

MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION

SFN 2053 (2/85) 5M



ROLL NUMBER

DESCRIPTION

1279

2007 HOUSE NATURAL RESOURCES

HB 1279

2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. HB 1279

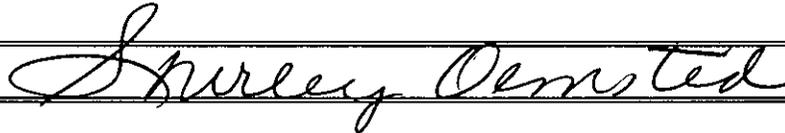
House Natural Resources Committee

Check here for Conference Committee

Hearing Date: January 26, 2007

Recorder Job Number: 2002

Committee Clerk Signature



Minutes:

Chairman Porter opened the hearing on HB 1279.

Representative Keith Kempenich, of District 39 introduced HB 1279. This bill eliminates the expiration date on the shallow gas wells. Right now Bowman County is probably the only place that has used the current statute. It has been fairly successful. There have been quite a bit of activity down there. There is some real interest in exploring other parts of the state. I think this is something that we want to keep encouraging and that is basically what this bill is about.

Representative Keiser asked why we are deleting the language on page 2 and 3. They seem to repeat the definitions. Did we put definitions in twice?

Representative Kempenich said they would have to ask the council. Maybe Mr. Helms can answer that. They really don't measure gas in barrels. It is measured in cubic feet.

Mr. Ron Ness of the North Dakota Petroleum Council came forward in support of HB 1279.

See written testimony marked as Item #1. This has been very good for Bowman County and I think it will be good for other parts of the state. I have also passed out testimony from Mr.

David Fischer who could not be here today. (See item marked as #2.) We know that we have

at least a million acres east of the Missouri River so this is very exciting for the state of North Dakota.

Mr. Lynn Helms from the Department of Mineral Resources for the ND Industrial Commission came forward in support of HB 1279. He handed out a graph marked as Item #3. He said until the passage of the shallow gas tax exemption, very little was happening in North Dakota in terms of shallow gas drilling and production. All that was going on was the replacement of old wells with new wells. Since the passage of this bill we have increased the number of wells seven times and increased the production seven fold. To give you a picture of what that means, if we had continued on that July of 02 and July 03 trend, those wells and that increased production would be paying about three hundred thirty thousand dollars a biennium in additional gas taxes. The wells that have been drilled since the passage of this, when they come off, will be paying nine hundred fifty five thousand for a net of six hundred twenty five thousand dollars a biennium. That is what the state is netting as a result of this activity. He also wanted to mention the fiscal note on this bill. He has some serious concerns about this fiscal note. This is based on the assumption that 2005 and 2006 activity will continue on regardless of whether we have shallow gas tax incentives or not. I am here to say that I do not believe that would happen. That activity was a result of this tax exemption and the business climate that you created in the state for shallow gas and it is incorrect to assume the kind of drilling that we saw in 2006 would continue to occur even if we take the tax exemption off. We have a weakness in the gas markets and we have a big surplus of natural gas in the nation right now so natural gas prices are very weak. That fiscal note should be calculated on the kind of activity that we saw in 02 and 03. That is what the state would be giving up in exchange for the increased activity. The second exhibit shows some work that we recently did. If you look at the map, the current shallow gas activity is in red and down in Bowman

County. As you heard testimony you heard yesterday, those same block units exist in eastern North Dakota. The tan area is the traditional oil and gas producing area. The dark gray counties are the counties that we decided to go out and survey this summer looking for shallow gas. The red spots that you see inside those dark gray counties are spots where they found shallow gas coming up in the water commission wells. The picture in the lower left shows one of those wells in Bottineau County. You can see the methane bubbling to the surface in those wells. This means that the bed rock under the glacial tilt is generating methane gas. It is going to take drilling of gas wells in order to discover where this gas is trapped and how we can produce it. As a result of that four wells have been drilled in Emmons County and as Mr. Ness pointed out, we have a million acres leased as a result of this work. The light gray counties are the counties that we plan to survey this summer and the next summer. We have \$16,000.00 in our budget dedicated to doing this work. Once we identify where the shallow gas is coming up in the glacial tilt, we then have to some bedrock demography and some mapping of where these formations sub crop and get a better idea of what is generating the gas. The Industrial Commission urges a do pass on HB 1279.

Representative Drovdal asked about the struck language on page 2, line 28 relating to transportation costs. Is there a reason that no longer needs to be there?

Mr. Helms said that if the sunset is left in place, shallow gas will go away. There will no longer be such a thing as shallow gas or an exception for it. We need to strike this language. There is language in 5751 that defines shallow gas and has all of this transportation stuff in it. This will take effect on July 30th if you do not remove the sunset. The other language then goes away and this becomes the definition.

Representative Solberg said the bill obviously states the shallow gas zone of above 5000 feet. Have you determined the average depth of this gas in some of these counties to the middle of state?

Mr. Helms said the gas divides itself into about 4 varieties but he would talk about 2 of them. There is thermogenic gas which is the deep base and center gas that we traditionally think of in the northwestern and southwestern of North Dakota. That is gas that is deeper than 5000 feet and is usually from Red River formations. The gas we are talking about here is biogenic gas that has been generated by bacteria, feeding on carbonation shale and glacial melt water. That gas is found typically at about 2000 feet. The wells in Steele County will be one to two thousand feet deep.

Chairman Porter said the fiscal notes gives the committee great concern because we totally agree with what you are saying. Is there a way that you can work with the tax department to get us a corrected one that represents what is going on in this industry?

Mr. Helms said that he would be more than happy to do that. He would get with Kathy and extend this 02-03 projection and do a calculation of what we are giving up if that trend had continued versus assuming the activity we created is going to continue unabated if we do away with the taxes.

Chairman Porter said he would appreciate that. The deadline on this is next Friday for fiscal notes being out of this committee.

Representative Meyer asked that if after the 24 month exemption, what is the gross production tax. What does it go to?

Mr. Helms said natural gas is taxed on volume as opposed to value in North Dakota and it goes to 16.4 cents per thousand cubic feet regardless of what the quality of the gas is. Some of this gas is very low in BTU but the problem is that we have had law suits for decades over

what gas is really worth. What we did at that time was pass a flat tax rate but it is inflation adjusted every year by something called the CPI which is a tax inflator. For 2007 companies will pay 16.4 cents per thousand cubic feet.

Vicky Steiner representing the ND Association of Oil and Gas Producing Counties came forward in support of HB 1279. They are urging a do pass.

Representative Meyer asked if they had any amount of the taxes that have been paid after the twenty four month exemption.

Ms. Steiner said that if the taxes are paid in Bowman County, Bowman County would receive the 5% gross production tax and get the revenue off of that. They would be very encouraged to see the development move into eastern North Dakota.

Chairman Porter asked for any opposition to HB 1279.

Seeing none, the hearing was closed on HB 1279.

2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. HB 1279

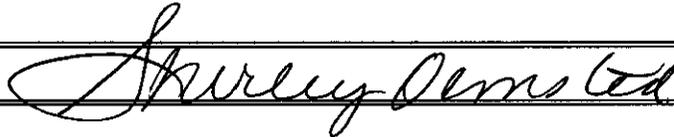
House Natural Resources Committee

Check here for Conference Committee

Hearing Date: February 1, 2007

Recorder Job Number: 2589

Committee Clerk Signature



Minutes:

Chairman Porter opened the discussion on HB 1279. This was being held for a fiscal note being prepared by Mr. Helm. A number of us disagreed that it has a negative impact on the general fund because without the exploration there would not be any new revenues coming in two years later because it is a two year tax exemption. Representative Kempenich met with the tax department and the tax department refused to deal with the fiscal note so we will deal with the bill as the fiscal note as it is.

Representative DeKrey made a motion with a do pass with a referral to Appropriations.

Representative Meyer seconded the motion.

Chairman Porter asked for any discussion. Hearing none, the clerk called the roll on a **do pass with referral to appropriations**. Let the record show 14 yes, 0 no with no one absent.

Representative Nottestad will carry this bill to the floor.

FISCAL NOTE

Requested by Legislative Council

01/10/2007

Bill/Resolution No.: HB 1279

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.*

| | 2005-2007 Biennium | | 2007-2009 Biennium | | 2009-2011 Biennium | |
|-----------------------|--------------------|-------------|--------------------|---------------|--------------------|-------------|
| | General Fund | Other Funds | General Fund | Other Funds | General Fund | Other Funds |
| Revenues | | | | (\$1,100,000) | | |
| Expenditures | | | | | | |
| Appropriations | | | | | | |

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

| 2005-2007 Biennium | | | 2007-2009 Biennium | | | 2009-2011 Biennium | | |
|--------------------|--------|------------------|--------------------|--------|------------------|--------------------|--------|------------------|
| Counties | Cities | School Districts | Counties | Cities | School Districts | Counties | Cities | School Districts |
| | | | | | | | | |

2A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

HB 1279 removes the sunset on the 24-month exemption from gross production tax for shallow gas wells.

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.*

By continuing the 24 month holiday from gross production tax for shallow gas wells, revenues to the permanent oil tax trust fund are expected to decrease by \$1.1 million in the 2007-09 biennium.

Most of the current shallow gas well activity is occurring in a county that will reach it's gross production tax "cap" so the county revenues will not be reduced by the continuation of this exemption. However, new activity may occur in non-oil producing counties. If it does, these counties would not receive any gross production tax revenue until the end of the 24 month holiday.

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.*

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 |
| Phone Number: | 328-3402 | Date Prepared: | 01/25/2007 |

Date: 2-1-07
Roll Call Vote #: _____

2007 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 1229

House Natural Resources Committee

Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken Do Pass w/ referral & Approval

Motion Made By DeKrey Seconded By Meyer

| Representatives | Yes | No | Representatives | Yes | No |
|------------------------------|-----|----|-----------------|-----|----|
| Chairman - Rep. Porter | L | | Rep. Hanson | L | |
| Vice-Chairman - Rep Damschen | L | | Rep. Hunskor | L | |
| Rep. Charging | L | | Rep. Kelsh | L | |
| Rep. Clark | L | | Rep. Meyer | L | |
| Rep. DeKrey | L | | Rep. Solberg | L | |
| Rep. Drovdal | L | | | | |
| Rep. Hofstad | L | | | | |
| Rep. Keiser | L | | | | |
| Rep. Nottestad | L | | | | |
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Total Yes 14 No 0

Absent 0

Floor Assignment Nottestad

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

REPORT OF STANDING COMMITTEE

HB 1279: Natural Resources Committee (Rep. Porter, Chairman) recommends DO PASS and BE REREFERRED to the Appropriations Committee (14 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). HB 1279 was rereferred to the Appropriations Committee.

2007 HOUSE APPROPRIATIONS

HB 1279

2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. HB 1279

House Appropriations Committee

Check here for Conference Committee

Hearing Date: February 9, 2007

Recorder Job Number: 3322

Committee Clerk Signature

Shirley Branning

Minutes:

Chm. Svedjen called the meeting to order to take up HB 1279, a bill relating to eliminating the expiration date of the shallow gas gross production tax exemption by calling on **Rep. Todd Porter**, District 34.

Rep. Porter: Provided testimony (See Attachment 1, HB 1279) regarding the removal of the sunset clause. The fiscal note does not make sense to me. The exemption is only for 2 years, any new production will have the 2 year exemption. Production from '03 to now has more than doubled. After July 1st it will be taxed.

Rep. Kroeber: Was there anything that had to do with this big increase other than the tax break?

Rep. Porter: The only reason anyone is interested in this new technology and new collection on the east side of the Missouri River is because of the exemption.

Rep. Kempenich moved a **Do Pass** on HB 1279. **Rep. Wald** seconded the motion. The **Do Pass** motion carried by a roll call vote of 19 yeas, 0 nays and 5 absent and not voting.

Rep. Nottestad will be the carrier of the bill.

Date: 2/9/07
 Roll Call Vote #: 141

2007 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 1279

House Appropriations Full Committee

Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken No Pass

Motion Made By Kempenich Seconded By Wald

| Representatives | Yes | No | Representatives | Yes | No |
|--------------------------|-----|----|--------------------------|-----|----|
| Chairman Svedjan | ✓ | | | | |
| Vice Chairman Kempenich | ✓ | | | | |
| Representative Wald | ✓ | | Representative Aarsvold | ✓ | |
| Representative Monson | ✓ | | Representative Gulleon | | |
| Representative Hawken | ✓ | | | | |
| Representative Klein | ✓ | | | | |
| Representative Martinson | ✓ | | | | |
| Representative Carlson | | | Representative Glassheim | | |
| Representative Carlisle | ✓ | | Representative Kroeber | ✓ | |
| Representative Skarphol | ✓ | | Representative Williams | ✓ | |
| Representative Thoreson | | | | | |
| Representative Pollert | | | Representative Ekstrom | ✓ | |
| Representative Bellew | | | Representative Kerzman | ✓ | |
| Representative Kreidt | ✓ | | Representative Metcalf | ✓ | |
| Representative Nelson | ✓ | | | | |
| Representative Wieland | ✓ | | | | |

Total (Yes) 19 No 0

Absent 5

Floor Assignment Nitterstad

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

REPORT OF STANDING COMMITTEE (410)
February 10, 2007 7:03 p.m.

Module No: HR-28-2798
Carrier: Nottestad
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

HB 1279: Appropriations Committee (Rep. Svedjan, Chairman) recommends DO PASS
(19 YEAS, 0 NAYS, 5 ABSENT AND NOT VOTING). HB 1279 was placed on the
Eleventh order on the calendar.

2007 SENATE NATURAL RESOURCES

HB 1279

2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. HB 1279

Senate Natural Resources Committee

Check here for Conference Committee

Hearing Date: March 8, 2007

Recorder Job Number: # 4692

Committee Clerk Signature



Minutes:

Senator Stanley Lyson, Chairman of the Senate Natural Resources Committee opened the hearing on HB 1279 relating to eliminating the expiration date of the shallow gas gross production tax exemption.

All members of the committee were present.

Representative Keith Kempenich of District 39 co-sponsor of HB 1279 introduced the bill stating the bill passed last session has shown success in Bowman County. It went from very little exploration of shallow gas to five fold increase. The bill was to sunset in 2007 and needs to have that sunset removed. The incentive needs to be extended by keeping the holiday continuing so further exploration can continue throughout the state. The fiscal note assumes another Bowman County gas field will be found although the odds are remote.

Ron Ness, President of the North Dakota Petroleum Council testified in support of HB 1279 (see attachment #1)

Senator Joel Heitkamp: the state is not really out of money, but this is to get the wells going.

Ron Ness: how are we out money - nothing from nothing is nothing, the same as in 2003. If something can be created for 20 -30 years, these gas wells will produce. It takes a lot of these

little wells to create a field in eastern North Dakota so that they can be commercially economical.

Senator Constance Triplett: do these gas shallow wells have decline as oil wells or more evenly over time.

Ron Ness: referred the question but my recollection is once they are on line they last a long time although the wells in Bowman County are relatively new so it is hard to predict.

Fred Anderson, a geologist with the North Dakota Geologic Survey testified in support of HV 1279. (see attachment 2a, b and c). Lynn Helms, Director of the Department of Mineral Resources is not able to attend but has prepared some of the presented written testimony.

Senator Joel Heitkamp: how are the counties chosen?

Fred Anderson: one thing to look at is the historical record and if any of the wells produced. If they have those counties are further invested.

Senator Constance Triplett: what are the different colors on the map indicate.

Fred Anderson: each color represents the results at each monitoring well at this sitting out on the landscape. Red is a methane, green is no methane and blue are well that are present. There are other well out there that could not be located.

Jack Paris, co-owner of the Cody Oil and Gas Corporation testified in support of HB 1279 (see attachment # 3).

Senator Heitkamp: can a local well driller do these projects.

Jack Paris: the wells are 2000 feet deep and a driller with specialized equipment.

Senator Ben Tollefson: the tax exemption will have to be renewed every biennium.

Jack Paris: understands this is a 24 month holiday.

Senator Herbert Urlacher: is there a lot of water associated with these wells.

Jack Paris; not necessarily, there can be, this is not coal bed methane where the coal needs to be dewatered to get the gas to flow.

Vicky Steiner representing the North Dakota Association of Oil and Gas Producing Counties testified in support of HB 1279.

Senator Lyson asked for testimony in opposition to HB 1279 and hearing none asked for testimony in a neutral position.

Senator Lyson closed the hearing on HB 1279.

Written testimony in support of HB 1279 from **David Fischer** a geologist from Grand Forks, North Dakota was distributed to the committee (see attachment # 4).

2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. HB 1279

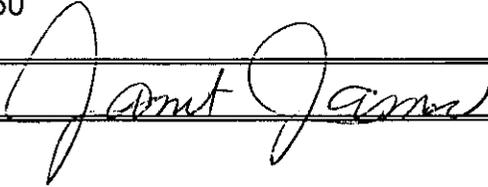
Senate Natural Resources Committee

Check here for Conference Committee

Hearing Date: March 9, 2007

Recorder Job Number: # 4760

Committee Clerk Signature



Minutes:

Senator Stanley Lyson, Chairman of the Senate Natural Resources Committee opened the committee work on HB 1279.

All member of the committee were present.

Senator Joel Heitkamp made a motion for a Do Pass and rereferred appropriations to of HB 1279.

Senator Ben Tollefson second the motion.

Senator Heitkamp: the fiscal note on the bill is a little obscure, the money is not there until the well is done and this in one enticement that appears to be working.

Roll call vote for a Do Pass and rereferred to Appropriations of HB 1279 was taken indicating 7 Yeas, 0 Nays and 0 absent or not voting.

Senator Joel Heitkamp will carry HB 1279.

Date: 3-9-07

Roll Call Vote #: 1

2007 SENATE STANDING COMMITTEE ROLL CALL VOTES

BILL/RESOLUTION NO. 1279

Senate Natural Resources Committee

Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken Do Pass + rereferred To Appro.

Motion Made By Heitkamp Seconded By Tollefson

| Senators | Yes | No | Senators | Yes | No |
|----------------------------------|-----|----|-------------------------|-----|----|
| Sen. Stanley Lyson, Chairman | ✓ | | Sen. Joel Heitkamp | ✓ | |
| Sen. Ben Tollefson, ViceChairman | ✓ | | Sen. Jim Pomeroy | ✓ | |
| Sen. Layton Freborg | ✓ | | Sen. Constance Triplett | ✓ | |
| Sen. Herbert Urlacher | ✓ | | | | |
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Total (Yes) 7 No 0

Absent 0

Floor Assignment Heitkamp

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

REPORT OF STANDING COMMITTEE (410)
March 9, 2007 1:25 p.m.

Module No: SR-45-4882
Carrier: Heltkamp
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

HB 1279: Natural Resources Committee (Sen. Lyson, Chairman) recommends DO PASS and BE REREFERRED to the Appropriations Committee (7 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). HB 1279 was rereferred to the Appropriations Committee.

2007 SENATE APPROPRIATIONS

HB 1279

2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. 1279

Senate Appropriations Committee

Check here for Conference Committee

Hearing Date: 03-16-07

Recorder Job Number: 5209

Committee Clerk Signature



Minutes:

Chairman Holmberg opened the hearing on 1279 indicating this is the original bill and has not been changed.

Representative Keith Kempenich, District 39, Bowman, introduced HB 1279 which is taking the sunset off the shallow gas gross production tax on gas wells. He indicated this had been done two years ago and was very successful in Bowman County. Taking the sunset off the bill will further the development of gas development in ND. The fiscal note is on the assumption that they will find another well.

Representative Dawn Charging, District 4, Garrison, presented a proposed amendment to HB 1279 which she feels is a solution to ND. She showed a map of oil production indicating there has been no production on Ft. Berthold. This would be the first oil mineral agreement that can be put in place. There is a \$422 million production. She believes this is progressive to have a collaborative effort.

Chairman Holmberg indicated that one of the provisions appropriation committees get is that if they amend a bill coming from a policy committee without their input – Can you tell us what kind of discussions you have had with the Senate Natural Resources Committee regarding this amendment. The response was that in the time frame we have worked on, the appropriations committee is having the first look at it.

Chairman Holmberg suggested Dawn Charging visit with the Natural Resources Committee in the Senate and the House about this.

Ryan Berston, Legal Council to the Governor, presented an overall policy comment and brief synopsis to this amendment. For the Appropriations information, Steve Kelly, Three Affiliated tribes, approached the Governor's office and the Attorney General's Office requesting something be done about production on the reservations. Then we met with the AG's office, Tax Commissioner's Office, members of the industry and tried to put something together as quickly as possible for the session. The Governor's Office and the Executive Branch is supportive of this concept. Basically, this gives the Governor's Office authority to enter into agreements with tribes in order to structure revenue sharing agreements for oil production on the reservations.

Senator Mathern indicated this implies that we have rights to the minerals there. Is that someplace in the constitutional law? The response is that under US Supreme Court cases, they have determined that both the state and the reservations can tax what they want on the reservation. The problem is what taxes oil companies will have to pay. Yes we have legal rights to the minerals.

Senator Krauter indicated this talks about open ended intent. The response was that is necessary under law because as taxes come in, there needs to be an appropriation for them to go out. The appropriation would be limited by the agreement.

Chairman Holmberg the agreement would not be subject to any legislative reviews. The agreement would be subject to the Governor and the Tax Commissioner. We did have discussion years ago on gaming agreement and the Legislature has made some changes there. As you indicated, this is a work in progress.

Steve Kelly, Attorney for Three Affiliated Tribes, indicated has worked closely with the industry on behalf of the Three Affiliated Tribes on future oil production on the reservation. He then presented a history to put this in context. He then discussed why there is an amendment and talked about the amendment. Basically this provides a mechanism for a tribe and the state to enter into an agreement. It does not force a tribe or the state to enter into an agreement. We expect the Governor, the Tax Commissioner to be working with Legislative Leaders, Minority and Majority from both the House and Senate to get their blessing and we expect that Industry will end up brokering the deal. He indicated the tribe has recommended striking section 57-51.2.02 with all the provisions of agreement requirements. He then discussed the reasons for not including this section.

Senator Mathern indicated it appears to him that there is considerable positive potential here and it is a fairly complicated thing. Why not introduce a delayed bill so we get this urge by the policy committee rather than tacking it onto this bill before us. The response was that the concept is out there, the state is receptive and the tribe is willing to work with whatever mechanism the legislature is willing to work with to get this considered and passed.

Senator John Warner, District 4, Ryder, testified indicating he endorses the concept and he had no objection to this being a stand alone bill and going through policy. It was attached here because it is vaguely connected to the other issues but it hasn't had a very good public hearing. Conceptually this is fine to have the one bill.

Dan Rause, Legal Council, Tax Commissioner office, testified indicating they support this concept however it can get it. The Tax Commissioner Office supports this in concept, in theory, and in reality. He commented on the legislative oversight that was mentioned, indicating there is another state law this body enacted many years ago allowing state agencies themselves to enter into agreements with the Indian Tribes. We the tax department have

taken advantage of that law and are enjoying about a ten year history with the Standing Rock Reservation where we administer their motor vehicle fuels and tobacco tax which mirrors the state tax. Last fall, the Tax Department also entered into a relationship with the Spirit Lake Reservation where the Tax Department collect and administer the tribes motor vehicle fuels tax for purchases made there. The reason we are at the floor with these amendments is because this would be the agency responsible for administering and enforcing these laws. This will be good for the state and the tribes.

Senator Christmann indicated he understood the federal government allows tribes to place a tax on minerals on the the reservation but they don't require us to cut us by an equal amounty of anything. In your negotiations or discussion has it come up that if you do this, it is pretty unfair to political subdivisions around the state that also have to keep up roads and pay expenses to go on with hosting the industry. We don't allow those counties to apply their own tax; they take whatever share the state chooses to share back with them. This would be completely different as they can set their own tax. The response is the concept of those involved is that it would be a level playing field. This is still all to be discussed and negotiated. This is something to be addressed.

Ron Ness, President, ND Petroleum Council, presented written testimony, indicating they would support this. He also distributed written testimony from David Fischer, Geologist, Grand Forks. He discussed the industry and what has been done in the state.

Chairman Holmberg questioned if he support the bill. The response was yes and he supports the amendment.

Fred Anderson, Geologist, ND Geological Survey, Distributed written testimony together with two attachments, a map showing shallow gas sites and a chart of the monthly production and

testified in support of HB 1279. He discussed the graph and map, and discussed studies that had been done.

Brad Bechtol, City Commissioner, Williston, testified in support of HB 1279 without the sunset clause, indicating they are partners with industry on this development even though there is a fiscal note. He indicated, relative to the amendment, if there is a delayed bill passed, obviously, we would like to be consulted to some degree.

Chairman Holmberg closed the hearing on HB 1279.

2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. **HB 1279**

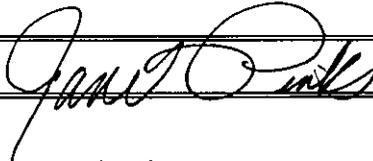
Senate Appropriations Committee

Check here for Conference Committee

Hearing Date: **March 22, 2007**

Recorder Job Number: **5456** Start at **9:43m**

Committee Clerk Signature



Having to do with shallow gas gross production:

S Holmberg: *Checking the Fiscal note that they're operating under. Amendments?*

Answer: The Amendments were eventually turned into the delayed bill that was introduced.

S Holmberg: That is scheduled in Human Resources today or tomorrow. A delayed bill doesn't have to meet the deadline of Friday.

Comment: This basically removes the sunset on the gas wells.

Motion for a Do Pass

S Wardner: Second

Comment: why are we eliminating all this language on the page 2 of the bill?

Comment 2 : that was my question, if it removes the sunset, why didn't we just change that one line? What if we removed that text and basically rewrote it? We're just making sense of it.

Alan Knutson didn't necessarily draft this amendment or the bill, but he can give us some general information to answer the question of why it was drafted this way.

Alan Knutson: You can look on page one, you will see it's only effective to June 30, 2007. So that is the language, is the expiration date.

Roll call on a DO PASS on HB 1279. Passed

Goes back to Natural Resources Committee

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1279

Page 1, line 3, after "exemption;" insert "to condition the applicability of subsection 8 of section 57-51.1-03 of the North Dakota Century Code, relating to a tax exemption on production from wells on Indian reservations, Indian trust land, and land owned by an Indian tribe; to create and enact chapter 57-51.2 of the North Dakota Century Code, relating to agreements with Indian tribes to share revenue obtained from state taxes on mineral production from Indian reservations; to provide a continuing appropriation to fund state-tribal agreements to share revenue obtained from state taxes on mineral production from Indian reservations;"

Page 3, after line 16, insert:

SECTION 3. AMENDMENT. Subsection 8 of section 57-51.1-03 of the North Dakota Century Code is amended and reenacted as follows:

- 8. The initial production of oil from a well is exempt from any taxes imposed under this chapter for a period of sixty months if:
 - a. The well is located within the boundaries of an Indian reservation;
 - b. The well is drilled and completed on lands held in trust by the United States for an Indian tribe or individual Indian; or
 - c. The well is drilled and completed on lands held by an Indian tribe if the interest is in existence on August 1, 1997.

The exemption provided in this subsection is inapplicable to production from a well within the boundaries of an Indian reservation covered by an agreement entered under chapter 57-51.2.

SECTION 4. Chapter 57-51.2 of the North Dakota Century Code is created and enacted as follows:

57-51.2-01. Authority to enter agreements. The governor, in consultation with the tax commissioner, may enter into agreements with Indian tribes to share revenue produced by taxes imposed under chapters 57-51 and 57-51.1.

57-51.2-02. Agreement requirements. Agreements under this chapter are subject to the following:

- 1. The only taxes subject to agreement are those attributable to wells located within the boundaries of an Indian reservation.
- 2. No more than fifty percent of the taxes may be allocated to the tribe.

3. An administrative fee to compensate the state for its costs in collecting the taxes and administering the agreement must be deducted from the share allocated to the tribe.
4. To address situations in which the state returns to a taxpayer taxes paid, the agreement must allow the state to either recoup from the tribe payments already made to it or to off-set future distributions to the tribe.
5. The state must retain exclusive authority to administer and enforce chapters 57-51 and 57-51.1 as applied to wells subject to any agreement authorized by this chapter.
6. The agreement must address the regulatory regime governing the oil and gas industry's on-reservation activities to provide the industry with an acceptable level of regulatory consistency and certainty.

57-51.2-03. Statutory inconsistencies. The terms in agreements entered under this chapter supersede any inconsistent provisions in chapters 57-51 and 57-51.1 dealing with the distribution and use of taxes collected under those chapters. Agreements entered under this chapter are subject to the provisions of chapter 54-40.2 except for those in section 54-40.2-08."

SECTION 5. CONTINUING APPROPRIATION. There is hereby provided a standing and continuing appropriation out of any money in the general fund in the state treasury, not otherwise appropriated, the sum as may be necessary, to the state treasurer, to be disbursed upon direction of the governor's office, for the purpose of funding agreements entered under Chapter 57-51.2 of the North Dakota Century Code

Page 3, line 17, replace 3 with "6"

Page 3, line 17, replace "This Act is" with "Sections 1 and 2 of this Act are"

Renumber accordingly

Date: 3/22
Roll Call Vote #:

2007 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 1279

Senate Appropriations Committee

Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken DP

Motion Made By Krauter Seconded By Wardner

| Senators | Yes | No | Senators | Yes | No |
|--------------------------------|-----|----|---------------------------|-----|----|
| Senator Ray Holmberg, Chrm | ✓ | | Senator Aaron Krauter | ✓ | |
| Senator Bill Bowman, V Chrm | ✓ | | Senator Elroy N. Lindaas | ✓ | |
| Senator Tony Grindberg, V Chrm | ✓ | | Senator Tim Mathern | ✓ | |
| Senator Randel Christmann | ✓ | | Senator Larry J. Robinson | ✓ | |
| Senator Tom Fischer | ✓ | | Senator Tom Seymour | ✓ | |
| Senator Ralph L. Kilzer | ✓ | | Senator Harvey Tallackson | ✓ | |
| Senator Karen K. Krebsbach | ✓ | | | | |
| Senator Rich Wardner | ✓ | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

Total (Yes) 14 No _____

Absent _____

Floor Assignment Heitkamp Nat Res

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

REPORT OF STANDING COMMITTEE (410)
March 22, 2007 10:26 a.m.

Module No: SR-54-5875
Carrier: Heitkamp
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

HB 1279: Appropriations Committee (Sen. Holmberg, Chairman) recommends DO PASS
(14 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). HB 1279 was placed on the
Fourteenth order on the calendar.

2007 TESTIMONY

HB 1279



Ron Ness
President

Marsha Reimnitz
Office Manager

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

Item # 1

House Bill 1279
House Natural Resources Committee
January 26, 2007

Same given to Senate Nat. Resources

Chairman Porter and Members of the Committee. My name is Ron Ness. I am President of the North Dakota Petroleum Council. The North Dakota Petroleum Council represents 130 companies involved in all aspects of the oil and gas industry including oil and gas production, refining, pipeline, transportation, mineral leasing, consulting, legal work, and oil field service activities in North Dakota, South Dakota, and the Rocky Mountain Region. Petroleum Council members produced 80% of the nearly 36 million barrels of oil produced in North Dakota in 2006. I appear before you today in support of House Bill 1279.

This committee passed this bill four years ago and placed a sunset on the bill to see how it worked to ensure we returned for this discussion. This incentive has worked, not only in Bowman County, but it has drawn leasing investments east of the Missouri River in Emmons county and has potential for interest in several other central North Dakota counties. It has been received as a message that North Dakota is open for business and wants to attract investment. Below is a segment from my testimony in 2003 before this committee on this bill:

“We know that incentives work in attracting oil and gas development. Look at the impact that the horizontal drilling incentives had on oil production and activity. HB 1145 is not a silver bullet, but it might do several things:

1. Create a small incentive for producers to look in North Dakota for gas.

2. Encourage oil and gas leasing, exploration, and production in new areas in the state, that would bring new wealth and economic development to those communities.”

There are some significant differences between a shallow gas play and an oil or deep gas play.

- A large area needs to be developed in order to make it economical.
- The economic sensitivity of wells, a play of this type, is statistical in nature.
- A large number of wells need to be drilled to prove the economic viability of the resource.
- The large volume of gas that is required for the building of infrastructure and required prior to sale to an interstate pipeline may require 100-200 producing wells.
- A tax holiday is beneficial and certainly creates a positive business environment to encourage leasing and activity.

The financial impacts of the shallow gas tax holiday have been positive and the impacts to Bowman County, and the state, that were the concern in 2003 have been positive, not negative.

Production from the Little Missouri Pierre Unit alone in Bowman County has increased from 10-15,000 mcf per month from 20 wells in late 2002 and early 2003 to more than 100,000 mcf per month from more than 100 wells at the end of 2006.

We urge a Do Pass on HB 1279. Thank you for your consideration on this bill. I would be happy to answer any questions.

Item # 2

FISCHER OIL and GAS, INC.
5749 83rd Street South
Grand Forks, North Dakota 58201-9120

House Bill 1279
House Natural Resources Committee
January 25, 2007

Chairman Porter and Members of the Committee. My name is David Fischer, I am an exploration geologist based in Grand Forks. Although I am unable to testify in this matter, I am in support of House Bill 1279, and believe my testimony in the matter of House Bill 1462 is also valid for this Bill.

In my opinion there is potential for shallow gas production to be expanded in the State. Currently shallow gas is produced from a single geological formation from one field in southwestern Bowman County. Not only is that formation present throughout much of the State, but other rock intervals that produce elsewhere in other Rocky Mountain areas are also present in the State. In addition, the conditions or variations in the conditions that control shallow gas production elsewhere, appear to be present in the State. Those conditions are found not only in the traditional oil producing regions of the State but extend well eastward. In order to evaluate the potential for shallow gas production in those areas, additional wells and additional data will need to be collected.

With your permission I would also like to address the differences between shallow gas resource development and the development of an oil pool. Those differences include:

- Wells drilled to collect data outside the normal area of oil production will be very expensive and represent a logistical nightmare.
- The economics of wells in a play of this type are very sensitive and are statistical in nature.
- A large number of wells will need to be drilled to prove the economic viability of the resource.
- The amount of time necessary to test individual wells may actually exceed the period of confidentiality for those wells.
- A large volume of gas is required for the building of infrastructure and required prior to sale to an interstate pipeline.
- The area that is potentially productive may be very large, and individual fields may extend for miles.

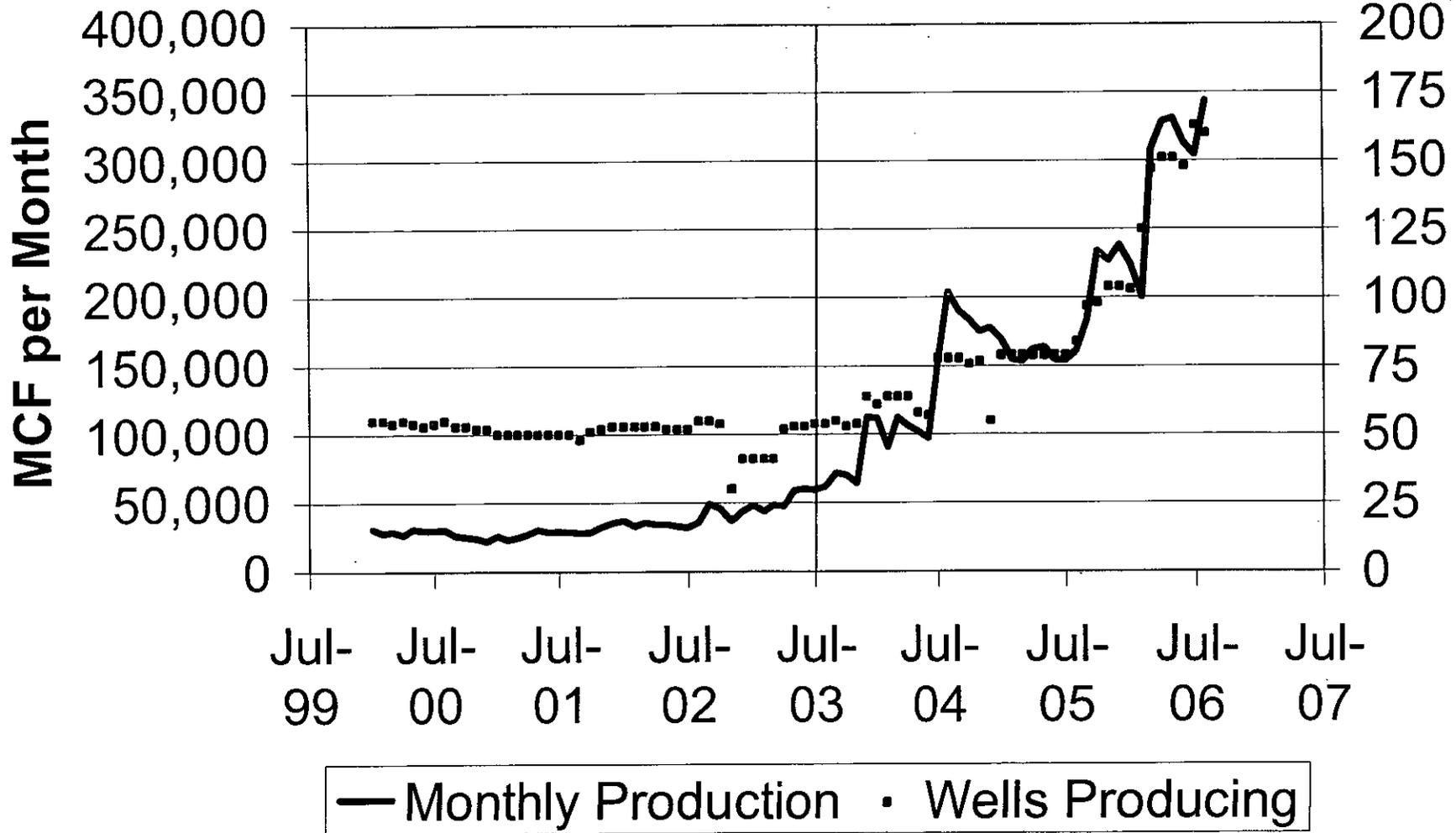
Any relief that can help focus interest in attempting to test and develop the potential of this resource will be helpful. I recommend a Do Pass on HB 1279. Thank you for your consideration on this bill.

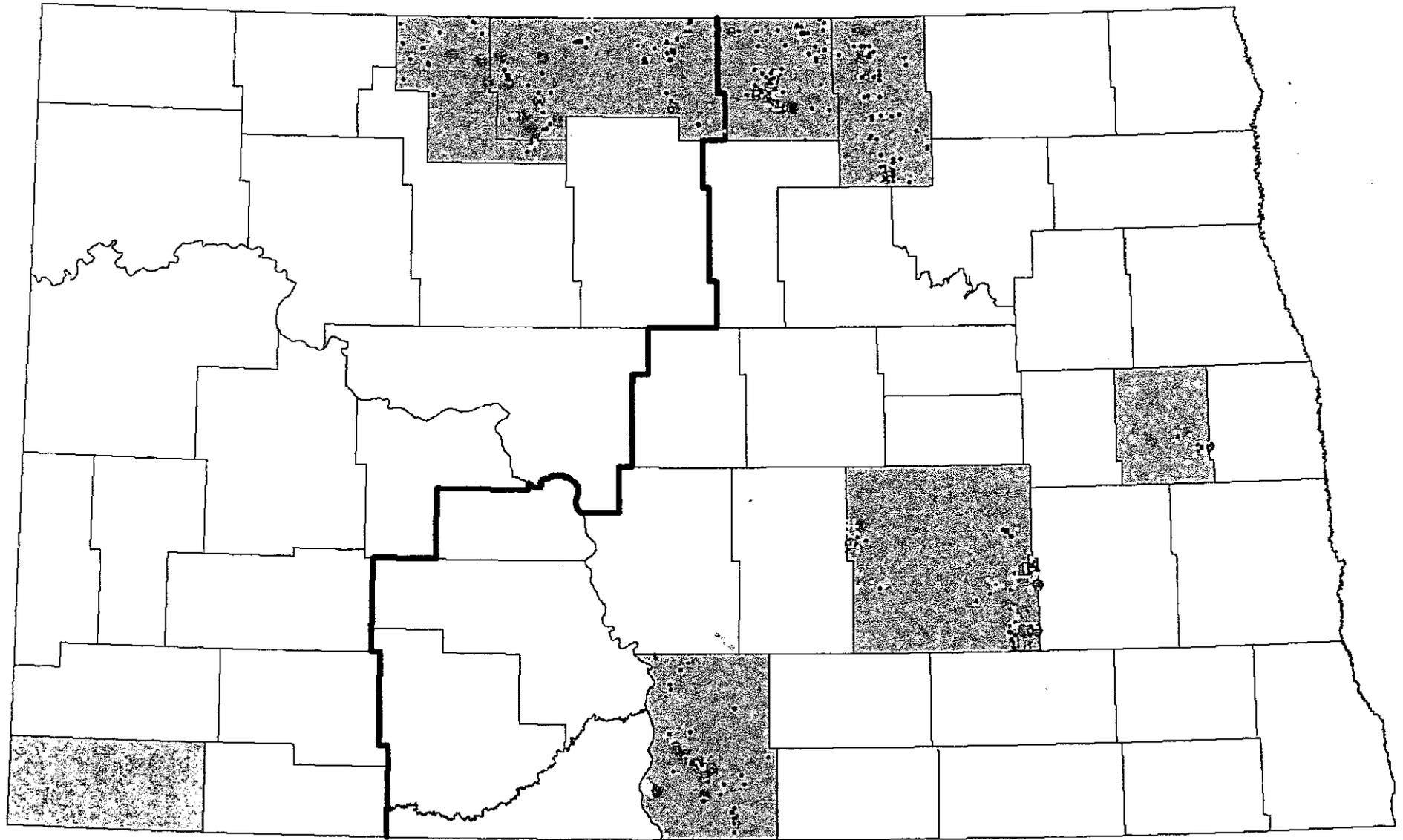
.....701-746-8509 phone 701-746-0870 fax
fischerd@fwireless.com

Item #3

HB 1279

North Dakota Shallow Gas





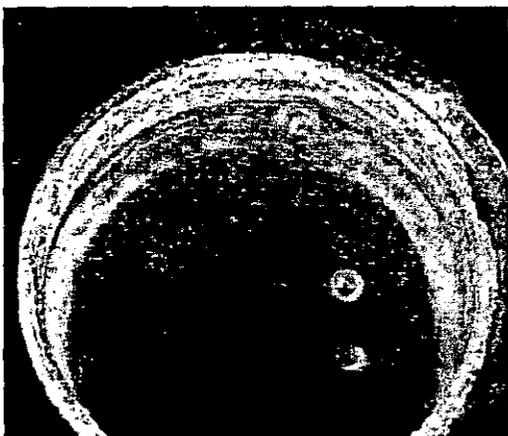
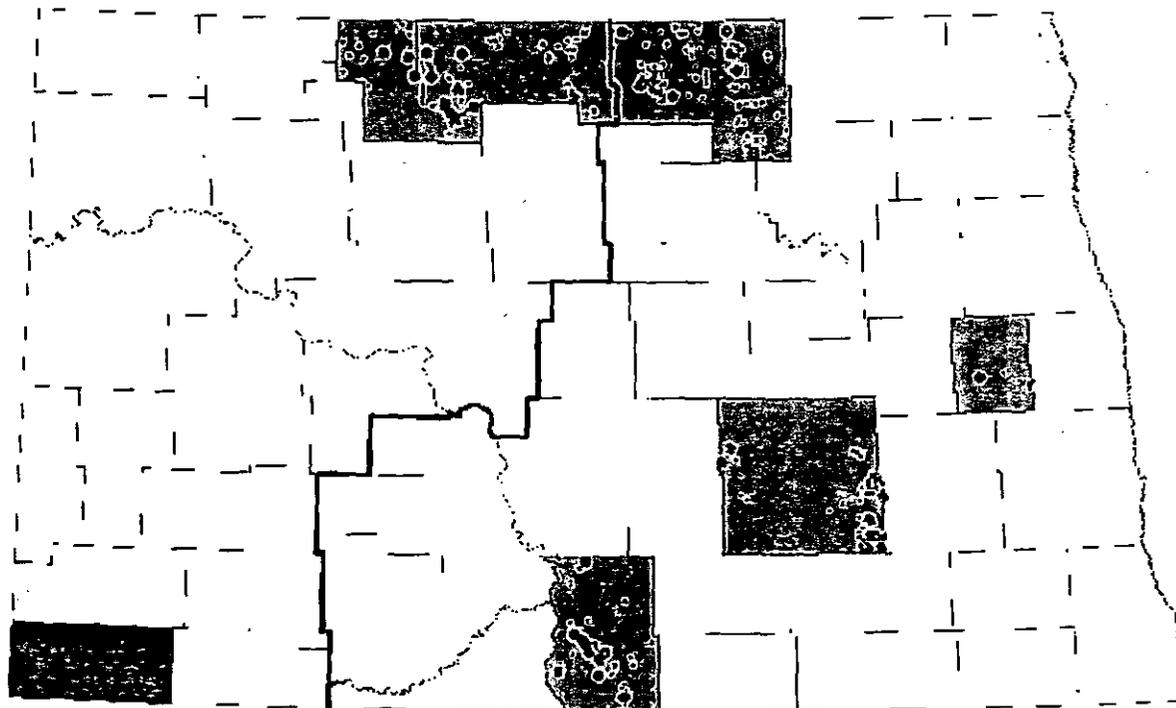
Counties monitored for shallow gas under the Phase 1 portion of the shallow gas project shown in dark gray, oil and gas counties in tan, the only county currently producing shallow gas is shown in red, and the proposed counties for additional study are shown in light gray. The heavy line separates the oil and gas producing counties from the nonproducing counties.

HB 1279

SHALLOW GAS PROJECT



In the fall of 2006, the Geological Survey initiated an investigation of the occurrence of shallow gas in eastern and central North Dakota. A total of 331 NDSWC monitoring wells were tested and 20% (the 66 red dots on the adjoining state map) contained detectable amounts of methane.



Methane bubbling to the surface in a two-inch NDSWC monitoring well.

Counties monitored for shallow gas under the Phase 1 portion of the shallow gas project shown in dark gray, oil and gas counties in tan, and the counties that we are proposing to study under the expanded portion of Phase 1 are shown in light gray. The black line separates the oil and gas producing counties from the nonproducing counties. The only county currently producing shallow gas, Bowman County, is shown in red.

The Geological Survey proposes to expand Phase 1 of this project by testing monitoring wells in at least seven additional counties (Ward, McHenry, Pierce, Benson, Kidder, Barnes, and LaMoure) to determine if the gas trends extend into these areas.

If money and time allows, water chemistries will be determined for waters containing gas (coordinated with the NDSWC) to see if we can identify chemical parameters that will aid in gas exploration, gas composition will be determined to identify the source of the gas, and rock cores will be taken of gas intervals to enable study of the gas reservoir.

Attachment 1
HB 1279
2/19/07

Porter, Todd K.

From: Strombeck, Kathy L.
Sent: Friday, February 09, 2007 9:16 AM
To: Porter, Todd K.
Subject: RE: Estimated Fiscal Impact of HB 1279

Rep. Porter,

This ties into the existing fiscal note of -\$1.1 million. The e-mail below provides you the statistics I used in computing the fiscal impact of the bill. Currently the shallow gas exemption has an impact of approx. -\$45,000 per month. That revenue is assumed to become "collectible" in the forecast under current law. Extending the holiday would, therefore, reduce current forecasted collections by the same \$45,000 per month.

The fiscal note does not assume a revenue loss from any newly discovered fields. New shallow gas discoveries are not assumed in the forecast, so there would be no revenue loss to the state.

Kathy

-----Original Message-----
From: Porter, Todd K.
Sent: Friday, February 09, 2007 9:08 AM
To: Strombeck, Kathy L.
Subject: RE: Estimated Fiscal Impact of HB 1279

Kathy:

Do these figures tie into the fiscal note that was dated January 10, 2007 or are you giving us an updated one?

The bill will be in front of appropriations later today.

Thanks,

Todd

-----Original Message-----
From: Strombeck, Kathy L.
Sent: Thursday, February 08, 2007 10:03 AM
To: Porter, Todd K.; Kempenich, Keith A.
Cc: Fong, Cory G.
Subject: Estimated Fiscal Impact of HB 1279

Good Morning Representatives Porter and Kempenich,

Cory asked that I provide you some details regarding the existing shallow gas exemption from gross production tax. Here are the statistics regarding the cost of this exemption to-date:

24-month Exemption from Gross Production Tax:

| | |
|---------------------------|---------------|
| FY 04 | -\$27,825.20 |
| FY 05 | -\$176,581.04 |
| FY 06 | -\$312,435.58 |
| FY 07 (first five months) | -\$224,795.93 |

The fiscal note on HB 1279 assumes a continuation of this established trend, all infield drilling in known existing fields. There are other potential projects outside of the existing fields that may or may not come online this biennium. There is no revenue loss associated with any potential new discoveries contained in this fiscal note. The loss is due solely to the continuation of drilling in the existing fields in Bowman County.

If you have questions concerning this fiscal note, please contact Cory or me.

Kathryn L. Strombeck
Research Analyst
Office of Tax Commissioner
01.328.3402



North Dakota Geological Survey

Edward C. Murphy - State Geologist *Attachment #2*
Department of Mineral Resources

Lynn D. Helms - Director

North Dakota Industrial Commission

www.state.nd.us/ndgs

Engrossed House Bill No. 1279

TESTIMONY BEFORE THE SENATE NATURAL RESOURCES COMMITTEE

Fred Anderson
March 8, 2007

Good Morning Mr. Chairman and members of the Senate Natural Resources Committee, my name is Fred Anderson. I am a geologist with the North Dakota Geological Survey. I am here to testify in favor of House Bill 1279. Lynn Helms, Director of the Department of Mineral Resources, discussed the contents of this bill with the Industrial Commission during their January, 2007 meeting and they recommended a do pass on this legislation.

Lynn Helms was unable to attend today's hearing, but prepared the attached graph which demonstrates the significant upturn in shallow gas drilling and production that has occurred since the current shallow gas gross production tax exemption went into effect in July of 2003. Since the inception of this tax exemption, both the number of shallow gas wells that have been drilled and shallow gas production have greatly increased. These had been holding steady from 1999 to 2003. This shallow gas production has come from Bowman County in southwestern North Dakota, shown in red on the map.

The rocks that are producing gas in Bowman County extend throughout North Dakota. Last fall, the North Dakota Geological Survey began a study of the shallow gas potential in eastern North Dakota (counties shown in dark gray on the attached map). We sampled 331 ND State Water Commission monitoring wells and detected methane in 20% of those wells (red dots). If funds are approved in our budget, this summer we will be expanding this project into several North Dakota counties (counties shown in light gray).

The extension of the shallow gas production tax exemption will help to encourage companies to explore for shallow gas in eastern North Dakota.

Chairman Lyson and Senate Natural Resources Committee members, my name is Jack Paris and I am a co-owner of Cody Oil and Gas Corporation in Bismarck. I am here today to ask for your support of HB 1279.

Over the past four years we have been involved in several shallow gas projects in east central North Dakota. In these projects we have acquired oil and gas leases on over one million acres.

In the first shallow gas project the company we worked for leased 750,000 acres and drilled one noncommercial well. This company is currently trying to sell the prospect.

In our second project we leased 250,000 acres for a small Colorado company. They have drilled four wells and are currently evaluating the results.

In the third project we leased 25,000 acres for two geologists. They are currently looking for industry partners to develop the project.

As you can see there is a strong interest in shallow gas development since the tax holiday was passed four years ago, and I feel it is important that you make the shallow gas tax holiday permanent.

I have learned that if there is shallow commercial gas in east central North Dakota the well volumes will most likely be low and the well completion costs would be expensive since this type of well needs to be fractured. Adding additional costs to the well would be the installation of a gathering system.

All of these factors make the economics of well development difficult when a company considers a shallow gas project. Any tax breaks that the state can provide may truly make the difference in whether a company may commit to a shallow gas project.

Also keep in mind that a commercial shallow gas project would be an economic boom to the local area and to the state. This type of drilling is more environmentally friendly since the well pads will be smaller, there would be no pumpjacks or tank batteries, and there wouldn't be any tanker truck traffic hauling oil and water.

For these reasons I strongly urge the committee to support HB 1279.

Triplett, Constance T.

From: David Fischer [fischerd@gfwireless.com]

Sent: Thursday, March 08, 2007 7:54 AM

To: Triplett, Constance T.

Subject: HB-1279 & HB-1462

Senator Triplett;

My name is Dave Fischer. I am a geologist in Grand Forks, actively involved the exploration for natural gas in the central and eastern portion of the State. I was planning to testify before your Committee today, but my schedule had to be changed. I strongly urge your support for the HB-1279 & HB-1462.

At present natural gas is only produced from a single formation, and only in southwestern Bowman county. In my opinion there is potential for shallow, natural gas production to be expanded in the State, including into parts of the State that currently do not have oil or gas production.

Rocks and the conditions that control shallow natural gas production elsewhere in the Rocky mountain region are present throughout much of North Dakota. There is also data to suggest that there is some natural gas in the system. Further study and exploration is necessary to determine whether the resource produceable with current technology and if the gas is economic to produce. This phase of exploration is very risky and very expensive. Numerous wells have to be drilled to test and modify technologies and identify the extent of the resource. Any support given by the State will be important to the exploration phase.

I would also like to point out some basic differences between shall gas resource development and the development of an oil pool. Those differences include:

- Wells drilled to collect data outside the normal area of oil production will be very expensive and represent a logistical nightmare.
- The economic sensitivity of wells, a play of this type is statistical in nature.
- The number of wells that will need to be drilled to prove the economic viability of the resource.
- The amount of time necessary to test individual wells (that time may actually exceed the period of confidentiality).
- There is a large volume of gas that is required for the building of infrastructure and required prior to sale to an interstate pipeline may require 100-200 producing wells.
- The area that is potentially productive is very large, individual fields may extend for miles.

Thank you for your time and consideration.

Dave Fischer fischerd@gfwireless.com
746-8509
5749 83rd Street South
Grand Forks, ND 58201

3/8/2007

③

FISCHER OIL and GAS, INC.
5749 83rd Street South
Grand Forks, North Dakota 58201-9120

House Bill 1279
Senate Appropriations Committee
March 16, 2007

Chairman and Members of the Committee. My name is David Fischer, I am an exploration geologist based in Grand Forks. I am unable to testify in person today, but believe that passage of HB 1279 is important to the state.

In my opinion there is potential for shallow gas production to be expanded in the State. Currently shallow gas is produced from a single geological formation in southwestern Bowman County. Not only is that formation is present throughout much of the State, but other rock intervals that produce elsewhere in the other Rocky mountain basins are present in the State.

Importantly, the conditions or recognizable variation in the conditions that control shallow gas production elsewhere appear to be present in the State. Those conditions are found not only in the traditional oil producing regions of the State but extend well eastward. In order to evaluate the potential for shallow gas production in those areas, additional wells will need to be drilled to collect the data necessary to evaluate the potential of the resource.

In considering the merits of this bill, it is important to realize that are significant differences in exploring, discovering, and developing a shall gas resource in a relatively unexplored and un-development area of the basin versus the development of an oil pool. Those differences include:

- Wells drilled to collect data outside the normal area of oil production will be very expensive and represent a logistical nightmare.
- The economic sensitivity of wells in a play of this type is statistical in nature.
- A statistically significant number of wells will need to be drilled to prove the economic viability of the resource, prior to any real development phase.
- The amount of time necessary to test individual wells is long, and may actually exceed any period of confidentiality, thus exposing Operators to additional risk.
- There is a large volume of gas that is required for the building of infrastructure and required prior to sale to an interstate pipeline may require 100-200 producing wells.
- The area that is potentially productive is very large, individual fields may extend for miles.

Any relief that can help focus interest in attempting to test and develop the potential of this resource will be helpful. I recommend a Do Pass on HB 11279. Thank you for your consideration on this bill.

701-746-8509 fischerd@gfwireless.com



North Dakota Geological Survey

Edward C. Murphy - State Geologist

Department of Mineral Resources

Lynn D. Helms - Director

North Dakota Industrial Commission

www.state.nd.us/ndgs

4

Engrossed House Bill No. 1279

TESTIMONY BEFORE THE SENATE APPROPRIATIONS COMMITTEE

Fred Anderson
March 16, 2007

Good Morning Mr. Chairman and members of the Senate Appropriations Committee, my name is Fred Anderson with the North Dakota Geological Survey. I am here to testify in favor of House Bill 1279. Lynn Helms, Director of the Department of Mineral Resources, discussed the contents of this bill with the Industrial Commission during their January, 2007 meeting and they recommended a do pass on this legislation.

Lynn Helms prepared this graph which demonstrates the significant upturn in shallow gas drilling and production that has occurred since the current shallow gas gross production tax exemption went into effect in July of 2003. Since the inception of this tax exemption, both the number of shallow gas wells that have been drilled and shallow gas production have greatly increased. These had been holding steady from 1999 to 2003. This shallow gas production has come from Bowman County in southwestern North Dakota, shown in red on the map.

The rocks that are producing gas in Bowman County extend throughout North Dakota. Last fall, the North Dakota Geological Survey began a study of the shallow gas potential in eastern North Dakota (counties shown in dark gray on the attached map). We sampled 331 ND State Water Commission monitoring wells and detected methane in 20% of those wells (red dots). If funds are approved in our budget, this summer we will be expanding the project into several North Dakota counties (counties shown in light gray).

The extension of the shallow gas production tax exemption will help to encourage companies to explore for shallow gas in eastern North Dakota.



Ron Ness
President

Marsha Reimnitz
Office Manager

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

(2)

House Bill 1279
Senate Appropriations Committee
March 16, 2007

Chairman Holmberg and Members of the Committee, my name is Ron Ness. I am the President of the North Dakota Petroleum Council. I appear before you today in support of House Bill 1279.

The Petroleum Council supports the amendments to authorize the state to negotiate a compact with the Three Affiliated Tribes to develop a more stable and uniform regulatory and tax structure on the reservation to encourage oil and gas development. There is great opportunity for all parties to create a win-win if this occurs. Without a more stable business climate, I believe we will continue to see little, if any, oil and gas activity on the reservation.

The legislature passed this bill four years ago and placed a sunset on the bill to see how it worked to ensure we came back for this discussion. This incentive has worked, not only in Bowman County, but it has drawn leasing investments east of the Missouri River in Emmons county and has potential for interest in several other central North Dakota counties. It has been received as a message that North Dakota is open for business and wants to attract investment. Below is a segment from my testimony in 2003 before this committee on this bill:

“We know that incentives work in attracting oil and gas development. Look at the impact that the horizontal drilling incentives had on oil production and activity. HB 1145 is not a silver bullet, but it might do several things:

1. Create a small incentive for producers to look in North Dakota for gas.
2. Encourage oil and gas leasing, exploration, and production in new areas in the state that would bring new wealth and economic development to those communities.”

There are some significant differences between a shallow gas play and an oil or deep gas play.

- A large area needs to be developed in order to make it economical.
- The economic sensitivity of wells, a play of this type, is statistical in nature.
- A large number of wells need to be drilled to prove the economic viability of the resource.
- The large volume of gas that is required for the building of infrastructure and required prior to sale to an interstate pipeline may require 100-200 producing wells.
- A tax holiday is beneficial and certainly creates a positive business environment to encourage leasing and activity.

The financial impacts of the shallow gas tax holiday have been positive and the impacts to Bowman County and the state, that were the concern in 2003, have been positive not negative.

Production from the Little Missouri Pierre Unit alone in Bowman County has increased from 10-15,000 mcf per month from 20 wells in late 2002 and early 2003 to more than 100,000 mcf per month from more than 100 wells at the end of 2006.

Incentives attract new investment in the oil and gas business. As a result of the increased number of shallow gas wells drilled since the bill was passed, the state will collect about an extra \$1 million in gas tax revenue per biennium for the next 25 years as these new shallow wells produce gas. We hope to see similar activity in new areas of the state that will attract additional leasing and new economic activity and bring more gas resources to the market.

We urge a Do Pass on HB 1279. Thank you for your consideration on this bill. I would be happy to answer any questions.