

Senate File 2490 - Introduced

SENATE FILE 2490
BY COMMITTEE ON WAYS AND MEANS

(SUCCESSOR TO SF 2449)
(SUCCESSOR TO SF 546)
(SUCCESSOR TO SF 268)

A BILL FOR

1 An Act relating to oil and gas production, including
2 filing requirements, the authority of the department of
3 natural resources, confidential information, pooling orders,
4 negotiation of surface damage, imposition and distribution of
5 a tax, and jurisdiction.
6 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

1 Section 1. Section 8.57A, Code 2026, is amended by adding the
2 following new subsection:

3 NEW SUBSECTION. 3A. A severance tax account is created in
4 the environment first fund. Moneys in the account in a fiscal
5 year shall be used as appropriated by the general assembly for
6 purposes of supporting water quality projects.

7 Sec. 2. Section 22.7, Code 2026, is amended by adding the
8 following new subsection:

9 NEW SUBSECTION. 78. Records received, collected, or created
10 in the administration of severance tax for oil and gas production
11 pursuant to section 458A.29, subsection 3.

12 Sec. 3. Section 458A.2, Code 2026, is amended by adding the
13 following new subsections:

14 NEW SUBSECTION. 01. "Casing" means the practice of providing
15 structural integrity, stability for unstable geologic formations,
16 and formation isolation, allowing for pressure control via
17 blowout preventer equipment, and allowing for flowback if
18 applicable.

19 NEW SUBSECTION. 2A. "Correlative rights" means the
20 opportunity afforded to the owner of each property in a pool to
21 produce, so far as it is reasonably practicable to do so without
22 waste, a just and equitable share of the oil or gas, or both, in
23 the pool.

24 NEW SUBSECTION. 5A. "Exploratory well" means a well drilled
25 beyond the known producing limits of a pool.

26 NEW SUBSECTION. 20A. "Well log" means a record of geologic
27 formations penetrated by the borehole with respect to both time
28 and depth during drilling operations.

29 Sec. 4. Section 458A.4, subsection 1, Code 2026, is amended
30 by adding the following new paragraph:

31 NEW PARAGRAPH. 0b. Every person acting as a principal
32 or agent for another or independently engaged in the
33 production, storage, transportation, except by railroad,
34 refining, reclaiming, treating, marketing, or processing of oil
35 or gas, or engaged in the exploration for or production of

1 metallic minerals to file the following with the department on
2 or before April 1 of each year:

3 (1) The name under which the business is being operated.

4 (2) The name and contact information of the person, business,
5 or businesses engaged in the activity.

6 (3) The plan of organization.

7 (4) For a corporation, the following filings apply:

8 (a) The law under which the corporation is chartered.

9 (b) The names and contact information for any person acting
10 as a trustee.

11 (c) The names of the manager, agent, or executive.

12 (d) The names and contact information of all officers.

13 (5) The names and contact information of all owners if the
14 business is conducted under an assumed name.

15 Sec. 5. Section 458A.4, subsection 1, paragraph b, Code 2026,
16 is amended to read as follows:

17 b. The making and filing of all mechanical well logs and the
18 filing of directional surveys if taken, and the filing of reports
19 on well location, drilling, and production, and the filing free
20 of charge of samples and core chips and of complete cores less
21 tested sections when requested in the department within six
22 months after the completion or abandonment of the well, unless
23 otherwise extended pursuant to section 458A.6A;

24 Sec. 6. Section 458A.4, Code 2026, is amended by adding the
25 following new subsection:

26 NEW SUBSECTION. 4A. To allow for variances to any of the
27 department's rules, regulations, or orders. A variance shall
28 be granted in writing by the director without a hearing upon
29 written request of an owner or applicant. The owner or the
30 applicant requesting the variance shall demonstrate that it has
31 made a good faith effort to comply or is unable to comply with
32 the specific requirements contained in the rules, regulations, or
33 orders from which it seeks a variance, and that the requested
34 variance will not violate the basic intent of this chapter. Upon
35 proper submission to the director, the director shall approve

1 or deny the variance request within fourteen days of receipt.
2 The director shall report any variance granted at the subsequent
3 hearing or otherwise make public any variance granted.

4 Sec. 7. NEW SECTION. **458A.6A Confidential information.**

5 If an owner seeks to submit information that is listed as
6 confidential, the owner will confer with the department prior to
7 submitting the information to verify it qualifies as confidential
8 pursuant to the department's rules or otherwise under law. If
9 the information is determined to be confidential, the owner will
10 submit hard copies of the information in nonredacted form but
11 labeled confidential in a conspicuous location on the document.
12 Confidential information shall be maintained as confidential and
13 held without public access for a period of five years, unless
14 otherwise extended by the director for good cause. Confidential
15 information may include the following:

- 16 1. Monetary amounts, payment terms, drilling obligations, or
17 personal information listed on surface use agreements, oil and
18 gas leases, or rights-of-way agreements.
- 19 2. Information concerning ongoing commercial negotiations
20 regarding potential or planned routing and location of off-lease
21 midstream gathering systems or infrastructure.
- 22 3. Confidential geological or geophysical well records
23 pertaining to exploratory wells.
- 24 4. Information about a proposed transfer of permits and
25 assets.
- 26 5. Proprietary stimulation or completion chemicals that
27 qualify as trade secrets.
- 28 6. Personal medical information.
- 29 7. Commercial information that, if disclosed, would be likely
30 to cause substantial harm to the competitive position of the
31 person providing the information.

32 Sec. 8. Section 458A.7, subsections 3 and 4, Code 2026, are
33 amended to read as follows:

- 34 3. An order establishing spacing units for a pool shall
35 specify the size and shape of each unit and the location

1 and number of the permitted well~~thereon~~ wells in accordance
2 with a reasonably uniform spacing plan. Upon application,
3 if the director finds that a well drilled at the prescribed
4 location would not produce in paying quantities, or that surface
5 conditions would substantially add to the burden or hazard of
6 drilling such well, the director is authorized to enter an order
7 permitting ~~the~~ a well to be drilled at a location other than
8 that prescribed by such spacing order; however, the director
9 shall include in the order suitable provisions to prevent the
10 production from the spacing unit of more than its just and
11 equitable share of the oil and gas in the pool.

12 4. An order establishing units for a pool shall cover all
13 lands determined or believed to be underlaid by the pool, and
14 may be modified by the director from time to time to include
15 additional areas determined to be underlaid by the pool. When
16 found necessary for the prevention of waste, or to avoid the
17 drilling of unnecessary wells or to protect correlative rights,
18 an order establishing spacing units in a pool may be modified by
19 the director to increase the size of spacing units in the pool
20 or any zone of the pool, or to permit the drilling of additional
21 wells within a spacing unit on a reasonable uniform plan in the
22 pool, or any zone of the pool. Orders of the director may be
23 appealed to the department within thirty days.

24 Sec. 9. Section 458A.7, Code 2026, is amended by adding the
25 following new subsection:

26 NEW SUBSECTION. 5. If the department is unable to determine
27 the existence of a pool and the appropriate acreage to be
28 embraced within a spacing unit and the shape thereof based on
29 the evidence introduced at hearing, the department may establish
30 an exploratory spacing unit for the purpose of drilling one or
31 more exploratory wells in order to establish the existence of a
32 pool and the appropriate size and shape of the spacing unit to be
33 applied for future development of the pool. In establishing the
34 size and shape of the exploratory spacing unit, the department
35 may consider the size and shape of spacing units established by

1 the department for the same pool or formation in other areas,
2 the size and shape of units for similar development in other
3 basins, reservoir modeling or other preliminary data on the pool
4 or formation, and any other information the department deems
5 relevant.

6 Sec. 10. Section 458A.8, Code 2026, is amended to read as
7 follows:

8 **458A.8 Integration of fractional tracts.**

9 1. When two or more separately owned tracts are embraced
10 within a spacing unit, or when there are separately owned
11 interests in all or a part of the spacing unit, then the owners
12 and royalty owners of the tracts may pool their interests for the
13 development and operation of the spacing unit. ~~In the absence~~
14 ~~of voluntary pooling, the department, upon the application of any~~
15 ~~interested person, shall enter an order pooling all interests in~~
16 ~~the spacing unit for the development and operations of the unit.~~
17 ~~Each pooling order shall be made after notice and hearing, and~~
18 ~~shall be upon terms and conditions that are just and reasonable,~~
19 ~~and that afford to the owner of each tract or interest in~~
20 ~~the spacing unit the opportunity to recover or receive, without~~
21 ~~unnecessary expense, a just and equitable share. Operations~~
22 ~~incident to the drilling of a well upon any portion of a~~
23 ~~spacing unit covered by a pooling order shall be deemed for all~~
24 ~~purposes to be the conduct of the operations upon each separately~~
25 ~~owned tract in the drilling unit by the several owners of the~~
26 ~~unit. That portion of the production allocated to each tract~~
27 ~~included in a spacing unit covered by a pooling order shall, when~~
28 ~~produced, be deemed for all purposes to have been produced from~~
29 ~~the tract by a well drilled on it.~~

30 2. ~~Each pooling order shall make provision for the drilling~~
31 ~~and operation of a well on the spacing unit, and for the payment~~
32 ~~of the reasonable actual cost of the well by the owners of~~
33 ~~interests in the spacing unit, plus a reasonable charge for~~
34 ~~supervision. In the event of any dispute as to such costs, the~~
35 ~~department shall determine the proper costs. If an owner shall~~

~~1 drill and operate, or pay the expenses of drilling and operating
2 the well for the benefit of others, then, the owner so drilling
3 or operating shall, upon complying with the terms of section
4 458A.10, have a lien on the share of production from the spacing
5 unit accruing to the interest of each of the other owners for the
6 payment of a proportionate share of the expenses. All the oil
7 and gas subject to the lien shall be marketed and sold and the
8 proceeds applied in payment of the expenses secured by the lien
9 as provided for in section 458A.10.~~

10 2. In the absence of voluntary pooling pursuant to subsection
11 1, the director, upon the application by the owner or owners
12 of not less than twenty-five percent of the area of the spacing
13 unit, shall enter an order pooling all interests in the spacing
14 unit for the development and operation thereof. Any such pooling
15 order may authorize cost recovery and risk penalties against
16 nonconsenting owners for a specific well. Each such pooling
17 order shall be made after notice and hearing and with terms and
18 conditions that are just and reasonable. Operations incident to
19 the drilling of a well upon any portion of a spacing unit covered
20 by a pooling order shall be deemed for all purposes to be the
21 conduct of such operations upon each separately owned tract in
22 the unit by the several owners thereof. When produced, that
23 portion of the production allocated or applicable to each tract
24 included in a unit covered by a pooling order shall be deemed
25 for all purposes to have been produced from such tract by a well
26 drilled thereon.

27 3. Each pooling order shall provide for the drilling and
28 operation of a well in the spacing unit, and for the payment of
29 the cost thereof, as provided in this subsection. The director
30 is specifically authorized to provide that the producer shall be
31 entitled to all production from the well that would be received
32 by the owner or owners, for whose benefit the well was drilled or
33 operated, after payment of royalty as provided in the lease, if
34 any, applicable to each tract or interest or after payment of the
35 royalty if required under subsection 4, and obligations payable

1 out of production, until the producers have been paid the amount
2 due under the terms of the pooling order or order settling the
3 dispute. In the event of any disputed cost, the director shall
4 determine the proper cost. The pooling order shall determine the
5 interest of each owner in the unit, and may provide that each
6 owner who agrees with the producer for the payment by the owner
7 of the owner's share of the costs, unless the owner has agreed
8 otherwise, shall be entitled to receive, subject to royalty or
9 similar obligations, the share of the production of the well
10 applicable to the tract of the nonconsenting owner. Each owner
11 who does not agree shall be entitled to receive from the producer
12 the owner's share of the production applicable to the owner's
13 interest after the producer has recovered the following, subject
14 to the provisions of subsection 4:

15 a. One hundred percent of the nonconsenting owner's share
16 of the cost of any newly acquired surface equipment beyond
17 the wellhead connections, including stock tanks, separators,
18 treaters, or pumping equipment and piping, plus one hundred
19 percent of the nonconsenting owner's share of the cost
20 of operating the well commencing with first production and
21 continuing until the nonconsenting owner's relinquished interest
22 reverts under other provisions in this section.

23 b. Up to two hundred percent of that portion of the costs
24 and expenses of drilling, reworking, deepening or plugging back,
25 testing, and completing, after deducting any cash contributions
26 received, and up to two hundred percent of that portion of the
27 cost of newly acquired equipment in the well, up to and including
28 the wellhead connections, which would have been chargeable to the
29 nonconsenting owner if the owner had participated therein, if the
30 nonconsenting owner's tract or interest is subject to a lease or
31 other contract for oil and gas development.

32 4. During the time the producer is recovering costs from
33 a nonconsenting owner as authorized in a pooling order issued
34 pursuant to subsection 2, a nonconsenting owner of a tract or
35 interest in a spacing unit that is not subject to a lease or

1 other contract for oil and gas development shall be entitled to a
2 cost-free royalty interest equal to twelve and one-half percent.

3 5. Upon full payment of the recoverable costs as specified in
4 subsection 3, the following shall occur:

5 a. Within thirty days the producer shall notify the
6 nonconsenting owner to offer to the nonconsenting owner the
7 opportunity to participate under the pooling order as a working
8 interest owner. The notice shall state that the nonconsenting
9 owner may elect to participate in the pooling order or may elect
10 to continue receiving the royalty specified in subsection 4.

11 b. Within sixty days after receiving notice, the
12 nonconsenting owner shall inform the producer whether the
13 nonconsenting owner wishes to make an election to participate
14 under the pooling order as a working interest owner or continue
15 receiving the royalty specified in subsection 4.

16 c. If the nonconsenting owner fails to respond to the notice
17 within the time specified in paragraph "b", the nonconsenting
18 owner shall be deemed to elect to continue receiving the royalty
19 specified in subsection 4.

20 d. Within five business days after receiving notice of
21 election from a nonconsenting owner or upon expiration of the
22 time specified in paragraph "b", the producer shall notify the
23 director regarding the nonconsenting owner's election or lack
24 thereof.

25 6. An application for pooling shall provide at least the
26 following:

27 a. A certificate of service containing all persons that have
28 a royalty interest or are owners inside the drilling and spacing
29 unit.

30 b. The applicant's interest type in the drilling and spacing
31 unit.

32 c. The legal description of the lands and the department
33 docket number establishing the drilling and spacing unit sought
34 to be pooled.

35 d. A statement that two or more separately owned tracts or

1 separately owned interests in the drilling and spacing unit have
2 not voluntarily pooled their interests and any valid pooling
3 order for the drilling and spacing unit.

4 e. The American petroleum institute well number of the well
5 subject to the application, if requesting cost recovery or risk
6 penalties.

7 f. A list of all nonconsenting owners in the well that the
8 applicant is seeking cost recovery and risk penalties against at
9 the time of filing the application.

10 g. The cost recovery and risk penalties the applicant is
11 requesting, if any.

12 7. An applicant shall provide at hearing at least the
13 following:

14 a. A copy of the election letter, well proposal, and
15 authorization for expenditure sent to the owners in the drilling
16 and spacing unit.

17 b. The names and interests of all nonconsenting owners and
18 unleased nonconsenting owners in the well.

19 c. Evidence to justify the application of a risk penalty.

20 **Sec. 11. NEW SECTION. 458A.26 Negotiation of surface**
21 **damages — appraisers, report, and exceptions — compensation**
22 **commission.**

23 1. Before entering a site that is subject to a pooling order
24 under section 458A.8, or that is within an exploratory spacing
25 unit, with heavy equipment for the purpose of drilling, an
26 operator shall negotiate with the surface owner for the payment
27 of any damages that may be caused by the drilling operation. If
28 the parties agree and execute a written contract for payment of
29 damages, the operator may enter the site to drill.

30 2. If the parties do not agree to a contract pursuant to
31 subsection 1, or if the operator is not able to contact all
32 surface owners, the operator shall petition the district court in
33 the county in which the drilling site is located for appointment
34 of appraisers to make recommendations to the parties and to
35 the court concerning the amount of damages, if any. After

1 the operator has petitioned for appointment of appraisers, the
2 operator may enter the site to drill. Unless otherwise provided,
3 an operator shall give notice of the petition at least ten days
4 prior to the appointment of appraisers, to each surface owner by
5 personal service or by delivery to the surface owner's address
6 of record with the tax assessor. If a surface owner is not
7 a resident of the state of Iowa, there is no known heir, or a
8 surface owner's whereabouts cannot be ascertained, the operator
9 shall publish notice in one issue of a newspaper having general
10 circulation in the county in which the drilling site is located
11 and the ten-day notice requirement shall begin on the date of
12 publication.

13 3. The operator shall select one appraiser, the surface
14 owners shall select one appraiser, and the two selected
15 appraisers shall select a third appraiser, for appointment by the
16 district court. All appointed appraisers shall be real estate
17 appraisers certified or registered under chapter 543D. The three
18 appraisers shall be appointed within twenty days of service or
19 publication of the notice of the petition, unless the court, for
20 good cause, allows additional time. If either party fails to
21 select an appraiser or if the two appraisers cannot agree on the
22 selection of the third, the remaining required appraisers shall
23 be appointed by the district court upon application of either
24 party. Before entering upon their duties, each appraiser shall
25 take and subscribe an oath that the appraiser will perform their
26 duties faithfully and impartially to the best of their ability.
27 The appraisers shall inspect the real property and the damage
28 that is observed or expected due to entry upon the land and
29 drilling or maintenance of oil or gas wells on the land. The
30 appraisers shall file a written report within thirty days after
31 appointment with the clerk of court. The report shall set forth
32 the acreage, boundaries, and value of the property entered on or
33 to be utilized for drilling, and the amount of damage done or
34 expected. The appraisers shall make a valuation and determine
35 the amount of compensation to be paid by the operator to the

1 surface owners and the manner in which the compensation shall
2 be paid. The appraisers shall then make a report of their
3 proceedings to the court. The compensation of the appraisers
4 shall be fixed by the court. The operator and the surface owners
5 shall share equally in the payment of the appraisers' fees and
6 court costs.

7 4. a. Within ten days after the report of the appraisers
8 required under subsection 3 is filed, the clerk of the court
9 shall forward to each attorney of record, if any, and each
10 party a copy of the report and a notice stating the time limits
11 for filing an exception or a request for formation of a county
12 compensation commission pursuant to section 6B.4. The operator
13 shall provide the clerk of court with the names and last known
14 addresses of the parties to whom the notice and report shall be
15 mailed, sufficient copies of the notice and report to be mailed,
16 and preaddressed, postage-paid envelopes. The notice shall be on
17 a form prescribed by the department by rule.

18 b. If a surface owner has been served by publication, the
19 clerk shall forward a copy of the report of the appraisers
20 required under subsection 3 and the notice of time limits for
21 filing either an exception or a request for appointment of a
22 compensation commission to the last known mailing address of each
23 surface owner, if any, and shall cause a copy of the notice of
24 time limits to be published in one issue of a newspaper qualified
25 to publish legal notices in the county in which the drilling site
26 is located.

27 c. After issuing the notice required under this subsection,
28 the clerk shall make appropriate record of the notice and
29 service.

30 d. The time for filing an exception to the report or a
31 request for determination by a county compensation commission
32 shall commence upon the filing of the report of the appraisers
33 with the court.

34 5. Upon written exception filed with the court by a party
35 within thirty days after the filing of the report of the

1 appraisers required under subsection 3, the court shall review
2 the report. If the court finds any disputed issue warranting
3 a hearing, the court shall schedule such hearing with notice
4 to the parties. After the hearing, the court shall enter an
5 order confirming, rejecting, or modifying the report, or, upon a
6 showing of good cause, ordering a new appraisal. If the court
7 orders a new appraisal, the operator shall have a continuing
8 right of entry to the property subject to the posting of a bond
9 under section 458A.4 for the benefit of the surface owners. A
10 party may file an exception to appraisers' fees and court costs
11 that shall be subject to determination by the court.

12 6. A party may, within sixty days after the filing of
13 the report of the appraisers required under subsection 3,
14 file a request for a determination of damages by the county
15 compensation commission formed pursuant to section 6B.4. Such
16 request shall be filed with the chief judge of the judicial
17 district of the county in which the land is located, and
18 shall set forth a description of the property, its location,
19 and the damages alleged, and shall attach the report of the
20 appraisers. The court and the commissioners shall proceed in
21 the manner provided by sections 6B.3 and 6B.4 for the assessment
22 and award of damages. If the damages awarded do not exceed
23 the amount of compensation recommended in the report of the
24 appraisers, the court shall assess the operator's court costs and
25 reasonable attorney fees to the surface owners. If the damages
26 awarded exceed the compensation recommended in the report of the
27 appraisers, the operator shall be assessed the court costs and
28 reasonable attorney fees of the surface owner.

29 Sec. 12. NEW SECTION. **458A.27 Imposition of tax — tax rate**
30 **— valuation taxpayers.**

31 1. For the privilege of severing or extracting oil or gas
32 from the lands within the state, there is levied a severance tax
33 on the value of the oil and gas extracted, which shall be in
34 addition to any other taxes imposed by law.

35 2. The severance tax shall be six percent of the fair market

1 value of the oil or gas upon extraction at the wellhead.

2 3. Expenses incurred by the producer prior to valuation are
3 not deductible from taxable value.

4 4. When ownership of oil or gas produced is shared, each
5 owner shall be responsible for payment of its proportionate share
6 of severance tax. A taxpayer paying severance tax on oil or gas
7 production may deduct the taxes paid from any royalty or other
8 amounts due or to become due to the interest owners of such
9 production, in proportion to the interest ownership, in which
10 case the person receiving the royalty or other payment shall not
11 be liable for severance tax.

12 5. The department of revenue may adopt rules pursuant to
13 chapter 17A to administer this section.

14 Sec. 13. NEW SECTION. **458A.28 Revenue distribution.**

15 1. Revenues received from the severance tax collected
16 pursuant to section 458A.27 shall be distributed as follows:

17 a. (1) The severance tax revenues shall be distributed to
18 counties as follows:

19 (a) Nine and nine-tenths percent of severance tax revenue
20 each year shall be distributed to each county in the state
21 in proportion to the county's share of total state population
22 according to the most recent federal decennial census.

23 (b) Five percent of severance tax revenue each year shall be
24 distributed to the counties in which land is located from which
25 oil or gas is produced in proportion to each county's share of
26 the value of oil and gas production for that year.

27 (2) Distributions to counties under this paragraph shall be
28 used exclusively for any of the following purposes:

29 (a) To construct and maintain county roads.

30 (b) To offset county property tax collections. For
31 distributions used for purposes of this subparagraph division,
32 the county shall adopt a corresponding levy rate reduction.

33 b. Five percent of severance tax revenue each year shall be
34 deposited in the road use tax fund established under section
35 312.1.

1 c. (1) Ten percent of severance tax revenue each year
2 shall be deposited in the severance tax account within the
3 environment first fund established under section 8.57A for
4 purposes of supporting the water quality initiative administered
5 by the division pursuant to section 466B.42, including salaries,
6 support, maintenance, and miscellaneous purposes, including as
7 provided in this paragraph, notwithstanding section 8.57A,
8 subsection 3.

9 (2) (a) The moneys deposited pursuant to this paragraph
10 shall be used to support demonstration projects in subwatersheds
11 as designated by the department of agriculture and land
12 stewardship that are part of high-priority watersheds identified
13 by the water resources coordinating council.

14 (b) The moneys deposited pursuant to this paragraph shall be
15 used to support demonstration projects in watersheds generally,
16 including regional watersheds, as designated by the division,
17 and high-priority watersheds identified by the water resources
18 coordinating council.

19 (3) In supporting projects in watersheds and subwatersheds as
20 provided in subparagraph (2), all of the following apply:

21 (a) The demonstration projects must utilize water quality
22 practices as described in the Iowa nutrient reduction strategy as
23 defined in section 455B.171.

24 (b) The division shall implement demonstration projects
25 as provided in subparagraph division (a) by providing for
26 participation by persons who hold a legal interest in
27 agricultural land used in farming. To every extent practical,
28 the division shall provide for collaborative participation by
29 such persons who hold a legal interest in agricultural land
30 located within the same subwatershed.

31 (c) The division shall implement demonstration projects on
32 a cost-share basis as determined by the division. Except for
33 edge-of-field practices, the state's share of the amount shall
34 not exceed fifty percent of the estimated cost of establishing
35 the practice as determined by the division or fifty percent of

1 the actual cost of establishing the practice, whichever is less.

2 (d) The demonstration projects shall be used to educate other
3 persons about the feasibility and value of establishing similar
4 water quality practices. The division shall promote field day
5 events for purposes of allowing interested persons to establish
6 water quality practices on such persons' agricultural land.

7 (e) The division shall conduct water quality evaluations
8 within supported subwatersheds. Within a reasonable period after
9 accumulating information from such evaluations, the division
10 shall create an aggregated database of water quality practices.
11 Any information identifying a person holding a legal interest
12 in agricultural land or specific agricultural land shall be a
13 confidential record.

14 (4) The moneys deposited pursuant to this paragraph shall
15 be used to support education and outreach in a manner that
16 encourages persons who hold a legal interest in agricultural land
17 used for farming to implement water quality practices, including
18 the establishment of such practices in watersheds generally, and
19 not limited to subwatersheds or high-priority watersheds.

20 (5) The moneys deposited pursuant to this paragraph may be
21 used to contract with persons to coordinate the implementation of
22 efforts provided in this paragraph.

23 (6) The moneys deposited pursuant to this paragraph may be
24 used by the department of agriculture and land stewardship to
25 support urban soil and water conservation efforts, which may
26 include but are not limited to management practices related
27 to bioretention, landscaping, the use of permeable or pervious
28 pavement, and soil quality restoration. The moneys shall be
29 allocated on a cost-share basis as provided in chapter 161A.

30 (7) Notwithstanding any other provision of law to the
31 contrary, the department of agriculture and land stewardship may
32 use moneys deposited pursuant to this paragraph to carry out the
33 provisions of this paragraph on a cost-share basis in combination
34 with other moneys available to the department of agriculture and
35 land stewardship from a state or federal source.

1 (8) Not more than ten percent of the moneys deposited
2 pursuant to this paragraph may be used for costs of
3 administration and implementation of the water quality initiative
4 administered by the division.

5 d. Seventy and one-tenth percent of severance tax revenue
6 each year shall be deposited in the taxpayer relief fund
7 established under section 8.57E.

8 e. Distributions to the counties and to the funds under
9 this subsection shall be made quarterly in an amount equal
10 to one-fourth of the estimate of annual total severance tax
11 revenues estimated for the current fiscal year by the revenue
12 estimating committee. The share for producing counties shall
13 be calculated using county production data from the prior fiscal
14 year's severance tax returns.

15 2. By September 15 of each year, the department of revenue
16 shall report actual earnings for the months of the preceding
17 fiscal year for which estimates were used in computing
18 distributions. The department of revenue shall make adjustments
19 to distributions during the current fiscal year in an amount
20 equal to the difference between revenues earned and actual
21 distributions for the preceding fiscal year.

22 3. For purposes of this section, "division" means the
23 division of soil conservation and water quality created within
24 the department of agriculture and land stewardship pursuant to
25 section 159.5.

26 Sec. 14. NEW SECTION. **458A.29 Administration**
27 **confidentiality.**

28 1. The department of revenue shall annually value and assess
29 oil or gas production for taxation, in appropriate unit measures,
30 at the fair market value of the product, after the mining is
31 completed or the oil or gas is extracted at the wellhead.

32 2. Annually, on or before June 1, or as soon thereafter
33 as the fair market value is determined under subsection 1, the
34 department of revenue shall certify the valuation of the product
35 to the county assessor of the county from which the oil or

1 gas was produced, and such valuation shall be entered upon the
2 assessment rolls of the county.

3 3. Records received, collected, or created in the
4 administration of the severance tax shall be confidential as
5 follows:

6 a. All taxpayer returns and return information shall be
7 confidential and, except as authorized below, no current or
8 former official, officer, employee, or agent of the state
9 or any political subdivision thereof shall disclose any such
10 information obtained in the course of service as an official,
11 officer, employee, or agent. Taxpayer returns and return
12 information shall include without limitation all statements,
13 reports, summaries, and all other data and documents under audit
14 or provided by the taxpayer in accordance with the provisions of
15 this chapter regarding severance tax.

16 b. Without written authorization from the taxpayer, no
17 current or former official, officer, employee, or agent of the
18 state or any political subdivision thereof shall release taxpayer
19 returns and return information pertaining to taxes imposed by
20 this chapter, except for any of the following reasons:

21 (1) Information may be released to employees of the
22 department of revenue and employees of the department of justice
23 for official purposes.

24 (2) Upon prior notice to the taxpayer, information may be
25 released by the department of revenue, upon written application,
26 to any other governmental entity if the entity shows sufficient
27 reason to obtain the information for official business, subject
28 to execution of a confidentiality agreement.

29 (3) Information shall be admissible in court or
30 administrative proceedings related to the severance tax or other
31 taxes on oil or gas production or on income of producers or
32 owners, or royalties.

33 c. Units of production reported by the taxpayer and the
34 taxpayer's taxable value are not confidential and may be
35 released.

1 4. Violations of this section shall be subject to the same
2 prohibitions and penalties that apply to other violations of
3 confidentiality requirements applicable to data and records in
4 the custody of the department of revenue for purposes of carrying
5 out its duties.

6 Sec. 15. NEW SECTION. **458A.30 Exclusive jurisdiction and**
7 **express preemption.**

8 1. For purposes of this section:

9 a. "*Commercially reasonable*" means a condition that would
10 allow a reasonably prudent operator to fully, effectively, and
11 economically exploit, develop, produce, process, and transport
12 oil and gas, as determined based on the objective standard
13 of a reasonably prudent operator and not on an individualized
14 assessment of an actual operator's capacity to act.

15 b. "*Oil and gas operation*" means an activity associated
16 with the exploration, development, production, processing, and
17 transportation of oil and gas, including drilling, testing,
18 geological sampling, boring, excavation, hydraulic fracture
19 stimulation, completion, maintenance, reworking, recompletion,
20 disposal, plugging and abandonment, secondary and tertiary
21 recovery, geophysical surveys related to oil and gas development,
22 and remediation activities.

23 2. An oil and gas operation is subject to the exclusive
24 jurisdiction of this state. Except as provided in subsection 3,
25 a county, city, or other political subdivision shall not enact
26 or enforce an ordinance or other measure, or an amendment or
27 revision of an ordinance or other measure, that bans, limits,
28 or otherwise regulates an oil and gas operation within the
29 boundaries or jurisdiction of the respective county, city, or
30 political subdivision.

31 3. The authority of a county, city, or other political
32 subdivision to regulate an oil and gas operation is expressly
33 preempted, except that a county or city may enact, amend, or
34 enforce an ordinance or other measure if the ordinance or other
35 measure does all of the following:

1 a. Only regulates activity related to an oil and gas
2 operation that occurs at or above the surface of the ground and
3 concerns governing fire and emergency response, traffic, lights,
4 or noise, or imposes notice or reasonable setback requirements.

5 b. (1) Is commercially reasonable.

6 (2) An ordinance or other measure is considered prima facie
7 to be commercially reasonable if the ordinance or other measure
8 has been in effect for at least five years and has allowed the
9 oil and gas operations at issue to continue during that period.

10 c. Does not prohibit or effectively prohibit an oil and gas
11 operation conducted by a reasonably prudent operator.

12 d. Is not otherwise preempted by state or federal law.

13 Sec. 16. REPEAL. Section 458A.6, Code 2026, is repealed.

14 EXPLANATION

15 The inclusion of this explanation does not constitute agreement with
16 the explanation's substance by the members of the general assembly.

17 This bill relates to oil and gas production, including
18 filing requirements, the authority of the department of natural
19 resources (department), confidential information, pooling orders,
20 negotiation of surface damage, imposition and distribution of a
21 tax, and jurisdiction.

22 The bill provides the director of the department the authority
23 to require yearly filings from every person acting as a
24 principal or agent for another or independently engaged in
25 the production, storage, transportation, except by railroad,
26 refining, reclaiming, treating, marketing, or processing of oil
27 or gas, or engaged in the exploration for or production of
28 metallic minerals that includes names, contact information, and
29 certain organizational details.

30 The bill grants the director the authority to issue variances
31 to any of the department's rules, regulations, or orders. A
32 variance shall be granted without a hearing. The application for
33 a variance must demonstrate a good faith effort or inability to
34 comply with specific requirements. A variance request must be
35 approved within 14 days and shall be made public.

1 The bill allows an owner to make information submitted to the
2 department confidential for five years, unless otherwise extended
3 by the director for good cause. The bill provides procedures to
4 make information confidential and includes examples of types of
5 information that may be determined confidential.

6 The bill allows the department to establish an exploratory
7 spacing unit to drill one or more exploratory wells to establish
8 the existence of a pool and the appropriate size and shape of
9 the spacing unit if it is unable to determine the existence of a
10 pool and the appropriate acreage and shape to be embraced within
11 a spacing unit based on the evidence introduced at hearing.

12 Under current law, in the absence of voluntary pooling, the
13 director must enter an order pooling all interests upon the
14 application of an interested person. The bill requires the
15 application be submitted by the owner or owners of at least 25
16 percent of the area of the spacing unit.

17 The bill requires each pooling order to provide for the
18 drilling and operation of a well in the spacing unit and for
19 payment of the cost incurred. The bill authorizes the director
20 to ensure the producers are entitled to all production from the
21 well after payment of royalties and other obligations. The
22 bill requires the director to determine costs if there is a
23 dispute. The bill provides that the pooling order must determine
24 the interest of each owner in the unit, including the owner's
25 share of the costs, unless otherwise agreed, and entitles the
26 owners the share of production of the well applicable to the
27 tract of the nonconsenting owner, subject to royalties and other
28 obligations. Owners who do not agree to the pooling order
29 are entitled to a share of the production applicable to the
30 owner's interest after the producer has recovered a certain
31 amount specified in the bill, which includes costs attributed to
32 newly acquired surface equipment beyond the wellhead connections,
33 operation, drilling, reworking, deepening or plugging back,
34 testing, and completing, and newly acquired equipment in the
35 well, up to and including the wellhead connections.

1 The bill provides that a nonconsenting owner of a tract or
2 interest in a spacing unit that is not subject to a lease or
3 other contract for oil and gas development shall be entitled to a
4 cost-free royalty interest equal to 12.5 percent during the time
5 of drilling or operating a well pursuant to the pooling order.

6 After the producer has fully recovered costs as described
7 in the bill, the producer must send a notice within 30 days
8 to any nonconsenting owner to offer participation as a working
9 interest owner under the pooling order. The nonparticipating
10 owner has 60 days after receipt of the notice to accept the
11 offer or may elect to continue receiving the default royalty. If
12 the nonparticipating owner does not respond, the nonparticipating
13 owner will be deemed to have elected to continue receiving the
14 default royalty. The producer must inform the director of the
15 nonparticipating owner's decision within five business days of
16 receiving an answer or the expiration of time allowed to respond.

17 The bill provides minimum requirements for an application for
18 compulsory pooling and any associated hearing.

19 The bill requires an operator to negotiate with the surface
20 owner for payment of damages caused by drilling operations prior
21 to entering a drilling site with heavy equipment that is subject
22 to a pooling order or within an exploratory spacing unit. If the
23 parties execute a written agreement, the operator may enter the
24 site. If the parties do not reach an agreement or the operator
25 cannot contact all of the surface owners, the bill requires
26 the operator to petition the district court for appointment of
27 licensed real estate appraisers to assess damages. After filing
28 the petition, the bill allows the operator to enter the site
29 to drill. The bill establishes notice requirements to surface
30 owners, including personal service or publication, if necessary.

31 The bill provides that one appraiser is selected by the
32 operator, one by the surface owners, and a third by the other
33 selected appraisers, subject to court appointment, and provides
34 appointment procedures. The bill requires the appraisers to
35 inspect the property and file a report with the court within

1 30 days that includes the acreage, boundaries, and value of the
2 property entered on or to be utilized for drilling, and the
3 amount of damage done or expected. The appraisers shall make a
4 valuation and recommended compensation. The bill provides that
5 compensation of the appraisers is fixed by the court, with costs
6 shared equally between the operator and surface owners.

7 The bill establishes procedures for providing notice of the
8 appraisers' report and for filing exceptions. The bill allows
9 a party to file an exception with the court within 30 days
10 after the report is filed, and the court may confirm, reject,
11 modify, or order a new appraisal after a hearing. The bill
12 also allows a party to request a determination of damages by a
13 county compensation commission within 60 days. The bill provides
14 that court costs and reasonable attorney fees shall be assessed
15 against a party depending on whether the final award exceeds or
16 is less than the amount recommended in the appraisers' report.

17 The bill levies a severance tax on oil and gas production in
18 this state. The bill sets the tax at a rate of 6 percent of
19 the fair market value of the oil or gas upon extraction at the
20 wellhead and provides that expenses incurred prior to valuation
21 are not deductible. When ownership is shared, each owner is
22 responsible for a proportionate share of the tax, and a taxpayer
23 paying the tax may deduct the amount from the royalty or other
24 payments due to other interest owners. The bill allows the
25 department of revenue to adopt rules to administer the tax.

26 The bill provides for the distribution of severance tax
27 revenues. A portion of the revenues shall be distributed to
28 counties based on population and to counties based on production,
29 which distributions must be used to construct and maintain
30 county roads or offset property taxes. The bill also provides
31 for distributions to the road use tax fund, the environment
32 first fund for support of water quality projects, and the
33 taxpayer relief fund. The bill requires distributions to be made
34 quarterly based on revenue estimates, with subsequent adjustments
35 as needed.

1 The bill provides for administration of the severance tax
2 by the department of revenue, including annual valuation and
3 certification of oil and gas production to county assessors.
4 The bill establishes confidentiality requirements for taxpayer
5 information, including returns and return information, with
6 certain exceptions allowing disclosure to specified government
7 entities in identified instances. The bill also provides that
8 units of production and taxable value are not confidential
9 and may be released, and that violations of confidentiality
10 requirements are subject to existing penalties.

11 The bill provides that oil and gas operation is subject to
12 the exclusive jurisdiction of this state. Except for certain
13 exceptions, the bill prohibits a county, city, or other political
14 subdivision from enacting or enforcing any ordinance or other
15 measure that bans, limits, or otherwise regulates oil and gas
16 operation within its jurisdiction.

17 The bill establishes a limited exception allowing a county
18 or city to enact or enforce an ordinance regulating activities
19 of an oil and gas operation that occurs at or above the
20 surface of the ground and concerns fire and emergency response,
21 traffic, lighting, noise, notice requirements, or reasonable
22 setbacks. The bill provides that such ordinance must be
23 commercially reasonable, must not effectively prohibit oil and
24 gas operation conducted by a reasonably prudent operator, and
25 must not otherwise be preempted by state or federal law.

26 The bill further provides that an ordinance is presumed to be
27 commercially reasonable if it has been in effect for at least
28 five years and has allowed the oil and gas operations at issue to
29 continue during that time.

30 Under current law, the department has the authority to
31 determine market demand for oil and gas for each marketing
32 district and to regulate the amount of production. The bill
33 eliminates this authority from the department.