

MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION

SFN 2053 (2/85) 5M



ROLL NUMBER

DESCRIPTION

1498

2005 HOUSE FINANCE AND TAXATION

HB 1498

2005 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. **HB 1498**

House Finance and Taxation Committee

Conference Committee

Hearing Date **January 24, 2005**

Tape Number	Side A	Side B	Meter #
1	X		35.8
Committee Clerk Signature <i>Janice Stein</i>			

Minutes:

REP. WES BELTER, CHAIRMAN Called the committee hearing to order.

REP. TODD PORTER, DIST. 34, MANDAN Introduced the bill. This bill is before you to deal with the situation that refinery and gas processing plants have, as the EPA comes forward with more and more environmental, upgrade policies. We dealt with one a few years ago regarding the reducing sulphur in the fuels, as we move forward, there are more environmental upgrades which need to take place in all of these plants across the state. For that reason, we introduced this bill to exempt those purchases which deal with those enhancements, to be free of sales tax. Also stated he had an amendment to present.

SEN. DWIGHT COOK, DIST. 34, MANDAN Testified in support of the bill. Directed his testimony to "use" taxes. We have exemptions on groceries, which everybody gets. Use based exemptions are different. We struggle with which exemptions should we approve and which we should not approve. I have two ways in which we can come up with these type of exemptions.

By providing this exemption, will it cause a large expenditure to be made and further economic development, that otherwise, would not have been made. Rep. Porter talked about the previous exemption we gave to the refinery in Mandan, the only refinery in the state, when they were faced with a major environmental upgrade. That piece of legislation was in 1999, we sunsetted it, the legislature saw in their wisdom, to pass that. It has since sunsetted, the major upgrade was made completed, and that refinery is still in business, contributing many tax dollars in Mandan. The second way I look at a justification of a use tax exemption is for environmental reason. We know what is happening in this environmental world right now, many of our industries are faced with challenges because of laws that we and the federal government make. A lot of these challenges come with a big price tag. This is a bill that is very worthwhile.

SEN. RANDY CHRISTMANN, DIST. 33 Testified in support of the bill. See attached written testimony.

RON NESS, PRESIDENT OF THE NORTH DAKOTA PETROLEUM COUNCIL

Testified in support of the bill. See attached written testimony.

REP. BELTER The one hundred thousand dollar exemption applies to the refinery and all gas plants

RON NESS That is correct, this is an environmental plant project, any project that will exceed one hundred thousand dollars is a planned out process.

RON DAY, MANAGER OF HEALTH, SAFETY, AND ENVIRONMENT AT THE TESORO MANDAN REFINERY. Testified in support of the bill. See attached written testimony.

Page 3

House Finance and Taxation Committee

Bill/Resolution Number **HB 1498**

Hearing Date **January 24, 2005**

JEFF HERMAN, REGIONAL MANAGER FOR PETROL HUNT, KILLDEER, ND

Testified in support of the bill. We do not have any projects coming up in the next five years, but with EPA you never know.

REP. BELTER TO RON DAY Did you say your company has five refineries?

RON DAY We have a total of six refineries.

REP. BELTER Where does this one rank in size to the others?

RON DAY We are one of the small ones. There is a sister refinery in Salt Lake City that is the same size we are, everybody else is almost double our size.

REP. BELTER Where are the bigger plants located?

RON DAY One is in San Francisco, Washington, Alaska, Hawaii and Salt Lake City.

With no further testimony, the hearing was closed.

2005 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. **HB 1498**

House Finance and Taxation Committee

Conference Committee

Hearing Date **February 2, 2005**

Tape Number	Side A	Side B	Meter #
1		X	6.9
Committee Clerk Signature			

Minutes:

COMMITTEE ACTION

Committee members reviewed amendments which were presented.

REP. IVERSON Made a motion to adopt amendment #50698.0201 as presented.

REP. OWENS Second the motion. Motion carried by voice vote.

REP. IVERSON Made a motion for a **do pass as amended**.

REP. BRANDENBURG Second the motion. **Motion carried**

13 yes 0 no 1 absent

REP. DROVDAL Was given the floor assignment.

FISCAL NOTE
 Requested by Legislative Council
 02/08/2005

Amendment to: HB 1498

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.*

	2003-2005 Biennium		2005-2007 Biennium		2007-2009 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures						
Appropriations						

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

2003-2005 Biennium			2005-2007 Biennium			2007-2009 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.*

Engrossed HB 1498 creates a sales tax exemption for machinery and equipment used to reduce emissions, increase efficiency or enhance reliability at new or existing refineries or processing plants.

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.*

The fiscal impact of Engrossed HB 1498 cannot be determined. It is not known which of existing facilities will undertake an environmental upgrade and which new facilities may qualify for this exemption.

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, 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.*

Name:	Kathryn L. Strombeck	Agency:	Office of Tax Commissioner
Phone Number:	328-3402	Date Prepared:	02/09/2005

FISCAL NOTE
 Requested by Legislative Council
 01/18/2005

Bill/Resolution No.: HB 1498

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.*

	2003-2005 Biennium		2005-2007 Biennium		2007-2009 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures						
Appropriations						

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

2003-2005 Biennium			2005-2007 Biennium			2007-2009 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.*

HB 1498 creates a sales tax exemption for machinery and equipment used to reduce emissions, increase efficiency or enhance reliability at new or existing refineries or processing plants.

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.*

The fiscal impact of HB 1498 cannot be determined. It is not known which of existing facilities will undertake an environmental upgrade and which new facilities may qualify for this exemption.

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, 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.*

Name:	Kathryn L. Strombeck	Agency:	Office of Tax Commissioner
Phone Number:	328-3402	Date Prepared:	01/21/2005

Date: 2-2-05
Roll Call Vote #: 1

2005 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. HB 1498

House FINANCE & TAXATION Committee

Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken Do Pass As Amended

Motion Made By Rep. Iverson Seconded By Rep. Brandenburg

Representatives	Yes	No	Representatives	Yes	No
BELTER, WES, CHAIRMAN	✓				
DROVDAL, DAVID, V-CHAIR	✓				
BRANDENBURG, MICHAEL	✓				
CONRAD, KARI	✓				
FROELICH, ROD	✓				
GRANDE, BETTE	✓				
HEADLAND, CRAIG	✓				
IVERSON, RONALD	✓				
KELSH, SCOT	A				
NICHOLAS, EUGENE	✓				
OWENS, MARK	✓				
SCHMIDT, ARLO	✓				
WEILER, DAVE	✓				
WRANGHAM, DWIGHT	✓				

Total (Yes) 13 No 0

Absent 1

Floor Assignment Rep. Drovdal

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

REPORT OF STANDING COMMITTEE

HB 1498, as amended, Finance and Taxation Committee (Rep. Belter, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (13 YEAS, 0 NAYS, 1 ABSENT AND NOT VOTING). HB 1498, as amended, was placed on the Sixth order on the calendar.

Page 1, line 13, after "investment" insert "greater than one hundred thousand dollars"

Page 3, line 5, after "investment" insert "greater than one hundred thousand dollars"

Renumber accordingly

2005 SENATE FINANCE AND TAXATION

HB 1498

2005 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. **HB 1498**

Senate Finance and Taxation Committee

Conference Committee

Hearing Date **February 28, 2005**

Tape Number	Side A	Side B	Meter #
#1	X		0.4 - 2.1
Committee Clerk Signature <i>Sharon Kenyon</i>			

Minutes:

SEN. URLACHER: called the committee to order and opened the hearing on HB 1498.

REP. PORTER: prime sponsor of the bill appeared in support stating this bill is a sales tax exemption bill relating to the environmental upgrades in equipment. The bill in front of you, a few sessions ago there was a one time sales tax exemption allowed to the Mandan BP Amoco Refinery for environmental upgrade and then a low __ fuel mandate came from the federal government. We had a bill that exempted used parts for that upgrade, it was a one time shot and since then Tesoro as bought the refinery and the federal mandates and the clean air standard mandates haven't ended nor will they and as you look at the environmental impact of those items and then you look at a refinery the size of Mandan which is probably one of the smallest in the nation, it certainly is something that we want to keep here because it not only serves a great purpose in the Bismarck Mandan area from the economic stand point but it also serves a huge

interest in Western ND for the oil exploration and utilization. I think its important that we offer them the ability to do these upgrades without paying any sales tax on them.

SEN. CHRISTMANN: cosponsor of the bill appeared in support stating we are very proud and happy that Tesoro has come in and taken ownership of that refinery and operated it the way operate it. Its a fine facility and have sunk an enormous amount of money into pollution controls and that sort of thing that do not enhance their bottom line, but just for their overall good of the environment and for all of us and think they should be commended for it.

SEN. COOK: cosponsor of the bill appeared in support stating one the most difficult policy decisions that I have to deal with in my district with this refinery is this issue of sales tax exemptions. The Legislature back in 1999 gave the refinery a sales tax exemption but we when we introduced the bill put a sunset on it and we did for a reason and that's because during that 2 year period that we allowed for the exemption is when that major environmental investment was going to be made. But we still put a sales tax exemption on it. This exemption is focused on environmental laws, in other words, policies set by the federal government that they must react to and that they must make a great investment to. That's what this exemption applies to.

RON NESS: ND Petroleum Council appeared in support with written testimony stating this sales tax exemption was intended towards those environmental upgrades that the EPA is forcing upon the refineries and other industries to use clean burning fuel.

SEN. EVERY: this \$100,000 is that the total exemption or total of the project?

ANSWER; total of the project.

SEN. EVERY: in our testimony when you said these costly EPA rules have lead to numerous facilities being shut down, is \$100,000 going to do it?

ANSWER: no, \$100,000 is not going to do it, we though we need to set the threshold somewhere and if you set it too high, then you completely take the gas plants off the picture and I think \$100,000 is still a significant investment for anybody. \$100,000 investment is not going to shut our refinery down but their doing another \$20 million dollar investment.

SEN. EVERY: where do they manufacturer and sell this machinery?

ANSWER: I will defer that to the following speaker who is the environmental coordinator

SEN. TOLLEFSON; the exemption is anything over \$100,000, correct? Yes

If this was forced upon the refinery by EPA, do they enter into any kind of tax breaks or situations that might benefit the refinery.

ANSWER: to my knowledge, there are no federal provisions.

RON DAY: Manager of Health, Safety & Environment @ the Mandan Refinery appeared in support with written testimony stating Tesoro purchased the refinery in 2001 and the refinery was roughly \$200 million dollars since that time we spent another 100 million in capital investments. Of that 100 million over 90 million of that is strictly for environmental purposes. We're are going to spend another 20 million dollars this year and next year for clean fuels, that allows us to stay in business. That does not grow our capacity at all, strictly to meet EPA regulations.

Answer to Sen. Every's question: the projects of 100,000 dollars is a significant investment for us, and of all these projects we do out there, the majority of the materials are constructed right on site, like the wet gas scrubber. HB 1498 won't make or break our requirements but what it does do it gains one more opportunity to keep per capital with 5 other refineries that Tesoro owns.

When we look at projects, we have to sell ourselves to our corporate headquarters. We have to compete for those capital dollars, so an extra \$250,000 on a 20 million dollar project, that makes

a bit of a difference, so that's where the gain comes from. It isn't \$250,000 to our bottom line, its how you justify those projects and how those projects then become ___ when we're competing with other facilities.

SEN. COOK: is it safe to say that Tesoro looks to some degree whether or not a particular state is given any indication whether we even appreciate you or it just sits here?

ANSWER: yes they do, very much so, they realize ND is a very business friendly state and they have said a number of times that they wish they had more states that supported their facilities the way ND has supported this refinery.

SEN. COOK: the 20 million dollar project that your faced with right now, out of that, how much is going to be capital investment, material that is gong to be subject to sales tax and how much wages?

ANSWER: it's approximately 50%, so approximately 10 million

SEN. EVERY: the reason I asked the question about where its manufactured and where we buy it from is, I'm assuming that if you get your sheet metal from a company out of Nebraska, your paying sales tax in Nebraska, then your paying sales tax again when you get back here?

ANSWER: no, its a one time thing that we pay sales tax on.

SEN. COOK: No, destination.

Closed the hearing.

SEN. COOK: made a **MOTION FOR DO PASS,**

SEN. TOLLEFSON: would like to have some more information but can go after myself.

SEN. COOK: withdrew his motion.

End of discussion

2005 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. **HB 1498**

Senate Finance and Taxation Committee

Conference Committee

Hearing Date **March 1, 2005**

Tape Number	Side A	Side B	Meter #
#1		X	8.0 - 15.7
Committee Clerk Signature <i>Sharon Penzow</i>			

Minutes:

COMMITTEE WORK

SEN. COOK: made a **MOTION FOR DO PASS**, seconded by Sen. Tollefson.

SEN. EVERY: I'm going to oppose the bill for a couple of reasons, the first is that I don't feel that we should be paying for these corporations, they are the ones polluting the air and we're paying for it. Ya the EPA regulations are burdensome but there's a lot of things we could provide tax exemptions for and I don't think this should be one of them. It just didn't seem like to me the right thing to do. We talked about tax exemptions that would help out families, we talked about tax exemptions that would a lot of people, working class people, I can't support a tax exemption for 100's of million dollar industry for EPA regulations that everybody else to comply.

SEN. URLACHER: but those costs come back to the consumer.

SEN. EVERY: they'll come back to the consumers too Mr. Chairman if we give them a tax exemption and we end up paying for it which is what will happen.

SEN. EVERY: I don't remember of any bills this session or my last 2 sessions that we've passed literally open ended fiscal notes and that's exactly what this is, an open ended fiscal note. We have no idea what the fiscal note would be or could be and it could be in the hundreds of millions of dollars if we include the Tesoro plant, the Lignite Industry, we include all of those, it could be a big bill.

SEN. URLACHER: it just covers environmental effect equipment.

SEN. EVERY: it also covers the Lignite plant as well, that's what they said in testimony.

SEN. COOK: to qualify the Lignite plants, it covers the gas plants of which I think that's _____, that's what Sen. Every is referring to, it covers the gas plants. I think that most sales tax exemptions I think are the very exemption that we _____. I think that if the refinery was to do a (can't hear on the tape here either) First off, we know that 50/50 probably is going to be material is 50%, so now you've got 5% of 50 million dollars which would be the most that that exemption could be as far as the fiscal note. The likeliness of 100 million dollar project at the refinery coming up the year 2007. Who knows, but if it does I would hope that they make that investment rather than lose that refinery and what it contributes to the whole state economy. We know that they contributed 190 million dollars in the oil industry in ND but the income tax and the economic development of that would be generated off of the 50 million dollars in wages paid I think would more than offset the 5% of the exemption that would be given out.

SEN. EVERY: I'd remind you that 5 million dollars times 9 is 45 million dollars if anyone took full advantage and they were all assuming your formula.

SEN. COOK: that would be correct but the likeliness of any of these gas plants, these are smaller plants and from testimony there are 3 of them that will probably never qualify because they would do a 100,000 dollar upgrade.

ROLL CALL VOTE: 4-2-0 Sen. Cook will carry the bill.

SEN. EVERY: I didn't get what the whole 100,000 discussion was. The 100, 000 or more of the project total, because when I asked the question if that was the total exemption, Ron Ness pretty much said yes.

SEN. COOK: No, they may be forced to buy a certain piece of equipment and it certainly would fall into the environmental category and maybe this piece of equipment is \$20,000 that would not qualify. They set the ceiling here at \$100,000 because, its got to be approved and they just don't want every purchase going in there. If they have a major 100,000 dollar project then that sets the trigger to go through the process to get served that exemption, anything smaller than that they just pay the sales tax. They understand that they contribute to the society here in ND.

SEN. EVERY: I agree, but I don't agree with is that I think we could find a lot better uses for our 45 million dollars than that number one and number two is that we've never passed an open ended fiscal note before. It just doesn't happen, I had several that were killed that had a very definite fiscal note on them that were much less than that.

Date: 2.28.05
Roll Call Vote #: 1

2005 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. HB 1498

Senate Finance and Taxation Committee

Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken Do Pass Withdraw motion

Motion Made By Cook Seconded By _____

Senators	Yes	No	Senators	Yes	No
Sen. Urlacher			Sen. Bercier		
Sen. Wardner			Sen. Every		
Sen. Cook					
Sen. Tollefson					

Total (Yes) _____ No _____

Absent _____

Floor Assignment _____

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

REPORT OF STANDING COMMITTEE (410)
March 2, 2005 2:10 p.m.

Module No: SR-38-3997
Carrier: Wardner
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

HB 1498, as engrossed: Finance and Taxation Committee (Sen. Urlacher, Chairman)
recommends **DO PASS** (4 YEAS, 2 NAYS, 0 ABSENT AND NOT VOTING).
Engrossed HB 1498 was placed on the Fourteenth order on the calendar.

2005 TESTIMONY

HB 1498

HOUSE FINANCE & TAXATION COMMITTEE

Rep. Wes Belter, Chairman

January 24, 2005

HB 1498

This legislation is an opportunity for the state to participate in a process that the Tesoro refinery has taken a lead on for a number of years. Environmental upgrades actually do nothing for the production or profitability of the facility, but they are a necessity and they cost millions of dollars.

Increasingly strict regulations from Washington, D.C. are a continuing reality. If we want companies like Tesoro to continue providing the good jobs they provide and paying the taxes they pay, these regulations will have to be adhered to. The entire state benefits from the lowered emissions and the stability of this industry, so I think it is the responsibility of state government to exempt the sales tax on these emissions reduction projects.

This is a great economic opportunity for North Dakota! Give HB 1498 a "Do Pass" recommendation!

Sen. Randy Christmann



North Dakota Petroleum Council

Ron Ness
President

Marsha Reimnitz
Office Manager

Email: ndpc@btinet.net
Phone: 701-223-6380
Fax: 701-222-0006
120 N. 3rd Street • Suite 225
P.O. Box 1395
Bismarck, ND 58502-1395

House Bill 1498

House Finance and Taxation Committee

January 24, 2005

Mr. Chairman and members of the Committee, my name is Ron Ness, President of the North Dakota Petroleum Council. The North Dakota Petroleum Council represents more than 100 companies involved in all aspects of the oil and gas industry including oil and gas production, refining, pipeline, mineral leasing, consulting, legal work, and oil field service activities in North Dakota, South Dakota, and the Rocky Mountain Region. I appear before you today in support of House Bill 1498 and the amendment previously offered.

North Dakota currently exempts most manufacturers and agri-businesses from sales tax; this has been extremely helpful to those industries. However, North Dakota refineries and gas plants who have been burdened over the past decade with a continued onslaught of federal requirements to reduce emissions and produce clean burning fuels currently pay sales tax on all their plant investments. This bill would provide a similar sales tax exemption but only for environmental related projects. These environmental upgrades usually as a result of EPA rules are costly to implement, provide little if any net return on investment, and have led to numerous facilities being shutdown throughout the United States. Providing sales tax relief to these entities for environmental projects exceeding \$100,000 is a tool the state can use to encourage these operators to make the investment and keep these businesses viable as they compete for investment in their own companies across the country and world.

The amendment establishing a \$100,000 or greater project in order to qualify for the exemption is a good fit for this bill. North Dakota currently has nine gas plants, five of which are extremely small and would never qualify for such tax relief. The four other gas plants (Tioga, Killdeer, Lignite, Alexander) would

need to do a major project in order to qualify; the tax relief might be applicable once every five or ten years.

The amount of investment Mandan refinery has made in the past five years is staggering (over \$100,000,000) nearly half of what they paid for the refinery and its assets in 2001. They anticipate nearly all of those upgrades will be made by the time this legislation is effective (July 2007). However, as technology continues to improve offering more advancements in environmental quality, and federal environmental regulations continue to become more stringent, this bill enables us to better deal with these future unknowns enabling our industry in North Dakota to continue to be both competitive and technologically advanced.

An additional upside for the state of North Dakota of these environmental investments is that with reduced emissions from existing energy plants, there is additional air increment created in Class 1 air shed areas in the state. This is key in permitting new and expanded energy production facilities in the state. For example, the wet gas scrubber installed at the Mandan Refinery in 2004, virtually eliminated So₂ and So₃ emissions from the facility. Gas plants throughout the state have made similar investments, most recently the acid gas injection projects at the Grasslands and Lignite Gas Plants cost \$3,700,000. These projects allowed for acid gas to be injected and stored underground instead of being emitted in the air. These examples will provide additional increment for the permitting of other facilities in the future.

I urge your support for this bill, these business employ nearly 400 people and have wages at the top of North Dakota wage scale. They also provide a critical role in value added energy in North Dakota by refining and processing North Dakota's valuable mineral resources for resale in North Dakota and surrounding states.

I would be happy to answer any questions.



TESORO

Tesoro Refining and Marketing Company
Northern Great Plains Region
900 Old Red Trail N.E.
Mandan, North Dakota 58554
701 667 2400
701 667 2448 Fax

House Bill 1498
House Finance and Taxation Committee
January 24, 2005

Mr. Chairman and members of the Committee, my name is Ron Day, I'm the Manager of Health, Safety, and Environment at the Tesoro Mandan Refinery. The Tesoro Mandan Refinery processes approximately 60,000 barrels per day of Williston Basin Crude and employs approximately 210 employees. I appear before you today in support of House Bill 1498 and the amendment previously offered.

Tesoro has had to make significant investments at the Mandan Refinery since purchasing the facility in 2001. The majority of the investments have been made to meet mandated environmental requirements. These investments have included a Wet Gas Scrubber, a Wet Electrostatic Precipitator, and two Disposal Deep Wells.

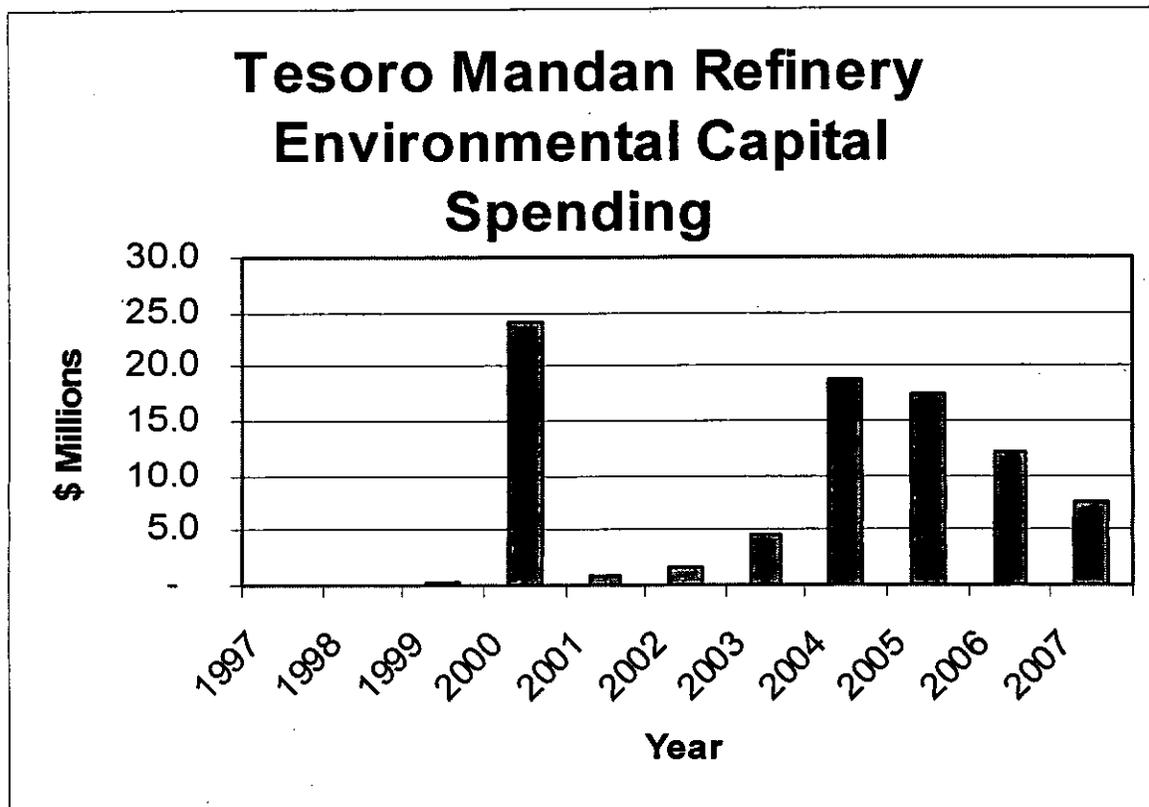
The investment in environmental projects will continue well into the future, as the refining industry experiences mandated fuel requirements and additional environmental regulations. The attached graph summarizes the environmental capital investments since 2001 and estimates the future investment for environmental requirements.

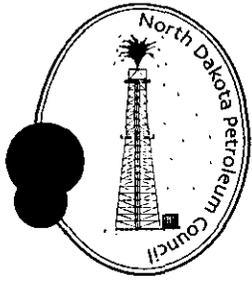
In 2005 and 2006, Tesoro will be completing projects valued over \$20 million to meet the low sulfur diesel and low sulfur gasoline fuel requirements. Without these projects the Mandan Refinery would no longer be able to produce salable products. Tesoro has no choice but to complete these projects if the refinery is to continue to operate. The projects do not add a single barrel to the production capacity of the facility.

With the continued enactment of regulations by the U.S. EPA and the pressure of competitors announcing refinery expansions, the Tesoro Mandan Refinery will be challenged to gain capital dollars for investment at this facility well into the future. The refinery must continue to convince Tesoro that the Mandan Refinery and North Dakota is a great place to invest.

House Bill 1498 would provide a sales tax exemption on the future environmental projects at the Mandan Refinery. This sales tax exemption would provide the Mandan Refinery additional leverage to convince Tesoro that North Dakota is place worth investing.

On behalf of the Tesoro Mandan Refinery and its employees who provide North Dakota citizens and North Dakota businesses with high quality and reliable fuels, I urge your support for this bill. Thank you for allowing me to provide this testimony and I would be happy to answer any questions.





North Dakota Petroleum Council

Ron Ness
President

Marsha Reimnitz
Office Manager

House Bill 1498

Senate Finance and Taxation Committee

February 28, 2005

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Mr. Chairman and members of the Committee, my name is Ron Ness, President of the North Dakota Petroleum Council. The North Dakota Petroleum Council represents more than 100 companies involved in all aspects of the oil and gas industry including oil and gas production, refining, pipeline, mineral leasing, consulting, legal work, and oil field service activities in North Dakota, South Dakota, and the Rocky Mountain Region. I appear before you today in support of House Bill 1498.

North Dakota currently exempts most manufacturers and agri-businesses from sales tax; this has been extremely helpful to those industries. However, North Dakota refineries and gas plants who have been burdened over the past decade with a continued onslaught of federal requirements to reduce emissions and produce clean burning fuels currently pay sales tax on all their plant investments. This bill would provide a similar sales tax exemption but only for environmental related projects. These environmental upgrades usually as a result of EPA rules are costly to implement, provide little if any net return on investment, and have led to numerous facilities being shutdown throughout the United States. Providing sales tax relief to these entities for environmental projects exceeding \$100,000 is a tool the state can use to encourage these operators to make the investment and keep these businesses viable as they compete for investment in their own companies across the country and world.

The bill as amended establishing a \$100,000 or greater project in order to qualify for the exemption is a good fit for this bill. North Dakota currently has nine gas plants, five of which are extremely small and would likely never qualify for such tax relief. The four other gas plants (Tioga, Killdeer, Lignite, Alexander) would need to do a major project in order to qualify; the tax relief might be applicable once every five or ten years. The amount of investment Mandan refinery has made in the past five years is staggering (over

\$100,000,000) nearly half of what they paid for the refinery and its assets in 2001. They anticipate nearly all of those upgrades will be made by the time this legislation is effective (July 2007). However, as technology continues to improve offering more advancements in environmental quality, and federal environmental regulations continue to become more stringent, this bill enables us to better deal with these future unknowns enabling our industry in North Dakota to continue to be both competitive and technologically advanced.

An additional upside for the state of North Dakota of these environmental investments is that with reduced emissions from existing energy plants, there is additional air increment created in Class 1 air shed areas in the state. This is key in permitting new and expanded energy production facilities in the state. For example, the wet gas scrubber installed at the Mandan Refinery in 2004, virtually eliminated So₂ and So₃ emissions from the facility. Gas plants throughout the state have made similar investments, most recently the acid gas injection projects at the Grasslands and Lignite Gas Plants cost \$3,700,000. These projects allowed for acid gas to be injected and stored underground instead of being emitted in the air. These examples will provide additional increment for the permitting of other facilities in the future.

I urge your support for this bill, these business employ nearly 400 people and have wages at the top of North Dakota wage scale. They also provide a critical role in value added energy in North Dakota by refining and processing North Dakota's valuable mineral resources for resale in North Dakota and surrounding states. I would be happy to answer any questions.



TESORO

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House Bill 1498
Senate Finance and Taxation Committee
February 28, 2005

Mr. Chairman and members of the Committee, my name is Ron Day, I'm the Manager of Health, Safety, and Environment at the Tesoro Mandan Refinery. The Tesoro Mandan Refinery processes approximately 60,000 barrels per day of Williston Basin Crude and employs approximately 210 employees. I appear before you today in support of House Bill 1498 and the amendment previously offered.

Tesoro has had to make significant investments at the Mandan Refinery since purchasing the facility in 2001. The majority of the investments have been made to meet mandated environmental requirements. These investments have included a Wet Gas Scrubber, a Wet Electrostatic Precipitator, and two Disposal Deep Wells. The investment in environmental projects will continue well into the future, as the refining industry experiences mandated fuel requirements and additional environmental regulations. The attached graph summarizes the environmental capital investments since 2001 and estimates the future investment for environmental requirements.

In 2005 and 2006, Tesoro will be completing projects valued over \$20 million to meet the low sulfur diesel and low sulfur gasoline fuel requirements. Without these projects the Mandan Refinery would no longer be able to produce salable products. Tesoro has no choice but to complete these projects if the refinery is to continue to operate. The projects do not add a single barrel to the production capacity of the facility.

With the continued enactment of regulations by the U.S. EPA and the pressure of competitors announcing refinery expansions, the Tesoro Mandan Refinery will be challenged to gain capital dollars for investment at this facility well into the future. The refinery must continue to convince Tesoro that the Mandan Refinery and North Dakota is a great place to invest.

House Bill 1498 would provide a sales tax exemption on the future environmental projects at the Mandan Refinery. This sales tax exemption would provide the Mandan Refinery additional leverage to convince Tesoro that North Dakota is a place worth investing.

On behalf of the Tesoro Mandan Refinery and its employees who provide North Dakota citizens and North Dakota businesses with high quality and reliable fuels, I urge your support for this bill. Thank you for allowing me to provide this testimony and I would be happy to answer any questions.