## SB 2374

# Senate Energy & Natural Resources February 9, 2023 | 2:30 pm | Peace Garden

## Testimony by Kate Black, Vice President, Inland Oil & Gas

Good afternoon chairman Patten and members of the Senate Energy and Natural Resources committee. My name is Kate Black and I am here to testify in opposition to SB 2374.

I am the Vice President and am the third generation of Inland Oil and Gas founded in 1967 by my granddad. Inland was founded as a full-service land brokerage company to develop prospects, manage the leasing and title curative on behalf of our clients. Since then, Inland has developed and operated our own shallow gas wells and today we focus on managing and growing our portfolio of working and royalty interests. In addition to managing our own assets, we provide consulting services to assist mineral owners, accountants, tax professionals, and attorneys with appraising, auditing and managing minerals in North Dakota.

Inland has assets operated by over 40 different Bakken operators. In contrast, most private mineral owners have one, or possibly two or three different operators operating wells they have an interest in. As a professional mineral owner, we have frequent exposure to their landowner relations departments from transfers of ownership, verification of division orders and inquiries regarding revenue statements or joint interest billing statements. I will attest that some operators are more responsive or have better customer service than others – but we almost always get to the bottom of our issue with a few correspondences back and forth.

Now, managing minerals is not an innate skill that is inherited with the minerals that may be passed down to family members. Managing minerals is much more complex that one might imagine – hence why it can often be challenging for me to explain exactly what I do for a living.

In our consulting work, we see firsthand the common (and not so common) errors or misconceptions mineral owners may have regarding their minerals including calculation of their decimal interests, determination of spacing units – or overlapping spacing units, prior reservations or conveyances that have clouded title, etc. Correctly assessing all available information has taken me years to learn and develop my skills.

Mineral rights aren't "mailbox money". They are very **valuable assets** that deserve skilled or even professional management. If you were to inherit Johnson & Johnson, Coca-Cola or John Deere stock, you wouldn't be calling their "owner relations" department to be sure that your dividend check was an appropriate distribution of company profits or that their stock buy back or issuance of new stock affected your disbursement. You'd enlist a stock broker or financial professional to advise you if those distributions were allocated correctly and help handle any transactions you might be looking to make with that stock. It's not Johnson & Johnson, Coca-Cola or John Deere's responsibility to show you how to calculate your

distribution, provide you with the chain of ownership on how came to own the stock or advise you on how to manage it. That's your responsibility as a stockholder – and it should be no different for mineral owners.

As I read through this bill, I'm confident that I could answer or obtain 90% of the information mineral owners are requesting by accessing county records on NDRIN, iDoc or MCVV; by identifying spacing units via the NDIC well files, scout ticket, GIS or pooling orders; determining gross acreage in spacing unit via the BLM's GLO records. Making this information free and readily available is necessarily not the obligation of the operator, but rather a courtesy when they are able. The majority of this information is already publicly available and easily accessible if you know where to look and what questions to ask.

<u>Don't profess a problem without also supplying a solution</u>. Fortunately for us, the solution has already been introduced as SB 2194. SB 2194 provides an Ombudsmen program facilitated by the state that I foresee being a cure to most issues that this bill seeks to address. I see the ombudsmen program as being a filter or funnel:

Mineral owner inquiries, requests, etc will come to the ombudsmen. In many cases I see them troubleshooting and **educating** the mineral owners on why their calculations are they way they are or how they were derived, and assisting with any curative or suspense that may be causing an issue. In circumstances where they are unable to correctly derive interests or troubleshoot irregularities they would serve as an **advocate** for mineral owners by asking the right questions of the right people to find a solution.

Mineral Owner Operator

Education ← ||| Ombudsmen ||| → Advocacy

This seems like a middle ground that would achieve meaningful results for mineral owners and efficiencies for operators.

North Dakota prides itself on being a business-friendly state. Requiring the operators who do business in our state to manage the mineral owners' assets with threat of penalties, excessive fines or regulations is anything but – and will certainly dissuade further development.

Let's let the ombudsmen program work its magic — I'm confident it will be able to resolve 90% if not more of the concerns addressed in this bill. Additionally, the Ombudsman's work will create an unbiased track record of which operators are repeatedly causing or unable to resolve reasonable owner relations issues that could eventually be addressed on a larger scale. It would be in the best interest of all operators to proactively engage with this proposed program in an effort to better serve their mineral owners.

As a mineral owner we too see some operators lacking in their owner relations department, but overall most are very responsive and willing to help address reasonable requests. This bill is not the answer and will not provide the result it's seeking by imposing large and egregious penalties on the operators who are investing the capital to produce our state's biggest asset – the oil and gas reserves of the Bakken.

Thank you for the opportunity to testify this afternoon. I'd stand for any additional questions.

### Additional context:

#### **Deductions**

You will hear a lot about "deductions" as it has become a buzzword in the industry. Attempting to negotiate a lease with a "no deduction clause" is like asking for the cornflakes price when your farmer is just selling the corn. All of the costs employed to improve your product to yield a higher price are deducted from both the mineral owner AND the operator's gross income/bbl. Without those improvements both the mineral owner and operator would yield a lower price. The mineral owner and operator both yield the same price. If they want no deductions, they would retrieve a lower price at the mouth of the well. It should not be at the operator's expense to improve your oil alongside theirs (simultaneously achieving a better price for all).

A mineral owner can lease their minerals to whomever they choose. It does not necessarily need to be the operator. ND's statutes provides an adequate royalty for the mineral owners should they be unable to come to an agreement to lease their minerals.