

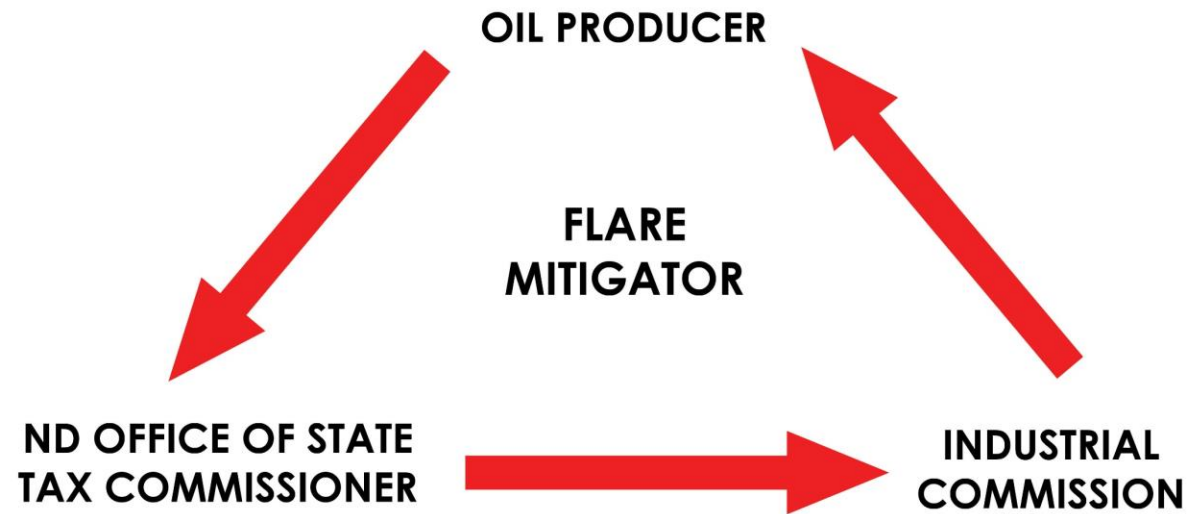


CREDIT FOR OIL PRODUCED FROM A WELL SITE USING AN ONSITE FLARE MITIGATION SYSTEM

Senate Bill No. 2328

Ryan Rauschenberger, Tax Commissioner
September 22, 2021

FLARE MITIGATION CREDIT CYCLE



An oil pumpjack is visible on the left side of the image, its long arm and counterweight silhouetted against a bright, low sun. The foreground is filled with tall, golden-brown grasses. The sky is a mix of blue and orange, with scattered clouds. The word "DEFINITIONS" is written in large, white, sans-serif capital letters in the upper right portion of the image.

DEFINITIONS

FLARE MITIGATION

- The quantity in millions of British thermal units of heat content of gas used by an onsite flare mitigation system.
 - The term does not include the heat content of any gas flared before, during, or after intake by a flare mitigation system.

ONSITE FLARE MITIGATION SYSTEM

- A system at a well site which intakes gas and natural gas liquids from a well, separating and collecting or utilizing over 50% of the propane and heavier hydrocarbons, to achieve a reduction of flared thermal intensity through beneficial consumption by one of the following six ways.

ONSITE FLARE MITIGATION SYSTEM *(continued)*

1. Compressing or liquifying gas for use as fuel or transport to a processing facility;
2. Production of petrochemicals or fertilizer;
3. Conversion to liquid fuels;
4. Conversion to electricity for onsite use or supply to the electrical grid;
5. Conversion to computational power; or
6. Other value-added processes as approved by the Industrial Commission.

QUALIFYING WELL

- A well on which one of three scenarios is present:
 1. If a well site already is connected to a pipeline and pipeline capacity is unavailable on the existing pipeline, the producer and the pipeline operator jointly have filed a sundry with the Industrial Commission attesting to the lack of existing pipeline takeaway capacity;

QUALIFYING WELL *(continued)*

2. If the producer's well is not connected to an existing pipeline but the producer's lands, leases, wells, or gas are dedicated contractually to a pipeline operator, the producer and the pipeline operator to which the lands, leases, wells, or gas are dedicated jointly have filed a sundry with the Industrial Commission attesting it is either technically or commercially unfeasible to connect a pipeline to the producer's well; or
3. If the producer's well is not already connected to an existing pipeline and the producer's lands, leases, wells, or gas are not dedicated contractually, the producer unilaterally has filed a sundry with the Industrial Commission attesting to these facts.

NOT AN ONSITE FLARE MITIGATION SYSTEM



A system that otherwise meets the definition of onsite flare mitigation system is not considered an "onsite flare mitigation system" if it is:

1. Installed on a stripper well as defined by subsection 8 of section 57-51.1-01;
2. Installed before July 1, 2021;
3. Installed on a well connected to or is technically and commercially feasible to connect to a gas pipeline with capacity;
4. A system that supports the normal production operations of a well, consumes gas as part of the routine oil and gas production process, such as a heater treater, separator, or electrical dissipation through a load bank, or any system or application traditionally considered as on-pad use.

An oil pumpjack, also known as a nodding donkey, is the central focus of the image. It is a mechanical device used for extracting oil from a well. The pumpjack is dark-colored and has a long, angled arm with a counterweight at the end. The name "LUFKIN" is visible on the side of the arm. It is situated in a field of tall green grass and yellow wildflowers. In the background, a bright, circular sun is visible in a clear sky. The overall scene is a rural, agricultural landscape.

ONSITE FLARE MITIGATION CREDIT

CREDIT DETAILS

- A producer is entitled to a credit against the tax liability equal to 75 cents per one million British thermal units of flare mitigation resulting from the operation of an onsite flare mitigation system on a qualifying well.
- The credit may be claimed for up to 12 months per well and may not exceed \$6,000 per well per month.

TO QUALIFY FOR THE CREDIT

1. The Industrial Commission shall certify the well of a producer as a qualifying well and the producer shall submit a copy of the certification to the Tax Commissioner.
2. On or before the 15th day of the month succeeding the month of production, the owner or operator of the onsite flare mitigation system shall file a monthly report with the Tax Commissioner and the producer certifying the amount of flare mitigation per qualifying well during the month of production.

TO QUALIFY FOR THE CREDIT *(continued)*

3. The credit for flare mitigation must be claimed by the producer against the oil extraction tax due on a per well basis for the production month following the month in which the mitigation occurred.
4. The producer shall file the return required by N.D.C.C for the duration of the credit and pay any oil taxes due. After the exemption period ends, the purchaser shall pay the oil taxes due.

FLARE MITIGATION TIMELINE



Note: If a reporting due date falls on a weekend or holiday, it will be due on the next business day.

FLARE MITIGATION CREDIT CYCLE

