

Oil Tax Restructuring Measure Meets Opposition

JAMES MacPHERSON, Associated Press

BISMARCK, N.D. (AP) — A Republican-backed measure aimed at closing loopholes enjoyed by oil companies in exchange for lower tax rates in North Dakota could hurt future funding for such things as schools and state employees, education and public worker groups told lawmakers Tuesday.

"We know that the cost of education will continue to increase and this decreases future revenue," North Dakota Education Association spokesman Kayla Pulvermacher said of the proposal.

Oil industry officials told the Senate Finance and Taxation Committee Tuesday that the state's dynamic tax policy adds more risk to an already risky and costly business and could cause drillers to move rigs elsewhere. Oil officials also cautioned lawmakers to not become overly reliant on oil revenues because of the boom-bust nature of the industry.

Sen. Dwight Cook, R-Mandan, who chairs the committee, told fellow lawmakers that his proposal is an attempt to bring tax certainty to the oil industry and the state, while closing loopholes and adding drilling incentives.

The measure would charge oil companies an effective tax rate of 9.5 percent on wells drilled after 2017 instead of the 11.5 percent tax rate they're charged now. Democrats have called the measure radical and reckless, saying it would cost the state more than \$595 million in lost revenue in the first five years.

Lynn Helms, director of the state Department of Mineral Resources, said the state does not have a position on the measure.

Cook's proposal, which he crafted with the help of oil companies, would cut the exemption for so-called stripper wells that the state Tax Department says is costing North Dakota about \$50 million in revenue each year. The 1980s-era law cuts taxes for low-producing oil wells to keep them pumping but it also has been applied in recent years to some gushers in North Dakota because they are near the weaker wells.

Stripper wells are exempt from the state's 6.5 percent extraction tax, but not a 5 percent production tax. Attempts to close the loophole have failed in the past three legislative sessions.

The proposed tax framework also would cut tax rates to 4 percent on wells drilled outside the rich Bakken and Three Forks formations, where almost all exploration is taking place.

Backers of the bill said the idea is to spur drilling in other areas and encourage long-

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term development of the state's oil patch.

The new tax structure also would eliminate price triggers that would lessen state taxes for companies if the price of oil falls below a certain level. The concept, adopted in the 1980s during a time of depressed oil prices, adjusts the state's oil extraction tax based on a five-month average price if a barrel falls below a certain price. The so-called trigger price currently is set at \$52 a barrel. The state could see tax revenue decrease by at least \$2 billion if oil falls below the current price trigger, backers of the measure say.

Cook said the plan aims to protect state and the oil company interests.

The oil industry is "the goose laying the golden egg and I think all of us agree that we want that to continue," he said. "The oil industry will react to tax policy."

The oil boom in western North Dakota that began in earnest about 2007 has spurred record population, a more than \$1.6 billion budget surplus and the lowest unemployment rate in the nation. But record production that has propelled the state to the nation's No. 2 oil producer behind Texas also has brought challenges.

Stuart Savelkoul, director of the North Dakota Public Employees Association, questioned whether it's prudent to cut taxes for oil companies at a time when the state has billions of dollars of infrastructure and other needs spurred by record oil development. Officials also are struggling to find state employees to work in the oil patch, due to lack of housing and uncompetitive salaries compared to oil industry wages.

"Good luck finding someone to drive a snowplow," Savelkoul told lawmakers. "If you can drive a snowplow, you can drive an oil truck."

Savelkoul said additional revenue from oil taxes could help "recruit and retain employees."

Ron Ness, president of the North Dakota Petroleum Council, said the group, which represents more than 400 companies working in the oil patch, supports the proposed measure "but not unanimously."

Ness said North Dakota's oil tax policy has been "cobbled together" over the past three decades and is typically amended every two years when the Legislature is in session.

"I'm not aware of any other state that has done that," Ness said. "Predictability — that's what we're after."

Ness said several companies in North Dakota also are drilling in other oil and gas fields across the U.S., and especially in Texas' oil- and gas-rich Eagle Ford Shale region. He said an uncertain tax policy could move North Dakota's rigs out of state, "or pretty much where the best return is."

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Blu Hulsey, a spokesman for Continental Resources Inc., said his company was opposed to the measure because it doesn't go far enough in offering incentives to drillers. Hulsey said the Oklahoma City-based company, which is one of the oldest and largest operators in North Dakota's oil patch, wants all wells to be taxed at the lower rate beginning in 2017, not just those that are drilled beginning that year.

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