

**TESTIMONY, HOUSE FINANCE AND TAX COMMITTEE
JANUARY 26, 2021
HOUSE BILL 1358**

**TIM PORTER – CHIEF FINANCIAL OFFICER
BANK OF NORTH DAKOTA**

Mr. Chairman and members of the Committee, for the record my name is Tim Porter, Chief Financial Officer at Bank of North Dakota. I am here today to offer our thoughts on House Bill 1358 regarding establishing a process for hedging oil prices. In addition, I will provide the committee with some of the results from the Hedge Study we conducted from October 2019 through September 2020.

First of all, BND supports the amendments that you see before you in House Bill 1358. These amendments would initiate an Oil Hedging Advisory Committee who would review hedge strategies and have the authority to hire an outside consultant that specializes in developing oil hedge strategies. We think it's important that the oversight of this function rest with a committee that has representation across state government, including the legislative branch.

The legislation also addresses an appropriation of \$20,000,000 which will be helpful in establishing an overall strategy to adequately cover the risk of falling oil prices.

I've also included four pages from the hedge study that BND completed. These pages include historical perspectives of oil prices broken down by biennium and includes a look at the basis risk (WTI vs. Bakken price) as well as the biennial budget oil price versus the actual price for the past few bienniums. Page three describes the types of hedging instruments used in our study, and page four provides a monetary summary of the premiums we paid to purchase puts and the settlement values we realized when the oil price dropped below the floors established in our trades.

Overall, BND can play a role in establishing a strategy to reduce the risk of falling oil prices, but this risk needs to be on the state's balance sheet, not BND's. By establishing the Oil Hedging Advisory Committee and providing an appropriation, these amendments open an important dialogue for the legislature to debate whether it's desire is to pay for the insurance to help protect a portion of the state's budget.

That concludes my testimony, Mr. Chairman and I would be happy to answer any questions.