State of North Dakota
Office of State Tax Commissioner
Ryan Rauschenberger, Commissioner

December 7, 2015

North Dakota Oil Producers and Purchasers:

RE: Oil Extraction Tax Price Trigger and Limited Incentives for December 2015 Production

North Dakota Century Code (N.D.C.C.) § 57-51.1-02 establishes an oil extraction tax at a rate of 6.5% and subsequently N.D.C.C. §§ 57-51.1-02 and 57-51.1-03 provide incentives for rate reductions and exemptions for various qualifying wells and projects located within the state of North Dakota. These code sections also contain what is referred to as a "trigger" provision that specifically inactivates some of the incentives if the average price of a barrel of crude oil exceeds the trigger price for each month in any consecutive five-month period, and reinstates the incentives if the average price of a barrel of crude oil is less than the trigger price for each month in any consecutive five-month period.

Following the statutory guidelines, the Tax Commissioner has determined that the trigger price for calendar year 2015 is $52.59, and the average prices for the five month period of July 2015 through November 2015 were:

July	August	September	October	November
$51.45	$43.19	$45.43	$46.42	$42.75

Based on these prices, the Tax Commissioner has determined that the statutory tax incentives subject to the trigger price became effective for the production period beginning December 1, 2015. (Note: Statutory changes effective December 1, 2015 and January 1, 2016 limit not only the scope of the incentives affected by this trigger, but also the duration to just December 2015 production).

The Tax Commissioner has reviewed the applicable statutory provisions and established the following method for administration of the statutory rate changes relating to the trigger price:

1. For the production period December 2015, qualifying wells are eligible to claim the vertical new well exemption (EN), work-over exemption or 4% rate (WP or W4), two-year inactive well exemption (IE), qualified enhanced recovery project 4% rate (SR, TR), or the horizontal reentry exemption (HR).

2. For those wells eligible for the reactivated incentives, the inventory in storage, at the close of business on November 30, 2015, must be reported as a "split" entry, in the month of sale, at the well code in effect when the oil was produced (i.e. PT).

3. Production from stripper wells (S1, S2, and S3), eligible "Indian land" (FE), small trigger new wells (HN), NonBakken/Three Forks wells (RN), tribal trust wells (TT), old wells (WW) will continue to use the well codes currently assigned.

4. All other wells not addressed in item #1 or item #3 must be reported using the price trigger (PT) through December 2015 production periods.

5. Because of the limited impact of the December trigger, individual notification letters will only be sent to those producers and purchasers identified by the Tax Commissioner as having previously qualified wells/units that will be eligible for this incentive window.

Reporting procedures relating to the oil extraction tax rate reduction from 6.5% to 5%, which will take effect on January 1, 2016, will be addressed in early January 2016.

Additional information will be available on our website at www.nd.gov/tax. A complete listing of links to the North Dakota Century Code and Administrative Code may also be found on this website.

The Tax Commissioner's goal for implementation of these reporting procedures, as required by statute, is to make the process as smooth as possible. If we can provide assistance in making this happen for your company, please contact us at 701.328.2705 or by email oiltax@nd.gov.

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