

MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION
SFN 2053 (2/85) 5M



ROLL NUMBER

DESCRIPTION

2361

2007 SENATE FINANCE AND TAXATION

SB 2361

2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. **SB 2361**

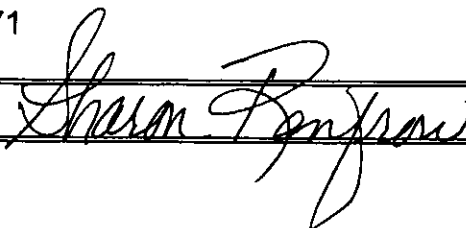
Senate Finance and Taxation Committee

Check here for Conference Committee

Hearing Date: January 31, 2007

Recorder Job Number: # 2471

Committee Clerk Signature



Minutes:

Sen. Urlacher called the committee to order and opened the hearing on SB 2361.

Sen. Oehlke: Prime sponsor of the bill appeared in support and deferred to others to explain the bill.

Sen. O'Connell: co-sponsor of the bill appeared in support with written testimony. (See attached) Also stating that this bill is strictly for new horizontal wells in the Bakken Field.

Sen. Wardner: co-sponsor of the bill appeared in support of this bill stating that when it comes to the oil production one of the things we have to keep in mind is the fact that as soon as the well is drilled and the first barrel is pumped there is a decline, there is a decline in the number of barrels produced. This bill addresses and deals with the Bakken. Funds are also affected by this.

Sen. Triplett: have you considered the inter-relationship of this bill with the one we heard earlier this morning and putting them together if they both passed?

Sen. Wardner: yes, I think that would be something that this committee could surely do and I would have no problem with that.

Bob Harms: Pres. of Northern Alliance of Independent Producers appeared in support with written testimony. (See attached)

Sen. Urlacher: How many independent rigs are drilling now?

Answer: 40 almost all are owned or operated by independent oil companies. May have 1 major.

Sen. Anderson: I see a trigger price, what does that mean?

Answer: the trigger price is a price in ND law that was set and began 6 yrs ago. The concept is if oil goes below a certain price the incentives in current law then come back into play.

Sen. Cook: if we created incentives to produce more oil then, do you think the sales tax incentive is going to get the pipelines created that need to be created to reach the capacity that we could possibly reach?

Answer: No, the larger pipelines that we expect really will come from providing more of a stable tax environment for the industry so that companies and CEO's can say, the ND climate is stable, we like it, we're going to make a 50 million dollar commitment so they can build the larger pipelines that we can extend that capacity.

Sen. Urlacher: what's the production on those that have the successful?

Answer: I think the average for Bakken today is still about 140 some barrels on average.

Sen. Urlacher: what's the success ratio of those that have been drilled?

Answer: I think the success ratio is very high.

Sen. Tollefson: how many rigs are working the Bakken formation now?

Answer: 20 rigs

Sen. Tollefson: of the holes that have been punched you say the majority have been productive?

Answer: yes, you'll see production up in the 90% range only 15% are profitable

Sen. Tollefson: without this bill, will the activity in the Bakken drop considerably?

Answer: we do run the risk of jeopardizing the Bakken

Sen. Tollefson: begin to dwell on the economy of the oil industry, being the devils advocate, now suppose that oil price would drop to 40 or 35 dollars, would that destroy all the incentive for expensive investment in the Bakken formation?

Answer: yes, the Bakken is going to be over if goes to \$30.

Harold Hamm: Chief Exec. Officer of Continental Resources, Inc. appeared in support with written testimony. (See attached)

Dave Serrell: marathon Oil Co. Appeared in support.

Dale Frink: State Engineer appeared in opposition with written testimony. (See attached)

Tom Powers: on behalf of his brother Jim who is Vice President of Cordillera Energy Partners presented his written testimony. (See attached)

Jim Arthaud: Pres. of Missouri Basin Well Services Inc. appeared in support with written testimony. (See attached)

Todd Maleckar: Diamond Resources of Williston appeared in support stating that 15% is very scary and the Bakken will not continue without help.

Vicky Steiner: ND Oil & Gas Producers appeared to say they support.

Ron Ness: ND Petroleum Council appeared to state they support and handed out a sheet on Oil & Gas Tidbits. (See attached)

Milles Vosberg: Tax Dept. has some concerns with section 1 on sales tax exemptions stating this would exempt purchases of pipe, another section on contractors and would need further language. Also clarification on pipe use.

Sen. Horne: do they also exempt pipe and equipment in MT?

Answer: they don't have sales tax.

Closed the hearing.

2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. **SB 2361**

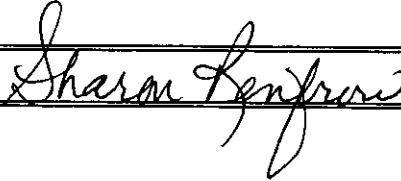
Senate Finance and Taxation Committee

Check here for Conference Committee

Hearing Date: February' 5, 2007

Recorder Job Number: # 2771

Committee Clerk Signature



Minutes:

Sen. Urlacher called the committee back to order for discussion on SB 2361.

Sen. Triplett: spoke with Bob Harms in regards to taking out Section 1

Sen. Cook: made a Motion to take out Section 1, seconded by Sen. Triplett.

Sen. Tollefson: so, we're taking out Section 1 and that does what?

Sen. Cook: Section 1 is the sales tax exemption for pipe used and expiration on the Bakken formation.

Sen. Urlacher: so what remains is the reduction of oil tax on oil drawn from the Bakken, is that what is left?

Sen. Cook: yes

Sen. Triplett: the FN doesn't make any estimates about section 1, it just says section 1 grants the sales tax and presently cannot estimate the fiscal impact of this section. So I think the fiscal note the way it's written, all of the numbers that relate to the extraction of tax anywhere.

Voice vote: 7-0-0 Motion carries

Sen. Oehlke: made a Motion for DO PASS as Amended, seconded by Sen. Triplett

Sen. Horne: if this is approved as written, we would have an incentive tax reduction on new production in the Bakken field, we'd reduce the extraction tax from 11 ½% to 9%?

Sen. Oehlke: it reduces the extraction tax from 6 1/2 to 4%

Sen. Horne: for 24 months and after that it would, the production tax would be at 9%, is that right? By doing this we're not only giving them an incentive to explore more in the Bakken field but we're reducing the long range tax of 11 1/2% to 9%, right? Is that what we want to do?

Sen. Urlacher: here's the question in my mind, is the Bakken going to continue to be explored with it or without it?

Sen. Tollefson: in defense of the bill, the Bakken formation is a tremendous expense and growing proposition. I feel they do need an incentive.

Sen. Oehlke: line 21, page 2, it mentions the rate of tax on all extracted from new horizontal wells and new horizontal reentry wells is provided in section 6 shall remain 4% regardless of whether the trigger price is exceeded.

Sen. Cook: I think the argument that they make that justifies the bills passage is when you compare our tax policy to Montana's. We certainly don't want to have a tax policy that would drive these folks to do their drilling somewhere else. I think the biggest problem I think we have in the oil industry in ND right now is getting the oil out.

Sen. Oehlke: do we really need to own a pipeline?

No.

Sen. Triplett: requested information and hasn't gotten it yet and would like to wait to act on.

Sen. Horne: I think there are too many parts to this bill.

Sen. Oehlke: made a **Motion to Rescind the Motion and Sen. Triplett rescinds her second.**

Closed the discussion.

2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. **SB 2361**

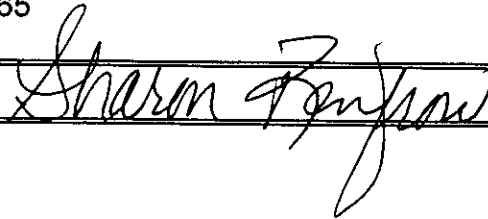
Senate Finance and Taxation Committee

Check here for Conference Committee

Hearing Date: February 7, 2007

Recorder Job Number: # 3065

Committee Clerk Signature



Minutes:

Sen. Urlacher: called the committee to order for discussion and action on SB 2361.

Sen. Triplett made a Motion to Move the sunset amendments presented by Bob Harms, seconded by Sen. Horne.

Voice vote: 7-0-0 Amendments carry.

Sen. Triplett: asked Ron Ness if in his opinion if the Bakken bill passed would it take precedence.

Ron Ness: the Bakken situation would have precedence. This is a stand alone piece of legislation and the bill stands on its merits.

Sen. Cook: both bills deal with only new wells and I think these 2 bills are going to get merged together.

Sen. Oehlke: they deal with new wells or reentry horizontal drilling, is that considered new?

Ron Ness: correct, that is a new Bakken well when you reenter a well.

Sen. Cook: we could amend this bill into SB 2397.

Sen. Triplett: I think the reason not to do that is that people would be willing to vote for one but not the other. They think there are people who would see one of them as the restructuring as Mr. Ness has said and see the other one as an incentive bill and would have different

attitudes about them. I think that would not be very fair to the sponsors to do that. But I would agree with you that we're going to pass the Bakken bill then what we should probably do is have Legislative Council redraft it to be as consistent as possible with what we already have passed before we let this one go tot the floor.

Bob Harms: I feel that 2361 will mold into 2397 so that both are effective

Sen. Horne: I think either we should amend 2361 to reduce the honeymoon period from 24 months to 15 months or we should move to add a 2% extraction tax on the honeymoon period like we did in 2397.

Sen. Horne: made a Motion to move the 2% extraction tax during the honeymoon period in the Bakken field, follow the 24 months. Seconded by Sen. Triplett

Ron Ness: basically what you're doing then is your giving a 1 year incentive for new Bakken wells which I think is really what everybody has said. The Bakken has great potential; you would move it up one year. You're basically trading a 1 yr Bakken tax incentive at 7% instead of 5% from 11 ½%. The other bill is going down to 9, not going to 7 unless the triggers come back on. So you're basically providing the tax holiday to 7% instead of 5 for 24 months.

Sen. Urlacher: so how does that plan with the 4 yr amendment?

Ron Ness: the Bakken provisions just go away at the end of 4 yrs with the sunset. It would definitely reduce the mill by 1/3.

Bob Harms: should reduce the FN by maybe a 1/3.

Voice vote: 7-0-0 Amendment carries

Sen. Anderson: if that sunset arrives and nothing happens, 2397 takes over.

Sen. Tollefson: made a Motion for DO PASS as Amended, seconded by Sen. Oehlke.

Roll call vote: 7-0-0 Sen. Oehlke will carry the bill.

FISCAL NOTE

Requested by Legislative Council

02/12/2007

Amendment to: SB 2361

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				(\$6,890,000)		
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).*

Eng. SB 2361 provides an oil extraction tax rate reduction from 6.5% to 2% for the first 24 months, followed by a permanently reduced oil extraction tax rate of 4%, for new wells drilled in the Bakken formation. Recompleted wells in the Bakken are exempt from extraction tax for 9 months.

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.*

Section 1 permanently lowers the oil extraction tax rate from 6.5% to 4% for new Bakken wells. Section 2 creates an additional oil extraction tax rate reduction to 2% for the first 24 months of production from new Bakken wells. It also creates an oil extraction tax exemption for 9 months for reentry and recompleted Bakken wells. These sections will result in an estimated reduction in oil extraction tax revenues of \$6.890 million in the 2007-09 biennium. The revenue loss would be distributed as follows: 60% from the permanent oil tax trust fund, 20% from the resources trust fund, and 20% according to Article X of the Constitution.

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:	02/14/2007

FISCAL NOTE
 Requested by Legislative Council
 01/23/2007

Bill/Resolution No.: SB 2361

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				(\$9,575,000)		
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).*

SB 2361 provides a 24-month, and/or a 9-month oil extraction tax exemption followed by a permanently reduced oil extraction tax rate of 4%, for wells drilled in the Bakken formation. The bill also provides a sales tax exemption for qualifying expenditures on pipe used in the Bakken formation.

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.*

Section 1 grants a sales tax exemption for piping used in the Bakken formation. At present, we cannot estimate the fiscal impact of this section.

Sections 2 and 3 create the 24 and 9 month exemptions, followed by a permanent 4% oil extraction tax rate. These sections will result in an estimated reduction in oil extraction tax revenues of \$9.575 million in the 2007-09 biennium. The revenue loss would be distributed as follows: 60% from the permanent oil tax trust fund, 20% from the resources trust fund, and 20% according to Article X of the Constitution.

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:	01/30/2007

Date: 2-7-07

Roll Call Vote #: 1

2007 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. SB 2361

Senate Finance & Tax Committee

Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken Do Pass as Amended

Motion Made By Sen. Tollefson Seconded By Sen. Oehlke

Senators	Yes	No	Senators	Yes	No
Sen. Urlacher	✓		Sen. Anderson	✓	
Sen. Tollefson	✓		Sen. Horne	✓	
Sen. Cook	✓		Sen. Triplett	✓	
Sen. Oehlke	✓				

Total (Yes) 7 No 0

Absent 0

Floor Assignment Senator Oehlke

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

REPORT OF STANDING COMMITTEE

SB 2361: Finance and Taxation Committee (Sen. Urlacher, Chairman) recommends AMENDMENTS AS FOLLOWS and when so amended, recommends **DO PASS** (7 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). SB 2361 was placed on the Sixth order on the calendar.

Page 1, line 1, remove "a new subsection to section 57-39.2-04 and"

Page 1, line 2, remove "a sales and"

Page 1, line 3, remove "use tax exemption for pipe for gas gathering systems and pipelines and"

Page 1, line 4, after "exemption" insert "or rate reduction"

Page 1, line 5, after "tax" insert "rate"

Page 1, line 6, remove "and" and after "date" insert "; and to provide an expiration date"

Page 1, remove lines 8 through 11

Page 2, line 12, after "exempt" insert "or subject to a reduced rate"

Page 2, line 27, replace "exempt from any taxes imposed under" with "subject to a tax of two percent of the gross value at the well of the oil extracted"

Page 2, line 28, remove "this chapter"

Page 3, line 3, after "**DATE**" insert "- **EXPIRATION DATE**" and replace "taxable events occurring" with "oil extracted from wells drilled and completed"

Page 3, line 4, after "2007" insert ", and before July 1, 2011, and is thereafter ineffective"

Renumber accordingly

2007 SENATE APPROPRIATIONS

SB 2361

2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. 2361

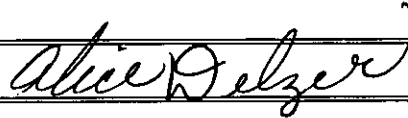
Senate Appropriations Committee

Check here for Conference Committee

Hearing Date: 02-14-07

Recorder Job Number: 3485

Committee Clerk Signature



Minutes:

Chairman Holmberg opened the hearing on SB 2361 at 9:30 am on February 14, 2007 regarding the Bakken Tax Incentive Bill.

Robert Harms, President North Alliance of Independent Producers presented written testimony (1) (2) and oral testimony in support of SB 2361. He stated there were 3 reasons to pass this bill,.

1. Economics.
2. Sustainability
3. Price Differentials.

Senator Seymour asked where ENBRIDGE located. He was informed they are a Canadian company. He also asked where PETRO HUNT is headquartered. He was informed their office is in Bismarck, ND, our headquarters office is in Dallas, Texas. We've been operating in the Williston Basin since the 1950's. He had questions regarding the North Dakota Tax percentage compared to other states.

Senator Mathern asked what the potential income of gas being flared off now is, for information regarding the economic status, other bills that address the oil field industry, workers and training for oil field workers and if there will be enough workers in the event that another oil boom happens in northwestern North Dakota.

Senator Tallackson had questions about the depth of the formation on the BAKKEN, why don't they drill in the middle of the blue field as displayed on the map that was placed on the wall for the committee to review. It was explained to the committee that the map shows where the BAKKEN shell is and where drilling is taking place.

Senator Bowman had questions regarding the horizontal drilling and the long term benefits of horizontal drilling. He was informed that horizontal drilling is a new technique and very successful in many areas, and not all companies are equipped to do this type of drilling. Information was told to the committee by Mr. Harms that it took Montana 3 years to unlock the BAKKEN, and Richland County and Montana have doubled their oil production. He was informed that the industry is aware that there is oil in the BAKKEN we just have to find it.

Ryan Kopseng, Missouri River Royalty Corporation gave oral testimony in support of SB 2361.

Ron Ness, North Dakota Petroleum Council gave oral testimony in support of SB 2361.

Jim Arthaud, President of Missouri Basin Well Services, Inc. Belfield, ND had written testimony (3) in support of SB 2361 that was distributed to the committee by Mr. Harms.

Jeff Herman, Petro-Hunt, LLC gave oral testimony in support of SB 2361.

Senator Robinson asked if the people from the industry thought about amending the bill and we look at it again at a later time.

Jeff Herman stated there is a sunset on this bill. What this bill is trying to do is to give it a change to get it off the ground and continue to go.

No action was taken at this time. The hearing on SB 2361 closed.

2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. 2361

Senate Appropriations Committee

Check here for Conference Committee

Hearing Date: 02-14-07

Recorder Job Number: 3488

Committee Clerk Signature

Alice DeBer

Minutes:

Chairman Holmberg opened the hearing on SB 2361 on February 14, 2007 regarding sales tax exemption for pipe for gas gathering systems and pipelines and an oil extraction tax exemption for oil produced for certain horizontal wells. He stated Senator Krauter had an interest in this bill and is not present. As he was speaking Senator Krauter came in to the hearing.

Senator Mathern moved a DO NOT PASS, Seconded by Senator Krebsbach.

Discussion followed.

Senator Wardner stated this bill comes because of the high prizes of drilling in the BAKKEN and keeping people there and the investments going.

A roll call vote was taken resulting in 10 yeas, 4 nays, 0 absent. The motion carried.

Senator Grindberg will carry the bill.

The hearing on SB 2361 closed.

Date: 2/14/07
 Roll Call Vote #: 1

2007 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2361

Senate Appropriations Committee

Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken do NOT pass

Motion Made By Mathern Seconded By Krebsbach

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) 10 No 10

Absent 0

Floor Assignment Grindberg

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

REPORT OF STANDING COMMITTEE (410)
February 14, 2007 11:56 a.m.

Module No: SR-31-3214
Carrier: Grindberg
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

SB 2361, as engrossed: Appropriations Committee (Sen. Holmberg, Chairman)
recommends **DO NOT PASS** (10 YEAS, 4 NAYS, 0 ABSENT AND NOT VOTING).
Engrossed SB 2361 was placed on the Eleventh order on the calendar.

2007 TESTIMONY

SB 2361

SB 2361 Summary

Senator David P. O'Connell

A bill relating to an oil extraction tax reduction for oil produced from certain new horizontal wells.

A new subsection to section 57-39.2-04 of the ND Century Code is created citing:

"Gross receipts from the sale of pipe used for gas gathering systems and pipelines used primarily for producing oil or gas from the Bakken formation."

The rate of tax is 6.5 percent of the gross value at the well of the oil extracted, except that the rate of tax is 4% of the gross value at the well of the oil extracted when:

- Oil produced from horizontal wells drilled and completed or from horizontal reentry wells which are reentered and recompleted in the Bakken formation after June 30, 2007 and which production is not otherwise exempt under section 57-51.1-03 (line items 10-13, pg. 2)

The rate of tax on oil extracted from new horizontal wells and new horizontal reentry wells as provided in subsection 6 shall remain 4% regardless of whether the trigger price is exceeded (line items 21-23, pg. 2).

Initial production of oil from a new horizontal well drilled and completed in the Bakken formation after June 30, 2007, is exempt from any taxes imposed under this chapter for a period of 24 months. Oil recovered during testing prior to well completion is exempt from the oil extraction tax (line items 26-29, pg. 2)

The initial production of oil from a new horizontal reentry well reentered and recompleted in the Bakken formation after June 30, 2007 is exempt from any taxes imposed under this chapter for a period of 9 months. Oil recovered during testing prior to well recompletion is exempt from the oil extraction tax (line items 30-31, pg. 2 & line items 1-2 pg. 3).

Northern Alliance of INDEPENDENT PRODUCERS

PO Box 2422 • Bismarck, North Dakota 58502-2422 • Phone 701-224-5037 • Fax 701-224-5038 • email NProducers@aol.com

Finance and Tax Committee
North Dakota Senate
January 31, 2007

Legislative Hearing

SB 2361 (Bakken Tax Incentive bill)

Mr. Chairman and members of the committee, my name is Robert Harms. I am president of the Northern Alliance of Independent Producers, which is an oil and gas trade association of independent oil producers operating in the Williston Basin. Today, the Alliance represents over 40 companies operating in the Williston Basin and who are responsible for 45% of the wells drilled in 2006. At an average cost of \$4 million per well that represents a capital outlay of \$900 million annually.

We strongly support SB 2361, the Bakken Tax Incentive Bill. The following are some of the companies that support the bill: Encore Acquisition Partners, Armstrong Corporation, Cordillera, EOG, Headington, Copperhead Corporation, Powers Energy, Diamond Resources, Marathon, Missouri River Royalty, Missouri Basin Well Service, Murex, Northern Energy, Pearce & Durick, Ward-Williston, and Wyoming Casing--- many located here in North Dakota.

I would like to talk to you about 4 things this morning:

1. What the bill does.
2. The significance of the oil industry to our state and our national scene.

The voice of independent oil and gas producers in northern states

NAIP 

3. The Bakken formation and reasons for the bill that others will address in detail.

4. And why the opposition you will hear is not valid.

First, the Bill does several things, providing:

- 24 month exemption from the 6 ½ oil extraction tax for all new horizontal Bakken wells.
- 9 month exemption from 6 ½ oil extraction tax for reentries that are drilled as horizontal Bakken wells.
- After the exemption period, the tax for horizontal Bakken wells is 4% (for a total of 9%) rather than the usual 11.5% tax rate.
- Sales tax is waived on pipe purchases for gathering systems and pipelines primarily used to gather Bakken oil and gas.

Second, as you know, oil revenues and the industry are important to our economy. The production taxes alone are projected to be \$238 million in the coming biennium. This does not include corporate income tax, personal income taxes, sales taxes, or State royalty and lease bonus income, the new jobs and other sources of revenue generated by the oil and gas industry. In fact nearly half of our current ending fund balance is a result of oil revenues. I'd like to offer you some specific numbers to measure the real impact of the industry to help provide some context in which to evaluate SB 2361.

For 2005-2007 North Dakota receive the following (as per most recent projections)

\$263 million (general fund tax collections)

\$ 10 million (estimate personal income tax on royalties, not included above).

\$ 15 million (federal royalty income)

\$ 79 million State Land Department oil revenues (not general fund)

For 2007-2009 North Dakota is projected to receive the following oil revenues:

\$271 million (general fund tax collections)

\$ 12 million (estimate personal income tax on royalties, not included above).

\$ 13 million (federal royalty income)

\$ 50 million (State Land Department estimate; March 06 estimated \$28 million)

The OIL INDUSTRY is the third largest revenue source for the general fund, only behind sale and income taxes. (The oil industry will contribute \$94 million just in production taxes in the coming biennium in contrast to the coal industry that will contribute \$40 million from production taxes.) And we use or plan to use the oil revenue for a host of things:

-property tax relief, providing a Highway Stabilization fund, Common Schools Trust Fund, city and county government, (Foundation Aid Program), water projects through the Resources Trust Fund, renewable energy projects and college tuition programs to name a few.

Meanwhile, the industry has added thousands of jobs in the last few years, with average salaries of \$40-50,000 annually.

Our point is simply that the oil industry is vital to our economic well being and we should strive to keep the industry vibrant and thriving. There are few industries that put that kind of money into our economy.

(And NO industry other than oil pays 11.5% of its gross revenues to the state whether it makes a profit or not). So, we are here asking you to remove a key disincentive for future investment.

I want to set the stage for just a moment about North Dakota's role regarding our national energy situation:

- US imports 60% of our oil; 97% of which is used for transportation.

- 1/3 of our annual trade deficit of \$776 BILLION is imported oil.

- "Oil is the life blood of our economy" (General (Ret) Chuck Wald, *National Commission on Energy Security, January, 2007. Market Place, Fargo ND.*)

- "America's dependence on oil is a threat to national security and prosperity" (Wald)

- "reduce vulnerability by decreasing demand and increasing supply" (Wald)

"North Dakota is blessed with energy leadership, abundant natural resources.....is at the center of the national energy debate, and is the sixth largest energy producing state in the US. North Dakota decision-makers, entrepreneurs, educators and citizens can make a significant contribution to the national energy security challenge". (Wald)

Increasing AMERICAN oil and gas holds a key place to securing our nation's energy future.

So, what does this bill have to do with energy security for our nation and meeting North Dakota's economic potential? SB 2361 is limited to the Bakken formation. It is designed