

CHAPTER 1141

OIL, GAS, AND MINERAL PRODUCTION — FILING REQUIREMENTS, CONFIDENTIAL INFORMATION, POOLING ORDERS, PERMISSION FOR ENTRY, SURFACE DAMAGE, SEVERANCE TAXES, AND WATER QUALITY PROJECT FUNDING

S.F. 2490

AN ACT relating to oil and gas production, including filing requirements, the authority of the department of natural resources, confidential information, pooling orders, negotiation of surface damage, imposition and distribution of a tax, and jurisdiction, and providing civil penalties.

Be It Enacted by the General Assembly of the State of Iowa:

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

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

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

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

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

NEW SUBSECTION. 01. “*Casing*” means the practice of providing structural integrity, stability for unstable geologic formations, and formation isolation, allowing for pressure control via blowout preventer equipment, and allowing for flowback if applicable.

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

NEW SUBSECTION. 5A. “*Exploratory well*” means a well drilled beyond the known producing limits of a pool.

NEW SUBSECTION. 20A. “*Well log*” means a record of geologic formations penetrated by the borehole with respect to both time and depth during drilling operations.

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

NEW PARAGRAPH. 0b. Every person acting as a principal or agent for another or independently engaged in the production, storage, transportation, except by railroad, refining, reclaiming, treating, marketing, or processing of oil or gas, or engaged in the exploration for or production of metallic minerals to file the following with the department on or before April 1 of each year:

- (1) The name under which the business is being operated.
- (2) The name and contact information of the person, business, or businesses engaged in the activity.
- (3) The plan of organization.
- (4) For a corporation, the following filings apply:
 - (a) The law under which the corporation is chartered.
 - (b) The names and contact information for any person acting as a trustee.
 - (c) The names of the manager, agent, or executive.
 - (d) The names and contact information of all officers.
 - (5) The names and contact information of all owners if the business is conducted under an assumed name.

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

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

Sec. 6. Section 458A.4, Code 2026, is amended by adding the following new subsection:
NEW SUBSECTION. 4A. To allow for variances to any of the department's rules, regulations, or orders. A variance shall be granted in writing by the director without a hearing upon written request of an owner or applicant. The owner or the applicant requesting the variance shall demonstrate that it has made a good faith effort to comply or is unable to comply with the specific requirements contained in the rules, regulations, or orders from which it seeks a variance, and that the requested variance will not violate the basic intent of this chapter. Upon proper submission to the director, the director shall approve or deny the variance request within fourteen days of receipt. The director shall report any variance granted at the subsequent hearing or otherwise make public any variance granted.

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

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

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

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

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

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

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

NEW SUBSECTION. 5. If the department is unable to determine the existence of a pool and the appropriate acreage to be embraced within a spacing unit and the shape thereof based on the evidence introduced at hearing, the department may establish an exploratory spacing unit for the purpose of drilling one or more exploratory wells in order to establish the existence of a pool and the appropriate size and shape of the spacing unit to be applied for future development of the pool. In establishing the size and shape of the exploratory spacing unit, the department may consider the size and shape of spacing units established by the department for the same pool or formation in other areas, the size and shape of units for similar development in other basins, reservoir modeling or other preliminary data on the pool or formation, and any other information the department deems relevant.

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

458A.8 Integration of fractional tracts.

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

2. ~~Each pooling order shall make provision for the drilling and operation of a well on the spacing unit, and for the payment of the reasonable actual cost of the well by the owners of interests in the spacing unit, plus a reasonable charge for supervision. In the event of any dispute as to such costs, the department shall determine the proper costs. If an owner shall drill and operate, or pay the expenses of drilling and operating the well for the benefit of others, then, the owner so drilling or operating shall, upon complying with the terms of section 458A.10, have a lien on the share of production from the spacing unit accruing to the interest of each of the other owners for the payment of a proportionate share of the expenses. All the oil and gas subject to the lien shall be marketed and sold and the proceeds applied in payment of the expenses secured by the lien as provided for in section 458A.10.~~

2. In the absence of voluntary pooling pursuant to subsection 1, and only if the producer has identified pools of existing natural hydrogen within the spacing unit, the director, upon the application by the owner or owners of not less than twenty-five percent of the area of the spacing unit, shall enter an order pooling all interests in the spacing unit for the development and operation thereof. Any such pooling order may authorize cost recovery and risk penalties against nonconsenting owners for a specific well. Each such pooling order shall be made after notice and hearing and with terms and conditions that are just and reasonable. Operations incident to the drilling of a well upon any portion of a spacing unit covered by a pooling order shall be deemed for all purposes to be the conduct of such operations upon each separately owned tract in the unit by the several owners thereof. When produced, that portion of the production allocated or applicable to each tract included in a unit covered by a pooling order shall be deemed for all purposes to have been produced from such tract by a well drilled thereon.

3. Each pooling order shall provide for the drilling and operation of a well in the spacing unit, and for the payment of the cost thereof, as provided in this subsection. The director is specifically authorized to provide that the producer shall be entitled to all production from the well that would be received by the owner or owners, for whose benefit the well was drilled or operated, after payment of royalty as provided in the lease,

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Sec. 11. NEW SECTION. 458A.26 Permission to enter site — negotiation of surface damages.

1. Before entering a site that is subject to a pooling order under section 458A.8, or that is within an exploratory spacing unit, for purposes of an oil and gas operation, an operator shall receive written permission from the surface owner to enter the site. If the surface owner does not grant written permission to the operator to enter the site, the operator shall not enter the site for purposes of an oil and gas operation.

2. *a.* Before entering a site that is subject to a pooling order under section 458A.8, or that is within an exploratory spacing unit, with heavy equipment for the purpose of drilling, an operator shall negotiate with the surface owner for the payment of any damages that may be caused by the drilling operation. If the parties agree and execute a written contract for payment of damages, the operator may enter the site to drill. If the parties do not reach an agreement for payment of damages, the operator shall not enter the site to drill.

b. Before entering into a negotiation under paragraph “a”, the operator shall provide a written description of the opt-out procedure described in paragraph “c”.

c. A surface owner may decline further communication with an operator concerning a possible agreement for the payment of any damage that may be caused by the drilling operation by providing verbal or written notice to the operator that states that the surface owner does not wish to discuss the matter further, and by submitting to the attorney general notice through mail or electronic means stating the same. Upon receipt of such notice from the surface owner, the attorney general shall forward a copy to the operator.

d. After receipt of notice from the surface owner pursuant to paragraph “c”, the operator shall not initiate further contact with the surface owner for purposes of an agreement for the payment of any damages that may be caused by the drilling operation, except that the operator shall continue to provide the surface owner with notices otherwise required by law. The surface owner may rescind such refusal by contacting the operator and notifying the attorney general through mail or electronic means. Unless the surface owner rescinds the refusal, the surface owner’s land shall be deemed unavailable for an agreement.

e. An operator violating the contact prohibition in paragraph “d” is subject to a civil penalty of not less than ten thousand dollars for each violation.

3. For purposes of this section, “oil and gas operation” means the same as defined in section 458A.30.

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

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

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

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

4. When ownership of oil or gas produced is shared, each owner shall be responsible for payment of its proportionate share of severance tax. A taxpayer paying severance tax on oil or gas production may deduct the taxes paid from any royalty or other amounts due or to become due to the interest owners of such production, in proportion to the interest

ownership, in which case the person receiving the royalty or other payment shall not be liable for severance tax.

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

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

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

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

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

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

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

(a) To construct and maintain county roads.

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

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

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

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

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

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

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

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

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

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

(e) The division shall conduct water quality evaluations within supported subwatersheds. Within a reasonable period after accumulating information from such evaluations, the division shall create an aggregated database of water quality practices. Any information identifying a person holding a legal interest in agricultural land or

specific agricultural land shall be a confidential record.

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

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

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

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

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

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

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

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

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

Sec. 14. NEW SECTION. 458A.29 Administration confidentiality.

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

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

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

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

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

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

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

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

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

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

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

1. For purposes of this section:

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

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

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

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

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

b. (1) Is commercially reasonable.

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

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

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

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

Approved June 1, 2026