

2013 SENATE NATURAL RESOURCES

SB 2029

2013 SENATE STANDING COMMITTEE MINUTES

Senate Natural Resources Committee Fort Lincoln Room, State Capitol

SB 2029
January 10, 2013
17082

Conference Committee



Explanation or reason for introduction of bill/resolution:

Relating to oil and gas research fund deposits; to provide for a value-added market opportunities for oil and gas study; to provide a statement of legislative intent; and to provide an appropriation.

Minutes:

Written testimony attached

All committee members were present.

Chairman Lyson opened the hearing for SB 2029.

Tim Dawson from Legislative Council introduced the bill. He staffed the Energy Development and Transmission Committee. He explained that the 10 million dollars mentioned in Section 1 of the bill is an increase of 6 million dollars from last biennium when it was 4 million. See attached testimony #1.

Alan Anderson, the Commissioner of the Department of Commerce and chairman of the EmPower North Dakota Commission, spoke in favor of the bill. See attached testimony #2.

Senator Triplett asked whether the study that is mentioned in the bill is to be a formal study or an informal study.

Alan responded that it is less formal and an ongoing process of determining what would add the most value for our state.

Senator Triplett asked about the interrelationship of the programs that are available.

Alan explained that they are in those programs and that the programs offer matches, but it is hard to get a private sector participant to cooperate with this program. They do not want to share it. They may not be as interested in finding out what is most beneficial to the state.

Senator Triplett asked again if this was to be a formal study with a formal report when it was completed or an informal process of ferreting out what was the most beneficial.

Alan stated it would be a formal study with recommendations of what would be the most competitive markets we as a state could pursue.

Ron Ness, president of the ND Petroleum Council and a member of the ND EmPower Commission, spoke in favor of the bill. This bill has generated the most debate of any bill in the last 2 years. Liquid natural gas, and the resulting ethane, butane, and their derivatives such as plastics, etc. are one example of value added energy we need to consider. We need to take a look at the language in the bill. I think the drafters of the bill intended to make it up to 5 million dollars additional money into the fund not solely targeted under any program for value-added natural gas. The oil and gas research council started out with \$50,000.00. 1% of the state share of the oil and gas tax revenues is currently up to 4 million dollars. If we can get 1% more oil out of each well we drill, it is almost 2 billion barrels of oil in the long haul. That is done without any additional footprint on the environment. Most of the major oil companies have shelved their research entities over the past two decades. We are using EERC primarily to discover how we can recover more oil. It is also being used to take the drill cuttings and use them for aggregate for the pads or land farming. That is a project that is going to require probably NDSU Extension Agency to help along with the real world application provided by the oil industry. How do we continue to find a solution to flares, waste water, and dust? How do we catch up with the infrastructure? All of these issues we have to consider how to do it now and how to do it right. We are putting our dollars along with EERC to help come up with solutions. That is what this bill is all about. The study is critical. See attached testimony #3.

David Stralig with North American Coal and the Lignite Energy Council and the EmPower ND Commission spoke in support of the bill.

Deana Wiese, Executive Director of the ND Ethanol Producers Association and member of the ND Ethanol Council, spoke in support of SB 2029. Both the renewable energy study and the oil and gas study complement each other and work together to identify the most promising value-added opportunities for ND.

In Favor: no one else

Senator Triplett mentioned there was a reference to having Karlene Fine do some language changes and asked if she could take the microphone.

Karlene Fine, Executive Director of ND Industrial Commission, asked if she could have some time to work with the EmPower ND Commission to work on the language.

Senator Triplett asked what the bases for the concerns are.

Karlene Fine mentioned the discussion about the "not to exceed 5 million dollars" and there was also a question about if they didn't get a project in that fit into the category could they use it for other projects. Would those dollars then sit idle?

Chairman Lyson asked if the changes would be better handled in the Appropriations Committee.

Karlene said this is more a matter of policy and would be better dealt with in this committee.

Senator Triplett asked for a rough overview of how the 4 million dollars had been spent in the last 2 years.

Karlene deferred the question to Brent.

Brent Brannan, Director of the Oil and Gas Research Council, has been with the oil and gas research program for the last three years. In the last few years the majority of the projects were natural gas capture projects. Over three million dollars was spent on that alone. The other expenditures included enhanced oil recovery projects, CO₂ as the second phase of the oil recovery process, education and safety initiatives, oil extraction efficiency, and working with the EERC (Energy and Environmental Research Center). See attached testimony #4.

In Opposition: None

Neutral: None

Chairman Lyson commented that they would hold all three of the bills on this issue until they had a chance to consider amendments.

Chairman Lyson closed the hearing on SB 2029.

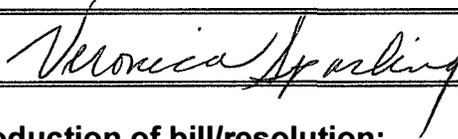
2013 SENATE STANDING COMMITTEE MINUTES

Senate Natural Resources Committee Fort Lincoln Room, State Capitol

SB 2029
January 17, 2013
17350

Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

Relating to oil and gas research fund deposits; to provide for a value-added market opportunities for oil and gas study; to provide a statement of legislative intent; and to provide an appropriation

Minutes:

Written attachment

All committee members were present.

Chairman Lyson opened the discussion on SB 2029 by asking the committee to consider the amendment suggested by Karlene Fine. See Attachment #1.

Senator Triplett mentioned there may be a grammatical error. The word "gives" should possibly be "give". She mentioned that Legislative Council will attend to that.

Senator Unruh made a motion to accept the amendment.

Senator Triplett seconded the motion.

Senator Laffen questioned why this \$5,000,000.00 limit was being removed, and with the limit being removed he questioned whether we knew how much money would be available to spend. If they put ten million into the fund, then why is there a cap at 5 million?

Senator Triplett responded by saying they are moving away from strict oil and gas research, as in how to bring the oil up from the ground to wanting some money for doing value-added research. The first draft set a limit at 5 million. Their preference is to give themselves more flexibility.

Voice vote to accept the amendment was unanimous.

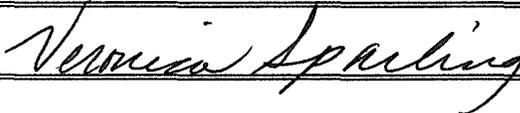
2013 SENATE STANDING COMMITTEE MINUTES

Senate Natural Resources Committee
Fort Lincoln Room, State Capitol

SB 2029
January 24, 2013
17683

Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

Relating to oil and gas research fund deposits; to provide for a value-added market opportunities for oil and gas study

Minutes:

No written testimony

Chairman Lyson opened the discussion on SB 2029.

There was a discussion about whether the final draft of the bill with an amendment could be presented to the committee in the mocked up form when an amendment has been passed but before the bill itself has been passed. It seems to the committee it is a programming glitch that needs to be fixed.

Senator Hogue mentioned that part of what legislative council does is review any other cross references in the code so if a section gets repealed the references to that section are also taken out.

The committee discussed that they feel uncomfortable voting on something before it is in its final form. Chairman Lyson will discuss the issue with someone from Legislative Council.

Chairman Lyson closed the discussion of SB 2029.

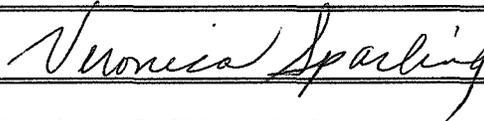
2013 SENATE STANDING COMMITTEE MINUTES

Senate Natural Resources Committee
Fort Lincoln Room, State Capitol

SB 2029
January 25, 2013
17734

Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

Relating to oil and gas research fund deposits; to provide for a value-added market opportunities for oil and gas study

Minutes:

No written testimony

Chairman Lyson opened the discussion of SB 2029.

Chairman Lyson explained that Legislative Council will not change the meaning of the amendments. If they do, they will let the committee know. If it refers back to a different part of the Century Code, that will also appear on there.

Senator Triplett made a motion Do Pass as Amended and Re-refer to Appropriations.

Senator Laffen seconded the motion.

Roll Call Vote: 7, 0, 0

Carrier: Senator Laffen

FISCAL NOTE
Requested by Legislative Council
12/19/2012

Revised
 Bill/Resolution No.: SB 2029

- 1 A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2011-2013 Biennium		2013-2015 Biennium		2015-2017 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues				\$0		
Expenditures						
Appropriations			\$300,000			

- 1 B. **County, city, school district and township fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

	2011-2013 Biennium	2013-2015 Biennium	2015-2017 Biennium
Counties			
Cities			
School Districts			
Townships			

- 2 A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

SB 2029 increases the amount of oil and gas tax revenue that is deposited in the oil and gas research fund.

- B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

Section 1 of SB 2029 increases from \$4 million to \$10 million the amount of revenue deposited in the oil and gas research fund each biennium. If SB 2029 is enacted, there will be a \$6 million increase in revenues in the oil and gas research fund and a corresponding \$6 million decrease in revenues in the strategic investment and improvements fund in the 2013-15 biennium. Both of these are "other funds" and cancel out in the boxes in 1A above.

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

- A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*
- B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*
- C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*

Section 4 contains a \$300,000 appropriation from the state general fund to the department of commerce for conducting a study to evaluate value-added market opportunities for oil and gas.

Name: Kathryn Strombeck

Agency: Office of Tax Commissioner

Telephone: 328-3402

Date Prepared: 01/03/2013

13.0158.03001
Title.04000

Adopted by the Natural Resources Committee

January 25, 2013

VR
1/25/13

PROPOSED AMENDMENTS TO SENATE BILL NO. 2029

Page 2, line 2, remove "an amount not to exceed \$5,000,000 of the funds available in the"

Page 2, line 3, remove "oil and gas research fund be used by"

Page 2, line 3, replace "for opportunities related" with "give special emphasis"

Page 2, line 4, after "gas" insert "projects in the awarding of funds from the oil and gas research fund"

Re-number accordingly

Date: 1-17-13
Roll Call Vote #: 1

2013 SENATE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 2029

Senate Natural Resources Committee

Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken: Do Pass Do Not Pass Amended Adopt Amendment
 Rerefer to Appropriations Reconsider

Motion Made By Unruh Seconded By Triplett

Senators	Yes	No	Senators	Yes	No
Senator Lyson			Senator Triplett		
Senator Burckhard			Senator Murphy		
Senator Hogue					
Senator Laffen					
Senator Unruh					

Total (Yes) 7 No 0

Absent 0

Floor Assignment _____

If the vote is on an amendment, briefly indicate intent:

*voice vote aye
unanimous*

Date: 1-25-13
Roll Call Vote #: 1

2013 SENATE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 2029

Senate Natural Resources Committee

Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken: Do Pass Do Not Pass Amended Adopt Amendment
 Rerefer to Appropriations Reconsider

Motion Made By Triplett Seconded By Laffen

Senators	Yes	No	Senators	Yes	No
Senator Lyson	✓		Senator Triplett	✓	
Senator Burckhard	✓		Senator Murphy	✓	
Senator Hogue	✓				
Senator Laffen	✓				
Senator Unruh	✓				

Total (Yes) ~~3~~ 7 No ~~3~~ 0

Absent ~~3~~ 0

Floor Assignment Laffen

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

SB 2029: Natural Resources Committee (Sen. Lyson, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** and **BE REREFERRED** to the **Appropriations Committee** (7 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). SB 2029 was placed on the Sixth order on the calendar.

Page 2, line 2, remove "an amount not to exceed \$5,000,000 of the funds available in the"

Page 2, line 3, remove "oil and gas research fund be used by"

Page 2, line 3, replace "for opportunities related" with "give special emphasis"

Page 2, line 4, after "gas" insert "projects in the awarding of funds from the oil and gas research fund"

Renumber accordingly

2013 SENATE APPROPRIATIONS

SB 2029

2013 SENATE STANDING COMMITTEE MINUTES

Senate Appropriations Committee Harvest Room, State Capitol

SB 2029
02-04-2013
Job # 18224

Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

A BILL for an Act to amend and reenact NDCC relating to oil and gas research fund deposits; to provide for a value-added market opportunities for oil and gas study; to provide a statement of legislative intent; and to provide an appropriation.

Minutes:

See attached testimony

Chairman Holmberg called the committee to order on Monday, February 04, 2013 at 2:00 pm in regards to SB 2029. All committee members were present except Senator Robinson. Adam Mathiak from Legislative Council and Laney Herauf and Sheila Peterson from OMB were also present.

Tim Dawson, Legislative Council, explained SB 2029. The bill does three things: It increased the oil and gas research fund from 4 million to 10 million; it provides a department of commerce study of value added market opportunities for oil and gas and provides a \$300,000 appropriation for the study; and it provides for legislative intent that the focus for value added processing of oil and gas projects funded by the Industrial Commission through the oil and gas research fund. In other words, the legislative intent says focus on these sorts of things that are being studied. He explained the bill by sections.

Vice Chairman Bowman asked how they came up with the amount of 10 million.

Tim Dawson said that when it was introduced the EmPower commission asked for 1 million dollars more but the committee increased it to 10 million after a visit to the EERC and the EERC's testimony that this sort of investment provided great returns.

Chairman Holmberg said that they are looking at an engrossed version of the Bill.

Al Anderson, Commissioner of North Dakota Department of Commerce and chairman of EmPower North Dakota Commission, testified in support of SB 2029.

Written testimony #1

Vice Chairman Bowman asked what they did to aid the companies like CHS in Spiritwood in making that decision. He asked where there share of the 10 million dollars was going.

Al Anderson replied that they will be doing more with smaller programs and not as much with CHS. Part of what got into the discussions with CHS and other players was just an understanding of what possible opportunities might exist for that natural gas; ERC did an earlier scoping study on what we might be able to do with excess gas. In that study they started to identify possibilities for the excess natural gas and one of the possibilities was a nitrogen fertilizer plant. That information's helps in the communication of what some of the opportunities are. More specific, that 10 million could be used for projects like testing out new electrical generation from our flared gas, reduce flaring there, smaller fertilizer plants. It's all along the same model where you are trying to get more finished products.

Vice Chairman Bowman asked if they tried to reach potential people willing to relocate in ND. The big advantage of what we are seeing now is the possibility of tremendous things happening with energy down the road.

Al Anderson said that is why we were looking for the additional money for the study portion. The reason we look at that is so that commerce has a better understanding of what is more likely to tie in that ND could be very competitive on these different products. This information will allow them to get into discussion with companies.

Al Anderson continued reading his testimony.

Senator Krebsbach asked if there was a reason why we are looking at general fund money rather than from the oil and gas research fund to do the study in SB 2029 and funds from the oil extraction tax for SB 2027.

Al Anderson replied yes there is. With the oil and gas research council they require matching dollars. The reason we look at general funds is that we are looking for more of a study where we would focus on value adding,

Senator Holmberg named a subcommittee: Senator Carlisle, Chairman Holmberg and Senator O'Connell.

(18:00) **Randy Schneider**, President of the North Dakota Ethanol Producers Association, testified in support of SB 2029. He truly believes that we are about to embark on the building of North Dakotas new economy. That \$300,000 market study will allow this and point us in the right direction. He explained the shortage of the petro chemical propylene and explained what can be done with it. Imagine the possibility of taking every piece of natural gas and creating that chemical industry, creating that manufacturing in towns all across ND, I believe that possibility truly exists.

Senator Carlisle asked why SB 2027 and SB 2029 couldn't be together. The end result is more value added.

Randy Schneider replied that they are separate because they represent two different industries. There will be advantages as they develop this market study, to collaborate.

Senator Mathern asked what was impeding the private market from doing this?

Randy Schneider replied, History. Industry revolves around Houston, TX and we need to share with the world that ND can build a Houston of the north because we have the raw material.

Senator Mathern why would the private industry not be as visionary as you?

Randy Schneider said that it is a significant investments and the market study would show the world that ND is a viable alternative to building a new facility. Part of it is education and proving we can do it.

No opposing testimony

No neutral testimony

Vice Chairman Grindberg closed the hearing on SB 2029.

2013 SENATE STANDING COMMITTEE MINUTES

Senate Appropriations Committee
Harvest Room, State Capitol

SB 2029
February 18, 2013
Job # 19089

Conference Committee

Committee Clerk Signature

Rose Lanning

Explanation or reason for introduction of bill/resolution:

A BILL for an Act to amend and reenact NDCC relating to oil and gas research fund deposits; to provide for a value-added market opportunities for oil and gas study; to provide a statement of legislative intent; and to provide an appropriation.

Minutes:

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Chairman Holmberg opened the hearing on SB 2029.

Senator Carlisle moved Do Not Pass on SB 2029 which is the companion bill that's being rolled into SB 2014.

Senator Wanzek seconded the motion.

A roll call vote was taken. Yea: 11 Nay: 2 Absent: 0
Senator Holmberg will carry the bill on the floor.

FISCAL NOTE
Requested by Legislative Council
12/19/2012

Revised
 Bill/Resolution No.: SB 2029

- 1 A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

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Expenditures						
Appropriations			\$300,000			

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Cities			
School Districts			
Townships			

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- C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*

Section 4 contains a \$300,000 appropriation from the state general fund to the department of commerce for conducting a study to evaluate value-added market opportunities for oil and gas.

Name: Kathryn Strombeck

Agency: Office of Tax Commissioner

Telephone: 328-3402

Date Prepared: 01/03/2013

Date: 2-18-13

Roll Call Vote # 1

2013 SENATE STANDING COMMITTEE
ROLL CALL VOTES

BILL/RESOLUTION NO. 2029

Senate Appropriations Committee

Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken Do Not Pass

Motion Made By Carlisle Seconded By Wanzek

Senators	Yes	No	Senator	Yes	No
Chairman Ray Holmberg	✓		Senator Tim Mathern		✓
Co-Vice Chairman Bill Bowman	✓		Senator David O'Connell		✓
Co-Vice Chair Tony Grindberg	✓		Senator Larry Robinson	✓	
Senator Ralph Kilzer	✓		Senator John Warner	✓	
Senator Karen Krebsbach	✓				
Senator Robert Erbele	✓				
Senator Terry Wanzek	✓				
Senator Ron Carlisle	✓				
Senator Gary Lee	✓				

Total (Yes) 11 No 2

Absent _____

Floor Assignment Holmberg

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

SB 2029, as engrossed: Appropriations Committee (Sen. Holmberg, Chairman)
recommends **DO NOT PASS** (11 YEAS, 2 NAYS, 0 ABSENT AND NOT VOTING).
Engrossed SB 2029 was placed on the Eleventh order on the calendar.

2013 TESTIMONY

SB 2029

A main focus of the Energy Policy Commission is research and development. Oil and gas and lignite have permanent funding, and this bill draft would provide for the same permanent funding for renewable energy research and development. Traditionally, the renewable energy development fund has been funded in the amount of \$3 million but not permanently. Private dollar match is needed to use the money in the fund. It was argued whenever there is a public and private partnership, there is due diligence because of the matching funds from industry.

Employment Data Appropriation Bill Draft

The committee considered a bill draft to provide a general fund appropriation of \$100,000 to Job Service North Dakota for the purpose of upgrading collection and use of employment data to identify transportation employees and other employees who should be included for statistical purposes in oil-related and gas-related employment. The statistics will aid in the distribution of the oil and gas money more accurately to cities and counties. Although this is one-time funding, it was expected in five or more years there will be need for \$15,000 to \$20,000 for an update.

These statistics are important in allocating impact funding. A transportation company or construction company may or may not be tied to oil and gas. It was argued if one of these transportation and construction employees works in the oil and gas industry, the employee should be included under the mining heading for statistical purposes. There is some subjectivity by Job Service North Dakota in determining whether an employee is oil-related and gas-related. For example, an employee for a construction company that builds well pads would be included within the oil-related and gas-related employment statistics and an employee for a housing construction company for oil and gas employees would not be included.

Oil and Gas Research Fund and Value-Added Opportunities Study Bill Draft

The committee considered a bill draft to provide an additional \$1 million per biennium to the oil and gas research fund. The bill draft also provided a general fund appropriation of \$300,000 to the Department of Commerce for the purpose of studying value-added market opportunities related to oil and gas. The bill draft contained legislative intent the additional \$1 million in the oil and gas research fund be used by the Industrial Commission for opportunities related to value-added processing of oil and gas. The committee amended the bill draft to add \$6 million per biennium and provide intent an additional \$5 million be used by the Industrial Commission for opportunities related to value-added processing of oil and gas. Committee discussion included the committee had heard from the Energy and Environmental Research Center (EERC) federal funding is disappearing, and the funding produces great dividends. In addition, it was urged the money be used to develop public and private partnerships for research similar to that done at the EERC. The committee was informed governmental match funding for studies makes

industry comfortable because the money reflects support by policymakers.

Housing Incentive Fund and Tax Credit Bill Draft

The committee was informed affordable housing is an important issue, and oil and gas development has resulted in increased rents in areas outside oil development areas. The committee received testimony on the housing incentive fund. Contributors to the fund receive tax credits for contributions to the fund.

The committee considered a bill draft to increase the cap on the aggregate amount of tax credits from \$15 million to \$20 million per biennium and cap the housing incentive fund at \$50 million. The bill draft allowed the Housing Finance Agency to enter public and private partnerships and reserve a share of the housing for the private partner's workforce. The bill draft provided more flexibility to the Housing Finance Agency by allowing the collection of administrative fees from project developers, applicants, and grant recipients. In addition, the bill draft changed who may benefit from the fund to a person with low-income or moderate-income instead of a person with an income not more than 50 percent of the area median income. The housing incentive fund is for a "developing community." The term is not defined, but the committee was informed the term means a small, rural community in this state.

As to the use of the fund, the committee was informed any limitation is in the funding, not in the number of projects. The bill draft would result in more companies being involved. One of the challenges of the fund is most of the money comes at the end of the year when people are thinking about taxes.

Committee discussion included there is a concern that by paying off the loan or selling the property, the person can be relieved of the duty to rent to low-income and moderate-income individuals. Committee discussion included concern for allowing a donor to write off a contribution for something the donor is allowed to use. Companies want to use the fund for housing for employees and cannot do this. If the companies could do this, it was argued it would be good for the community.

Committee discussion included there needs to be housing for people working in retail and service jobs.

Carbon Dioxide Reports - Testimony on Carbon Dioxide Capture and Sequestration

The committee received the report from the coal conversion facility that receives a carbon dioxide capture credit for a carbon capture project. The committee was informed two events keep the need for this incentive relevant. One is the ruling by the Washington, D. C., Court of Appeals to uphold the Environmental Protection Agency (EPA) finding that carbon dioxide is an endangerment to public health, thereby ensuring the EPA will push forward with more carbon dioxide regulations on coal-based power plants. The second event is the EPA's proposed new source performance standard for new coal plants.

2029

#2

**DEPARTMENT OF COMMERCE TESTIMONY ON SENATE BILL 2029
JANUARY 10, 2013, 11:00 A.M.
SENATE NATURAL RESOURCES COMMITTEE
FORT LINCOLN ROOM
SENATOR STAN LYSON, CHAIRMAN**

ALAN ANDERSON – COMMISSIONER, ND DEPARTMENT OF COMMERCE

Good morning, Mr. Chairman and members of the committee, my name is Alan Anderson and I serve as the Commissioner for the North Dakota Department of Commerce. As Commerce Commissioner I also have the pleasure of serving as the chairman of the EmPower North Dakota Commission.

The EmPower North Dakota Commission was established by the 2007 legislative assembly and made permanent by the 2009 legislative assembly. Its members are appointed by the Governor. It is an industry lead effort that allows all of our energy industries, both renewable and traditional, to have a voice into the state's energy policy.

On behalf of the EmPower ND Commission, I am here today to speak in favor of Senate Bill 2029. This is a bill that was recommended by the Commission and approved by the interim Energy Development and Transmission committee. A complete list of bills recommended and supported by the Commission is below:

- Senate Bill No. 2027 – Renewable Energy Development Fund & Value-Added Opportunities Study.
- Senate Bill No. 2028 – Employment Data Appropriation.
- Senate Bill No. 2029 – Oil and Gas Research Fund & Value-Added Opportunities Study.
- House Bill No. 1029 – Housing Incentive Fund and Tax Credit.

Senate Bill 2029 increases the Oil and Gas Research Fund from the current \$4 million to \$10 million per biennium. \$5 million of this increase would be used for opportunities related to value-added processing of oil and gas. An additional \$300,000 in general funds would be appropriated to the Department of Commerce for the purpose of conducting a study to evaluate value-added market opportunities related to oil and gas. For example, the associated gas that is produced with the crude oil is rich in high-value natural gas liquids. Rather than sending those products out of state our intent is to add value to them in North Dakota.

The EmPower ND Commission recommended an increase of \$1 million for the Oil and Gas Research Fund, which the interim Energy Development and Transmission Committee amended to an increase of \$6 million. The EmPower ND Commission recognizes the need to increase funding for opportunities related to value-added processing of oil and gas. An example is the proposed CHS fertilizer plant near Spiritwood that would represent an investment of over \$1 billion, will utilize 70,000 mcf of natural gas to produce 2,200 tons of ammonia daily, and create

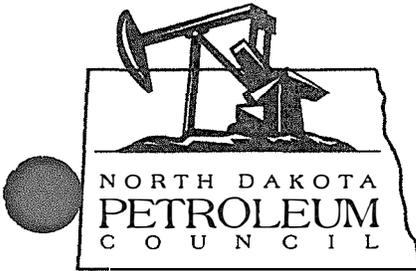
Cenex
Harvest
States

over 100 permanent jobs. This will also provide a reliable source of fertilizer for North Dakota farmers which use about 350,000 tons of anhydrous ammonia per year.

The EmPower ND Commission has recommended that funding be provided for a study to evaluate value-added opportunities related to oil and gas. This study will not only look at the immediate opportunities, such as fertilizer manufacturing, but also the other less obvious opportunities. This could include petrochemicals, plastics, nanofibers, manufactured products or materials yet to be discovered.

The study included in Senate Bill 2029 is focused on oil and gas and a similar study has been included in Senate Bill 2027 related to value-added opportunities related to renewable energy resources. The commission believes both studies are important and will complement each other. The Executive Budget Recommendation did not provide any funding for these studies.

Mr. Chairman and members of the Natural Resources Committee, I respectfully request your favorable consideration of Senate Bill 2029. That concludes my testimony and I am happy to entertain any questions.



#3

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**Testimony of Ron Ness
Senate Bill 2029
Senate Natural Resources Committee
January 10, 2013**

Chairman Lyson and members of the Senate Natural Resources Committee, my name is Ron Ness, president of the North Dakota Petroleum Council. The North Dakota Petroleum Council represents more than 400 companies in all aspects of the oil and gas industry, including oil and gas production, refining, pipeline, transportation, mineral leasing, consulting, legal work, and oilfield service activities in North Dakota. Our members produced 98% of the more than 200 million barrels of oil produced in North Dakota in 2012. I appear before you today in support of Senate Bill 2029.

For many years, North Dakota has recognized the importance of energy research and development in creating a vibrant energy industry. The state has been a leader in fostering partnerships between private industry, higher education and research facilities. Now, North Dakota has an opportunity to ensure a bright and prosperous future through the enhanced recovery of current resources and the potential to develop new economies based on secondary, value-added industries. Research and development will play a critical role in understanding the potential of new technologies and value-added processing and manufacturing opportunities as well as water resources, solid waste, flaring, and other significant challenges. The Bakken is attracting great minds that are focusing on the Bakken and fostering these new ideas will allow us to do this right. Utilizing the research council is valuable as many of these ideas need a real world test since the Bakken is unique. We urge a Do Pass on SB 2029. I would be happy to answer any questions.

EERC Bakken Optimization Proposal

A public-private partnership to optimize oil and gas activities and improve the efficiency of operation.

Environmental

- Less truck traffic
 - Decreased diesel emissions
 - Decreased road damage and subsequent maintenance
 - Decreased road dust
 - Decreased incidence of spills
- Less wastewater production and reduced demand for freshwater supplies
- Less flaring/reduced emissions from flares
- Potential for smaller well pads

Economic

- Increased royalties and tax base from oil, harnessed associated gas and NGL streams
- Increased profits from added product streams, engaged earlier in the well life cycle
- Decreased road maintenance costs
- Decreased costs for water and wastewater hauling and disposal

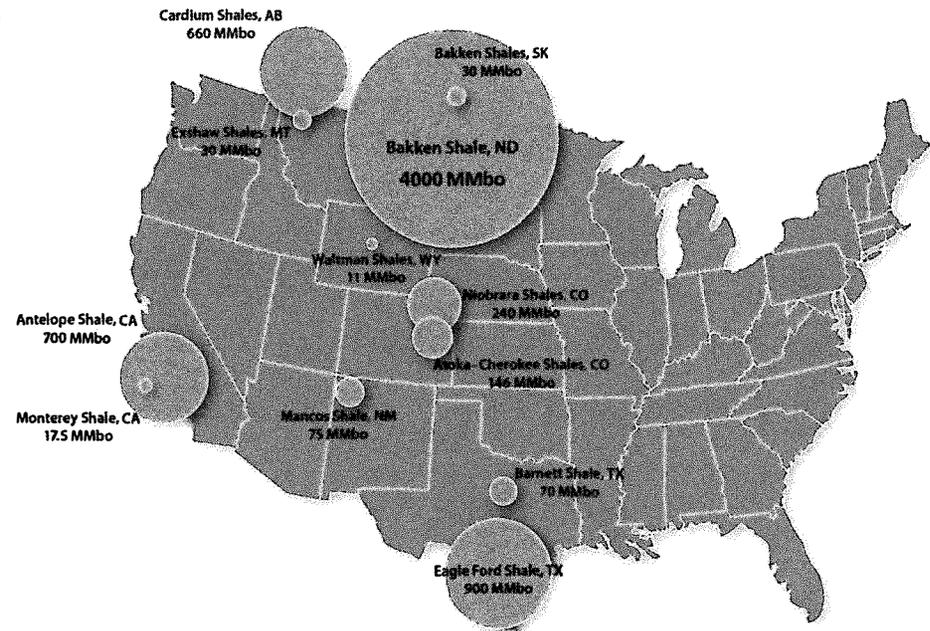
Proposing \$1 million/yr for three years from NDIC, with a minimum of \$1 million/yr from multiple industry partners



Ultimate Impact to North Dakota

Technologic & Economic Impact

- ND Dept. of Mineral Resources estimates that OOIP for the Bakken and Three Forks combined in North Dakota is approximately 170 billion barrels (Bbbls).
- If the application of CO₂ for EOR can improve recovery by just 1.1%, that improvement would translate to an additional 1.87 Bbbls of oil production.
- Assuming an average oil price of \$80/bbl, this would equate to approximately \$150 billion worth of oil.
- CO₂ EOR could prolong the life of the Bakken oil fields by decades.
- Results may be applicable to tight oil plays across the United States in Texas, Montana, California, Mississippi, Ohio, etc.



2029... #4

Oil and Gas Research Program

North Dakota Industrial Commission

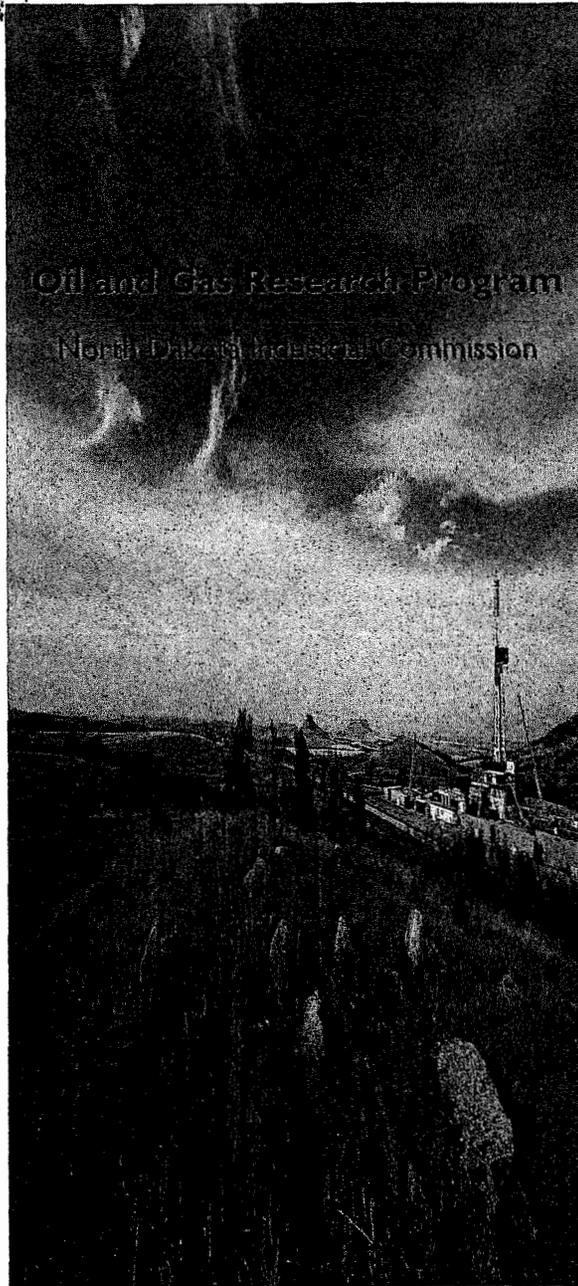
For More Information Contact:

Brent Brannan (701) 425-1237
brentbrannan@gmail.com

Karlene Fine (701) 328-3722
ndicinfo@nd.gov

Oil and Gas Research Program
State Capitol, 14th Floor
600 E. Boulevard Ave. Dept. 405
Bismarck, ND 58505-0840

www.oilresearch.nd.gov



Natural Gas Capture Projects

Demonstration of Gas Powered-Drilling Operations for Economically Challenged Wellhead Gas

Energy & Environmental Research Center (EERC), Grand Forks, ND

FUNDING: \$750,000

DURATION: 12 Months

The project will explore, identify, and demonstrate technologies for utilizing wellhead gas. Results will provide producers with a technical evaluation of gas-fired bi-fuel diesel power for drilling operations, a demonstration of compressed natural gas transport and delivery and expanded markets for Bakken Formation associated gas.

UPDATE:

One facet of the project was a study of alternative uses for associated gas. That portion of the study is completed and was presented in a Topical Report which stated the following:

END-USE TECHNOLOGY STUDY-AN ASSESSMENT OF ALTERNATIVE USES FOR ASSOCIATED GAS

The intent of this study is to examine technologies that can utilize the associated gas at locations upstream of traditional natural gas-processing plants, thereby extracting value from a currently un-captured resource. Economic analysis of these technologies consisted of comparing capital expense to potential revenue generation in an effort to frame the potential for more detailed economic study specific to individual technology. Technologies evaluated included 1)

natural gas liquid (NGL) recovery, 2) compressed natural gas (CNG) for vehicle fuel, 3) electrical power generations, and 4) chemical production.

Research has been completed examining the performance of Bakken gas in a full-scale diesel engine typically used to power a drilling operation.

**Flare Gas - Power Generation
Commercial Viability Pilot**

Blaise Energy, Inc.

FUNDING: \$375,000

Blaise conserves a valuable resource by transforming otherwise wasted wellhead flare gas into high quality, reliable, environmentally friendly electricity. The Blaise Solution consists of diverting the wellhead gas before it is flared and burning it more efficiently in an on-site generator, sending the electricity back into the local grid. Classified as "Recycled Energy" in North Dakota, Blaise Energy's electricity demonstrates the efficient use of resources and reduces green house gas emissions through reduced flaring.

UPDATE:

Based upon the price of electricity in North Dakota, the variable price, and interconnection costs, generation of electricity is viable, however going into the grid is not commercially viable.

Blaise Energy plans to continue operations in other avenues which include; site power, micro-grids, and natural gas to liquids utilization. Final funding for the project was \$250,000 rather than the \$375,000.

Oil and Gas Research Program

"Wellhead Gas Capture Via CNG Technologies"

Bakken Express, LLC

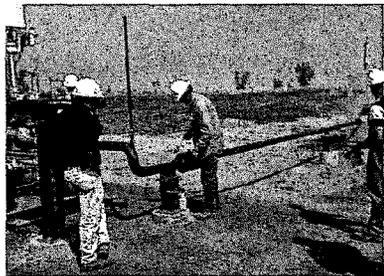
FUNDING: \$873,300

The purpose of this project is to evaluate compressed natural gas technologies as an economic method to capture and transport produced natural gas and gas liquids to market. Over the course of 12 months, Bakken Express will demonstrate the economic viability of capturing and transporting wellhead gas for both the producers (and mineral owners) and the companies providing this service.

FINAL RESULTS:

The project demonstrates that using CNG technologies to capture stranded associated natural gas from Bakken wells is viable both technically and economically.

Overall, this NDIC supported pilot project is a solid success, which will become an even more attractive solution to the stranded gas problem during the next iteration of loading and unloading skid designs and overall operational improvements.



Distributed Ammonia Production from Associated Gas

N-Flex

FUNDING: \$1,000,000

Duration: 18 months

This project will use the N-Flex production process to capture and convert previously flared stranded gas into a truly valuable asset - anhydrous ammonia - providing fertilizer for farmers in North Dakota and beyond.

Other Project Highlights:

Investigation of Improved Conductivity & Proppant Applications in the Bakken

Energy & Environmental Research Center (EERC), Grand Forks, ND

FUNDING: \$150,000

Duration: 12-18 months

The goal of the project is to improve the lateral and vertical drainage of hydrocarbons from the Three Forks and Bakken Formations by identifying the factors that lead to the collapse of propped fractures. Laboratory testing is proposed to determine whether more durable fracture conductivity can be achieved in the Bakken by altering the fracturing fluids, proppant types, and proppant concentrations.

FINAL RESULTS:

Results indicate that fluid exposure may affect both rock and proppant strength and needs to be considered in the field. Given the importance of proppant performance on conductivity loss and, ultimately oil recovery, a better understanding of the effects of these various factors on proppant and rock strength in the field is vital for more efficient production within unconventional oil and gas reservoirs.

CO₂ Enhanced Bakken Recovery Research Program

Energy & Environmental Research Center (EERC), Grand Forks, ND

FUNDING: \$450,000

Duration: 15 months

The EERC proposes a research program to evaluate the use of CO₂ to increase the ultimate recovery of Bakken oil. The objective is to use new and existing reservoir characterization and laboratory data integrated with reservoir modeling to determine the viability of CO₂ for enhanced oil recovery (EOR) in the Bakken Formation.

The results of this work will provide insight regarding relationships between Bakken oil, key reservoir attributes, and CO₂ under reservoir conditions in order to better understand the efficient storage and use of CO₂ for EOR.

Oil Can Program!

North Dakota Petroleum Council

FUNDING: \$630,910

Duration: 24 Months

The objective of the Oil Can! Program is to open the lines of communication and improve understanding between the petroleum industry of North Dakota and key stakeholder groups such as property owners, policy makers, community leaders, media and the general public.

This grant consists of three objectives: education, outreach, marketing and promotion. Specific components of these three objectives include: ProgressZone, Town Hall Meetings, CookFest, Pick Up the Patch!, Industry and Sporting Groups

Forum, Teachers Seminar, Energy Career Awareness Partnership (ECAP), Oil Can! Power Kids' Futures program, Advertising, Branding and Promotion, Media & Policy-maker Education & Outreach, and Website & Social Media. Discretionary funding is also set aside for potential hot topics or issues that may arise in the next two years.

**Public-Private Partnership to
Support Geology and Geological
Engineering Education
and Research at UND's
College of Engineering and Mines**

University of North Dakota

FUNDING: \$4,000,000

Duration: 36 Months

The total project of \$14,000,000 includes \$10,000,000 provided as a gift from Continental Resources, Inc. and Mr. Harold Hamm, which will establish the Harold Hamm School of Geology and Geological Engineering as a component of the College of Engineering and Mines at the University of North Dakota and the establishment of a high resolution image library enhancing the NDGS Wilson M. Laird Core and Sample Library located on the UND campus. The \$4,000,000 of funding provided by the NDIC/OGRP will match the \$10,000,000 provided by the private partners.

**Oil & Gas Research Program
State Capitol, 14th Floor
600 E. Boulevard Ave. Dept. 405
Bismarck, ND 58505-0840
www.oilresearch.nd.gov**

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PROPOSED AMENDMENTS TO SENATE BILL NO. 2029

Page 2, line 2, remove "an amount not to exceed \$5,000,000 of the funds available in the"

Page 2, line 3, remove "oil and gas research fund be used by" and replace "for opportunities related" with "gives special emphasis"

Page 2, line 4, after "gas" insert "projects in the awarding of funds from the oil and gas research fund"

Renumber accordingly

So it would read:

It is the intent of the legislative assembly that the industrial commission gives special emphasis to value-added processing of oil and gas projects in the awarding of funds from the oil and gas research fund during the biennium beginning July 1, 2013, and ending June 30, 2015.

DEPARTMENT OF COMMERCE TESTIMONY ON SENATE BILL 2029
FEBRUARY 4, 2013, 2:00 P.M.
SENATE APPROPRIATIONS COMMITTEE
HARVEST ROOM
SENATOR RAY HOLMBERG, CHAIRMAN

ALAN ANDERSON – COMMISSIONER, ND DEPARTMENT OF COMMERCE

Good afternoon, Mr. Chairman and members of the committee, my name is Alan Anderson and I serve as the Commissioner for the North Dakota Department of Commerce. As Commerce Commissioner I also have the pleasure of serving as the chairman of the EmPower North Dakota Commission.

The EmPower North Dakota Commission was established by the 2007 legislative assembly and made permanent by the 2009 legislative assembly. Its members are appointed by the Governor. It is an industry lead effort that allows all of our energy industries, both renewable and traditional, to have a voice into the state's energy policy.

On behalf of the EmPower ND Commission, I am here today to speak in favor of Senate Bill 2029. This is a bill that was recommended by the Commission and approved by the interim Energy Development and Transmission committee. A complete list of bills recommended and supported by the Commission is below:

- Senate Bill No. 2027 – Renewable Energy Development Fund & Value-Added Opportunities Study.
- Senate Bill No. 2028 – Employment Data Appropriation.
- Senate Bill No. 2029 – Oil and Gas Research Fund & Value-Added Opportunities Study.
- House Bill No. 1029 – Housing Incentive Fund and Tax Credit.

Senate Bill 2029 increases the Oil and Gas Research Fund from the current \$4 million to \$10 million per biennium. This increased funding level would facilitate a special emphasis being provided to opportunities related to value-added processing of oil and gas. An additional \$300,000 in general funds would be appropriated to the Department of Commerce for the purpose of conducting a study to evaluate value-added market opportunities related to oil and gas. For example, the associated gas that is produced with the crude oil is rich in high-value natural gas liquids. Rather than sending those products out of state our intent is to add value to them in North Dakota.

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Mr. Chairman and members of the Appropriations Committee, I respectfully request your favorable consideration of Senate Bill 2029. That concludes my testimony and I am happy to entertain any questions.