

1 _____ BILL NO. _____

2 INTRODUCED BY _____

3
4 A BILL FOR AN ACT ENTITLED: "AN ACT REVISING THE TAXATION OF STRIPPER OIL WELLS;
5 PROVIDING FOR A UNIFORM RATE OF TAX FOR POST-1999 STRIPPER WELLS AND PRE-1999
6 STRIPPER WELLS; INCREASING THE AVERAGE PRICE OF A BARREL OF OIL BEFORE THE REDUCED
7 RATE OF TAXATION FOR STRIPPER OIL WELLS APPLIES; AMENDING SECTIONS 15-36-303 AND 15-36-
8 304, MCA; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE AND AN APPLICABILITY DATE."

9
10 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

11

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 the
17 earth other than primary recovery and includes the use of an immiscible, miscible, chemical, thermal, or
18 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 or
22 production wells, the recompletion of existing wells as horizontally completed wells, the change of an injection
23 pattern, or other operating changes to an existing enhanced recovery project that will result in the recovery of
24 oil that would not otherwise be recovered. The project must be developed after December 31, 1993.

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

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

1 defined by the board, that exceeds 100 feet.

2 (8) "Horizontally completed well" means:

3 (a) a well with one or more horizontal drain holes; or

4 (b) any other well classified by the board as a horizontally completed well.

5 (9) "Incremental production" means:

6 (a) the volume of oil produced by a new enhanced recovery project, by a well in primary recovery
7 recompleted as a horizontally completed well, by recompletion of an existing horizontal drain hole, or by an
8 expanded enhanced recovery project, that is in excess of the production decline rate established under the
9 conditions existing before:

10 (i) commencing the recompletion of a well as a horizontally completed well;

11 (ii) expanding the existing enhanced recovery project; or

12 (iii) commencing a new enhanced recovery project; or

13 (b) in the case of any project that had no taxable production prior to commencing the enhanced
14 recovery project, all production of oil from the enhanced recovery project.

15 (10) "Natural gas" or "gas" means all natural gases, hydrocarbon gases, all forms of inert gas, and
16 all other fluid hydrocarbons as produced at the wellhead and not defined as oil under 82-1-111.

17 (11) "New enhanced recovery project" means an enhanced recovery project that began
18 development after December 31, 1993.

19 (12) "Nonworking interest owner" means any interest owner who does not share in the exploration,
20 development, and operation costs of the lease or unit, except for production taxes.

21 (13) "Oil" means crude petroleum or mineral oil and other hydrocarbons, regardless of gravity, that
22 are produced at the wellhead in liquid form and that are not the result of condensation of gas after it leaves the
23 wellhead.

24 (14) "Operator" or "producer" means a person who produces oil or natural gas within this state or
25 who owns, controls, manages, leases, or operates within this state any well or wells from which any marketable
26 oil or natural gas is extracted or produced.

27 (15) (a) "Post-1999 stripper well" means an oil well drilled on or after January 1, 1999, that produces
28 more than 3 barrels but fewer than 15 barrels a day for the calendar year immediately preceding the current

1 year if the average price for a barrel of crude oil reported and received by the producer for Montana oil
2 marketed during a calendar quarter is less than ~~\$30~~ \$54. If the price of oil is equal to or greater than ~~\$30~~ \$54 a
3 barrel in a calendar quarter, there is no stripper tax rate in that quarter.

4 (b) The average price for a barrel is computed by dividing the sum of the daily price for a barrel of
5 west Texas intermediate crude oil for the calendar quarter by the number of days on which the price was
6 reported in the quarter.

7 (c) Production must be determined by dividing the amount of production from a lease or unitized
8 area for the year immediately preceding the current calendar year by the number of producing wells in the lease
9 or unitized area and then dividing the resulting quotient by 365.

10 (16) "Post-1999 well" means an oil or natural gas well drilled on or after January 1, 1999, that
11 produces oil or natural gas or a well that has not produced oil or natural gas during the 5 years immediately
12 preceding the first month of qualifying as a post-1999 well.

13 (17) (a) "Pre-1999 stripper well" means an oil well that was drilled before January 1, 1999, that
14 produces more than 3 barrels a day but fewer than ~~40~~ 15 barrels a day for the calendar year immediately
15 preceding the current year if the average price for a barrel of crude oil reported and received by the producer
16 for Montana oil marketed during a calendar quarter is less than \$54. If the price of oil is equal to or greater than
17 \$54 a barrel in a calendar quarter, there is no stripper tax rate in that quarter.

18 (b) The average price for a barrel is computed by dividing the sum of the daily price for a barrel of
19 west Texas intermediate crude oil for the calendar quarter by the number of days on which the price was
20 reported in the quarter.

21 (b)(c) Production must be determined by dividing the amount of production from a lease or unitized
22 area for the year immediately preceding the current calendar year by the number of producing wells in the lease
23 or unitized area and then dividing the resulting quotient by 365.

24 (18) "Pre-1999 well" means an oil or natural gas well that was drilled before January 1, 1999.

25 (19) "Primary recovery" means the displacement of oil from the earth into the wellbore by means of
26 the natural pressure of the oil reservoir and includes artificial lift.

27 (20) "Production decline rate" means the projected rate of future oil or natural gas production,
28 extrapolated by a method approved by the board, that must be determined for a project area prior to

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

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

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

12 (22) "Secondary recovery project" means an enhanced recovery project, other than a tertiary
13 recovery project, that commenced or was expanded after December 31, 1993, and meets each of the following
14 requirements:

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

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

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

23 (i) the injection of water into the producing formation for the purposes of maintaining pressure in
24 that formation or for the purpose of increasing the flow of oil from the producing formation to a producing
25 wellbore; or

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

27 (23) "Stripper natural gas" means the natural gas produced from any well that produces less than
28 60,000 cubic feet of natural gas a day during the calendar year immediately preceding the current year.

1 Production must be determined by dividing the amount of production from a lease or unitized area for the year
2 immediately preceding the current calendar year by the number of producing wells in the lease or unitized area
3 and by dividing the resulting quotient by 365.

4 (24) "Stripper well exemption" or "stripper well bonus" means petroleum and other mineral or crude
5 oil produced by a stripper well that produces 3 barrels a day or less. Production from this type of well must be
6 determined as provided in ~~subsection~~ subsections (15)(c) and (17)(c).

7 (25) "Tertiary recovery project" means an enhanced recovery project, other than a secondary
8 recovery project, using a tertiary recovery method that meets the following requirements:

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

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

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

17 (i) miscible fluid displacement;

18 (ii) steam drive injection;

19 (iii) micellar/emulsion flooding;

20 (iv) in situ combustion;

21 (v) polymer augmented water flooding;

22 (vi) cyclic steam injection;

23 (vii) alkaline or caustic flooding;

24 (viii) carbon dioxide water flooding;

25 (ix) immiscible carbon dioxide displacement; and

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

27 (26) "Well" or "wells" means a single well or a group of wells in one field or production unit and
28 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. 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

1 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%	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)(b) (i) pre-1999 stripper wells and post-1999 stripper wells:		
(A) 3 through 10 barrels a day production	5%	14.8%
(B) more than 10 barrels a day production	9%	14.8%
(ii) (A) post-1999 stripper well exemption production	0.5%	14.8%
(B) post-1999 stripper well bonus production	5%	14.8%
(d)(c) 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)(d) incremental production:		
(i) new or expanded secondary recovery production	8.5%	14.8%
(ii) new or expanded tertiary production	5.8%	14.8%
(f)(e) horizontally recompleted well:		
(i) first 18 months	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)~~ (5)(c)(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)~~ (5)(e)(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)~~ (5)(d)(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)(d)~~ (i) Post-1999 stripper Stripper well exemption production is taxed as provided in subsection ~~(5)(c)(ii)(A)~~ (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 ~~post-1999-stripper well exemption tax rate~~ and oil produced from a well that produces 3

1 barrels a day or less is taxed as stripper well bonus production.

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

5 ~~(f)~~ (e) The tax rates under subsection ~~(5)(f)~~ (5)(e) apply only to the incremental production of a
6 horizontally recompleted well.

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

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

14

15 NEW SECTION. Section 3. Effective date. [This act] is effective on passage and approval.

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17 NEW SECTION. Section 4. Applicability. [This act] applies to oil production occurring on or after
18 July 1, 2025.

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- END -