HOUSE BILL NO. 469

INTRODUCED BY L. BREWSTER, D. LENZ, S. VINTON, B. PHALEN, K. ZOLNIKOV, M. MALONE, T. SMITH, L. DEMING, G. KMETZ

A BILL FOR AN ACT ENTITLED: “AN ACT REVISING THE TAXATION OF HORIZONTALLY RECOMPLETED WELLS; AMENDING SECTIONS 15-36-303 AND 15-36-304, MCA; AMENDING SECTIONS 12 AND 13, CHAPTER 559, LAWS OF 2021; REPEALING SECTIONS 3, 4, 5, 8, 9, 10, AND 14, CHAPTER 559, LAWS OF 2021; AND PROVIDING EFFECTIVE DATES.”

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

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

" ~~**15-36-303. (Temporary) Definitions.** As used in this part, the following definitions apply:~~

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

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

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

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

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

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

~~(7) "Horizontal drain hole" means that portion of a wellbore with 70 degrees to 110 degrees deviation from the vertical and a horizontal projection within the common source of supply, as that term is defined by the~~

(i) miscible fluid displacement;

(ii) steam drive injection;

(iii) micellar/emulsion flooding;

(iv) in situ combustion;

(v) polymer augmented water flooding;

(vi) cyclic steam injection;

(vii) alkaline or caustic flooding;

(viii) carbon dioxide water flooding;

(ix) immiscible carbon dioxide displacement; and

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

(26) "Well" or "wells" means a single well or a group of wells in one field or production unit and under the control of one operator or producer.

(27) "Working interest owner" means the owner of an interest in an oil or natural gas well or wells who bears any portion of the exploration, development, and operating costs of the well or wells."

Section 2. Section 15-36-304, MCA, is amended to read:

" ~~**15-36-304. (Temporary) Production tax rates imposed on oil and natural gas -- exemption.** (1) The production of oil and natural gas is taxed as provided in this section. The tax is distributed as provided in 15-36-331 and 15-36-332.~~

~~(2) Natural gas is taxed on the gross taxable value of production based on the type of well and type of production according to the following schedule for working interest and nonworking interest owners:~~

	~~Working Interest~~	~~Nonworking Interest~~
~~(a) (i) first 12 months of qualifying production~~	~~0.5%~~	~~14.8%~~
~~(ii) after 12 months:~~		
~~(A) pre-1999 wells~~	~~14.8%~~	~~14.8%~~
~~(B) post-1999 wells~~	~~9%~~	~~14.8%~~

~~(b) stripper natural gas pre-1999 wells~~	~~11%~~	~~14.8%~~
~~(c) horizontally completed well production:~~		
~~(i) first 18 months of qualifying production~~	~~0.5%~~	~~14.8%~~
~~(ii) after 18 months~~	~~9%~~	~~14.8%~~

~~(3) The reduced tax rates under subsection (2)(a)(i) on production for the first 12 months of natural gas production from a well begin following the last day of the calendar month immediately preceding the month in which natural gas is placed in a natural gas distribution system, provided that notification has been given to the department.~~

~~(4) The reduced tax rates under subsection (2)(c)(i) on production from a horizontally completed well for the first 18 months of production begin following the last day of the calendar month immediately preceding the month in which natural gas is placed in a natural gas distribution system, provided that notification has been given to the department.~~

~~(5) Oil is taxed on the gross taxable value of production based on the type of well and type of production according to the following schedule for working interest and nonworking interest owners:~~

	~~Working Interest~~	~~Nonworking Interest~~
~~(a) primary recovery production:~~		
~~(i) first 12 months of qualifying production~~	~~0.5%~~	~~14.8%~~
~~(ii) after 12 months:~~		
~~(A) pre-1999 wells~~	~~12.5%~~	~~14.8%~~
~~(B) post-1999 wells~~	~~9%~~	~~14.8%~~
~~(b) (i) pre-1999 stripper wells~~	~~9.2%~~	~~14.8%~~
~~(ii) (A) pre-1999 stripper well exemption production~~	~~0.5%~~	~~14.8%~~
~~(B) pre-1999 stripper well bonus production~~	~~5%~~	~~14.8%~~
~~(c) (i) post-1999 stripper wells:~~		
~~(A) first 1 through 10 barrels a day production~~	~~5.5%~~	~~14.8%~~
~~(B) more than 10 barrels a day production~~	~~9.0%~~	~~14.8%~~

~~(ii) (A) post-1999 stripper well exemption production~~	~~0.5%~~	~~14.8%~~
~~(B) post-1999 stripper well bonus production~~	~~6.0%~~	~~14.8%~~
~~(d) horizontally completed well production:~~		
~~(i) first 18 months of qualifying production~~	~~0.5%~~	~~14.8%~~
~~(ii) after 18 months:~~		
~~(A) pre-1999 wells~~	~~12.5%~~	~~14.8%~~
~~(B) post-1999 wells~~	~~9%~~	~~14.8%~~
~~(e) incremental production:~~		
~~(i) new or expanded secondary recovery production~~	~~8.5%~~	~~14.8%~~
~~(ii) new or expanded tertiary production~~	~~5.8%~~	~~14.8%~~
~~(f) horizontally recompleted well:~~		
~~(i) first 18 months~~	~~5.5%~~	~~14.8%~~
~~(ii) after 18 months:~~		
~~(A) pre-1999 wells~~	~~12.5%~~	~~14.8%~~
~~(B) post-1999 wells~~	~~9%~~	~~14.8%~~

~~(6) (a) The reduced tax rates under subsection (5)(a)(i) for the first 12 months of oil production from a well begin following the last day of the calendar month immediately preceding the month in which oil is pumped or flows, provided that notification has been given to the department.~~

~~(b) (i) The reduced tax rates under subsection (5)(d)(i) on oil production from a horizontally completed well for the first 18 months of production begin following the last day of the calendar month immediately preceding the month in which oil is pumped or flows if the well has been certified as a horizontally completed well to the department by the board.~~

~~(ii) The reduced tax rates under subsection (5)(f)(i) on oil production from a horizontally recompleted well for the first 18 months of production begin following the last day of the calendar month immediately preceding the month in which oil is pumped or flows if the well has been certified as a horizontally recompleted well to the department by the board.~~

~~(c) New or expanded secondary recovery production is taxed as provided in subsection (5)(e)(i) only if the average price reported and received by the producer for Montana oil marketed during a calendar quarter is~~

~~less than $54. If the price of oil is equal to or greater than $54 a barrel, then new or expanded secondary recovery production from pre-1999 wells and from post-1999 wells is taxed at the rate imposed on primary recovery production under subsections (5)(a)(ii)(A) and (5)(a)(ii)(B), respectively, for production occurring in that quarter, other than exempt stripper well production.~~

~~(d) Pre-1999 stripper well exemption production is taxed as provided in subsection (5)(b)(ii)(A) only if the average price reported and received by the producer for Montana oil marketed during a calendar quarter is less than $54 a barrel. If the price of oil is equal to or greater than $54 a barrel, there is no pre-1999 stripper well exemption tax rate and oil produced from a well that produces 3 barrels a day or less is taxed as pre-1999 stripper well bonus production.~~

~~(e) (i) Post-1999 stripper well exemption production is taxed as provided in subsection (5)(c)(ii)(A) only if the average price reported and received by the producer for Montana oil marketed during a calendar quarter is less than $54 a barrel. If the price of oil is equal to or greater than $54 a barrel, there is no post-1999 stripper well exemption tax rate and oil produced from a well that produces 3 barrels a day or less is taxed as stripper well bonus production.~~

~~(ii) Stripper well bonus production is subject to taxation as provided in subsection (5)(c)(ii)(B) only if the average price reported and received by the producer for Montana oil marketed during a calendar quarter is equal to or greater than $54 a barrel.~~

~~(7) The tax rates imposed under subsections (2) and (5) on working interest owners and nonworking interest owners must be adjusted to include the privilege and license tax adopted by the board of oil and gas conservation pursuant to 82-11-131 and the tax for the oil and gas natural resource distribution account. The total of the privilege and license tax and the tax for the oil and gas natural resource distribution account established in 90-6-1001(1) is 0.3%.~~

~~(8) Any interest in production owned by the state or a local government is exempt from taxation under this section. (Terminates December 31, 2021, 2022, 2023, and 2024, on occurrence of contingency until December 31, 2025--secs. 13, 14, Ch. 559, L. 2021.)~~

~~**15-36-304. (Temporary -- effective on occurrence of contingency) Production tax rates imposed on oil and natural gas -- exemption.** (1) The production of oil and natural gas is taxed as provided in this section. The tax is distributed as provided in 15-36-331 and 15-36-332.~~

~~(2) Natural gas is taxed on the gross taxable value of production based on the type of well and type of production according to the following schedule for working interest and nonworking interest owners:~~

	~~Working Interest~~	~~Nonworking Interest~~
~~(a) (i) first 12 months of qualifying production~~	~~0.5%~~	~~14.8%~~
~~(ii) after 12 months:~~		
~~(A) pre-1999 wells~~	~~14.8%~~	~~14.8%~~
~~(B) post-1999 wells~~	~~9%~~	~~14.8%~~
~~(b) stripper natural gas pre-1999 wells~~	~~11%~~	~~14.8%~~
~~(c) horizontally completed well production:~~		
~~(i) first 18 months of qualifying production~~	~~0.5%~~	~~14.8%~~
~~(ii) after 18 months~~	~~9%~~	~~14.8%~~

~~(3) The reduced tax rates under subsection (2)(a)(i) on production for the first 12 months of natural gas production from a well begin following the last day of the calendar month immediately preceding the month in which natural gas is placed in a natural gas distribution system, provided that notification has been given to the department.~~

~~(4) The reduced tax rates under subsection (2)(c)(i) on production from a horizontally completed well for the first 18 months of production begin following the last day of the calendar month immediately preceding the month in which natural gas is placed in a natural gas distribution system, provided that notification has been given to the department.~~

~~(5) Oil is taxed on the gross taxable value of production based on the type of well and type of production according to the following schedule for working interest and nonworking interest owners:~~

	~~Working Interest~~	~~Nonworking Interest~~
~~(a) primary recovery production:~~		
~~(i) first 12 months of qualifying production~~	~~0.5%~~	~~14.8%~~
~~(ii) after 12 months:~~		

~~(A) pre-1999 wells~~	~~12.5%~~	~~14.8%~~
~~(B) post-1999 wells~~	~~9%~~	~~14.8%~~
~~(b) stripper oil production:~~		
~~(i) first 1 through 10 barrels a day production~~	~~5.5%~~	~~14.8%~~
~~(ii) more than 10 barrels a day production~~	~~9.0%~~	~~14.8%~~
~~(c) (i) stripper well exemption production~~	~~0.5%~~	~~14.8%~~
~~(ii) stripper well bonus production~~	~~6.0%~~	~~14.8%~~
~~(d) horizontally completed well production:~~		
~~(i) first 18 months of qualifying production~~	~~0.5%~~	~~14.8%~~
~~(ii) after 18 months:~~		
~~(A) pre-1999 wells~~	~~12.5%~~	~~14.8%~~
~~(B) post-1999 wells~~	~~9%~~	~~14.8%~~
~~(e) incremental production:~~		
~~(i) new or expanded secondary recovery production~~	~~8.5%~~	~~14.8%~~
~~(ii) new or expanded tertiary production~~	~~5.8%~~	~~14.8%~~
~~(f) horizontally recompleted well:~~		
~~(i) first 18 months~~	~~5.5%~~	~~14.8%~~
~~(ii) after 18 months:~~		
~~(A) pre-1999 wells~~	~~12.5%~~	~~14.8%~~
~~(B) post-1999 wells~~	~~9%~~	~~14.8%~~

~~(6) (a) The reduced tax rates under subsection (5)(a)(i) for the first 12 months of oil production from a well begin following the last day of the calendar month immediately preceding the month in which oil is pumped or flows, provided that notification has been given to the department.~~

~~(b) (i) The reduced tax rates under subsection (5)(d)(i) on oil production from a horizontally completed well for the first 18 months of production begin following the last day of the calendar month immediately preceding the month in which oil is pumped or flows if the well has been certified as a horizontally completed well to the department by the board.~~

~~(ii) The reduced tax rates under subsection (5)(f)(i) on oil production from a horizontally recompleted~~

~~well for the first 18 months of production begin following the last day of the calendar month immediately preceding the month in which oil is pumped or flows if the well has been certified as a horizontally recompleted well to the department by the board.~~

~~(c) New or expanded secondary recovery production is taxed as provided in subsection (5)(e)(i) only if the average price for a barrel of west Texas intermediate crude oil during a calendar quarter is less than $54. If the price of oil is equal to or greater than $54 a barrel in a calendar quarter as determined in subsection (6)(e), then new or expanded secondary recovery production from pre-1999 wells and from post-1999 wells is taxed at the rate imposed on primary recovery production under subsections (5)(a)(ii)(A) and (5)(a)(ii)(B), respectively, for production occurring in that quarter, other than exempt stripper well production.~~

~~(d) (i) Stripper well exemption production is taxed as provided in subsection (5)(c)(i) only if the average price reported and received by the producer for Montana oil marketed during a calendar quarter is less than $54 a barrel. If the price of oil is equal to or greater than $54 a barrel, there is no stripper well exemption tax rate and oil produced from a well that produces 3 barrels a day or less is taxed as stripper well bonus production.~~

~~(ii) Stripper well bonus production is subject to taxation as provided in subsection (5)(c)(ii) only if the average price reported and received by the producer for Montana oil marketed during a calendar quarter is equal to or greater than $54 a barrel.~~

~~(e) For the purposes of subsection (6)(c), the average price for each barrel must be computed by dividing the sum of the daily price for a barrel of west Texas intermediate crude oil for the calendar quarter by the number of days on which the price was reported in the quarter.~~

~~(7) The tax rates imposed under subsections (2) and (5) on working interest owners and nonworking interest owners must be adjusted to include the privilege and license tax adopted by the board of oil and gas conservation pursuant to 82-11-131 and the tax for the oil and gas natural resource distribution account. The total of the privilege and license tax and the tax for the oil and gas natural resource distribution account established in 90-6-1001(1) is 0.3%.~~

~~(8) Any interest in production owned by the state or a local government is exempt from taxation under this section.~~

15-36-304. ~~(Effective January 1, 2026)~~ Production tax rates imposed on oil and natural gas --

exemption. (1) The production of oil and natural gas is taxed as provided in this section. The tax is distributed as provided in 15-36-331 and 15-36-332.

(2) Natural gas is taxed on the gross taxable value of production based on the type of well and type of production according to the following schedule for working interest and nonworking interest owners:

	Working Interest	Nonworking Interest
(a) (i) first 12 months of qualifying production	0.5%	14.8%
(ii) after 12 months:		
(A) pre-1999 wells	14.8%	14.8%
(B) post-1999 wells	9%	14.8%
(b) stripper natural gas pre-1999 wells	11%	14.8%
(c) horizontally completed well production:		
(i) first 18 months of qualifying production	0.5%	14.8%
(ii) after 18 months	9%	14.8%
(d) horizontally recompleted well:		
(i) first ~~18~~ 9 months	0.5%	14.8%
(ii) after ~~18~~ 9 months:		
(A) pre-1999 wells	12.5%	14.8%
(B) post-1999 wells	9%	14.8%

(3) The reduced tax rates under subsection (2)(a)(i) on production for the first 12 months of natural gas production from a well begin following the last day of the calendar month immediately preceding the month in which natural gas is placed in a natural gas distribution system, provided that notification has been given to the department.

(4) The reduced tax rates under subsection (2)(c)(i) on production from a horizontally completed well for the first 18 months of production begin following the last day of the calendar month immediately preceding the month in which natural gas is placed in a natural gas distribution system, provided that notification has been given to the department.

(5) Oil is taxed on the gross taxable value of production based on the type of well and type of

production according to the following schedule for working interest and nonworking interest owners:

	Working Interest	Nonworking Interest
(a) primary recovery production:		
(i) first 12 months of qualifying production	0.5%	14.8%
(ii) after 12 months:		
(A) pre-1999 wells	12.5%	14.8%
(B) post-1999 wells	9%	14.8%
(b) (i) pre-1999 stripper wells	9.2%	14.8%
(ii) (A) pre-1999 stripper well exemption production	0.5%	14.8%
(B) pre-1999 stripper well bonus production	5%	14.8%
(c) (i) post-1999 stripper wells:		
(A) first 1 through 10 barrels a day production	5.5%	14.8%
(B) more than 10 barrels a day production	9.0%	14.8%
(ii) (A) post-1999 stripper well exemption production	0.5%	14.8%
(B) post-1999 stripper well bonus production	6.0%	14.8%
(d) horizontally completed well production:		
(i) first 18 months of qualifying production	0.5%	14.8%
(ii) after 18 months:		
(A) pre-1999 wells	12.5%	14.8%
(B) post-1999 wells	9%	14.8%
(e) incremental production:		
(i) new or expanded secondary recovery production	8.5%	14.8%
(ii) new or expanded tertiary production	5.8%	14.8%
(f) horizontally recompleted well:		
(i) first 18 months	~~5.5%~~ 0.5%	14.8%
(ii) after 18 months:		

(A)	pre-1999 wells	12.5%	14.8%
(B)	post-1999 wells	9%	14.8%

(6) (a) The reduced tax rates under subsection (5)(a)(i) for the first 12 months of oil production from a well begin following the last day of the calendar month immediately preceding the month in which oil is pumped or flows, provided that notification has been given to the department.

(b) (i) The reduced tax rates under subsection (5)(d)(i) on oil production from a horizontally completed well for the first 18 months of production begin following the last day of the calendar month immediately preceding the month in which oil is pumped or flows if the well has been certified as a horizontally completed well to the department by the board.

(ii) The reduced tax rates under subsection (5)(f)(i) on oil production from a horizontally recompleted well for the first 18 months of production begin following the last day of the calendar month immediately preceding the month in which oil is pumped or flows if the well has been certified as a horizontally recompleted well to the department by the board.

(c) New or expanded secondary recovery production is taxed as provided in subsection (5)(e)(i) only if the average price reported and received by the producer for Montana oil marketed during a calendar quarter is less than $54. If the price of oil is equal to or greater than $54 a barrel, then new or expanded secondary recovery production from pre-1999 wells and from post-1999 wells is taxed at the rate imposed on primary recovery production under subsections (5)(a)(ii)(A) and (5)(a)(ii)(B), respectively, for production occurring in that quarter, other than exempt stripper well production.

(d) Pre-1999 stripper well exemption production is taxed as provided in subsection (5)(b)(ii)(A) only if the average price reported and received by the producer for Montana oil marketed during a calendar quarter is less than $54 a barrel. If the price of oil is equal to or greater than $54 a barrel, there is no pre-1999 stripper well exemption tax rate and oil produced from a well that produces 3 barrels a day or less is taxed as pre-1999 stripper well bonus production.

(e) (i) Post-1999 stripper well exemption production is taxed as provided in subsection (5)(c)(ii)(A) only if the average price reported and received by the producer for Montana oil marketed during a calendar quarter is less than $54 a barrel. If the price of oil is equal to or greater than $54 a barrel, there is no post-1999 stripper well exemption tax rate and oil produced from a well that produces 3 barrels a day or less is taxed as stripper well bonus production.

(ii) Stripper well bonus production is subject to taxation as provided in subsection (5)(c)(ii)(B) only if the average price reported and received by the producer for Montana oil marketed during a calendar quarter is equal to or greater than $54 a barrel.

(7) The tax rates imposed under subsections (2) and (5) on working interest owners and nonworking interest owners must be adjusted to include the privilege and license tax adopted by the board of oil and gas conservation pursuant to 82-11-131 and the tax for the oil and gas natural resource distribution account. The total of the privilege and license tax and the tax for the oil and gas natural resource distribution account established in 90-6-1001(1) is 0.3%.

(8) Any interest in production owned by the state or a local government is exempt from taxation under this section."

Section 3. Section 12, Chapter 559, Laws of 2021, is amended to read:

"**Section 12. Effective dates -- applicability.** (1) Except as provided in subsections (2) through (6), [this act] is effective July 1, 2021.

(2) [Sections 1 and 6] are effective January 1, 2022, and apply to the calendar year beginning after December 31, 2021.

(3) [Sections 2 and 7] are effective January 1, 2023, and apply to the calendar ~~year~~ <u>years</u> beginning after December 31, 2022.

~~(4) [Sections 3 and 8] are effective January 1, 2024, and apply to the income calendar year beginning after December 31, 2023.~~

~~(5) [Sections 4 and 9] are effective January 1, 2025, and apply to the calendar year beginning after December 31, 2024.~~

~~(6) [Sections 5 and 10] are effective January 1, 2026, and apply to calendar years beginning after December 31, 2025.~~"

Section 4. Section 13, Chapter 559, Laws of 2021, is amended to read:

"**Section 13. Termination.** ~~(1)~~ [Sections 1 and 6] terminate December 31, 2022.