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COUNCIL

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Senate Bill 2217

Testimony of Ron Ness

Senate Finance and Taxation Committee

February 8, 2021

Chairman Bell and members of the Committee, my name is Ron Ness, president of the North Dakota Petroleum Council ("NDPC"). The North Dakota Petroleum Council represents more than 650 companies in all aspects of the oil and gas industry, including oil and gas production, refining, pipeline, transportation, mineral leasing, consulting, legal work, and oilfield service activities in North Dakota. I appear before you today in opposition to Senate Bill 2217.

Few may remember, but a little over a decade ago, natural gas prices were projected to reach $20 per thousand cubic feet, or MCF. Then came the shale revolution and fracking, dramatically increasing gas supply and plummeting gas prices to a point closer to $2 per MCF today. Just a few years ago, in the Bakken oil fields, we were flaring up to thirty-six percent of our gas. The industry, the State, our land and mineral owners, and the public at large all knew this could not continue – for many reasons, including preventing the waste of a natural resource and protection of our environment. Ultimately, the State, in consultation with industry, imposed gas capture targets to reduce flaring. However, North Dakota did not have the infrastructure in place to meet the gas capture targets. In response, industry invested $20 billion in gas capture infrastructure. As we meet today, we can say the State's mandates and industry's investment in infrastructure were successful in terms of reducing flaring. We can also proudly say we have met the targets set before us. However, this success has come with other unintended consequences. The past several years of low oil and natural gas prices, coupled with increased natural gas production nation-wide has resulted in gas capture economics being difficult and challenging to say the least, and have culminated in the understandable frustrations that have brought Senate Bill 2217 before us today.

In this market, there are no winners when commodity prices are low. Mandated gas capture requirements did reduce flaring, but they have created an enormous challenge for operators who have seen cost increases for easements, as well as rising costs of pipelines, processing plants, and export pipelines. Obviously, the economics get tough when prices are low, but we also face additional challenges now and in the future as costs and mandates continue to increase. We see oil operators frustrated with midstream companies, the North Dakota Department of Trust Lands wanting operators to cover all costs, working interest partners mad at their oil operator partners, and, of course, royalty owners upset about deductions from their royalty payments. The reaction to that frustration is Senate Bill 2217.

This is a complex and challenging issue for all parties involved in the oil exploration and production process. Revenue distribution varies as much as the contracts, language, and partnerships in private leases. NDPC has members on both sides of this issue, and we are committed to bringing parties together and ensuring open communication to every extent possible. We will work with our members in the weeks ahead to get the discussions started.

Years ago, we had a royalty owner section added to the NDPC website that was helpful in connecting mineral and royalty owners with companies. We will reexamine that tool and assess if it needs refreshing. However, it is important to recognize that most of this frustration, particularly in this low-price environment, is the result of private contacts, and the State should be cautious in its interference in private contracts.

Senate Bill 2217 is not the path to resolving this issue. As you will hear from our members testifying today, this bill will have drastic negative impacts on investment and development in the Bakken going forward. Make no mistake, our industry is under tremendous stress. Attacks from the new administration have just begun, there is an organized effort to cut off the financing of fossil fuel energy development, and every attempt possible is being made to limit or stop the marketing of oil and natural gas.

Testifying on behalf of NDPC today is Todd Kranda, attorney with Kelsch Ruff Kranda Nagle & Ludwig Law Firm in Mandan, Todd Slawson with Slawson Exploration, Jeff Herman with Petro-Hunt, and

Barry Biggs with the Hess Corporation. Also submitting written testimony only is Taylor Reid, President and Chief Operating Officer of Oasis Petroleum.

Chairmen Bell and members of the committee, Senate Bill 2217 has brought forth some serious and contentious issues within the oil and natural gas industry. However, I believe all impacted parties share the same goals of seeing our state's vast natural resources produced and ensuring all parties reap the economic benefits. This is a challenging issue, but it is one we feel is best resolved internally and not with more government mandates or interference. For these reasons, we urge you to defeat this bill. I would be happy to answer any questions.