2013 SENATE NATURAL RESOURCES

SB 2315

2013 SENATE STANDING COMMITTEE MINUTES

Senate Natural Resources Committee
Fort Lincoln Room, State Capitol

SB 2315
February 7, 2013
18488

☐ Conference Committee

Committee Clerk Signature	Veronica Sperling

Explanation or reason for introduction of bill/resolution:

Relating to flaring

Minutes: attachments

Chairman Lyson opened the hearing for SB 2315.

Senator Mathern, District 15, introduced the bill. See attachment #1.

Senator Burckhard asked about the rate of return on ND oil wells. He asked where Senator Mathern had gotten the figure of 58%. Senator Mathern said it came from data that the ND Pipeline Authority had presented in Appropriations Committee hearings.

There was discussion about why we should allow flaring during the first year when the gas release is at its highest level. Other states do not allow that one year of flaring. Senator Mathern felt the one year is a compromise so companies can ease into it. He does see no flaring as a possibility for the future. (Ends at 7:30)

Don Morrison, representing Dakota Resource Council, spoke in favor of SB 2315. See attachment #2.

There was discussion about the amount on the fiscal note. The fiscal note is for 2.5 million for the biennium and in Mr. Morrison's testimony he mentions 25 million/ year. Senator Hogue asked for clarification. Mr. Morrison said the 2.5 million is lost revenues from the taxes paid to the State; the 25 million is the royalty payments to mineral owners. (Ends at 13:15)

Mr. Morrison also distributed testimony from Shelly Ventsch from New Town. See attachment #3.

Senator Warner, District 4, spoke in support of the bill. He spoke about the importance of not wasting our natural resources, in this case the natural gas. He compared it to killing buffalo only for their hides, the profitable part of the enterprise, and leaving the rest to waste on the ground. He listed some of the possible uses it could be put to. (Ends at 15:10)

Marie Hoff of Bismarck, a board member of Dakota Resource Council, spoke in support of the bill. See attached testimony #4. (Ends at 17:54)

Robert Harms, a mineral owner, lawyer and consultant, has worked in the oil industry for 30 years. He spoke in support of the bill but offered a few amendments. He mentioned the fact that no one likes flaring. He spoke about what the drivers of flaring are and what the limitations are surrounding the flaring issue. He covered what policies are in place right now and what the gas that is being flared is worth. He mentioned some proposed bills that would offer incentives for reducing flaring. He feels that it is healthy to be having discussion about the public policy in our state. Using some stats from the ND Pipeline Authority website and doing the math he estimates we are flaring 350 million dollars worth of gas and natural gas liquids annually. (Ends at 25:00)

Mr. Harms presented the amendments he proposed. See attachment #5. Most of the gas produced in the Bakken is generated during the first year or two of production so during the highest period of production of the well we are flaring some of the highest valued gas. How do we balance economics and conservation? (Ends at 28:10)

There was some discussion about whether the required review should be done after one year or after six months. (Ends at 29:30)

Michael McEnroe, representing the ND Chapter of the Wildlife Society, presented written testimony in favor of the bill. See attachment #6. (Ends at 31:20) Mr. McEnroe when questioned said the ND Chapter of the Wildlife Society would be in favor of amending the bill to 60 days of flaring.

Opposition:

Ron Ness, ND Petroleum Council, spoke against the bill to represent the oil operators, many royalty owners, the gas processors, and the pipeline companies that are dealing with the industry. They stand in strong opposition to SB 2315. There a number of issues and concerns. No one dislikes flaring natural gas more than the oil operator and the oil producer and the royalty owner. The data that was presented about lost revenues, the biggest impact on that is to the oil producer and the royalty owners who are investors in that well. They want to capture that natural gas. There are 4 bills proposed that are trying to encourage and incentivize more on-site capture. HB 1333 tries to encourage more easements. That is becoming a significant issue. The oil operator doesn't always have a lot of control over when or how the gas plant will get built or when the gas lines will get to that well. In 2007 EOG discovered the Parshall Field, the Bakken in this era. That field was roughly 65 miles from Hess' gas plant. That gas plant was the only facility other than One Oaks Facility south of Arnegard, ND, the Grassy Butte Plant, and a few plants in Montana. When they discovered the gas, they didn't know what kind of gas we had in ND. They had to produce the gas before they could assess the gas. Then you have to look at how to build or expand gas plants. Who's going to take the gas? Then you have to get pipelines to the gas. Then you find out it is extremely rich gas, they had to resize the operations. It took three and a half years for them to get the pipeline system and infrastructure in place to Parshall Field to help them capture their gas. If you drive through Parshall Field today there are no flares. The natural gas processing industry is spending about 4 billion dollars to build the necessary infrastructure which is going to provide the jobs. We ought to be considering the other bills that look at more encouragement. Companies are trying to figure out ways to capture the liquids because they are valuable. He presented testimony #7. It is a recent article from the Oil Patch Hotline which is an industry publication. He emphasized paragraph one as an example of the money being spent on infrastructure and paragraph 6 as an example of the difficulty posed by having to seek right of way agreements. The last sentence of the article was also pointed out. The alternatives to flaring were found not to be economically feasible. Depending on the production of a well, sometimes it is not economically feasible. Mr. Ness reminded the committee of the law of unintended consequences. You have to have the cash flow for someone to fund the gas processors that are going to build the plants and make the commitments. We need your support to incentivize and encourage small companies that can go on site and capture this flare gas until the lines can get there.

Senator Burckhard asked how often a flare continues for more than a year.

Mr. Ness said it depends on how quickly they are able to get connected to a gas plant and if they are able to get to them via an easement.

There was discussion about who does what in the production of gas and when they do it. The operator gets the gas to the pad and he sells the gas to a gas processor. The processor runs the gas lines and takes it to a processing plant. The gas processors have to know there will be a certain volume before they invest in the infrastructure. Mention was made that the oil companies working in ND are not in the business of gas gathering.

More Opposition:

Danette Welsh, representing ONEOK, presented written testimony on behalf of Dick Vande Bossche. See attachment #8. (Ends at 53:53)

There was discussion about the comment of a previous speaker that there was no flaring in Texas or in Canada. Danette said she thinks it is closer to 5%. Also, those are different formations with maybe a more mature infrastructure.

There was a discussion about the size of the pipes needed. Pipes installed a few years ago would have been 4-6 inches. Pipes being installed now would be 12-16 inches in diameter.

Neutral testimony: None

Chairman Lyson closed the hearing on SB 2315.

2013 SENATE STANDING COMMITTEE MINUTES

Senate Natural Resources Committee
Fort Lincoln Room, State Capitol

SB 2315
February 7, 2013
18532

☐ Conference Committee

Committee Clerk Signature	Veronica Sporling

Explanation or reason for introduction of bill/resolution:

Relating to flaring

Minutes:

No attachments

The committee decided to look at a different bill.

Nothing!

2013 SENATE STANDING COMMITTEE MINUTES

Senate Natural Resources Committee
Fort Lincoln Room, State Capitol

SB 2315
February 8, 2013
18608

☐ Conference Committee

Committee Clerk Signature	Veronica Sparling

Explanation or reason for introduction of bill/resolution:

Relating to flaring

Minutes:

No attachments

Chairman Lyson opened the discussion of SB 2315.

Senator Murphy asked a question about why the drilling for oil can't wait until the natural gas can be dealt with.

Senator Lyson said that 95% of the wells have been drilled, and there are now bigger pads with 4-8 wells per pad. Part of the difficulty of putting in pipelines is that they run into old pipelines that are in the ground. In the oil field they are digging ditches like crazy to catch up with the need for gas lines.

Senator Burckhard said as the infrastructure for gas lines catch up and we may not be flaring 30% off.

(04:20 to 06:50) Senator Triplett explained what she thinks the bill says.

(06:55 to 07:40) Senator Hogue explained what he thinks the bill says.

There was discussion about what the bill says. There are economic consequences if they go on flaring after the first year. It would not cause them to stop production from the well; it would just increase their expense. It is not a perfect bill. The oil producing company would in essence be paying a penalty because the gas gathering company does not have their equipment operational in a timely manner.

Senator Hogue: Do Not Pass

Senator Burckhard: Second

They discussed the amendment that was presented by Mr. Harms during the hearing.

Senator Triplett stated that she did not agree with changing the grace period from one year to sixty days. She does like the last half of Mr. Harms' amendments about the Industrial Commission making consideration of the placement of the wells, etc. She will vote against the motion.

Senator Hogue would like to hear what percentage of requests for exemptions are being turned down. If they are granting all of them after a year, there is not much incentive to move the process along. He is opposed to the bill because he has confidence in the Industrial Commission and feels they can evaluate each request on a case-by-case basis. He agrees with Mr. Ness. Everyone agrees the gas that is being flared has value. They don't want to flare it, but do we compel them to spend $5.00 so they can capture $1.00 worth of gas?

Senator Burckhard mentioned it is an infrastructure issue and a right-of-way issue. As soon as the oil companies can get it done, they will reduce the flaring.

Roll Call Vote: Do Not Pass 5, 1, 1

Carrier: Senator Burckhard

FISCAL NOTE

Requested by Legislative Council
02/05/2013

Revised
Bill/Resolution No.: SB 2315

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				$2,173,000		$0
Expenditures			$0	$0	$0	$0
Appropriations			$0	$0	$0	$0

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		$296,000	
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 2315 eliminates any exemption from gross production tax and royalties for wells not capped, and connected to a gas gathering line, or equipped with an electrical generator that consumes at least seventy-five percent of the gas from the well.

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 2315 eliminates any exemption from gross production tax and royalties for wells not capped, connected to a gas gathering line, or equipped with an electrical generator that consumes at least seventy-five percent of the gas from the well.

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.*

In November 2012 there were 579 nonexempt wells flaring with no gas sales, indicating they are wells not capped, connected to a gas gathering line, or equipped with an electrical generator that consumes at least seventy-five percent of the gas from the well. In November the gas flared from those wells totaled 887,804 MCF or 29,593 MCF per day. Assuming approval of all exemption applications, 29,593 MCF per day would be required to pay gross production tax that would not be required under current law. This volume is expected to remain relatively constant through 2017. The current gross production tax on natural gas is $0.1143 per MCF. This equates to revenue of $2,469,000 for the 2013-15 biennium. This additional revenue is expected to be distributed to producing counties, the legacy fund, and the strategic investment and improvements fund.

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.*

Name: Kathryn L. Strombeck
Agency: Office of Tax Commissioner
Telephone: 328-3402
Date Prepared: 02/05/2013

Date: 2-8-13
Roll Call Vote #: 1

2013 SENATE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 2315

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 Hogue Seconded By Burckhard

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

Total (Yes) 5 No 1

Absent 1

Floor Assignment Burckhard

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

REPORT OF STANDING COMMITTEE

SB 2315: Natural Resources Committee (Sen. Lyson, Chairman) recommends **DO NOT PASS** (5 YEAS, 1 NAYS, 1 ABSENT AND NOT VOTING). SB 2315 was placed on the Eleventh order on the calendar.

2013 TESTIMONY

SB 2315

#1

Senate Natural Resources Committee

February 7, 2013

Senator Tim Mathern

Chairman Lyson and Members of the Senate Natural Resources Committee

My name is Senator Tim Mathern. I am a Fargo resident and sponsor of SB 2315. I believe passage of this bill will increase the use and safe collection of natural gas in North Dakota for the benefit of our people and our environment. There are other people here to testify so I will limit my comments to 3 three points.

- **Natural gas flaring is economically and environmentally wasteful. Capturing and utilizing flared natural gas is a common sense strategy that is good for economic growth, creating jobs and avoiding waste.**
    - We're flaring approximately 30% of the natural gas produced in the Bakken – enough to heat one-half million homes.
    - At current rates, natural gas flaring means the loss of more than $100 million for oil companies, royalty owners and the state of North Dakota.
    - Even though natural gas prices are low, Bakken gas is rich in natural gas liquids (NGLs) and is valuable to producers and midstream operators.
    - Flaring natural gas wastes energy that can be used to power homes and businesses.
    - Flaring impacts our air quality and releases harmful greenhouse gases into the atmosphere.

- **Technology is available and affordable**.
    - Affordable technologies are available today to capture this important energy resource, examples:

    - Conversion to fertilizer – N-Flex
    - Grid power, site power, NGL recovery, gas to liquids – Blaise Energy
    - Mobile, refrigerated NGL recovery – G2G Solutions
    - Well-site Power Systems – LPP Combustion, LLC
    - Membrane/gathering systems and transport – Alternative Gas Processing Inc.
  - The ND Pipeline Authority estimates an investment cost of 2 percent to capture the gas on most ND wells. The current average rate of return on most ND oil wells is 58 percent.

- **<u>To reduce flaring, we need a good mix of policies and prudent regulation.</u>**
  - Economic incentives for producers to connect wells to gas sales are the highest at the very beginning of the well production cycle. We need to seize the gas capturing opportunities on the front-end of production.
  - Blanket waivers are not the answer. With current law, exemptions are easily applied for and granted after the one-year flaring grace period. More than 95 percent of the exemptions sought were granted in 2011 and 2012.
  - The ND Petroleum Council estimates that the industry is investing $4 billion in gas gathering and processing in the state between now and 2017.

Thank you for the attention you will be giving to the presenters coming before you. I ask for your Do Pass recommendation to the full Senate.

Thank you for your consideration.

#2

SB 2315
Senate Natural Resources Committee
Don Morrison, Dakota Resource Council
February 7, 2013

Mr. Chairman and members of the Senate Natural Resources Committee, my name is Don Morrison and I am with the Dakota Resource Council. We are a statewide organization of farmers, ranchers, small business people, and others who work together on energy and agriculture issues. Some of our members, who live in the western part of the state, work in the oil industry.

I would like to thank the bipartisan sponsors of this bill, SB 2315. As you know, flaring of natural gas is an issue with our oil development in the Bakken and there are several proposals this session to deal with the problems associated with so much flaring off of natural gas.

This bill does not stop or ban flaring. Instead, it is a reasonable effort to encourage less waste of natural gas. This bill does not change the one year exemption that allows flaring. The exemption means the company does not have to pay royalties to mineral owners and the oil gross production tax. This bill eliminates the extension of that exemption, so, if a company continues to flare the gas, they will need to pay royalties and pay the oil gross production tax.

Lines 13 to 16 of the bill describe what will happen if the gas continues to be flared after one year. The producer shall pay royalties to royalty owners...and the gross production tax.

We have heard a lot about the obligation of state officials to make sure all oil and gas is extracted. We have been told many times that no oil or gas is to be "wasted" because mineral owners have a right to their money. State officials are certainly implementing that policy when it comes to extracting oil, but why not when it comes to gas? We have been burning off one-third of our natural gas. Isn't that wasting? Should mineral owners be paid for that?

According to Lynn Helms, $70,000 in tax revenues and royalties are being lost every day because of flaring natural gas. That is a loss of $25,000,000 a year. This should be corrected.

The members of Dakota Resource Council urge a DO PASS on SB 2315. Thank you.

#3

February 7, 2013

Senate Bill No. 2315

Mr. Chairman, Members of the Committee:

I am Shelly Ventsch from New Town. We have all heard the reasons for the excessive flaring. To support a bill for less flaring, I would like to respond to those reasons at this time, although I believe excessive permitting led to excessive drilling which caused excessive flaring.

Reason #1: Oil is where the money is, so as gas isn't worth as much, it has to be flared to keep oil production up.

Response: This is just a comparison, it's not addressing the actual value of the gas being wasted. How does burning off millions of dollars' worth of gas follow NDCC 38-08-01 Declaration of Policy which states development to be "in such a manner as will prevent waste" and so that "the landowners, the royalty owners, the producers, and the general public realize and enjoy the greatest possible good from these vital natural resources"?

Reason #2: Mineral owners can't be denied their "correlative rights" and there is a "constitutional responsibility to mineral owners who would want to see the minerals developed in their lifetimes." (Commission members justifying Killdeer Mountain drilling- Forum News Service)

Response: No rights would be denied, only delayed. A person signing an oil and gas lease knows it is just a lease, not a promise of future development. There is no specified completion date. Spacing units have many mineral owners. That means there are many different lifetimes involved. On whose lifetime is drilling a well based? What about the mineral owner who died 10 years ago or the mineral owner 30 years from now? Is there only a "constitutional responsibility" for right now? What about the mineral owner who gets hit by a truck today and his minerals are scheduled to be developed tomorrow? Is gas exempt from correlative rights and constitutional responsibility? Some of the millions of dollars being burned off in flares is the mineral owners', to whom, we are told, there is a "constitutional responsibility."

Reason #3: There is excessive flaring because landowners are not giving easements.

Response: I discussed this with some oil representatives. I was told there is a very small percentage of landowners who will not give an easement and in those cases, they have been able to find alternate routes. The big reason is there is too much pipeline to install to too many wells in too little time. In May 2011, the Director of Mineral Resources stated gas is being flared because development of the pipelines and processing facilities needed to handle it has not kept pace with production.

Reason #4: If flaring is controlled or stopped by slowing production, companies will leave and it "could destroy the economic engine oil development has created." (Lynn Helms)

Response: Some companies may leave, others won't. The state was never supposed to become dependent on, or addicted to, income from oil as it is a fickle and unpredictable industry. This week Al Carlson said California has more oil than North Dakota, if they would let them drill. The oil companies know the NDIC will let them drill anywhere and everywhere in ND as nothing is off-limits. It will not be the end of development.

Oil and gas which remain underground are not wasted. They are still available for later retrieval. Flaring is a blatant waste and violates state law. NDCC 38-08-02 lists five actions which constitute waste. The ND Petroleum Council and the NDIC only recognize and quote the one concerning location and spacing of wells. Two others are "the inefficient, excessive, or improper use of, or the unnecessary dissipation of reservoir energy" and "the production of oil or gas in excess of transportation or marketing facilities or in excess of reasonable market demand." NDCC 38-08-03 states "Waste of oil and gas is prohibited." 38-08-06.1.: "The commission shall limit the production of oil and gas within each marketing district to that amount which can be produced without waste, and which does not exceed the reasonable market demand." Also ND Administrative Code 43-02-03-06: "Waste Prohibited--All operators...shall at all times conduct their operations in the drilling, equipping, operating, producing, plugging, and site reclamation of oil and gas wells in a manner that will prevent waste." Is the lack of enforcement due to the Attorney General being a member of the Industrial Commission?

I support a bill which will lessen allowed flaring time, with no amendments to the rules. Thank you.

#4

SB 2315
Senate Natural Resource Committee Hearing, February 7, 2013
Testimony from Marie Hoff

Chairman Lyson, Committee members,

I am Marie Hoff of Bismarck and I am a board member of Dakota Resource Council. I am here today to raise concerns of flaring for a couple of our members who live out in the Bakken and are not able to make it here today. You have heard about the economic reasons for getting a better handle on the enormous amount of flaring going on in the Bakken. Two of our members wrote to let you know what it is actually like living next to flares.

Rose Person, of White Earth, North Dakota wrote a letter, detailing her problems with flaring near her home.

Rose wrote, "Not only are the smells horrible, the windows in my home in the fall were coated with some type of oil film that window washing fluids would not take off. I had to use old fashioned hot water with vinegar, going over them twice to clean them. Think about this, if the windows held this type of film, what is in my lungs and everyone else's in the area? I shudder to think of having children close to an oil rig that has flaring……"

Brenda Jorgenson, a farmer and rancher near Tioga, North Dakota wrote,

"On Saturday, Aug 25, 2012, the house was full of gas when we returned from a funeral of a dear friend. The flare was out before we left mid morning and was still out four hours later. Who do we call? What do we do? I got the horses moved out of the pasture right after making several calls. We are not given any emergency numbers."

It is because of many instances like these that DRC members are concerned about the effects of flaring near their homes and why they support this bill for a better quality of life in the oil producing Bakken.

I recommend a do pass on Senate Bill 2315.

#5

Senate Natural Resources Committee February 7, 2013

AMENDMENTS TO SB 2315:

P.1, Line 9---remove "one-year period", replace with "sixty days"

P.1, Lines 18-23—remove overstrike.

P. 1, after line 23 Insert,

"In determining economic infeasibility, the commission shall:

1. Consider the location and access to existing gathering lines, other producing wells, gas plants, or other facilities available to utilize gas being considered for exemption from flaring, and

2. Review within one year, any exemption granted under this section.

Section 2. Effective date

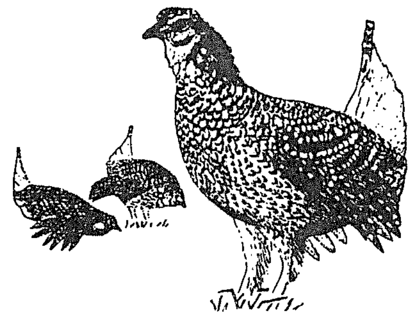
This Act becomes effective on December 31, 2013.

#6

North Dakota Chapter

THE WILDLIFE SOCIETY

P.O. BOX 1442 • BISMARCK, ND 58502



TESTIMONY OF MICHAEL R. McENROE
NORTH DAKOTA CHAPTER, THE WILDLIFE SOCIETY
SENATE BILL 2315
SENATE NATURAL RESOURCES COMMITTEE
FERUARY 7, 2013

Chairman Lyson and members of Committee:

For the record; Mike McEnroe, representing the North Dakota Chapter of The Wildlife Society. The Chapter is in support of Senate Bill 2315 dealing with flaring of natural gas.

The Oil and Gas Division's mission is to encourage and promote the development, production and utilization of oil and gas in the state in such a manner as will prevent waste, maximize economic recovery, and fully protect the correlative rights of all owners to the end that the landowners, the royalty owners, the producers and the general public realize the greatest possible good from these natural resources.

Currently, producers can flare natural gas for one year without paying taxes or royalties. That is encouragement and promotion.

SB 2315 would end the exemption that allows continued flaring after one year. This would reduce waste and return tax payments to the state, helping the general public realize the greatest good from our natural resources. According to an article in the Bismarck Tribune (attached), flaring natural gas costs the State about $ 35,000 per day ($12,775,000 per year).

The Chapter urges your support of SB 2315.

Thank you. I will try to answer any questions from the Committee.

Reducing the flare

By NICK SMITH
Bismarck Tribune

MIKE MCCLEARY/Tribune

Lynn Helms, director of the North Dakota Department of Mineral Resources, leaves the House Finance and Taxation Committee room on Tuesday.

Legislators heard testimony Tuesday on a bill that would provide tax incentives and exemptions for the oil and gas industry to reduce natural gas flaring.

Members of the House Finance and Taxation Committee heard from state officials on House Bill 1134, which would allow natural gas to be flared for up to one year after production begins from a well.

The bill says that within one year, a well must either be capped, connected to a gas-gathering line or equipped with a generator that consumes at least 75 percent of the gas. A well also could be equipped with a system that gathers at least 75 percent of natural gas liquids for such uses as conversion to liquid fuels and production of petrochemicals or fertilizer.

A well that is connected to a gathering system from the first day of production would be eligible for an additional two-year oil exemption from state gross production taxes.

SESSION 2013

Lynn Helms, director of North Dakota's Department of Mineral Resources, said the current regulatory and tax systems used to address problems with natural gas flaring is outdated.

"We're dealing with late 1980s regulations to deal with a 2010 problem," Helms said.

Nearly 30 percent of natural gas

Continued on 6B

Continued from 1B

in western North Dakota is being flared. Helms said that is far above the national average, which is between 5 percent and 10 percent.

The state is losing about $35,000 daily in gross production tax revenue, as are owners of mineral rights in royalty revenues, Helms said. The amount of gas flared each day could heat about 25,000 homes for a month, he said.

Helms said strict enforcement of oil production restrictions could reduce the cash flow of a producing well five-fold and lower the net value of an operating well by 25 percent.

"We'll have destroyed the economic engine we're trying to build here," Helms said.

The proposed incentives give companies time to hook up to gas gathering systems and pipelines, he said.

"We're trying to tackle a waste problem," Helms said.

New technologies could be used by companies to collect natural gas and natural gas liquids, Helms said. Hundreds of units using various technologies could find their way to the oil patch for use on well sites if the bill were to pass.

"We're trying to tackle a waste problem."
Lynn Helms

Helms said the units could be used for fueling generators on the well site, converting natural gas to fertilizer on-site or other uses short of flaring. Another incentive in the bill is a sales and use tax exemption for materials used in compressing, processing and gathering or collecting of gas as well as refining.

"This incentive alone could bring that 30 percent down to 20 percent," Helms said.

A recent study estimated that the current $4 billion in investments being made in gas gathering systems in the state should be doubled and 30,000 miles of gathering lines are needed, Helms said.

Rep. Todd Porter, R-Mandan, compared the bill to past efforts by the state to promote value-added agriculture.

He said the production of petrochemicals, fertilizer and fuels from natural gas liquids could create new long-term jobs in North Dakota and the jobs would provide more stability than the fluctuating number of oil field jobs tied to drilling.

"The manufacturing of these items could be done in the state," Porter said.

New Salem resident David Munsch let the committee know he wasn't pleased with the idea of subsidizing the oil and gas industry.

"I'm getting tired of these tax breaks going to these big companies," Munsch said.

HB1134 is sponsored by Reps. Porter, Al Carlson, R-Fargo, David Drovdal, R-Arnegard and Sens. Kelly Armstrong, R-Dickinson, Stan Lyson, R-Williston and Rich Wardner, R-Dickinson.

#7

Baytex Details Huge Electrical/Gas Feeder System

A massive multi-million dollar effort to tie in over 60 wells in North Dakota's Divide County to 120 miles of natural gas feeder pipelines as well as a $50 million electrical supply system was detailed by Baytex Energy USA of Denver.

At a hearing earlier this month before the ND Industrial Commission, the company sought approval for unrestricted production which would allow the wells to be flared.

Once the wells are connected to ONEOK system that feeds into its two gas processing plants in Williams County, more than 10 Mmcf a day will be fed into the pipelines.

Baytex pointed out that other operators including Samson Resources, Continental Resources, Crescent Point and Hunt Oil are all participating in the building of the three-phase electric feeder system at sub station at Ambrose being erected by Burke-Divide Electric Cooperative.

The electricity will also power a ONEOK compressor station.

ONEOK has been held up on completing the $160 million natural pipeline system in the county because of delays in getting right of way agreements from land owners and issues with easements in wildlife habitat areas. There are 235 private land owner right of way agreements that are in various states of completion, Baytex said.

Each well produces on average of between 75 to 80 Mcf a day the "wet" gas makes it difficult to use on some locations where sel generators are used to power the pumping units now.

A natural gas feeder line owned by Hess Corp. that runs to its gas processing plant at Tioga is at capacity. Baytex has explored several new technologies including stripping out the liquids but the volumes are too low to make it economical as an alternative to flaring.

Continental Zips Into 3-Mile Drilling

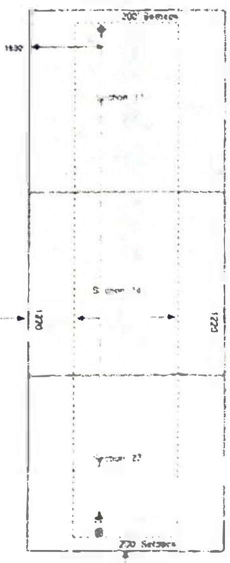
Continental Resources said it is drilling its fourth three-mile long lateral well later this summer in the Williston Basin and subjecting it to a 45-stage fracture stimulation.

The company said the proposed Three Forks well in North Dakota's Burke County would be drilled at a cost of $10.5 million and it expects an ultimate recovery of 472,000 barrels.

Continental disclosed the information during a hearing before the ND Industrial Commission, where it sought approval of 1920-acre spacing in sections 11,14 & 23, T161N-R94W.

The 24,000-foot well will be subjected to a 30-stage plug and perf frac and the last 15 stages will be sliding sleeve. This is the fourth three-mile well, and the last one the company drilled was 26,400 feet.

Continental expects an initial production rate of 763 BOPD and a payout in 3.3 years.



Note: The B.H.L. and S.H.L. are non specific, made for field rules found on the ADP (Approved Drilling Permit)

Exact location of Lateral Well Bores may change based on topographical and/or cultural

Proposed Three Forks Lateral

7" Casing Point

Surface Location

Bottom Hole Location

Section Line

Continental Resources

Case #19504

Exhibit 5

ONEOK

#8

Written Testimony Provided to:
Senate Natural Resources Committee
By Dick Vande Bossche
Director, ONEOK Rockies Midstream
February 7, 2013

Regarding: Senate Bill No. 2315

Mr. Chairman and members of the committee,

For the record, my name is Dick Vande Bossche and I serve as Director of Operations for ONEOK Rockies Midstream, based in Sidney Montana. ONEOK, Inc. is the largest independent operator of natural gas gathering and processing facilities in the Williston Basin.

The information I am sharing with you today is intended to help explain what ONEOK is doing to reduce and eliminate gas flares by gathering the gas from the wellhead, how the gas gathering process works, and what happens to the gas once it is collected from the wellhead.

Midstream Overview – We gather natural gas from the wellhead in pipelines, compress it in the field and transport it to processing facilities where volumes are aggregated, treated and processed to remove water vapor, solids and other contaminants, and to extract natural gas liquids (NGLs) in order to provide marketable natural gas, or residue. To accomplish this, ONEOK is investing $2.4-2.7 billion to plan, design and construct necessary infrastructure in support of the Williston Basin resource development through early 2015.

Gathering Lines – ONEOK has approximately 5,600 miles of natural gas pipe in the Williston Basin. We constructed more than 680 miles of pipe during 2012, and have similar plans for 2013. Challenges to laying pipeline include routing through difficult terrain, acquiring rights-of-way (ROW), and weather.

Field Compression – ONEOK has approximately 110,700 of horsepower for use in field compression. We installed 44,000 horsepower during 2012, and have plans for another 38,500 horsepower in 2013.

Processing Plants – At the end of 2012, ONEOK had 290 MMcfd (million cubic feet per day) of natural gas processing capacity in service. We have another 100 MMcfd plant ready to come on-line in first quarter 2013. It takes 18-24 months to design, permit and construct a processing plant of this nature. Front-end engineering design, long lead-time equipment (ranging from 30-65 weeks) and planning for construction outside of winter months contribute to the length of time.

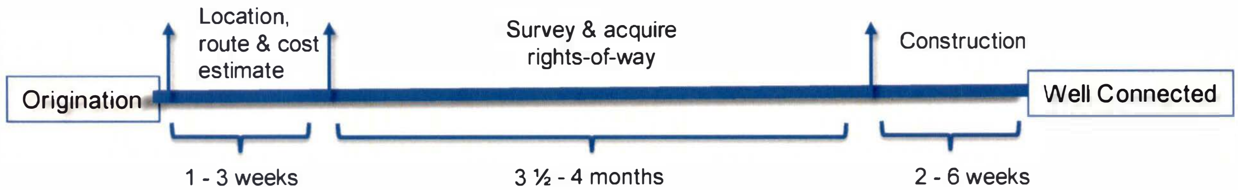
- Grasslands..90 MMcfd
- Garden Creek I.............................100 MMcfd; in-service December 2011
- Stateline I....................................100 MMcfd; in-service October 2012
- Stateline II....................................100 MMcfd; start-up expected 1Q 2013
- Garden Creek II ....100 MMcfd; start-up expected 3Q 2014
- Garden Creek III...........................100 MMcfd; start-up targeted 1Q 2015

590 MMcfd total processing capacity

ONEOK, Inc
100 West Fifth Street
Tulsa, OK 74103
www.oneok.com

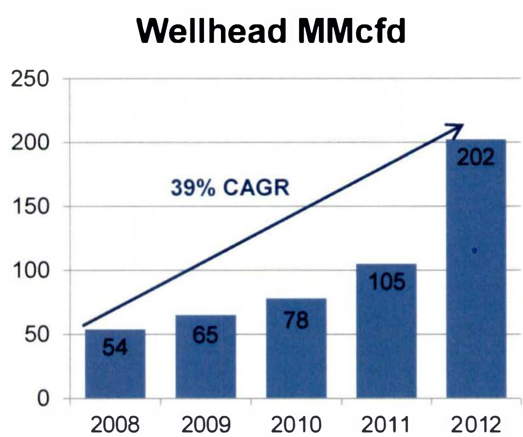
ONEOK

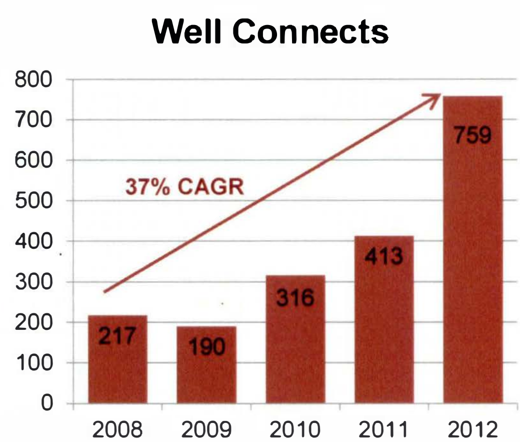
Well-connect Process – The average time to connect a well to our gathering system is approximately 5 months.



Securing the ROW is the most time-consuming phase of the process to connect a well or build a pipeline. A number of factors contribute to the timeframe for ROW acquisition, including identifying and negotiating acceptable rates and agreement conditions with landowners; ascertaining suitable routes with both local and absentee (out-of-state) surface owners; management of pipeline reroutes due to landowner preferences or difficult terrain; and the submittal, review and approval process for permits on road, highway, or section line crossings. Additionally, the Federal regulatory process for adherence to National Environmental Protection Act (NEPA) rules on publically managed properties (such as US Forest Service, US Fish and Wildlife Service, Bureau of Land Management and Bureau of Indian Affairs) also create significant planning obstacles due to complex regulations and lengthy timeframes necessary for agency review, required surveys, comment periods, and construction/ disturbance windows opening and closing at various times throughout the year.

We have made significant progress in accelerating well connections over the past few years and continually look for ways to improve our process. Currently we are following about 100 rigs (slightly above 50% in the state) that are drilling on acreage dedicated to us. Key to our success is pre-planning, with a goal to start the process 150 days before the well is expected to produce. We maintain close communication with producers regarding their drilling plans, which allows us to keep in front of the process in order to connect the wells in time for initial production. This requires significant coordination with producers, study of the well performance and forecasting location of production so that we build infrastructure in the right places in a timely matter.



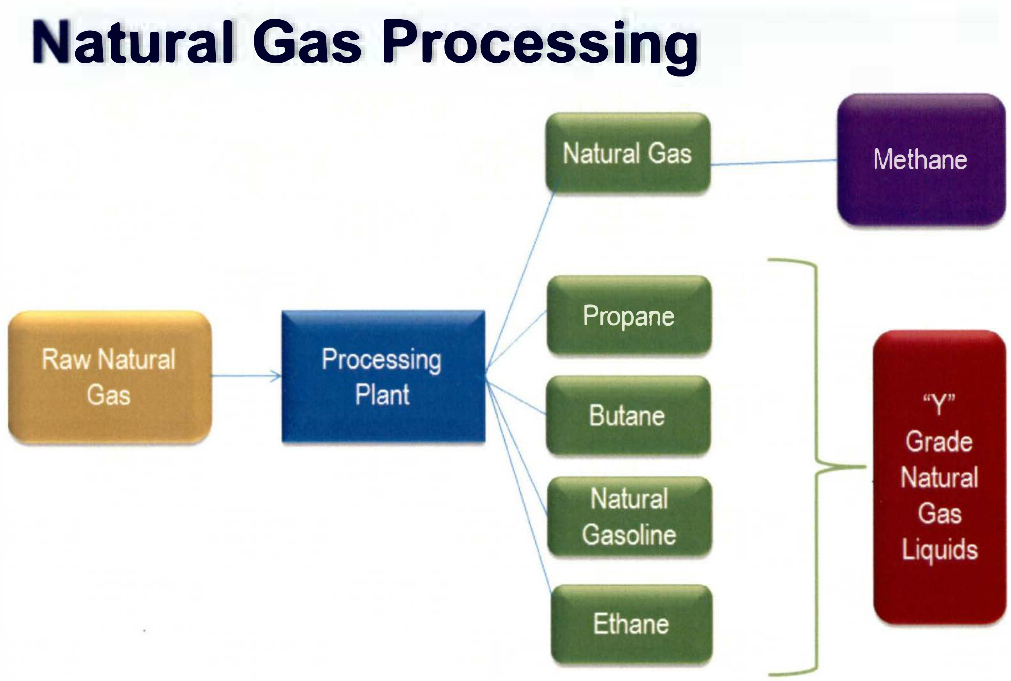


CAGR - Compounded Average Growth Rate

ONEOK, Inc
100 West Fifth Street
Tulsa, OK 74103
www.oneok.com

ONEOK

Getting Product to Market – Residue gas and natural gas liquids (NGLs) must be transported to a market for sale. Natural gas in the Williston Basin has a high concentration of NGLs entrained, which must be extracted, fractionated and transported to markets. ONEOK is nearing completion of an approximate 600-mile pipeline to transport NGLs to Overland Pass NGL Pipeline then to the Conway and Mont Belvieu NGL hubs. ONEOK is also building new fractionation at Bushton, Kansas, and Mont Belvieu, Texas, to separate the NGLs into marketable products such as ethane, propane, butanes and natural gasoline to serve petrochemical, refining and heating demand. ONEOK delivers residue gas to Williston Basin Interstate Pipeline to serve local market demand and redeliver to Northern Border Pipeline for transportation to Chicago where numerous markets can be accessed.

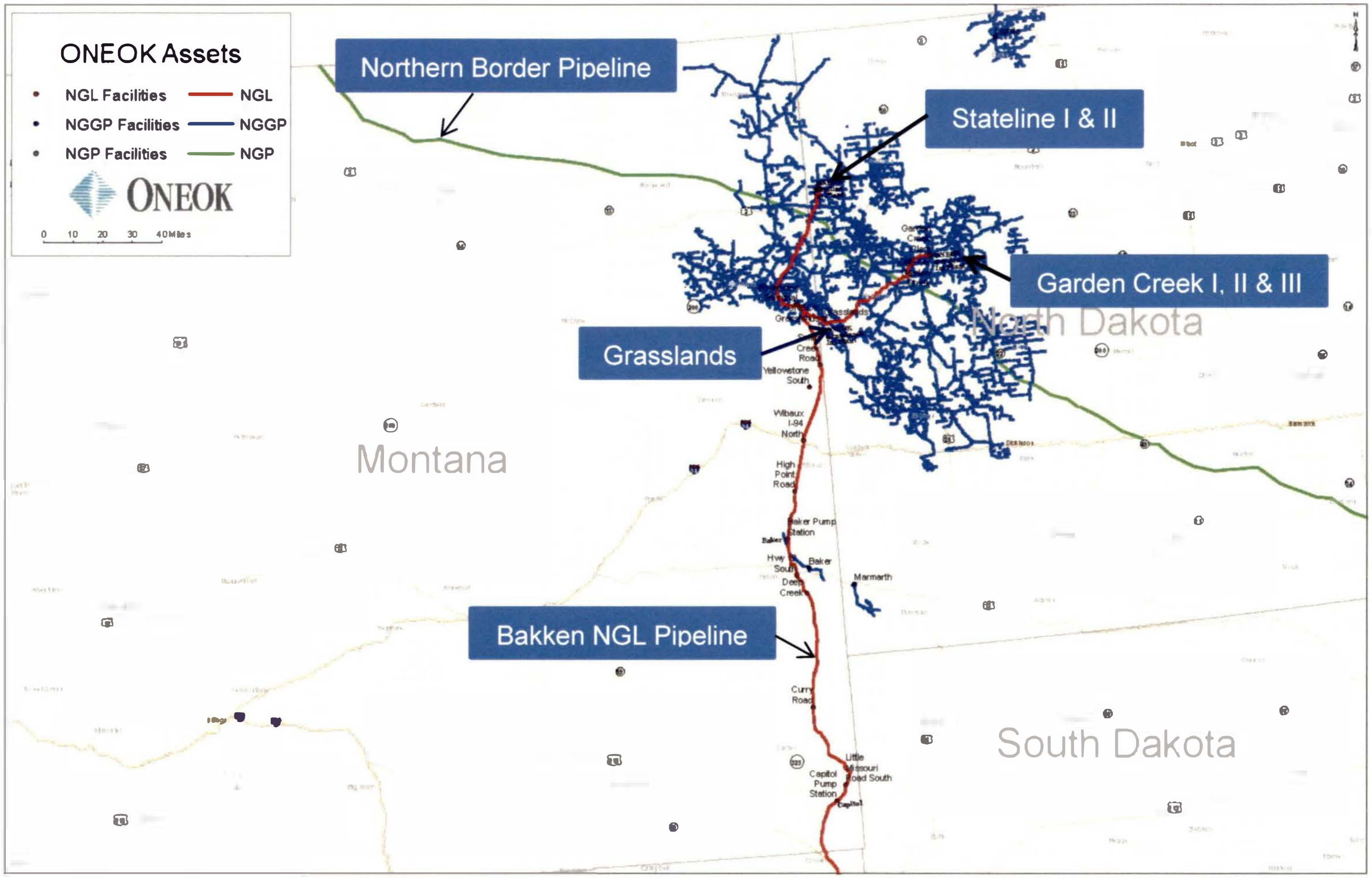


Gas Flares – A number of things contribute to flared gas – including time to acquire ROW, lengthy land owner negotiations, federal regulatory processes, difficult terrain or wetlands, dependence on downstream infrastructure under construction, hydraulic issues for high initial production rates in small diameter pipe, hydrogen sulfide in the gas, and uneconomic connections due to distance from existing systems or low-volume wells. Early on in the development of Bakken and Three Forks formations, much of the flaring was attributed to lack of adequate infrastructure and personnel resources. Over the past two years we have brought a significant amount of capacity online to alleviate flared gas. Acquiring ROW continues to cost more and take longer due to landowner demands or inability to contract with out of state landowners. Not all initial production is captured from some wells, but in most cases the issues get resolved over time and eventually the wells get connected to gathering systems. There remain certain areas that it is very difficult to build pipelines due to federal regulatory processes, terrain, or wells are too far from infrastructure, but we continue to look for solutions to these issues.

Thank you for the opportunity to present this information.

ONEOK, Inc.
100 West Fifth Street
Tulsa, OK 74103
www.oneok.com

ONEOK



ONEOK, Inc
100 West Fifth Street
Tulsa, OK 74103
www.oneok.com