

# MICROFILM DIVIDER

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ROLL NUMBER

DESCRIPTION

1341

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Deanna Hallworth  
Operator's Signature

10/3/03  
Date

2003 HOUSE NATURAL RESOURCES

HB 1341

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Date

2003 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. 1341

House Natural Resources Committee

Conference Committee

Hearing Date February 6, 2003

Tape Number	Side A	Side B	Meter #
3	xx		3120-5089
3		xx	469-640
Committee Clerk Signature <i>Erin Meyer</i>			

Minutes:

**Chair Nelson** called the meeting on HB 1341 relating to royalty exemptions for oil and gas produced on public lands to order.

**Rep. Skarphol:** This bill is here to fix the under exploration of land in North Dakota. This bill is designed to mimic Saskatchewan policy on exploration. I do not predict a massive use of this policy. This will help create some interest in new areas for exploration. This request has to come in before the well is drilled.

**Rep. Solberg:** The double royalty would be in effect for the life of the well.

**Rep. Skarphol:** The company has recovered the drilling and casing costs. Then it would be in effect for the life of the well.

**Chair Nelson:** Do you anticipate how much activity will occur from this bill.

**Rep. Skarphol:** Two of the three companies I spoke to were not interested.

**Rep. Keiser:** Rather than a double royalty it could be paid off over time?

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*Dennis Hall*  
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*10/3/03*  
Date

Page 2  
House Natural Resources Committee  
Bill/Resolution Number 1341  
Hearing Date February 6, 2003

**Rep. Skarphol:** This was patterned after Saskatchewan. This is what they do.

**Dennis Daniel:** Testified in opposition to 1341. You should be careful what you give away.

**Ron Ness:** ND Petroleum Council. Testified in opposition to HB 1341. This bill has good intentions, however there are many bills that do a better job of addressing this issue.

**Rick Larson (4489):** ND State Land Department. Testified against HB 1341. (See Attached Testimony).

**Chair Nelson** closes the hearing.

Committee Work:

**Chair Nelson** called the meeting to order.

**Rep. Clark** Moved a Do Not Pass on HB 1341 seconded by **Rep. Solberg**.

The motion carried by a vote of 14-0-0. **Rep. Norland** carried.

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*Dennis Daniel*  
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10/3/03  
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**FISCAL NOTE**  
 Requested by Legislative Council  
 01/15/2003

Bill/Resolution No.: HB 1341

1A. **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.

	2001-2003 Biennium		2003-2005 Biennium		2005-2007 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
<b>Revenues</b>			(\$188,005)	(\$282,007)	(\$99,578)	(\$149,368)
<b>Expenditures</b>				\$21,938		\$22,596
<b>Appropriations</b>				\$21,938		\$22,596

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

2001-2003 Biennium			2003-2005 Biennium			2005-2007 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

2. **Narrative:** Identify the aspects of the measure which cause fiscal impact and include any comments relevant to your analysis.

The aspect of the HB1341 that allows a royalty "holiday" causes revenues to be either deferred or permanently reduced.

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.

General fund revenue will be reduced due to decreased oil and gas royalty collections in the Lands and Minerals fund. Special fund revenue will be reduced due to decreased oil and gas royalty collections in the permanent educational trusts managed by the Board of University and School Lands.

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.

The increased expenditures result from the need for audits of the drilling costs.

C. **Appropriations:** Explain the appropriation amounts. Provide detail, when appropriate, of the effect on the biennial appropriation for each agency and fund affected and any amounts included in the executive budget. Indicate the relationship between the amounts shown for expenditures and appropriations.

The increase in appropriation reflects audit activity that would take place assuming 12 oil wells per biennium fell under the provisions of HB 1341. A .25 FTE position would be needed to conduct operator drilling cost audits.

<b>Name:</b>	Keith W. Bayley	<b>Agency:</b>	Land Department
<b>Phone Number:</b>	328-1912	<b>Date Prepared:</b>	01/22/2003

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*Demetrius Hall*  
 Operator's Signature

10/3/03  
 Date

Date: 2/6/03  
Roll Call Vote #: 1

2003 HOUSE STANDING COMMITTEE ROLL CALL VOTES  
BILL/RESOLUTION NO. 1341

House House Natural Resources Committee

Check here for Conference Committee

Legislative Council Amendment Number \_\_\_\_\_

Action Taken Do Not Pass

Motion Made By Clark Seconded By Solberg

Representatives	Yes	No	Representatives	Yes	No
Chairman Jon O. Nelson	✓				
Vice-Chairman Todd Porter	✓				
Rep. Byron Clark	✓				
Rep. Duane DeKrey	✓				
Rep. David Drovdal	✓				
Rep. Lyle Hanson	✓				
Rep. Bob Hunskor	✓				
Rep. Dennis Johnson	✓				
Rep. George Keiser	✓				
Rep. Scott Kelsh	✓				
Rep. Frank Klein	✓				
Rep. Mike Norland	✓				
Rep. Darrell Nottestad	✓				
Rep. Dorvan Solberg	✓				

Total (Yes) 14 No 0

Absent 0

Floor Assignment Norland

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

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Dorvan Solberg  
Operator's Signature

10/3/03  
Date

REPORT OF STANDING COMMITTEE (410)  
February 6, 2003 6:22 p.m.

Module No: HR-23-1928  
Carrier: Norland  
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE  
HB 1341: Natural Resources Committee (Rep. Nelson, Chairman) recommends **DO NOT**  
**PASS** (14 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). HB 1341 was placed on  
the Eleventh order on the calendar.

(2) DESK, (3) COMM

Page No. 1

HR-23-1928

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2003 TESTIMONY

HB 1341

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10/3/03  
Date



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[www.land.state.nd.us](http://www.land.state.nd.us)  
[www.discovernd.com](http://www.discovernd.com)



Gary D. Preszler, Commissioner

**TESTIMONY OF RICK D. LARSON  
Director of Minerals Management  
North Dakota State Land Department**

**IN OPPOSITION TO  
HOUSE BILL NO. 1341**

**House Natural Resources Committee  
February 6, 2003**

The Board of University and School Lands, through the office of the Commissioner of University and School Lands, also known as the State Land Department, manages property given to the state of North Dakota by the federal government when we became a state and manages minerals acquired by the State through the years. The property is held in 14 trusts to be used exclusively for various schools and institutions, including the common schools trust (public grades K-12) and minerals acquired by the State in the Land and Minerals Trust Fund. The mineral interests in all of these trusts are leased through a public bidding process for mineral development, including drilling of oil and gas wells. Those assets are managed as a prudent investor would manage assets.

It is our opinion that the degree of uncertainty and speculation in the application of this bill would not be appropriate for the Board of University and School Lands, acting in their fiduciary capacity as trustees. House Bill 1341 provides that the Board of University and School Lands can enter into an agreement with an oil company and provides that the company could drill an oil well and the Board would not receive any royalty until the company recovered its cost of drilling the well. Thereafter the Board would receive a royalty of twice as much as is in the lease agreement. This type of arrangement is extremely risky.

In North Dakota oil is found in only one of seven wildcat wells. This statistic only shows the risk of drilling wells; not the capacity of a well to generate sufficient revenue to pay for the cost of drilling the well. The following chart helps to illustrate why we think it is imprudent to enter into such an arrangement. We have used the following information and assumptions preparing this chart:

- In the last six years, 42 wells were completed on state-owned minerals. We took the first twelve of these wells to determine, in hindsight, if it would have been profitable for the Board to have speculated and entered into an agreement provided for in the bill.
- Drilling and completion costs are calculated at \$74.07 per foot. This is an old published figure from the Independent Petroleum Association of America and is the average cost of drilling and completing a well in North Dakota. We have used this average because we do not know actual drilling costs for these wells. In discussions with Lynn Helms, Director of the Oil and Gas Division of the Industrial Commission, this figure is probably low and could be closer to \$85.00 per foot.
- We used 4.5% to calculate the time value of money.
- We used actual values for these wells to date and used a constant figure of \$20.59 per barrel of oil for future production. This is the average price per barrel we received for the year 2002.

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