

NORTH DAKOTA LEGISLATIVE MANAGEMENT

Minutes of the

ENERGY DEVELOPMENT AND TRANSMISSION COMMITTEE

Wednesday, November 29, 2017

Hess Corporation Office, 3015 16th Street SW #20, Minot, North Dakota

Thursday, November 30, 2017

City Hall, 515 Second Avenue SW, Minot, North Dakota

Senator Rich Wardner, Chairman, called the meeting to order at 12:00 noon.

Members present: Senators Rich Wardner, Brad Bekkedahl, Jim Dotzenrod, Merrill Piepkorn, David S. Rust, Jessica Unruh; Representatives Mike Brandenburg, Corey Mock, Todd Porter, Gary R. Sukut

Members absent: Representatives Tracy Boe, Ben Koppelman

Others present: Representative Larry Bellew, Minot, member of the Legislative Management
Senators Randall A. Burckhard and Oley Larsen, Minot; Representatives Andrew G. Maragos and Dan Ruby,
Minot

See [Appendix A](#) for additional persons present.

It was moved by Representative Mock, seconded by Senator Bekkedahl, and carried on a voice vote that the minutes of the October 30-31, 2017, meeting be approved as distributed.

Chairman Wardner said the committee has previously traveled to Williston and Dickinson to gather information from hub cities and hub city school districts related to the committee's study of the formulas for allocating oil and gas tax revenues. He said the committee will receive information from representatives of the City of Minot and will tour various sites in Minot to view the impact of oil and gas development activity. He said the state and political subdivisions in non-oil-producing counties benefit from oil and gas development activity through state tax revenue collections which are used to provide funding for infrastructure, schools, and the legacy fund. He said one of the challenges for companies operating in the hub cities is attracting and retaining qualified workers. He said quality of life factors, which require investments by hub cities, are important to workforce recruitment. He said hub cities need an adequate level of funding from oil and gas tax allocations because of the debt incurred to improve the quality of life in the community and to support oil and gas development activities.

CITY OF MINOT

Mr. Chuck Barney, Mayor, Minot, provided comments ([Appendix B](#)) regarding the City of Minot's growth related to oil and gas development activities. He said oil and gas development activity has led to increases in population, student enrollments, and demand for services, which have created challenges for the city. He said the flood event of 2011 temporarily slowed the growth in the city, but the city's population did not decrease as a result of the flood.

Mr. Tom Barry, City Manager, Minot, presented information ([Appendix C](#)) regarding an overview of Minot's role as a hub city. He said no oil wells are located within the city, but the city is a gateway to the oil wells in Bottineau County and in the Bakken. He said several oil and gas companies have operating bases in Minot. He said companies chose to locate in Minot because of the airport, workforce from the Air Force base, schools, and retail services.

OIL AND GAS INDUSTRY**American Petroleum Institute Bakken Chapter**

Mr. Brett Tinnis, President, American Petroleum Institute Bakken Chapter, presented information ([Appendix D](#)) regarding a summary of oil and gas industry operations in Minot. He said the American Petroleum Institute (API) is a trade association for the oil and gas industry that promotes safety in the industry and supports public policy to benefit oil and gas development activities. He said the local chapter helps to develop cooperation between companies in the industry through regular meetings, fundraising events, and hosting guest speakers. He said an estimated 1,200 employees from the oil and gas industry live in Minot according to a survey of 18 companies that are members of the API Bakken Chapter.

Hess Corporation

Mr. Brent Lohnes, Director, North Dakota Operations, Hess Corporation, presented information ([Appendix E](#)) regarding Hess's operations in Minot. He said the company has 187 employees in Minot plus additional employees that rotate into the Minot office through weekly charter flights from Houston. He said the company owns a natural gas processing plant in Tioga, which has a capacity to process 250 million cubic feet of natural gas per day. He said the 2018 operating budget for Hess reflects capital investments of approximately \$905 million and the completion of approximately 100 new oil wells.

In response to a question from Senator Bekkedahl, Mr. Lohnes said on average, one of Hess's 1,280-acre spacing units will have one oil well pad with 17 oil wells, including 9 wells drilled in the Bakken Formation and 8 wells drilled in the Three Forks Formation.

In response to a question from Chairman Wardner, Mr. Lohnes said Hess has completed a few oil well refractures, but the projects were not economical. He said most of the oil wells drilled by Hess use 500-foot spacing between the laterals which provides efficient oil recovery. He said the additional efficiency gained from refracturing did not increase oil recovery rates to a level needed to be profitable.

The committee conducted a tour of the Hess Corporation office building. Mr. Lohnes identified the office space designated for each of the major divisions that monitor the company's operations in the Bakken, including space for production management, royalty processing, vehicle fleet tracking, and finance and accounting. He said sometimes two or three employees are assigned to one cubicle due to space limitations in the building.

The committee traveled to the Cameron Surface Systems facility, 205 42nd Street SE # 500, Minot.

Cameron Surface Systems

Mr. Grant Moffett, Resource Manager, Cameron Surface Systems, presented information ([Appendix F](#)) regarding the operations of Cameron. He said Cameron was acquired by Schlumberger in 2016 and builds oil well surface systems, such as wellheads and flow control valves. He said Cameron established a Minot location in 2007 with three employees and grew to 110 employees in 2017. He said Cameron chose to locate in Minot because of the available workforce and the amenities for families.

In response to a question from Senator Rust, Mr. Moffett said the average employee is approximately 30 years old and earns between \$90,000 and \$100,000 per year.

In response to a question from Representative Sukut, Mr. Moffett said the company provides on-the-job training for new employees. He said some positions involve skills that require a technical degree, but a variety of positions have been filled by individuals with no prior related work experience.

Mr. Moffett led the committee on a tour of the shop floor. He identified the cranes and heavy lifting machinery, the welding bays, and the pressure testing chambers. He said the company plans to increase to 130 employees by the end of 2018, an increase of 20 employees.

The committee traveled to the Enbridge Pipeline facility, 2531 Fifth Avenue NE, Minot.

Enbridge Pipelines

Mr. Kevin Ruffatto, North Dakota Regional Director, United States Liquid Pipeline Operations, Enbridge Inc., presented information ([Appendix G](#)) regarding Enbridge's operations in Minot. He said Enbridge generates and transports energy in Canada and the United States. He said Enbridge purchased the pipeline facilities in Minot in 1996 to increase the company's transportation capacity. He said there are currently 95 employees located in Minot working in field operations and office support roles.

In response to a question from Senator Burckhard, Mr. Ruffatto said the lifespan of a pipeline is potentially unlimited with proper maintenance. He said soil conditions, accidents, and the need to add capacity may result in the early replacement of a pipeline.

In response to a question from Chairman Wardner, Mr. Ruffatto said Enbridge purchased a 25 percent share in the Dakota Access Pipeline. He said the company invested \$800 million in the Sandpiper Pipeline project, but the project is currently on hold.

Mr. Ruffatto led the committee on a tour of the origination site for Line 81, the starting point for a 281-mile long, 16-inch wide crude oil pipeline that ends in Clearbrook, Minnesota. He said the pipeline transports approximately 225,000 barrels of North Dakota crude oil per day. He said the pumping units at the site that pressurize the line require as much electrical power as 1,700 homes.

In response to a question from Representative Mock, Mr. Ruffatto said the oil travels at approximately 12 to 15 miles per hour in the pipeline, which is twice as fast as the rate in an average pipeline. He said Enbridge uses specialized additives to reduce friction allowing the oil to travel at faster speeds without additional pumping capacity.

The committee traveled to the Baker Hughes facility, 1001 US Highway 83 Bypass, Minot.

Baker Hughes

Mr. Calvin Larson, Account Manager, Baker Hughes, presented information ([Appendix H](#)) regarding the operations of Baker Hughes in Minot. He said Baker Hughes has 55,000 employees worldwide with operations in 120 countries. He said the Minot location was chosen for the availability of qualified workers and the convenient highway access to the oilfields. He said the facility in Minot is the second highest revenue generating facility in the United States within Baker Hughes' operations.

Mr. Larson led the committee on a tour of the workshop building in Minot. He identified the areas of the building where electric submersible pumps are assembled and drilling motors are refurbished. He said Baker Hughes produces or distributes eight product lines from the Minot facility.

In response to a question from Senator Bekkedahl, Mr. Larson said an estimated 10,000 oil wells in North Dakota have pieces of equipment or receive services from Baker Hughes.

CITY OF MINOT

Impact of Oil and Gas Development Activity

Mr. Barry presented information ([Appendix I](#)) regarding the impact of oil and gas development activity on the city of Minot. He said the city's size increased from 9,600 acres in 2007 to 17,750 acres in 2017. He said Minot's role as a gateway to the Bakken is highlighted by the traffic counts on US Highway 2 heading west from Minot, which increased from 3,950 in 2007 to a peak of 11,055 in 2014. He said the city also serves as a regional hub for other services, including water supply, air transportation, waste collection, and recreational activities. He said the City of Minot anticipates a decrease of \$2 million per year resulting from changes in the oil and gas tax revenue allocation formula approved by the 2017 Legislative Assembly. He said the \$2 million decrease is equivalent to approximately 9 mills of property tax revenue.

In response to a question from Representative Porter, Mr. Barry said the value of one mill is \$214,000.

In response to a question from Senator Bekkedahl, Mr. Barry said 53 percent of the city's true and full value relates to residential property, 46 percent relates to commercial property, and 1 percent relates to utility property.

Economic Development

Ms. Stephanie Hoffart, President and Chief Executive Officer, Minot Area Development Corporation, presented information ([Appendix J](#)) regarding Minot's economic development efforts. She said the oil and gas employment and building permits in Minot followed the trends in oil prices with jobs and permits increasing to a peak in 2014, decreasing through 2016, and then increasing in 2017. She said the oil and gas development activity impacted civilian employment at the Minot Air Force Base resulting in pay increases, retention bonuses, and housing allowances. She said the Minot Industrial Park recently received a certified site designation from BNSF Railway allowing businesses to more easily connect to railroad access which will help promote economic development in Minot.

Infrastructure Projects

Mr. Lance Meyer, City Engineer, Minot, presented information ([Appendix K](#)) regarding infrastructure projects. He said garbage collection at the landfill increased from 40,000 tons per year in 2004 to 80,000 tons per year in 2012. He said the city is in the process of expanding the landfill to accommodate the additional garbage collections at a cost of approximately \$2 million for the new cells. He said Minot has constructed approximately 100 miles each of sewer, water, and roadway infrastructure since 2006. He said future infrastructure projects include \$15 million for storm water conveyance, \$32 million for roadway expansion, and \$6 million for a sewer lift station.

In response to a question from Chairman Wardner, Mr. Meyer said the city utilizes a lagoon system for wastewater treatment, but may need to consider a mechanical treatment system in the future.

Representative Brandenburg said the state provided "surge funding" and other special appropriations for road projects in the 2013 and 2015 legislative sessions, but state funding for road projects will be more limited in the future. He said political subdivisions may need to seek funding from sources other than the state for future projects. He said the interim Government Finance Committee is assigned the responsibility to study the funding mechanisms available to the Department of Transportation and political subdivisions for road construction and maintenance.

The committee traveled to Minot City Public Works, 1025 31st Street SE, Minot.

Public Works

Mr. Dan Jonasson, Director, Public Works, Minot, presented information ([Appendix L](#)) regarding Minot's public works operations. He said department personnel increased from 40 in 2007 to 54 in 2017. He said Minot has the second highest water and wastewater utility rates in the state with Watford City having the highest. He said Minot provides regional services for garbage collection and water supply. He said the department is in the process of planning for a water treatment expansion project with an estimated cost of \$24.5 million. He said challenges in the department's operations include hiring qualified personnel, retaining employees with technical skills, and training new hires.

In response to a question from Senator Bekkedahl, Mr. Jonasson said daily water usage averages 5.8 million gallons per day in the winter and peaks at 14 million gallons per day in the summer.

In response to a question from Representative Mock, Mr. Jonasson said the water treatment plant is located in the floodplain. He said a 1,700-foot floodwall was constructed for \$25 million to protect the water treatment plant site, including the expansion project. He said the cost to relocate the water treatment plant would have been more than \$25 million.

In response to a question from Representative Brandenburg, Mr. Jonasson said the city levies approximately two mills to support the city's transit system.

Mr. Jonasson led the committee on a tour of the Public Works building. He identified the shop area and the equipment storage area. He said some of the department's equipment is owned, but some, such as extra snow removal equipment, is leased to save on costs.

The committee traveled to Minot International Airport, 305 Airport Road, Minot.

MINOT INTERNATIONAL AIRPORT

Mr. Rick Feltner, Director, Minot International Airport, presented information ([Appendix M](#)) regarding the airport's operations and capital projects. He said passenger enplanements increased from 76,000 in 2009 to 220,000 in 2012. He said passenger enplanements totaled approximately 160,000 in 2016. He said Minot's old passenger terminal was constructed in 1991 with a capacity to handle 100,000 enplanements. He said the new passenger terminal was constructed at a cost of \$84 million and opened in February 2016. He said the new terminal is designed to meet the needs of the region for 30 years and can handle up to 500,000 enplanements when fully utilized. He said the new terminal was built for future expansion and has four jet bridges with the ability to add two more when needed.

Mr. Feltner led the committee on a tour of the airport terminal. He identified the baggage handling area as well as the gate area for passengers. He said the terminal was designed to accommodate the Transportation Security Administration's screening equipment and space needs, which have increased significantly in the past 10 years.

The committee traveled to the Ward County Building and Jail, 315 Third Street SE, Minot.

PUBLIC SAFETY

Ms. Kelli Flermoen, Fire Chief, Minot, presented information ([Appendix N](#)) regarding the operations of Minot's fire department. She said calls for service, including both fire services and emergency medical services, increased from approximately 2,400 in 2010 to approximately 3,000 in 2016. She said the department has 29 individuals with less than 5 years of experience compared to 6 individuals in 2007. She said a number of long-time employees left during the oil boom to pursue job opportunities in the oil field, which offered higher pay. She said training new firefighters is a resource intensive process that requires 240 hours of initial training along with 16 hours of required monthly training.

Mr. Jason T. Olson, Chief of Police, Minot, presented information ([Appendix O](#)) regarding the impact of oil and gas development activity on police operations. He said most of the increases in violent crime and property offenses in Minot are drug-related. He said the department noticed a number of the criminals have ties to California. He said calls for service increased by 37 percent from 2007 to 2016. He said the department increased its staff from 60 sworn officers in 2011 to 81 in 2017. He said some of the department's challenges include high turnover, difficulty recruiting, and a lack of experience handling serious crimes.

Dr. Jeffrey A. Sather, Chief of Medicine and Medical Director, Emergency Trauma Center, Trinity Hospital, submitted written testimony ([Appendix P](#)) regarding the impact of oil and gas development activity on medical care. According to the testimony, Trinity Hospital in Minot is the only level two trauma center in northwestern North Dakota and as a result, receives many of the patients with serious injuries and illnesses from the Bakken area. Emergency trauma center volume increased from 24,651 patients in 2007 to 33,443 patients in 2017. He said bad debt from patients who are unable to pay their medical bills is a growing challenge for the hospital.

WARD COUNTY

Mr. Robert Barnard, Sheriff, Ward County, presented information ([Appendix Q](#)) regarding public safety operations in Ward County. He said calls for service increased from 9,266 in 2011 to 18,554 in 2017. He said the average daily population of the Ward County Detention Center increased from 81 in 2008 to 113 in 2014. He said one of the major financial challenges for the Sheriff's office is the medical treatment costs associated with inmates at the jail, which increased from \$19,000 per year in 2012 to \$549,000 in 2017. He said the county is in the process of completing a \$40 million expansion project at the jail facility.

In response to a question from Senator Bekkedahl, Mr. Barnard said the expansion project is on budget and is anticipated to be completed in December 2017, 7 months ahead of schedule.

Mr. Barnard led the committee on a tour of the expanded jail facility. He said the expansion project will increase the jail's capacity to 289 beds. He said most of the cells have two beds, but some cells have a single bed allowing the officers to separate inmates as needed.

The committee traveled to City Hall, 515 Second Avenue SW, Minot.

CITY OF MINOT City Finances

Mr. David Lakefield, Finance Director, Minot, presented information ([Appendix R](#)) regarding the city's finances, including revenue sources and debt levels. He said Minot imposes a 2 percent sales tax, which is allocated to flood control, economic development, infrastructure improvements, and property tax relief. He said sales tax collections totaled \$13.2 million in 2007 and are anticipated to total \$18.2 million in 2017. He said the mill rate increased by 29 mills, or 34 percent, from 78 mills to 107 mills, for the property taxes levied in 2017 and payable in 2018. He said property values decreased, which required a larger mill rate increase, so that the city could levy the funding needed for the budget. He said the city has a credit rating of Aa2 and \$104.4 million of debt.

In response to a question from Chairman Wardner, Mr. Lakefield said overall property valuations decreased by approximately 8 percent, including a decrease of approximately 4 percent for residential properties and a decrease of approximately 30 percent for hotel properties.

Future Needs

Mr. Shawn Gaddie, Division Manager, Advanced Engineering and Environmental Services, Inc., Grand Forks, presented information ([Appendix S](#)) regarding a study of the operational and financial needs of Minot. He said the study of Minot's needs complements a study of six other cities in western North Dakota, which was presented to the committee at prior meetings. He said the population of Minot is projected to total 53,870 in 2023 compared to 47,900 in 2017. He said Minot may need an additional 42 full-time equivalent (FTE) positions and \$303 million of funding for capital improvement projects by 2023. He said the \$303 million of capital improvement projects includes \$109 million related to flood control projects. He said Minot's projected cumulative budgetary shortfall for 2018 through 2023 is \$181 million, including \$69 million of funding needs related to flood control projects, based on the study's projections for revenue sources and expenses.

MINOT PUBLIC SCHOOL DISTRICT

Mr. Mark Vollmer, Superintendent, Minot Public School District, presented information ([Appendix T](#)) regarding enrollment growth, challenges in operations, and funding needs. He said K-12 enrollment decreased steadily from 1995 to 2006, but increased from 2007 to 2017 due to the oil and gas development activity. He said enrollment totaled 7,415 as of September 2017. He said the school district was using 23 portable classrooms after the 2011 flood event, but currently uses only 2 portable classrooms. He said the state school aid funding formula is based on the oil and gas tax revenue from the prior school year, which can be a budgeting challenge for the school district, particularly when the formula changes. He said the school district was impacted by large increases in student enrollment, but the district did not qualify for rapid enrollment funding. He said the school district is in the process of planning for future growth. He said the current high school has two campuses, but future plans include the possibility of separating the current high school into two high school systems.

In response to a question from Senator Rust, Mr. Vollmer said the district utilizes most of the oil and gas gross production tax revenue allocations in the district's general fund because the school district did not receive rapid enrollment funding.

In response to a question from Representative Mock, Mr. Vollmer said the school district decided to relocate Erik Ramstad Middle School after the 2011 flood event. He said 90 percent of the cost to rebuild the school was paid with funding from the Federal Emergency Management Agency.

OTHER

Mr. Barry presented information ([Appendix U](#)) regarding an update related to the 2011 flood event. He said cities often experience a decrease in population after a major natural disaster, but Minot's population continued to increase after the flood. He said approximately 3,800 homes were inundated during the flood and all were repaired, rebuilt, or replaced except for 166 homes.

Chairman Wardner said the committee's next meeting will be in Bismarck on Wednesday, January 24, 2018. He said the committee will receive information related to the study of wind energy taxation.

No further business appearing, Chairman Wardner adjourned the meeting at 4:00 p.m.

Adam Mathiak
Senior Fiscal Analyst

ATTACH:21