Chairman Kruen and Esteemed Members of the Energy and Natural Resources Committee,

My name is James Leiman and I have the distinct honor of serving as the Director of Strategy for the North Dakota Department of Commerce. It has been a pleasure and honor to advance the state's "all of the above" energy production approach to the next level with industry partners every step of the way. I am here today to testify and educate the Committee on how ESG will impact the state's economy and how this investment approach may impact energy growth, most notably oil, gas, lignite, and agriculture with a nexus to energy for decades.

Regardless of what members of this committee and the public have read about Environmental, Social and Corporate Governance (ESG), I would like to unequivocally state on the record that ESG presents **the greatest challenge to the North Dakota's economy since the Great Depression**; this is not an exaggeration but a reality given our heavy reliance on energy and agricultural production. The good news is, with every crisis comes an opportunity.

In the face of this challenge, North Dakota can choose its destiny as we are innovative, agile and have motivated private sector partners supporting the rapid acceleration toward producing clean energy to meet private equity/ debt needs as well as consumer preferences. It is not that the energy industry hasn't worked hard to achieve this goal, it is simply that the world around us is moving much faster and it is time not only to catch up but to leapfrog global competitors. To accomplish this however, the state needs a cohesive and coherent approach that is prepared to meet today and tomorrow's challenges.

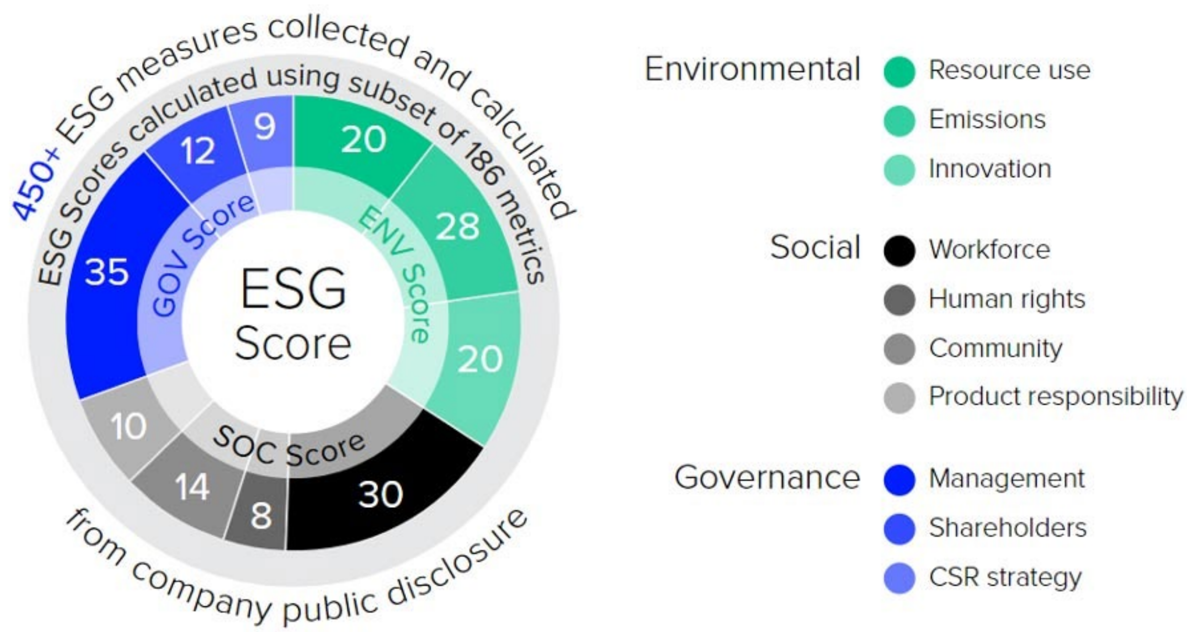
What is ESG

In January 2020, Larry Fink, CEO of the world's largest investment fund BlackRock, shocked the investment world in his annual letter to shareholders indicating that the $7 trillion under management would invest only in companies that put sustainability and climate at the center of its investment approach. Simultaneous to this, just about every Fortune 500 company and major private equity firm in the world adopted similar Environmental, Social and Governance (ESG) policies as part of their investment strategies; in fact, the ESG investment portfolio is worth about **$50 trillion**, more than the entire Standard and Poor's Index. This number is projected to increase as consumer preferences evolve. Private equity is also moving into new standards-based investment practices; energy producers, processors and companies along the value chain are subject to these new requirements. In January 2021, Blackrock and others began to divest from companies that did not meet these standards further exacerbating the issue. In addition, insurance companies began to apply pressure through increasing premiums to sky high rates during this period. The concept of ESG is very complex yet simple to understand:

1. Private equity scores a company based on its:
    a. Environmental stewardship

b. Social Responsibility
c. Governance Structure

2. It uses a score card like the measures below using approx. 450 factors and 186 metrics



3. If the score exceeds the minimum threshold, the firm can pursue debt or equity from Wall Street or other firms
4. If the score doesn't meet the standard, the firm does not have access to over $50T.

Energy markets were the first to be impacted by evolving ESG investment standards; and no pun intended but the lignite industry was truly the canary in the coal mine. With energy representing the largest industry in the state and agriculture a close second, it is critical to get ahead of these trends to ensure long-term financial stability for these industries. Across the value-chain, ESG standards, with an emphasis on an environmentally sustainable approach, must be met to capture private investment.

Size and Scope of situation/challenge

North Dakota's energy and agricultural sectors are responsible for about 35% of the economy. When retail activity, home sales and construction are deducted, oil and soil account for nearly **70%** of the state's economy. As such, we are highly dependent on these sectors for quality of life and economic vitality. This becomes especially acute in communities dependent on lignite, oil, gas, and agricultural commodities. Simultaneous to ESG, consumers are driving a parallel current that is impacting demand for North Dakotan products. A great example would be Minnesota's desire to reduce its purchase of North Dakotan produced energy; another would be global ag consumers purchasing products that they consider to be sustainably sourced. As such, there is a major squeeze coming from multiple directions which could impact the North Dakota's ability to grow. This squeeze does not include federal factors further aggravating the challenge for North Dakota as well as communities dependent on the success of these commodities.

How can ND Address the Challenge Head On?

At Commerce, we subscribe to the value proposition outlined by McKinsey. We can not only mitigate the issue in front of us but address the challenge and take the bull by the horns through an aggressive approach. This agency continues to be well suited to lead through facilitating discussion and synchronizing action. We can't be afraid as we have already been hit by the bus and we will become experts at managing our way through this crisis and creating the next generation economy.

The EmPower Commission, private industry and state agencies can facilitate growth through:

1. Using ESG policies to develop new customers and market share.
2. Gaining continued access to private capital through ESG programs.
3. Developing a value-driven network that enables long-term business development.

We could also manage risk via:

1. Reducing exposure to energy supply risks through addressing ESG issues, compliance and regulatory requirements.

2. Setting an example for the nation through the development of leadership skills and an industry culture that adapts to rapidly evolving political and economic trends.

Industry could improve return on investment through:

1. Improving human capital management by attracting and retaining ESG managers and motivated employees.

2. Building pricing power through the development of a solid reputation and brand loyalty.

3. Enhancing operational efficiency through the improvement of environmentally sustainable practices such as improving the use of energy, water, waste and raw materials.

To accomplish the goals above, industry as well as the state will have to make significant investments to get ahead of these trends. We can create value according to the McKinsey proposition below:

	Strong ESG proposition (examples)	**Weak ESG proposition** (examples)
Top-line growth	Attract B2B and B2C customers with more sustainable products Achieve better access to resources through stronger community and government relations	Lose customers through poor sustainability practices (eg, human rights, supply chain) or a perception of unsustainable/unsafe products Lose access to resources (including from operational shutdowns) as a result of poor community and labor relations
Cost reductions	Lower energy consumption Reduce water intake	Generate unnecessary waste and pay correspondingly higher waste-disposal costs Expend more in packaging costs
Regulatory and legal interventions	Achieve greater strategic freedom through deregulation Earn subsidies and government support	Suffer restrictions on advertising and point of sale Incur fines, penalties, and enforcement actions
Productivity uplift	Boost employee motivation Attract talent through greater social credibility	Deal with "social stigma," which restricts talent pool Lose talent as a result of weak purpose
Investment and asset optimization	Enhance investment returns by better allocating capital for the long term (eg, more sustainable plant and equipment) Avoid investments that may not pay off because of longer-term environmental issues	Suffer stranded assets as a result of premature write-downs Fall behind competitors that have invested to be less "energy hungry"

Getting Started Now

The Department of Commerce will invest $250,000 this biennium, from its Momentum Fund, in a contract that enables the state to fully understand the challenges associated with ESG as well as what short-term wins we could gain to accelerate our efforts to support both the energy and ag sectors. The likely deliverables will focus on:

1. Identifying areas for more ESG compliant investment to improve readiness for impactful and long-term private equity investments.

2. Finding opportunities for more innovative energy technology use to reduce waste, mitigate impact on the environment and encourage more sustainable energy production methods through the connection to federal programs, public private partnerships and innovation platforms/ entrepreneurs.

3. Creating more resilient energy supply chains.

4. Identifying alternate transport and logistics networks to mitigate exposure to freight movement disruptions and/ or export restrictions.

5. Finding and reducing chokepoints that inhibit rapid transitions from commercial or retail demand should energy consumption patterns become erratic thereby strengthening economic resilience for North Dakota.

6. Ensuring that we don't punish companies that operate in ND that are already making ESG investments, such as large oil and gas companies. Industry has already begun to make these changes as evidenced by recent presentations by EmPower members. As such, we need to ensure that we don't punish companies already making big investments in North Dakota.

I will reiterate that we must take this head on. Sun Tzu said "If you know the enemy and know yourself, you need not fear the result of a hundred battles. If you know yourself but not the enemy, for every victory gained you will also suffer a defeat. If you know neither the enemy nor yourself, you will succumb in every battle." We know what we are made of and we know our enemy, let's take this on!

Thank you, this concludes my testimony.