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Prepared by the Legislative Council staff for
Senator Patten
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PROPOSED AMENDMENTS TO SENATE BILL NO. 2217

Page 1, line 1, after "A BILL" replace the remainder of the bill with "for an Act to create and enact a new section to chapter 47-16 of the North Dakota Century Code, relating to the deduction or recovery of losses incurred in the sale or disposition of natural gas from the proceeds of oil production; and to provide for a legislative management study.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

SECTION 1. A new section to chapter 47-16 of the North Dakota Century Code is created and enacted as follows:

<u>Certain deductions prohibited - Breach.</u>

<u>1. The deduction or recovery of losses incurred in the sale or disposition of natural gas produced under an oil and gas lease from the proceeds of oil production attributable to royalty interests or overriding royalty interests under the lease is prohibited unless expressly and unambiguously provided otherwise by the lease, provided the losses:</u>

<u>a. May be offset or applied against a subsequent net gain in the sale or disposition of natural gas in accordance with the lease;</u>

<u>b. May not be offset by the gains from one well to another well; and</u>

<u>c. May not be carried forward from one well to the gains or losses of another well.</u>

<u>2. A person found to be in violation of subsection 1, if lease cancellation is not sought, shall pay interest at the applicable annual rate set by the state court administrator pursuant to section 28-20-34 on the portion of oil or gas royalties that were not timely paid to the owner of the royalties on account of the violation until paid. The district court for the county in which the oil or gas well is located has jurisdiction over all proceedings brought under this section. The prevailing party in any proceeding under this section is entitled to recover any court costs and reasonable attorney's fees.</u>

SECTION 2. LEGISLATIVE MANAGEMENT STUDY - POSTPRODUCTION COST DEDUCTIONS. During the 2021-22 interim, the legislative management shall consider studying deductions for postproduction costs under oil and gas leases.

1. The study must include:

   a. Consideration of the methods used to calculate the value of oil and gas, the point of sale used to determine the value, oil and gas sales in the absence of an arm's-length contract, any deductions or incentives applied to the value, and the methods used to report any deductions or incentives on mineral royalty statements;

b. Input from representatives from the oil and gas industry, representatives from an organization representing royalty owners, the department of mineral resources, the department of trust lands, and the attorney general's office; and

c. An analysis and review of state-mandated natural gas capture targets, federal land permitting restrictions, the effectiveness of using onsite flare mitigation technologies and the infrastructure necessary to enhancing oil and natural gas value.

2. The study may include consideration of the desirability and feasibility of expanding the use and market access of natural gas, including value-added energy opportunities within the state.

3. The legislative management shall report its findings and recommendations, together with any legislation required to implement the recommendations, to the sixty-eighth legislative assembly."

Renumber accordingly