

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 filing
2 requirements, the authority of the department of natural
3 resources, confidential information, pooling orders,
4 negotiation of surface damage, imposition and distribution
5 of 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
2 the 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
10 created in the administration of severance tax for oil and gas
11 production 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
15 providing structural integrity, stability for unstable geologic
16 formations, and formation isolation, allowing for pressure
17 control via blowout preventer equipment, and allowing for
18 flowback if applicable.

19 NEW SUBSECTION. 2A. "*Correlative rights*" means the
20 opportunity afforded to the owner of each property in a pool
21 to produce, so far as it is reasonably practicable to do so
22 without waste, a just and equitable share of the oil or gas, or
23 both, in 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. *Ob.* Every person acting as a principal or
32 agent for another or independently engaged in the production,
33 storage, transportation, except by railroad, refining,
34 reclaiming, treating, marketing, or processing of oil or gas,
35 or engaged in the exploration for or production of metallic

1 minerals to file the following with the department on or before
2 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,
5 business, 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
16 2026, is amended to read as follows:

17 b. The making and filing of all mechanical well logs and
18 the filing of directional surveys if taken, and the filing of
19 reports on well location, drilling, and production, and the
20 filing free of charge of samples and core chips and of complete
21 cores less tested sections when requested in the department
22 within six months after the completion or abandonment of the
23 well, unless 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,
33 or orders from which it seeks a variance, and that the
34 requested variance will not violate the basic intent of this
35 chapter. Upon proper submission to the director, the director

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

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

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

18 1. Monetary amounts, payment terms, drilling obligations,
19 or personal information listed on surface use agreements, oil
20 and gas leases, or rights-of-way agreements.

21 2. Information concerning ongoing commercial negotiations
22 regarding potential or planned routing and location of
23 off-lease midstream gathering systems or infrastructure.

24 3. Confidential geological or geophysical well records
25 pertaining to exploratory wells.

26 4. Information about a proposed transfer of permits and
27 assets.

28 5. Proprietary stimulation or completion chemicals that
29 qualify as trade secrets.

30 6. Personal medical information.

31 7. Commercial information that, if disclosed, would be
32 likely to cause substantial harm to the competitive position of
33 the person providing the information.

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

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

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

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

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

1 pool. In establishing the size and shape of the exploratory
2 spacing unit, the department may consider the size and shape
3 of spacing units established by the department for the same
4 pool or formation in other areas, the size and shape of units
5 for similar development in other basins, reservoir modeling or
6 other preliminary data on the pool or formation, and any other
7 information the department deems relevant.

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

10 **458A.8 Integration of fractional tracts.**

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

33 2. ~~Each pooling order shall make provision for the drilling~~
34 ~~and operation of a well on the spacing unit, and for the~~
35 ~~payment of the reasonable actual cost of the well by the owners~~

1 ~~of interests in the spacing unit, plus a reasonable charge for~~
 2 ~~supervision. In the event of any dispute as to such costs,~~
 3 ~~the department shall determine the proper costs. If an owner~~
 4 ~~shall drill and operate, or pay the expenses of drilling and~~
 5 ~~operating the well for the benefit of others, then, the owner~~
 6 ~~so drilling or operating shall, upon complying with the terms~~
 7 ~~of [section 458A.10](#), have a lien on the share of production~~
 8 ~~from the spacing unit accruing to the interest of each of~~
 9 ~~the other owners for the payment of a proportionate share of~~
 10 ~~the expenses. All the oil and gas subject to the lien shall~~
 11 ~~be marketed and sold and the proceeds applied in payment of~~
 12 ~~the expenses secured by the lien as provided for in section~~
 13 ~~458A.10.~~

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

31 3. Each pooling order shall provide for the drilling and
 32 operation of a well in the spacing unit, and for the payment of
 33 the cost thereof, as provided in this subsection. The director
 34 is specifically authorized to provide that the producer shall
 35 be entitled to all production from the well that would be

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

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

28 b. Up to two hundred percent of that portion of the costs
29 and expenses of drilling, reworking, deepening or plugging
30 back, testing, and completing, after deducting any cash
31 contributions received, and up to two hundred percent of that
32 portion of the cost of newly acquired equipment in the well,
33 up to and including the wellhead connections, which would have
34 been chargeable to the nonconsenting owner if the owner had
35 participated therein, if the nonconsenting owner's tract or

1 interest is subject to a lease or other contract for oil and
2 gas development.

3 4. During the time the producer is recovering costs from
4 a nonconsenting owner as authorized in a pooling order issued
5 pursuant to subsection 2, a nonconsenting owner of a tract or
6 interest in a spacing unit that is not subject to a lease or
7 other contract for oil and gas development shall be entitled
8 to a cost-free royalty interest equal to twelve and one-half
9 percent.

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

12 a. Within thirty days the producer shall notify the
13 nonconsenting owner to offer to the nonconsenting owner the
14 opportunity to participate under the pooling order as a working
15 interest owner. The notice shall state that the nonconsenting
16 owner may elect to participate in the pooling order or may
17 elect to continue receiving the royalty specified in subsection
18 4.

19 b. Within sixty days after receiving notice, the
20 nonconsenting owner shall inform the producer whether the
21 nonconsenting owner wishes to make an election to participate
22 under the pooling order as a working interest owner or continue
23 receiving the royalty specified in subsection 4.

24 c. If the nonconsenting owner fails to respond to the notice
25 within the time specified in paragraph "b", the nonconsenting
26 owner shall be deemed to elect to continue receiving the
27 royalty specified in subsection 4.

28 d. Within five business days after receiving notice of
29 election from a nonconsenting owner or upon expiration of the
30 time specified in paragraph "b", the producer shall notify the
31 director regarding the nonconsenting owner's election or lack
32 thereof.

33 6. An application for pooling shall provide at least the
34 following:

35 a. A certificate of service containing all persons that

1 have a royalty interest or are owners inside the drilling and
2 spacing unit.

3 b. The applicant's interest type in the drilling and spacing
4 unit.

5 c. The legal description of the lands and the department
6 docket number establishing the drilling and spacing unit sought
7 to be pooled.

8 d. A statement that two or more separately owned tracts or
9 separately owned interests in the drilling and spacing unit
10 have not voluntarily pooled their interests and any valid
11 pooling order for the drilling and spacing unit.

12 e. The American petroleum institute well number of the well
13 subject to the application, if requesting cost recovery or risk
14 penalties.

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

18 g. The cost recovery and risk penalties the applicant is
19 requesting, if any.

20 7. An applicant shall provide at hearing at least the
21 following:

22 a. A copy of the election letter, well proposal, and
23 authorization for expenditure sent to the owners in the
24 drilling and spacing unit.

25 b. The names and interests of all nonconsenting owners and
26 unleased nonconsenting owners in the well.

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

28 **Sec. 11. NEW SECTION. 458A.26 **Negotiation of surface****
29 **damages — appraisers, report, and exceptions — compensation**
30 **commission.**

31 1. Before entering a site that is subject to a pooling order
32 under section 458A.8, or that is within an exploratory spacing
33 unit, with heavy equipment for the purpose of drilling, an
34 operator shall negotiate with the surface owner for the payment
35 of any damages that may be caused by the drilling operation.

1 If the parties agree and execute a written contract for payment
2 of damages, the operator may enter the site to drill.

3 2. If the parties do not agree to a contract pursuant
4 to subsection 1, or if the operator is not able to contact
5 all surface owners, the operator shall petition the district
6 court in the county in which the drilling site is located
7 for appointment of appraisers to make recommendations to the
8 parties and to the court concerning the amount of damages,
9 if any. After the operator has petitioned for appointment
10 of appraisers, the operator may enter the site to drill.
11 Unless otherwise provided, an operator shall give notice of
12 the petition at least ten days prior to the appointment of
13 appraisers, to each surface owner by personal service or by
14 delivery to the surface owner's address of record with the tax
15 assessor. If a surface owner is not a resident of the state of
16 Iowa, there is no known heir, or a surface owner's whereabouts
17 cannot be ascertained, the operator shall publish notice in one
18 issue of a newspaper having general circulation in the county
19 in which the drilling site is located and the ten-day notice
20 requirement shall begin on the date of publication.

21 3. The operator shall select one appraiser, the surface
22 owners shall select one appraiser, and the two selected
23 appraisers shall select a third appraiser, for appointment by
24 the district court. All appointed appraisers shall be real
25 estate appraisers certified or registered under chapter 543D.
26 The three appraisers shall be appointed within twenty days of
27 service or publication of the notice of the petition, unless
28 the court, for good cause, allows additional time. If either
29 party fails to select an appraiser or if the two appraisers
30 cannot agree on the selection of the third, the remaining
31 required appraisers shall be appointed by the district court
32 upon application of either party. Before entering upon
33 their duties, each appraiser shall take and subscribe an oath
34 that the appraiser will perform their duties faithfully and
35 impartially to the best of their ability. The appraisers shall

1 inspect the real property and the damage that is observed or
2 expected due to entry upon the land and drilling or maintenance
3 of oil or gas wells on the land. The appraisers shall file
4 a written report within thirty days after appointment with
5 the clerk of court. The report shall set forth the acreage,
6 boundaries, and value of the property entered on or to be
7 utilized for drilling, and the amount of damage done or
8 expected. The appraisers shall make a valuation and determine
9 the amount of compensation to be paid by the operator to the
10 surface owners and the manner in which the compensation shall
11 be paid. The appraisers shall then make a report of their
12 proceedings to the court. The compensation of the appraisers
13 shall be fixed by the court. The operator and the surface
14 owners shall share equally in the payment of the appraisers'
15 fees and court costs.

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

27 b. If a surface owner has been served by publication, the
28 clerk shall forward a copy of the report of the appraisers
29 required under subsection 3 and the notice of time limits for
30 filing either an exception or a request for appointment of
31 a compensation commission to the last known mailing address
32 of each surface owner, if any, and shall cause a copy of
33 the notice of time limits to be published in one issue of a
34 newspaper qualified to publish legal notices in the county in
35 which the drilling site is located.

1 c. After issuing the notice required under this subsection,
2 the clerk shall make appropriate record of the notice and
3 service.

4 d. The time for filing an exception to the report or a
5 request for determination by a county compensation commission
6 shall commence upon the filing of the report of the appraisers
7 with the court.

8 5. Upon written exception filed with the court by a party
9 within thirty days after the filing of the report of the
10 appraisers required under subsection 3, the court shall review
11 the report. If the court finds any disputed issue warranting a
12 hearing, the court shall schedule such hearing with notice to
13 the parties. After the hearing, the court shall enter an order
14 confirming, rejecting, or modifying the report, or, upon a
15 showing of good cause, ordering a new appraisal. If the court
16 orders a new appraisal, the operator shall have a continuing
17 right of entry to the property subject to the posting of a bond
18 under section 458A.4 for the benefit of the surface owners. A
19 party may file an exception to appraisers' fees and court costs
20 that shall be subject to determination by the court.

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

1 appraisers, the operator shall be assessed the court costs and
2 reasonable attorney fees of the surface owner.

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

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

9 2. The severance tax shall be six percent of the fair market
10 value of the oil or gas upon extraction at the wellhead.

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

13 4. When ownership of oil or gas produced is shared, each
14 owner shall be responsible for payment of its proportionate
15 share of severance tax. A taxpayer paying severance tax on oil
16 or gas production may deduct the taxes paid from any royalty
17 or other amounts due or to become due to the interest owners of
18 such production, in proportion to the interest ownership, in
19 which case the person receiving the royalty or other payment
20 shall not be liable for severance tax.

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

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

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

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

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

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

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

3 (a) To construct and maintain county roads.

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

7 b. Five percent of severance tax revenue each year shall be
8 deposited in the road use tax fund established under section
9 312.1.

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

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

23 (b) The moneys deposited pursuant to this paragraph shall be
24 used to support demonstration projects in watersheds generally,
25 including regional watersheds, as designated by the division,
26 and high-priority watersheds identified by the water resources
27 coordinating council.

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

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

33 (b) The division shall implement demonstration projects
34 as provided in subparagraph division (a) by providing
35 for participation by persons who hold a legal interest in

1 agricultural land used in farming. To every extent practical,
2 the division shall provide for collaborative participation by
3 such persons who hold a legal interest in agricultural land
4 located within the same subwatershed.

5 (c) The division shall implement demonstration projects on
6 a cost-share basis as determined by the division. Except for
7 edge-of-field practices, the state's share of the amount shall
8 not exceed fifty percent of the estimated cost of establishing
9 the practice as determined by the division or fifty percent
10 of the actual cost of establishing the practice, whichever is
11 less.

12 (d) The demonstration projects shall be used to educate
13 other persons about the feasibility and value of establishing
14 similar water quality practices. The division shall promote
15 field day events for purposes of allowing interested persons to
16 establish water quality practices on such persons' agricultural
17 land.

18 (e) The division shall conduct water quality evaluations
19 within supported subwatersheds. Within a reasonable period
20 after accumulating information from such evaluations, the
21 division shall create an aggregated database of water quality
22 practices. Any information identifying a person holding a
23 legal interest in agricultural land or specific agricultural
24 land shall be a confidential record.

25 (4) The moneys deposited pursuant to this paragraph shall
26 be used to support education and outreach in a manner that
27 encourages persons who hold a legal interest in agricultural
28 land used for farming to implement water quality practices,
29 including the establishment of such practices in watersheds
30 generally, and not limited to subwatersheds or high-priority
31 watersheds.

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

35 (6) The moneys deposited pursuant to this paragraph may be

1 used by the department of agriculture and land stewardship to
2 support urban soil and water conservation efforts, which may
3 include but are not limited to management practices related to
4 bioretention, landscaping, the use of permeable or pervious
5 pavement, and soil quality restoration. The moneys shall be
6 allocated on a cost-share basis as provided in [chapter 161A](#).

7 (7) Notwithstanding any other provision of law to the
8 contrary, the department of agriculture and land stewardship
9 may use moneys deposited pursuant to this paragraph to carry
10 out the provisions of this paragraph on a cost-share basis
11 in combination with other moneys available to the department
12 of agriculture and land stewardship from a state or federal
13 source.

14 (8) Not more than ten percent of the moneys deposited
15 pursuant to this paragraph may be used for costs of
16 administration and implementation of the water quality
17 initiative administered by the division.

18 *d.* Seventy and one-tenth percent of severance tax revenue
19 each year shall be deposited in the taxpayer relief fund
20 established under section 8.57E.

21 *e.* Distributions to the counties and to the funds under
22 this subsection shall be made quarterly in an amount equal
23 to one-fourth of the estimate of annual total severance tax
24 revenues estimated for the current fiscal year by the revenue
25 estimating committee. The share for producing counties shall
26 be calculated using county production data from the prior
27 fiscal year's severance tax returns.

28 2. By September 15 of each year, the department of
29 revenue shall report actual earnings for the months of
30 the preceding fiscal year for which estimates were used in
31 computing distributions. The department of revenue shall make
32 adjustments to distributions during the current fiscal year in
33 an amount equal to the difference between revenues earned and
34 actual distributions for the preceding fiscal year.

35 3. For purposes of this section, "*division*" means the

1 division of soil conservation and water quality created within
2 the department of agriculture and land stewardship pursuant to
3 section 159.5.

4 Sec. 14. NEW SECTION. **458A.29 Administration**
5 **confidentiality.**

6 1. The department of revenue shall annually value and
7 assess oil or gas production for taxation, in appropriate unit
8 measures, at the fair market value of the product, after the
9 mining is completed or the oil or gas is extracted at the
10 wellhead.

11 2. Annually, on or before June 1, or as soon thereafter
12 as the fair market value is determined under subsection 1,
13 the department of revenue shall certify the valuation of the
14 product to the county assessor of the county from which the oil
15 or gas was produced, and such valuation shall be entered upon
16 the assessment rolls of the county.

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

20 a. All taxpayer returns and return information shall be
21 confidential and, except as authorized below, no current or
22 former official, officer, employee, or agent of the state or
23 any political subdivision thereof shall disclose any such
24 information obtained in the course of service as an official,
25 officer, employee, or agent. Taxpayer returns and return
26 information shall include without limitation all statements,
27 reports, summaries, and all other data and documents under
28 audit or provided by the taxpayer in accordance with the
29 provisions of this chapter regarding severance tax.

30 b. Without written authorization from the taxpayer, no
31 current or former official, officer, employee, or agent of
32 the state or any political subdivision thereof shall release
33 taxpayer returns and return information pertaining to taxes
34 imposed by this chapter, except for any of the following
35 reasons:

1 (1) Information may be released to employees of the
2 department of revenue and employees of the department of
3 justice for official purposes.

4 (2) Upon prior notice to the taxpayer, information may
5 be released by the department of revenue, upon written
6 application, to any other governmental entity if the entity
7 shows sufficient reason to obtain the information for official
8 business, subject to execution of a confidentiality agreement.

9 (3) Information shall be admissible in court or
10 administrative proceedings related to the severance tax or
11 other taxes on oil or gas production or on income of producers
12 or owners, or royalties.

13 c. Units of production reported by the taxpayer and the
14 taxpayer's taxable value are not confidential and may be
15 released.

16 4. Violations of this section shall be subject to the same
17 prohibitions and penalties that apply to other violations of
18 confidentiality requirements applicable to data and records
19 in the custody of the department of revenue for purposes of
20 carrying out its duties.

21 Sec. 15. NEW SECTION. 458A.30 **Exclusive jurisdiction and**
22 **express preemption.**

23 1. For purposes of this section:

24 a. "*Commercially reasonable*" means a condition that would
25 allow a reasonably prudent operator to fully, effectively, and
26 economically exploit, develop, produce, process, and transport
27 oil and gas, as determined based on the objective standard of
28 a reasonably prudent operator and not on an individualized
29 assessment of an actual operator's capacity to act.

30 b. "*Oil and gas operation*" means an activity associated
31 with the exploration, development, production, processing,
32 and transportation of oil and gas, including drilling,
33 testing, geological sampling, boring, excavation, hydraulic
34 fracture stimulation, completion, maintenance, reworking,
35 recompletion, disposal, plugging and abandonment, secondary and

1 tertiary recovery, geophysical surveys related to oil and gas
2 development, and remediation activities.

3 2. An oil and gas operation is subject to the exclusive
4 jurisdiction of this state. Except as provided in subsection
5 3, a county, city, or other political subdivision shall not
6 enact or enforce an ordinance or other measure, or an amendment
7 or revision of an ordinance or other measure, that bans,
8 limits, or otherwise regulates an oil and gas operation within
9 the boundaries or jurisdiction of the respective county, city,
10 or political subdivision.

11 3. The authority of a county, city, or other political
12 subdivision to regulate an oil and gas operation is expressly
13 preempted, except that a county or city may enact, amend, or
14 enforce an ordinance or other measure if the ordinance or other
15 measure does all of the following:

16 a. Only regulates activity related to an oil and gas
17 operation that occurs at or above the surface of the ground
18 and concerns governing fire and emergency response, traffic,
19 lights, or noise, or imposes notice or reasonable setback
20 requirements.

21 b. (1) Is commercially reasonable.

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

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

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

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

30 EXPLANATION

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

33 This bill relates to oil and gas production, including
34 filing requirements, the authority of the department of
35 natural resources (department), confidential information,

1 pooling orders, negotiation of surface damage, imposition and
2 distribution of a tax, and jurisdiction.

3 The bill provides the director of the department the
4 authority to require yearly filings from every person acting as
5 a principal or agent for another or independently engaged in
6 the production, storage, transportation, except by railroad,
7 refining, reclaiming, treating, marketing, or processing of
8 oil or gas, or engaged in the exploration for or production of
9 metallic minerals that includes names, contact information, and
10 certain organizational details.

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

18 The bill allows an owner to make information submitted to
19 the department confidential for five years, unless otherwise
20 extended by the director for good cause. The bill provides
21 procedures to make information confidential and includes
22 examples of types of information that may be determined
23 confidential.

24 The bill allows the department to establish an exploratory
25 spacing unit to drill one or more exploratory wells to
26 establish the existence of a pool and the appropriate size and
27 shape of the spacing unit if it is unable to determine the
28 existence of a pool and the appropriate acreage and shape to be
29 embraced within a spacing unit based on the evidence introduced
30 at hearing.

31 Under current law, in the absence of voluntary pooling, the
32 director must enter an order pooling all interests upon the
33 application of an interested person. The bill requires the
34 application be submitted by the owner or owners of at least 25
35 percent of the area of the spacing unit.

1 The bill requires each pooling order to provide for the
2 drilling and operation of a well in the spacing unit and
3 for payment of the cost incurred. The bill authorizes
4 the director to ensure the producers are entitled to all
5 production from the well after payment of royalties and other
6 obligations. The bill requires the director to determine costs
7 if there is a dispute. The bill provides that the pooling
8 order must determine the interest of each owner in the unit,
9 including the owner's share of the costs, unless otherwise
10 agreed, and entitles the owners the share of production of
11 the well applicable to the tract of the nonconsenting owner,
12 subject to royalties and other obligations. Owners who do
13 not agree to the pooling order are entitled to a share of
14 the production applicable to the owner's interest after the
15 producer has recovered a certain amount specified in the bill,
16 which includes costs attributed to newly acquired surface
17 equipment beyond the wellhead connections, operation, drilling,
18 reworking, deepening or plugging back, testing, and completing,
19 and newly acquired equipment in the well, up to and including
20 the wellhead connections.

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

27 After the producer has fully recovered costs as described
28 in the bill, the producer must send a notice within 30 days to
29 any nonconsenting owner to offer participation as a working
30 interest owner under the pooling order. The nonparticipating
31 owner has 60 days after receipt of the notice to accept
32 the offer or may elect to continue receiving the default
33 royalty. If the nonparticipating owner does not respond,
34 the nonparticipating owner will be deemed to have elected to
35 continue receiving the default royalty. The producer must

1 inform the director of the nonparticipating owner's decision
2 within five business days of receiving an answer or the
3 expiration of time allowed to respond.

4 The bill provides minimum requirements for an application
5 for compulsory pooling and any associated hearing.

6 The bill requires an operator to negotiate with the surface
7 owner for payment of damages caused by drilling operations
8 prior to entering a drilling site with heavy equipment that is
9 subject to a pooling order or within an exploratory spacing
10 unit. If the parties execute a written agreement, the operator
11 may enter the site. If the parties do not reach an agreement
12 or the operator cannot contact all of the surface owners, the
13 bill requires the operator to petition the district court
14 for appointment of licensed real estate appraisers to assess
15 damages. After filing the petition, the bill allows the
16 operator to enter the site to drill. The bill establishes
17 notice requirements to surface owners, including personal
18 service or publication, if necessary.

19 The bill provides that one appraiser is selected by the
20 operator, one by the surface owners, and a third by the other
21 selected appraisers, subject to court appointment, and provides
22 appointment procedures. The bill requires the appraisers to
23 inspect the property and file a report with the court within 30
24 days that includes the acreage, boundaries, and value of the
25 property entered on or to be utilized for drilling, and the
26 amount of damage done or expected. The appraisers shall make
27 a valuation and recommended compensation. The bill provides
28 that compensation of the appraisers is fixed by the court, with
29 costs shared equally between the operator and surface owners.

30 The bill establishes procedures for providing notice of the
31 appraisers' report and for filing exceptions. The bill allows
32 a party to file an exception with the court within 30 days
33 after the report is filed, and the court may confirm, reject,
34 modify, or order a new appraisal after a hearing. The bill
35 also allows a party to request a determination of damages by

1 a county compensation commission within 60 days. The bill
2 provides that court costs and reasonable attorney fees shall
3 be assessed against a party depending on whether the final
4 award exceeds or is less than the amount recommended in the
5 appraisers' report.

6 The bill levies a severance tax on oil and gas production in
7 this state. The bill sets the tax at a rate of 6 percent of
8 the fair market value of the oil or gas upon extraction at the
9 wellhead and provides that expenses incurred prior to valuation
10 are not deductible. When ownership is shared, each owner
11 is responsible for a proportionate share of the tax, and a
12 taxpayer paying the tax may deduct the amount from the royalty
13 or other payments due to other interest owners. The bill
14 allows the department of revenue to adopt rules to administer
15 the tax.

16 The bill provides for the distribution of severance tax
17 revenues. A portion of the revenues shall be distributed
18 to counties based on population and to counties based on
19 production, which distributions must be used to construct
20 and maintain county roads or offset property taxes. The
21 bill also provides for distributions to the road use tax
22 fund, the environment first fund for support of water quality
23 projects, and the taxpayer relief fund. The bill requires
24 distributions to be made quarterly based on revenue estimates,
25 with subsequent adjustments as needed.

26 The bill provides for administration of the severance tax
27 by the department of revenue, including annual valuation and
28 certification of oil and gas production to county assessors.
29 The bill establishes confidentiality requirements for taxpayer
30 information, including returns and return information, with
31 certain exceptions allowing disclosure to specified government
32 entities in identified instances. The bill also provides that
33 units of production and taxable value are not confidential
34 and may be released, and that violations of confidentiality
35 requirements are subject to existing penalties.

1 The bill provides that oil and gas operation is subject
2 to the exclusive jurisdiction of this state. Except for
3 certain exceptions, the bill prohibits a county, city, or other
4 political subdivision from enacting or enforcing any ordinance
5 or other measure that bans, limits, or otherwise regulates oil
6 and gas operation within its jurisdiction.

7 The bill establishes a limited exception allowing a county
8 or city to enact or enforce an ordinance regulating activities
9 of an oil and gas operation that occurs at or above the surface
10 of the ground and concerns fire and emergency response,
11 traffic, lighting, noise, notice requirements, or reasonable
12 setbacks. The bill provides that such ordinance must be
13 commercially reasonable, must not effectively prohibit oil and
14 gas operation conducted by a reasonably prudent operator, and
15 must not otherwise be preempted by state or federal law.

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

20 Under current law, the department has the authority to
21 determine market demand for oil and gas for each marketing
22 district and to regulate the amount of production. The bill
23 eliminates this authority from the department.