

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 than 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

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.