

BEFORE THE INDUSTRIAL COMMISSION
OF THE STATE OF NORTH DAKOTA

CASE NO. 5813
ORDER NO. 6728

IN THE MATTER OF A HEARING CALLED ON A
MOTION OF THE COMMISSION TO CONSIDER THE
APPLICATION OF CONOCO INC. FOR AN ORDER
CERTIFYING THE DICKINSON HEATH SAND UNIT
LOCATED IN STARK COUNTY, NORTH DAKOTA,
AS A "QUALIFYING SECONDARY RECOVERY
PROJECT" FOR THE PURPOSE OF ACQUIRING
THE TAX EXEMPTIONS AND/OR REDUCTIONS
PROVIDED BY NDCC CHAPTER 57-51.1 AND SUCH
OTHER AND FURTHER RELIEF AS THE
COMMISSION MAY DEEM APPROPRIATE.

ORDER OF THE COMMISSION

BY THE COMMISSION:

Pursuant to legal notice this cause came on for hearing at 9:00 a.m.
on the 22nd day of September, 1993, in Bismarck, North Dakota, before an
examiner appointed by the Industrial Commission of North Dakota, hereinafter
referred to as the "Commission."

NOW, on this 1st day of October, 1993, the Commission, a quorum
being present, having considered the testimony adduced and the exhibits
received at said hearing, and being fully advised in the premises,

FINDS:

(1) That due public notice having been given as required by law, the
Commission has jurisdiction of this cause and the subject matter thereof.

(2) That Conoco Inc. ("Conoco") is the operator of the Dickinson
Heath Unit ("DHU") which was unitized in 1972. Water injection into the
unitized formation commenced in 1973.

(3) That Conoco requests an order of the Commission certifying that
the DHU is a qualifying secondary recovery project for the purpose of
acquiring the tax exemption and reduction provided by North Dakota
Century Code ("NDCC") Chapter 57-51.1.

(4) That NDCC Section 57-51.1-02 imposes an excise tax, known as the
"Oil Extraction Tax." The rate of the tax is six and one-half percent of the
gross value at the well of the oil extracted, except for oil that does not
qualify as incremental oil but is produced from a secondary recovery project
that is certified as qualifying by the Commission after June 30, 1991, the
tax rate is four percent. For the Commission to certify that a secondary
recovery project is a qualifying project and is entitled to the tax
reduction, the project operator must have achieved for six consecutive months
an average production level of at least twenty-five percent above the level
that would have been recovered under normal recovery operations.

(5) That NDCC Section 57-51.1-03 provides for an exemption from the
extraction tax for incremental oil, as defined therein, produced from a "new
secondary recovery project." To be eligible for the tax exemption the
project must be certified by the Commission as a qualifying new secondary
recovery project and produce incremental oil.

(6) That Conoco plans to initiate a new secondary recovery project in

the DHU. It proposes to drill a new recovery well in the unit at an estimated cost of \$800,000, and to renew and increase water injection into the unitized formation.

(7) That Conoco is employing water flooding in the DHU. The unit may be certified by the Commission as a qualifying secondary recovery project when an average production level of at least twenty-five percent above the level that would have been recovered under normal recovery operations has been achieved for six consecutive months.

(8) That the new secondary recovery project proposed by Conoco has not commenced. When and if the proposed project is commenced, the Commission may certify that the operation is a new secondary recovery project.

IT IS THEREFORE ORDERED:

(1) That the DHU may be certified by the Commission as a qualifying new secondary recovery project and eligible for the tax exemption under Section 57-51.1-03 when the new secondary recovery project commences.

(2) That the DHU is a qualifying secondary recovery project, and may be certified by the Commission as eligible for the tax reduction under Section 57-51.1-02 provided the project operator achieves for six consecutive months an average production level of at least twenty-five percent above the level that would have been recovered under normal recovery operations.

(3) That the Commission will hold additional hearings to determine entitlement to the tax incentives provided in NDCC Chapter 57-51.1.

(4) That this order shall remain in full force and effect until further order of the Commission.

Dated this 1st day of October, 1993.

INDUSTRIAL COMMISSION
STATE OF NORTH DAKOTA

/s/ Edward T. Schafer
Edward T. Schafer, Governor

/s/ Heidi Heitkamp
Heidi Heitkamp, Attorney General

/s/ Sarah Vogel
Sarah Vogel, Commissioner of Agriculture