

BEFORE THE INDUSTRIAL COMMISSION
OF THE STATE OF NORTH DAKOTA

CASE NO. 6021
ORDER NO. 6991

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-LODGEPOLE 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 N.D.C.C. 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 14th day of December, 1994, in Bismarck, North Dakota, before an
examiner appointed by the Industrial Commission of North Dakota, hereinafter
referred to as the "Commission."

NOW, on this 26th day of January, 1995, 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 currently the operator of the
Dickinson-Lodgepole Unit, a secondary recovery project located in Stark
County, North Dakota. The Dickinson-Lodgepole Unit was created by the
Commission by virtue of Order No. 6861 entered in Case No. 5933 dated
June 16, 1994. Pursuant to Commission Order No. 6862 entered in Case No.
5935 dated June 16, 1994, the Dickinson-Lodgepole Unit became effective at
7:00 a.m. on July 1, 1994.

(3) That it is the opinion of Conoco that the Dickinson-Lodgepole Unit
meets the definition of a "Qualifying Secondary Recovery Project" and the oil
produced therefrom is entitled to an exemption of the oil extraction tax
pursuant to North Dakota Century Code ("NDCC") Ch. 57-51.1.

(4) That pursuant to subsection 5 of NDCC Section 57-51.1-01, a
qualifying secondary recovery project means a project employing water
flooding. To be eligible for the tax reduction provided under section
57-51.1-02, a secondary recovery project must be certified as qualifying by
the industrial commission and 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. To be eligible for the tax exemption provided under
section 57-51.1-03 and subsequent thereto the rate reduction provided under
section 57-51.1-02, a secondary recovery project must be certified as
qualifying by the industrial commission and the project operator must have
obtained incremental production as defined in subsection 5 of section
57-51.1-03.

(5) That in October, 1994, Conoco commenced water flooding the Dickinson-Lodgepole unitized formation. Therefore, the Dickinson-Lodgepole Unit is a qualifying secondary recovery project.

(6) That all wells in the Dickinson-Lodgepole Unit were wells drilled and completed after April 27, 1987. Furthermore, the extraction tax rate of oil produced from such wells, and not otherwise exempt under Section 57-51.1-03 is four percent. Therefore, to fulfill the requirement for the project operator to achieve 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 is unnecessary.

(7) That it has been established that the estimated primary oil production from the pool is 5.38 million barrels. Of that number, 619,605 barrels had been recovered prior to October 1, 1994. Using this information the remaining primary production can be determined as provided in paragraph 1 of subdivisions c of subsection 5 of NDCC Section 57-51.1-03. Incremental production can be determined from a ten percent rate decline curve provided in paragraph 2 of subdivision c of subsection 5 of NDCC Section 57-51.1-03.

IT IS THEREFORE ORDERED:

(1) That the Dickinson-Lodgepole Unit is hereby certified as a qualifying secondary recovery project. The incremental production from the project is exempt from the extraction tax for a period of five years from the date incremental production begins.

(2) That pursuant to paragraph 1 of subdivision c of subsection 5 of NDCC Section 57-51.1-03, the Commission shall determine the estimated remaining primary production based on 5.38 million barrels ultimate primary production and a cumulative production to October 1, 1994 of 619,605 barrels. Incremental production shall be determined from a ten percent rate decline curve provided in paragraph 2 of subdivision c of subsection 5 of NDCC Section 57-51.1-03.

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

Dated this 26th day of January, 1995.

INDUSTRIAL COMMISSION
STATE OF NORTH DAKOTA

/s/ Edward T. Schafer, Governor

/s/ Heidi Heitkamp, Attorney General

/s/ Sarah Vogel, Commissioner of Agriculture