;

5 (ix) immiscible carbon dioxide displacement; or

6 (x) any other method approved by the board as a tertiary recovery method.

7 (25) "Well" or "wells" means a single well or a group of wells in one field or production unit and

8 under the control of one operator or producer.

9 (26) "Working interest owner" means the owner of an interest in an oil or natural gas well or wells

10 who bears any portion of the exploration, development, and operating costs of the well or wells."

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12 NEW SECTION. **Section 2. Effective date.** [This act] is effective on passage and approval.

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