

MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION

SFN 2053 (2/85) 5M



ROLL NUMBER

DESCRIPTION

2/20

2001 SENATE NATURAL RESOURCES

SB 2120

2001 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB 2120

Senate Natural Resources Committee

☐ Conference Committee

Hearing Date 1-19-01

Tape Number	Side A	Side B	Meter #
1	X		19.9 - 35.7
Committee Clerk Signature <i>Janet James</i>			

Minutes:

SENATOR TOLLEFSON: opened the hearing on SB 2120, RELATING TO THE INDUSTRIAL COMMISSION'S OVERSIGHT OF THE CREATION OF UNITS FOR THE FURTHER DEVELOPMENT OF OIL AND GAS AND CHANGING RATIFICATION REQUIREMENTS FOR THESE UNITS.

CHARLES CARVELL, Assistant Attorney General representing the Attorney General Office appeared in a neutral position before the committee. The Industrial Commission has the authority to approve secondary recovery units designed to enhance the production of oil and gas. Because this process crosses property boundary lines, a 70 % of interested parties need to approve the units along with the industrial commission. The bill reduces the 70% requirement to 55%. Former Attorney General Heitkamp introduced the bill to make the change, but Attorney General Stenehjem asked the bill be withdrawn because he feels there is not a significant problem to warrant the legislators attention.

Page 2

Senate Natural Resources Committee

Bill/Resolution Number SB 2120

Hearing Date 1-19-01

SENATOR CHRISTMANN: wanted to clarify if the changes proposed other than the last paragraph were only grammatical corrections.

REPRESENTATIVE KEITH KEMPENICH, testified in support of the Bill. He presented a packet of charts and proposed several amendments.

RON NESS, representing the North Dakota Petroleum Council testified in support of Bill 2120 as amended at 60% instead of 70%. (See attached testimony).

SENATOR TOLLEFSON closed the hearing on SB 2120.

SENATOR FISCHER returned to the meeting.

Discussion was held on the bill.

The proposed amendments seemed to be fair and a logical compromise.

SENATOR KELSH: made a motion to accept the amendments to SB 2120.

SENATOR EVERY: second the motion.

Roll vote #1 was taken indicating 7 YAYS; 0 NAYS; 0 ABSENT OR NOT VOTING.

SENATOR TOLLEFSON: made a motion for a "DO PASS" as amended of SB 2120.

SENATOR KELSH: second the motion.

Roll vote #2 was taken indicating 7 YAYS; 0 NAYS; 0 ABSENT OR NOT VOTING.

SENATOR FREBORG will carry SB 2120.

PROPOSED AMENDMENTS TO SENATE BILL NO. 2120

Page 1, line 22, overstrike "seventy" and insert immediately thereafter "sixty"

Page 1, line 23, overstrike "seventy" and insert immediately thereafter "sixty"

Page 2, remove all of lines 18 through 23

Renumber accordingly.

Date: 1-19-01
Roll Call Vote #: 1

2001 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2120

Senate NATURAL RESOURCES Committee

☐ Subcommittee on _____
or
☐ Conference Committee

Legislative Council Amendment Number _____

Action Taken Do Pass

Motion Made By Senator Kelsh Seconded By Senator Every

Senators	Yes	No	Senators	Yes	No
Sen. Thomas Fischer, Chairman	✓		Sen. Michael A. Every	✓	
Sen. Ben Tollefson, Vice Chair.	✓		Sen. Jerome Kelsh	✓	
Sen. Randel Christmann	✓				
Sen. Layton Freborg	✓				
Sen. John T. Traynor	✓				

Total (Yes) 7 No 0

Absent 0

Floor Assignment _____

If the vote is on an amendment, briefly indicate intent: to make changes of percent numbers

Date: 1-19-01
Roll Call Vote #: 2

2001 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2120

Senate NATURAL RESOURCES Committee

☐ Subcommittee on _____
or
☐ Conference Committee

Legislative Council Amendment Number _____

Action Taken Do Pass

Motion Made By Tollefson Seconded By Kelsh

Senators	Yes	No	Senators	Yes	No
Sen. Thomas Fischer, Chairman	-		Sen. Michael A. Every	✓	
Sen. Ben Tollefson, Vice Chair.	✓		Sen. Jerome Kelsh	✓	
Sen. Randel Christmann	✓				
Sen. Layton Freborg	✓				
Sen. John T. Traynor	✓				

Total (Yes) 7 No 0

Absent 0

Floor Assignment Senator Freborg

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

REPORT OF STANDING COMMITTEE (410)
January 19, 2001 2:41 p.m.

Module No: SR-09-1332
Carrier: Freborg
Insert LC: 18221.0101 Title: .0200

REPORT OF STANDING COMMITTEE

SB 2120: Natural Resources Committee (Sen. Fischer, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (7 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). SB 2120 was placed on the Sixth order on the calendar.

Page 1, line 22, overstrike "seventy" and insert immediately thereafter "sixty"

Page 1, line 23, overstrike "seventy" and insert immediately thereafter "sixty"

Page 2, remove lines 18 through 23

Renumber accordingly

2001 HOUSE NATURAL RESOURCES

SB 2120

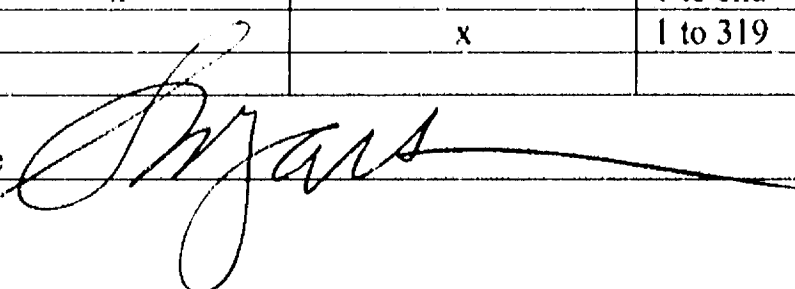
2001 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB 2120

House Natural Resources Committee

☐ Conference Committee

Hearing Date March 1, 2001

Tape Number	Side A	Side B	Meter #
1	x		1 to end
1		x	1 to 319
Committee Clerk Signature 			

Minutes:

Chairman Earl Rennerfeldt, Vice Chair Jon O. Nelson, Rep. Brekke, Rep. DeKrey, Rep. Drovdal, Rep. Galvin, Rep. Keiser, Rep. Klein, Rep. Nottestad, Rep. Porter, Rep. Weiler, Rep. Hanson, Rep. Kelsh, Rep. Solberg, Rep. Winrich.

Chairman Rennerfeldt: I will call the House Natural Resources Committee to order, Clerk call the roll. I will open the hearing on SB 2120.

Ron Ness - NDPC: I am here to speak in favor of SB 2120. (see written testimony).

Chairman Rennerfeldt: I have some amendments, would you like to address that?

Ness: We have seen the amendment and the amendment would currently as I understand it, if you form a unit, it takes 70% of the unit to petition the Industrial Commission to approve that unit and what the amendment would do is lower the percentage required to disband a unit to 60%. That is salable to some of the people who expressed concerns with this bill.

Chairman Rennerfeldt: Also, it would grandfather in, say for instance if a unit went in at 80% or 70% that would remain when this is dropped to 60%. The older units would still have to take a 70 or 80 percent vote to disband. So the older units are grandfathered in at whatever vote was used to bring them in.

Ness: That is correct. It would be from the date of this act forward, and we certainly support that and would be adamant about it being included that way.

Chairman Rennerfeldt: Does everyone understand this.

Rep. Solberg: For the benefit of all the committee are you familiar with unitization and what's good about it. What is the major objection of the unit owners. Why are they saying no to this, do they have some concerns about the distribution of royalties or what?

Ness: I think Lynn Helms is in a better position to answer that, my response would be that there have been a select group of individuals that have voiced concerns about this bill. We don't feel their concerns were valid back in the eighties. In regard to the Little Knife Field, a few individuals got enough mineral owners riled up - up there and they didn't form that unit. I think that is in conflict of mineral owners to the state of ND. That has been their concern that their rights have not been protected and this bill may be a big company bill versus a small company bill. This bill is supported by both the large and small operators. Something that has changed over the years, back in the eighties there were a lot of large oil companies producing in ND. Right now we have not had a major oil company drill a well in the state for well over a year. We are looking at ND and regional production companies. Those are the companies out there looking for workers and are having a hard time raising the capitol. That is why we haven't seen the resurgence in the industry because the major oil companies have decided our regulatory

environment in the US has made it much easier for them to invest overseas. Where there is a much bigger return on their investments.

Rep. DeKrey: Is this the same we dealt with in the 1991 session? Is this what we tried to do?

Ness: I believe, probably someone here has a little more history on this. I believe it went from 80% to 70%.

Rep. Galvin: How much of an area could a unit encompass? How far apart can they be?

Ness: I will defer that question to Lynn Helms. It varies on when and how the spacing was done, and how big the units. The units in Cedar Hills are going to be very large.

Rep. Kempinich - District 39: This bill was introduced by the Attorney General's office and it caught my attention early in the session. It started to make sense, it is one of the things we looked at here in the last two years. What it came down to in the past, a few would mess up the majority. You still want the majority to support this, but make it so the majority was represented too. When the bill came in it was at 55% and then 60% and then the committee passed out the amendment addressing the back side. With those amendments, this bill should address most of the concerns people have had dealing with this. When you look at these types of deals. The types of situations you run into, it really does become critical if you are going to move ahead in these types of deals, some people may feel they are getting the short end of the stick. You gotta look at the majority instead of the minors and that is how this comes into play.

Chairman Rennerfeldt: Thank you, anyone else here to testify in favor of this bill?

Lynn Helms - NDIC Oil and Gas Division: The Industrial Commission has not taken a position on this bill. I am here to testify in a neutral position. Mainly to answer questions that may come up. It is a very complicated process or can be that involves legal work and technical work. (See written testimony).

Rep. Keiser: You stood up there and said you were neutral on your position because the Commission hasn't taken a position. I listen to your testimony and have never heard a more positive neutral person. Where the heck is the Commission on this? Why aren't they supporting this?

Helms: The Commission took a neutral position on this simply because of the concerns of the mineral owners versus the working interest owners. The Commission is decidedly pro unit but they didn't take a position on what this number should be. They felt it was best for the Legislature to decide that through input from your constituents. What is the magic number as far as the right number for ratification. The Commission didn't take a position on this bill, what the percentage should be, but they are decidedly pro unit.

Rep. Keiser: You said that in this current field that there was so much dissent that the Commission has to make the decision on the formula? So what is the Commission's decision on this formula?

Helms: Are you talking about the 60%? I can't speak for the Commission because they have not given me a formal position on the 60% versus 70%.

Rep. Winrich: In the example that you presented. You said this unit agreement is essentially a contract and the 70% of those who have an interest in that area whether it is working or royalties have signed that contract. Is that correct? What about the other 30%, do they participate in this in any way or are they just out?

Helms: The other 30% are basically force pooled into the unit as a result of the decision of the 70%. That is what compulsory unitization is. They participate in the process but once the 70% is achieved, it requires both 70% of the mineral owners and the working interest owners. They are

handled separately. Once those signatures are obtained, the other 30% are force pooled into the unit.

Rep. Winrich: And they participate in the recovery process?

Helms: They fully participate in the recovery process.

Rep. Winrich: As I understand this, when this sort of legislation was first done, the required ratification was 80% and that was reduced to 70% and now we are proposing reducing this to 60%? Apparently it is getting harder and harder to form units. You painted a very glowing picture of that, why would anyone object to this?

Helms: It goes back to the same response I gave to Rep. Solberg. The objection is when a mineral holder who perhaps is a farmer or rancher, when he is confronted with this... He has a lot of concerns about whether this fair to him and whether or not it is going to achieve all the promises made in this agreement. That is the reason that often times it is very difficult to achieve mineral owner ratification. It is a very technical process, it is complicated and there is a serious amount of distrust. When I am the owner of one little forty acre tract in the middle of a 170 square miles. How can I be sure that I am getting my fair share of the 100 million barrels that are going to be produced out of this reservoir under secondary recovery. That really is where the objection usually comes from. The concern for fairness. Yes, it has become over time more and more difficult to form units and that is why we went from voluntary unitization to compulsory unitization to a lowering of the compulsory unitization percentage and why industry is back in again and asking to lower it one additional time.

Chairman Rennerfeldt: Over the years, don't you think technology has made it a little easier for some of these people to agree to do this, because they see the results of some of these units and

how successful they are being? Compared to years ago, when the technology wasn't there to do the job properly?

Helms: I would definitely agree, the technology exists today for someone to load this spread sheet and instantaneously calculate the effects of any formula change on any of their tracts. So technology has been a big boost to that, on the other side of it, the 7% or so of units that have failed to accomplish their purpose get a lot of press. Those are the horror stories that spread in the small communities and make it difficult to achieve ratification of units.

Rep. Solberg: Is it not true that for example the Little Knife Field which refused unitization and therefore refused the secondary recovery efforts that those mineral owners left huge amounts of money laying on the table that they could have had in their bank accounts, had they unitized and went to secondary recovery?

Helms: In my opinion, yes. There was a small group of mineral owners that owned the very best part of the Little Knife Reservoir. They were concerned with sharing any of that oil that lay under their land with any of the other owners in that field. As a result of that concern, they owned the very best parts, so they owned enough percentage under the equity formula to keep the unit from being formed. In that concern, they went about producing their fields under primary recovery only and Petro Hart did a study shortly after taking the field over in 1993 and found that the secondary recovery potential was gone. Two and a half billion dollars worth.

Rep. Keiser: Can you explain why the secondary recovery disappeared? Once you have completed primary recovery what is the time table that you have to initiate secondary or tertiary recovery to get to the oil before it doesn't work?

Helms: The time table basically to move from primary to secondary falls in the range of 5 to maybe as much as 15. Once you have gone past 15 years, typically you vaporize so much of the oil that the process no longer can make any money and no longer can move any oil.

Rep. DeKrey: Oil production has changed a lot. They used to just tap it and let it blow. Do you have any figures about how much oil has been lost over the years because the production wasn't up to the technology available today?

Helms: I really don't have a number like that at hand. Even for ND. I can say that enhanced recovery nationwide has added approximately 100 billion barrels of oil to our nation's production.

Chairman Rennerfeldt: In the Cedar Hills project. On horizontal drilling are they just using one leg or several legs on the wells? In the future would they use more?

Helms: In Cedar Hills they are using single legs. They have developed the technology to be able to drill down 9000 feet and drill out as much as 7000 feet and maintain over 80% of that well boring in a 3 foot thick interval. They found that to be the most economic. When you move up to Burke County, we drilled a well that had 6 horizontal laterals under it. There were two different zones and they each needed 3 horizontal laterals. They tailor it to the reservoir.

Chairman Rennerfeldt: Any more questions? Anyone else care to testify in favor of SB 2120?

Loren Kopsang - Missouri River Royalty: We operate 10 wells in ND. Ron was interested in a view point of a small operator and I agreed to come up here and tell you my brief story. In 1983 I was working for Everett Drilling Ventures. Mr. Everett had working interest in the Little Knife Unitization effort. He had producing minerals. Later we owned wells in that field. 104 million barrels of oil minimum, 2.5 billion dollars were lost. The operators of that field at that time were primarily Gulf, Amoco and the Hunt group. They were the people that really lost the money. In

1983 I received this packet on unitization of the field. It was plain to me that this was a good deal for everyone. It was about 168 wells averaging 100 barrels of oil a day. The royalty owners received a newsletter from the Little Knife Royalty Association. This was a dissident group that felt the oil companies were out to screw the royalty owners. It didn't make sense to me. (reads newsletter paragraph). Within 9 days of the mailing of this newsletter, 67% of the equity interest had adopted the associations position paper. Some very vocal people convinced the royalty owners what they needed to do is to get Gulf and Amoco to guarantee the success of the unitization. Gulf sold out to Chevron, in 1987 Chevron again tried to get the association together and agree to unitize this field. The royalty owners headed it off and stopped the unitization. Again in 1987 Chevron tried it and said it had to be done immediately or it would be too late. Again it was derailed. In 1993 I got a letter from the Hunt estate (reads letter) it was too late. The Little Knife situation was a total tragedy for this state. The royalty owners should not have had a say, the working operators are gambling with their 7/8. If it is being reduced from 70% to 60% I don't really understand. I support this bill.

Chairman Rennerfeldt: Any questions from this committee? Any one else care to testify in favor of SB 2120? Is there any opposition to SB 2120? In favor, sure.

Lynn Moser - Inland Oil & Gas Corporation: I just very briefly I want to tell you that we have seen these changes come from 80% down to 70% and we really are looking for a lower percentage rate, we have the Oil and Gas Commission here which does a wonderful job of protecting our interests. They go through a very serious long and drawn out hearing, when they are done, if we can get 60% of the owners to ratify the unit, we feel we have been well served.

Chairman Rennerfeldt: Any questions of the committee? Is there no one to testify in favor? You are the opposition?

Elmer Gloyatsky - President of the Little Knife Property Royalty Owners Association: I

represent a group of farmers and rancher in the Little Knife Field area. This last week I have been in contact with dozens of people in our area about this Senate Bill. Everyone I talked to opposes this bill. The opinions range from mildly opposed to violently outraged in some cases that this comes up again. Many of these people remember from lessons in real life. We are at the unitization hearings that were proposed to form our field also attended hearings in Minot and elsewhere for the dissolution. We were shocked to understand how hard it is once a unit is formed to dissolve a unit. We saw these things. Royalty owners traditionally are not gathered into a room for a general meeting. Generally they are talked to on a one to one basis. Many of us were told that many of neighbors had already signed a unit. We felt misled in many cases. Some of the lessons we learned were the participation factors as we studied these were not always favorable to what was there underneath the surface and proved to be later as we looked at the figures. The zones we felt were unfair. We would see no control once it was unitized. We learned these things at the meetings. I am here representing all these people and tell you to kill this bill. We were characterized as a small group or some of our people in that area that we didn't want to share. That was not the issue. As to the comments about our inability to assess the situation, we tried our very best and used a lot of good help. We felt obligated to hire the only engineering group at the time that wasn't working for the industry, and that was difficult to find. They had most of them under retainers. We made studies. We were not privy to all the information the oil companies have. I resent the fact that the working owners are the more important part. Without the royalty owners there would be no place to drill for oil. We need to work together. At one point during our hearings we were told that primary production was nearly over and then we need secondary recovery. We asked for a guarantee. There were no takers to that. The years the

wer.' by with the projected primary production passed, since it was used up, it doubled maybe tripled from the projected figures. I am saying all the projections can be projections. Even the best studies cannot predict the outcome. So we have seen some of the things said and we watched and I think the right decision was made, we are not criminals. We feel that the percentage as it is - is certainly low enough. If there are merits to unitization that we should have the industry share that with us.

Chairman Rennerfeldt: This bill would not really affect the Little Knife Field, because that field is pretty much history as far as unitization is concerned?

Glovatsky: I am not sure. We haven't had discussion whether there will be an attempt to unitize anything there. I am not sure.

Rep. Galvin: I think some of your arguments are reasonable. In hind sight, would you have done anything differently.

Glovatsky: I can't think of a particular that would illustrate that. We felt that with the resources we could employ we sought to get whomever we could to help us with the decision and I really think I am not sure I would know of something we would do differently. As we watched the figures climb way beyond what was predicted we began to affirm the fact that we were right. Primary production far exceed the predicted figures.

Rep. Keiser: Do you think that the working partners who are risking 7/8's would ever suggest secondary and tertiary recover and invest in that if they didn't think there was a real opportunity for it to pay off?

Glovatsky: No, it would be counterproductive for them to do that. However, in our case what we noticed is not necessarily the economics of the situation, it was more or less a neat package if the

field could be unitized and marketed. As you know it changed hands several times. It was to us it looked like this was more of situation at hand than it was a secondary recovery.

Rep. Droydal: If we would have had this bill at 60% in '83 and '87, would the Little Knife had been unitized?

Glovatsky: I couldn't say that it would have. At the outset when we knew nothing at the beginning we certainly were not aware of what we were dealing with. When this came up and we were forced to study and know what units meant. The participation factor is how we would arrive as a royalty holder, how we would be paid. As we would not be receiving what was on our section of land. Some of the pay zones were measured. In looking at that itself, we saw how unfair it was. The equitable part of that was missing.

Rep. Droydal: You don't have the numbers on that. Hindsight is a lot better than foresight, the numbers they came out with on the 104 million barrels that were lost on unitization, have you ever sat down and punched in the numbers? If you didn't unitize the primary oil holder would get the money, if you didn't unitize it was spread out throughout. Have you ever gone through the formula since 1987 and put in the 104 million barrels. How would that primary royalty owner have come out, ahead, behind?

Glovatsky: I didn't do that. I can't answer that. I would think with the figures for primary production far exceeding the expectations I still think that we were way ahead. I am not sure.

Chairman Rennerfeldt: Any further questions of the committee? If not thank you, anyone else care to speak in opposition to SB 2120? I have two written testimony in opposition for your consideration from Marvin L. Kaiser and Walters Petroleum Enterprises, L.L.C. (see written testimony) I will close the hearing on SB 2120.

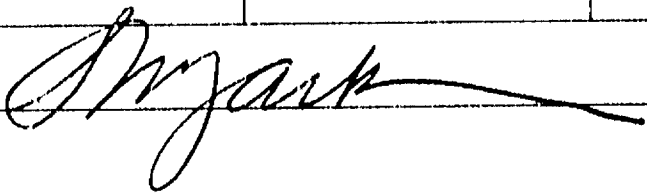
2001 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB 2120

House Natural Resources Committee

☐ Conference Committee

Hearing Date March 9, 2001

Tape Number	Side A	Side B	Meter #
2	x		3990 to 5523
Committee Clerk Signature 			

Minutes:

Chairman Earl Rennerfeldt, Vice Chair Jon O. Nelson, Rep. Brekke, Rep. DeKrey, Rep. Drovdal, Rep. Galvin, Rep. Keiser, Rep. Klein, Rep. Nottestad, Rep. Porter, Rep. Weiler, Rep. Hanson, Rep. Kelsh, Rep. Solberg, Rep. Winrich.

Chairman Rennerfeldt: Let's work on SB 2120.

Rep. Keiser: I move the amendments.

Rep. Porter: I second.

Chairman Rennerfeldt: Is there any discussion on the Rennerfeldt amendment?

Rep. Weiler: What is the current percentage to break it up?

Chairman Rennerfeldt: 70% percent. This lowers it. What this also does, if a unit was unitized at 70% would remain at 70%. They are grandfathered in under the original percentage.

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House Natural Resources Committee

Bill/Resolution Number SB 2120

Hearing Date March 9, 2001

Rep. Winrich: I have some concerns about dropping it from 70 to 60% because basically that means in the negotiation of that formula. You are going to be forcing 40% of the mineral rights owners into an agreement where they don't necessarily think the formula is fair. I talked with Mr. Helms and Mr. Ness about this and one of the things I learned is if we lower our percentage to 60% that will make ND's provisions for these kinds of agreements to have the lowest percentage required in the country. The figures I got from Mr. Helms - In Montana, Wyoming and Colorado the percentage required is 80%; In South Dakota it is 75%; Nebraska is 65% and currently Kansas and Oklahoma both require 63% for ratification of the agreement. So we would be lowering ours to the lowest level in the nation. Actually in my opinion, 70% is well within the appropriate range here. But in talking with Mr. Ness this morning, he seemed to think 65% perhaps be an appropriate compromise. I would like to propose that rather than the 60%.

Rep. Keiser: A point of order, there is an amendment and a motion on the floor.

Chairman Rennerfeldt: Are you opposing the amendment?

Rep. Winrich: May I move to amend the amendment?

Rep. Keiser: The person making the motion for the amendment would have to agree with that, and he doesn't.

Chairman Rennerfeldt: Okay, we have .0201 amendment before us. All those in favor signify by saying Aye. Opposed? Motion carries.

Rep. Winrich: I move to further amend 60 to 65%.

Rep. Keiser: The amendment only deals with backing out an agreement. If I understand your point, you would like to move the 65% to forming a unit as well as backing out.

Rep. Winrich: That is correct. I was under the impression we were not going to deal with this bill until next week. So I had planned to prepare some written information. That is correct. I would like to amend the ratification percentage to 65%.

Chairman Rennerfeldt: And the back out.

Rep. Winrich: So that would also change lines 22 and 23 on page 1 of the bill to 65%.

Chairman Rennerfeldt: Do we have a second to that motion.

Rep. Brekke: I second.

Rep. Keiser: I resist the motion to further amend simply because Attorney General Heitkamp brought his legislation out at 51 and it was moved to 55 and the compromise was the move to 65. From my perspective, the super majority is tough to get. A majority going up above 60% makes it less reasonable. As policy makers for the state I don't know that we can afford to lose the revenue associated with the unitization of oil fields.

Vice Chair Nelson: If I could ask Rep. Winrich, in your study of other states were the figures you gave both for ratification and dissolution?

Rep. Winrich: I am not sure, I got the numbers from Mr. Helms and my understanding was they were ratification percentages. I don't know if they also apply to dissolution.

Rep. Solberg: I intend to stand on 60%. The major reason is that our state needs this production from secondary recovery. The way that the formula is determined to divide up the production amongst the people who own the oil rights is a very fair formula. It is scrutinized very closely by a number of commissions, so I am going to stand on 60%.

Chairman Rennerfeldt: I too will stand on 60. All the information that came out to me would point in the direction that that's a figure that everyone in the industry can live with. First of all in

these units, it isn't unitized anyway until the pressure drops and I think everyone will benefit from this. So I am going to stick with the 60%.

Rep. Winrich: It is certainly not my purpose to oppose the unitization of oil fields. I think one thing we are all on agreement on is we need to do this. My concern was that this would put ND in a unique position among other oil producing states in having such a low ratification percentage. As I said, I was attempting to gather further information. On the basis of what I know about it at this point, I think 65% would be a reasonable compromise.

Chairman Rennerfeldt: Did they inform you as to how many fields had been unitized in these other states. Did they give you a comparison? I think we have a totally different situation in this state then in most other states. To compare other states to us is like apples and oranges.

Rep. Droydal: I call for the question.

Chairman Rennerfeldt: We have a question on the amendment. All those in favor of the Winrich amendments signify by saying Aye. Opposed? Amendment fails.

Rep. Droydal: I move a Do Pass as Amended.

Rep. Keiser: I second.

Chairman Rennerfeldt: Any further discussion? If not, call the roll.

MOTION FOR A DO PASS AS AMENDED

YES, 14 NO, 1

CARRIED BY REP. KEISER

VR
3/9/01

HOUSE AMENDMENTS TO ENGROSSED SB 2120 NATURAL RESOURCES
Page 1, line 1, after "reenact" insert "subsection 7 of section 38-08-09.4 and"

03/12/01

Page 1, line 2, after "to" insert "dissolution of units and to"

Page 1, after line 4, insert:

"SECTION 1. AMENDMENT. Subsection 7 of section 38-08-09.4 of the North Dakota Century Code is amended and reenacted as follows:

7. The time when and conditions under which and the method by which the unit ~~shall~~ must or may be dissolved and its affairs wound up; however, the unit may be dissolved ten years after the unit agreement becomes effective upon a petition to the commission by the royalty owners who are credited with at least eighty percent of the production and proceeds thereof or for units established after the effective date of this Act, upon a petition to the commission by the royalty owners who are credited with at least sixty percent of the production and proceeds thereof, and a subsequent hearing and order by the commission. The commission may not dissolve any unit if the dissolution would be likely to result in waste or the violation of the correlative rights of any owner. This provision does not limit or restrict any other authority which the commission has."

Renumber accordingly

Date: 3/9/01
Roll Call Vote #:

2001 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. SB 2120

House Natural Resources Committee

☐ Subcommittee on _____

or

☐ Conference Committee

Legislative Council Amendment Number _____

Action Taken DO PASS as amended

Motion Made By Rep. Drovdal Seconded By Rep. Keiser

Representatives	Yes	No	Representatives	Yes	No
Earl Rennerfeldt - Chairman	✓		Lyle Hanson	✓	
Jon O. Nelson - Vice Chairman	✓		Scot Kelsh	✓	
Curtis E. Brekke	✓		Lonnie B. Winrich		✓
Duane DeKrey	✓		Dorvan Solberg	✓	
David Drovdal	✓				
Pat Galvin	✓				
George Keiser	✓				
Frank Klein	✓				
Darrell D. Nottestad	✓				
Todd Porter	✓				
Dave Weiler	✓				

Total (Yes) 14 No 1

Absent _____

Floor Assignment Rep. Keiser

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

REPORT OF STANDING COMMITTEE

SB 2120, as engrossed: Natural Resources Committee (Rep. Rennerfeldt, Chairman)
recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends
DO PASS (14 YEAS, 1 NAY, 0 ABSENT AND NOT VOTING). Engrossed SB 2120
was placed on the Sixth order on the calendar.

Page 1, line 1, after "reenact" insert "subsection 7 of section 38-08-09.4 and"

Page 1, line 2, after "to" insert "dissolution of units and to"

Page 1, after line 4, insert:

"SECTION 1. AMENDMENT. Subsection 7 of section 38-08-09.4 of the North
Dakota Century Code is amended and reenacted as follows:

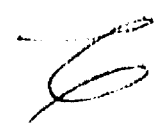
7. The time when and conditions under which and the method by which the unit ~~shall~~ must or may be dissolved and its affairs wound up; however, the unit may be dissolved ten years after the unit agreement becomes effective upon a petition to the commission by the royalty owners who are credited with at least eighty percent of the production and proceeds thereof or for units established after the effective date of this Act, upon a petition to the commission by the royalty owners who are credited with at least sixty percent of the production and proceeds thereof, and a subsequent hearing and order by the commission. The commission may not dissolve any unit if the dissolution would be likely to result in waste or the violation of the correlative rights of any owner. This provision does not limit or restrict any other authority which the commission has."

Renumber accordingly

2001 TESTIMONY

SB 2120

MEMORANDUM

TO: Committee Clerk, Senate Natural Resources Ctte.
FROM: Charles M. Carvell, Assistant Attorney General 
DATE: January 20, 2001
RE: S. Bill 2021

After Friday's hearing you asked me to submit to you in writing the comments I made to the committee. Here is substantially what I said.

Secondary recovery units are a means by which the operators of oil and gas wells can get significantly more oil out of the ground. Production is increased by injecting, through injection wells, water or another substance into the producing formation. This has the effect of pushing oil to the producing wells.

Because this causes oil to be moved across property lines, requires converting some producing wells to injection wells, and increases the amount of production from the remaining producing wells, several things must happen before an area can be unitized.

The present law requires that 70% of the working interest owners, that is, the operators of the wells, must approve the unit. The law also requires that 70% of the mineral owners must approve. Finally, the Industrial Commission must review and approve the proposed unit.

Senate Bill 2120 proposes to change one of these requirements. It proposes that the Industrial Commission be given the authority to reduce the requirement that 70% of the working interest owners approve the unit. It allows, but doesn't require, the Industrial Commission to drop this requirement down to some percentage below 70% but to no lower than 55%.

Attorney General Heitkamp filed this bill because of the difficulty we have had getting a unit in place in the Cedar Hills Field in Bowman County. The two primary operators, Continental Resources and Burlington Resources, each own at least 30% of the field and, therefore, are able to block one another's unitization proposals. The controversy has been going on for two or three years.

Because of her frustration over the inability of these two companies to resolve their dispute and get the field unitized, Attorney General Heitkamp filed this bill.

Attorney General Stenehjem, however, asks that it be withdrawn. He doesn't believe that there is a significant problem with putting units together under the present law, and whatever problems there are don't warrant legislative attention. About 80 units have been put in place in North Dakota. They have been put in place with the requirement of 70% approval by working interest owners. And prior to a 1991 change, the required approval was 80%.

We are unaware of any unit proposal that has failed because of the 70% approval requirement placed on the working interest owners. Furthermore, even the immediate problem that gave rise to this bill, the Cedar Hills problem, appears to be resolved. The two companies have, finally, reached an agreement and we are confident that a unit will be in place in the very near future.

Therefore, since the present 70% requirement has not posed a problem for unitization in the past, Attorney General Stenehjem doesn't think there is anything needing a legislature to fix.

e:\carvell\stenehjem\bill.2120.test.doc

NORTH DAKOTA INDUSTRIAL COMMISSION

OIL AND GAS DIVISION

John D. Helms
DIRECTOR

<http://explorer.ndic.state.nd.us>

Bruce E. Hicks
ASSISTANT DIRECTOR

IMPACT OF OIL EXTRACTION TAX INCENTIVES

Enhanced Oil Recovery

- 44% of North Dakota oil production is from Enhanced Oil Recovery Units.
- Enhanced Oil Recovery Units yield major capital investments, and long term stable production and jobs.

New well (4/27/87)

- 22% of North Dakota oil production is from non-EOR Unit new vertical wells.

New Horizontal well and Horizontal re-entry

- 17% of North Dakota oil production is from non-EOR Unit new horizontal or re-entry horizontal wells.

Stripper Well

- 5% of North Dakota oil production is from non-EOR Unit stripper wells.
- Stripper wells are marginally economic (over 90% of costs go to wages and local business).

Workover and 2 Year Inactive wells

- 4% of North Dakota oil production is from non-EOR Unit qualifying workover projects and wells returned to production after 2 years idle.

PROJECTS AND PLAYS THAT HAVE RESULTED FROM A TAX INCENTIVE

Project	Barrels of Oil per Day	Cumulative Barrels of Oil	Tax Incentive Type
Beaver Creek Birdbear	3,381	2,098,985	Workover
Beaver Lodge Devonian	1,013	1,007,232	Enhanced Recovery
Cedar Hills Red River 'B'	8,178	21,474,384	New Horizontal Well
Haas Madison Drilling	332	853,704	New Horizontal Well
South Westhope Unit	216	0	Enhanced Recovery
State 1,286 Stripper Wells	5,046	30,510,350	Stripper Well
Tloga Madison Drilling	535	1,006,000	Horizontal Re-entry
Wayne Madison Drilling	531	1,423,475	New Horizontal Well
Total	19,232	58,374,130	

Oil Production 1994 vs Present by state

North Dakota	+18%
Montana	-7.6%
Wyoming	-6.6%

Current statewide production 88,000 BOPD

Extrapolate the 1986-1992 trend and it would be 50,000 BOPD

New Horizontal Well

Average estimated life	20 years
Average cumulative oil (first 24 months)	35,000 barrels
Average cumulative oil (24 months – stripper)	210,000 barrels

New Vertical Well

Average estimated life	16 years
Average cumulative oil (first 15 months)	15,000 barrels
Average cumulative oil (15 months – stripper)	150,000 barrels

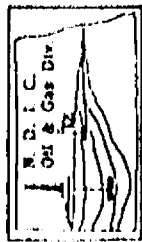
Horizontal Re-entry Well

Average estimated life	10 years
Average cumulative oil (first 9 months)	16,000 barrels
Average cumulative oil (9 months – stripper)	110,000 barrels

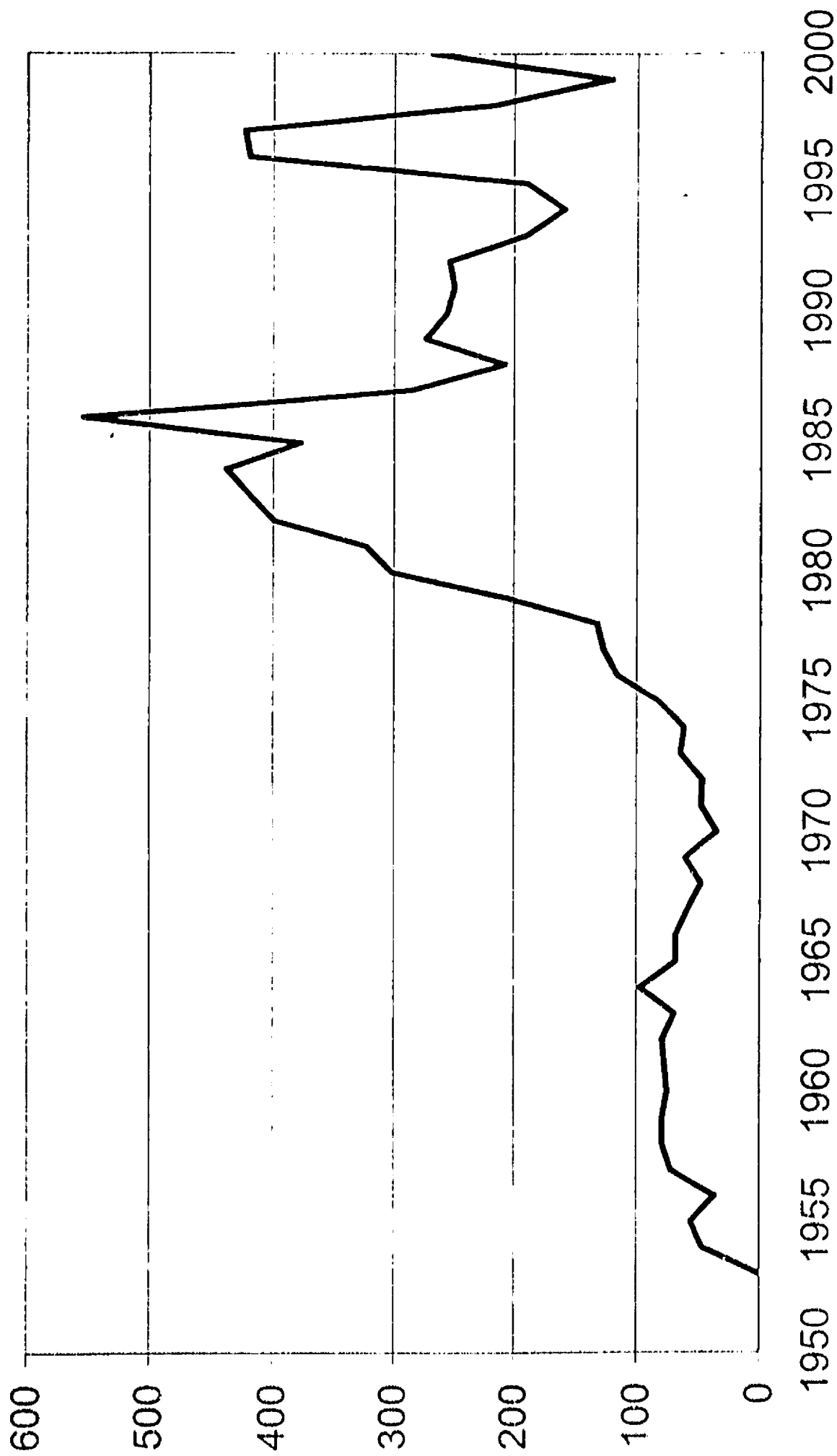
There are approximately 314 pre 4/27/87 non-stripper wells currently pumping.

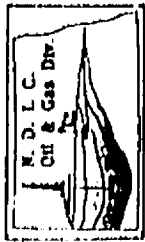
There have been approximately 184 Qualifying Workover Projects 1990 to date. Total spending on those projects has been approximately \$32,900,000. Current production attributable to those projects is approximately 2,650 barrels per day.

There have been approximately 63 Qualifying 2 year Idle Well Projects 1990 to date. Total spending on those projects has been approximately \$1,600,000. Current production attributable to those projects is approximately 900 barrels per day.

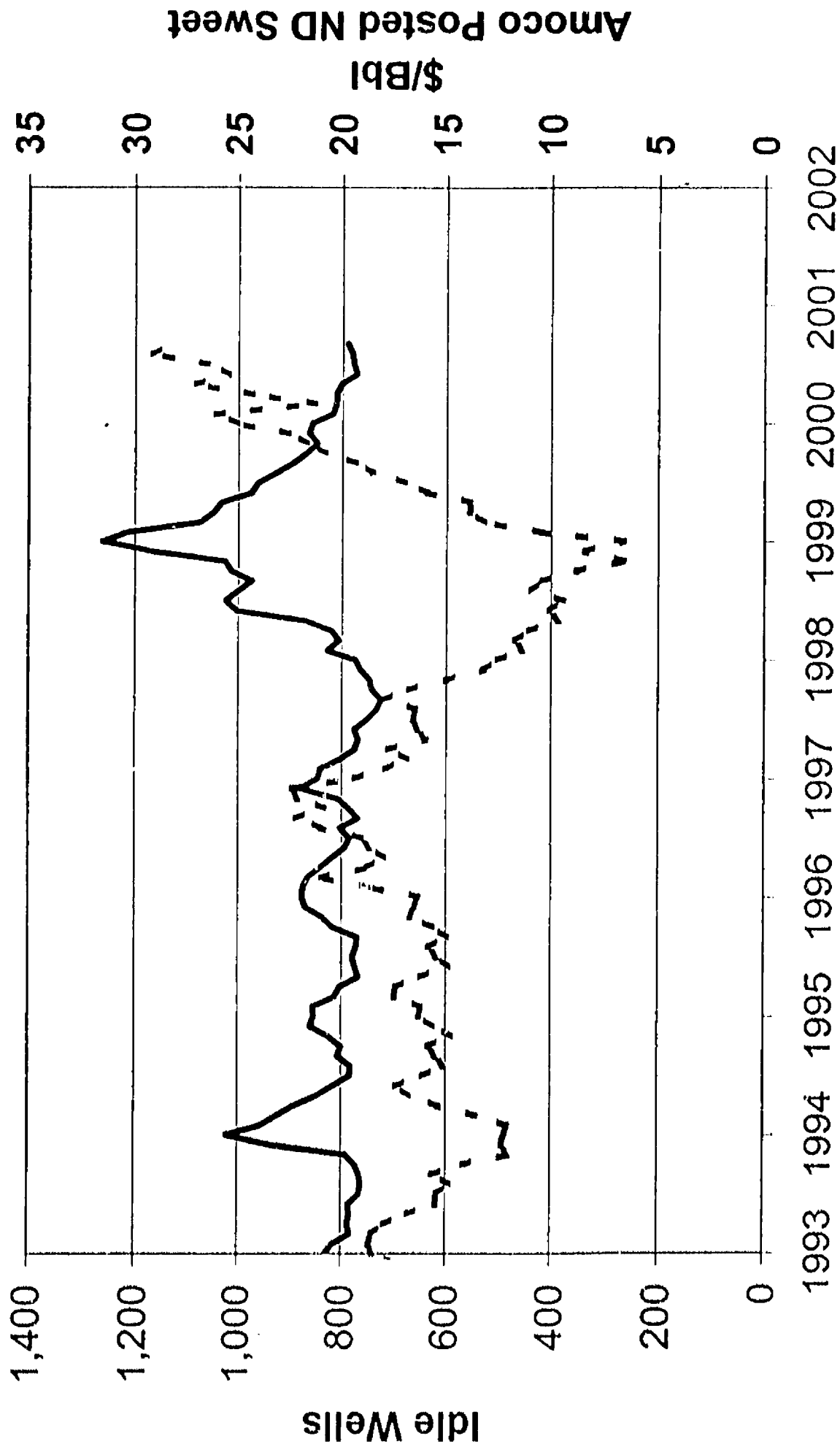


North Dakota Industrial Commission Cases Heard



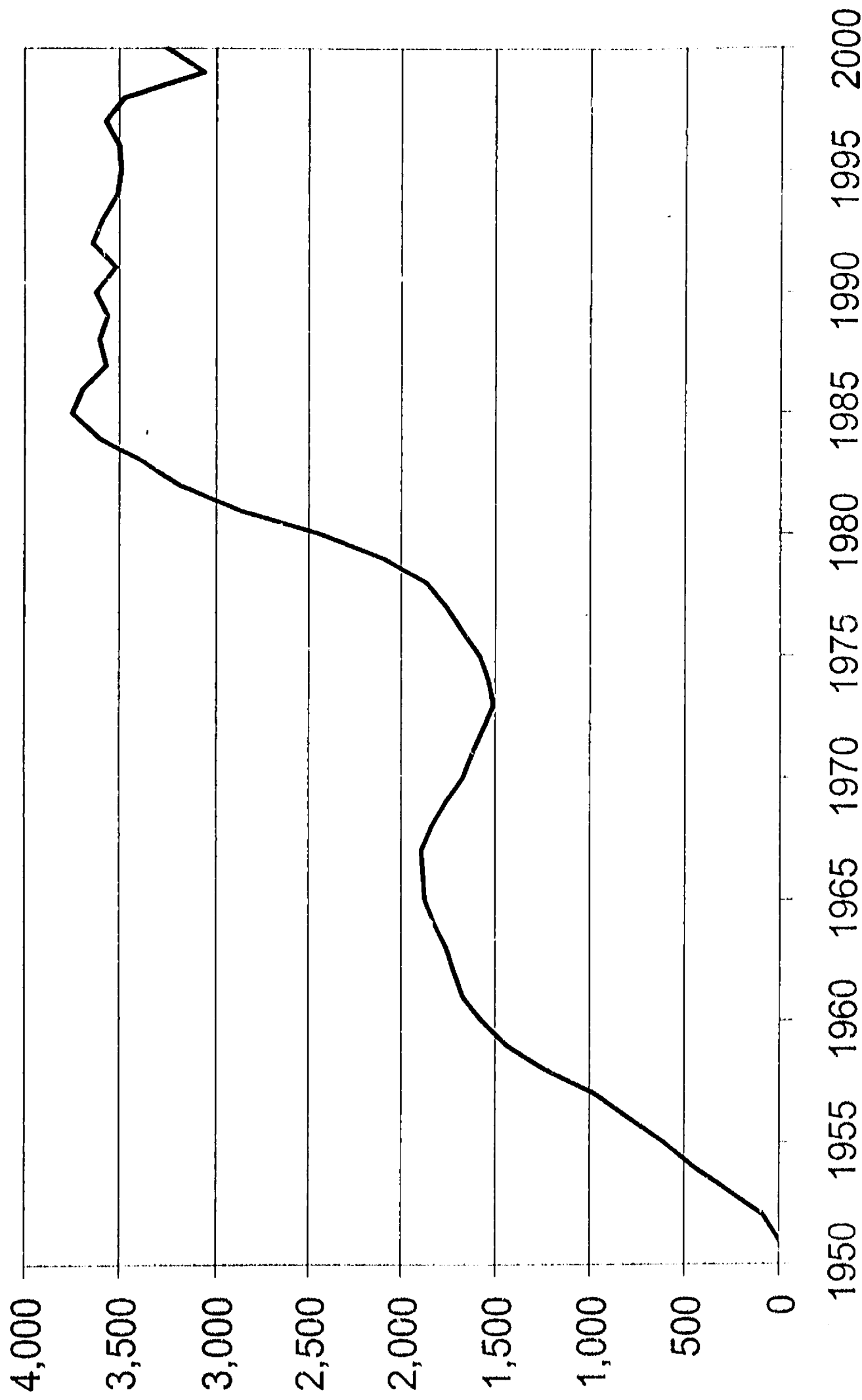


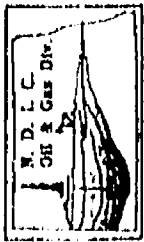
North Dakota Idle Wells



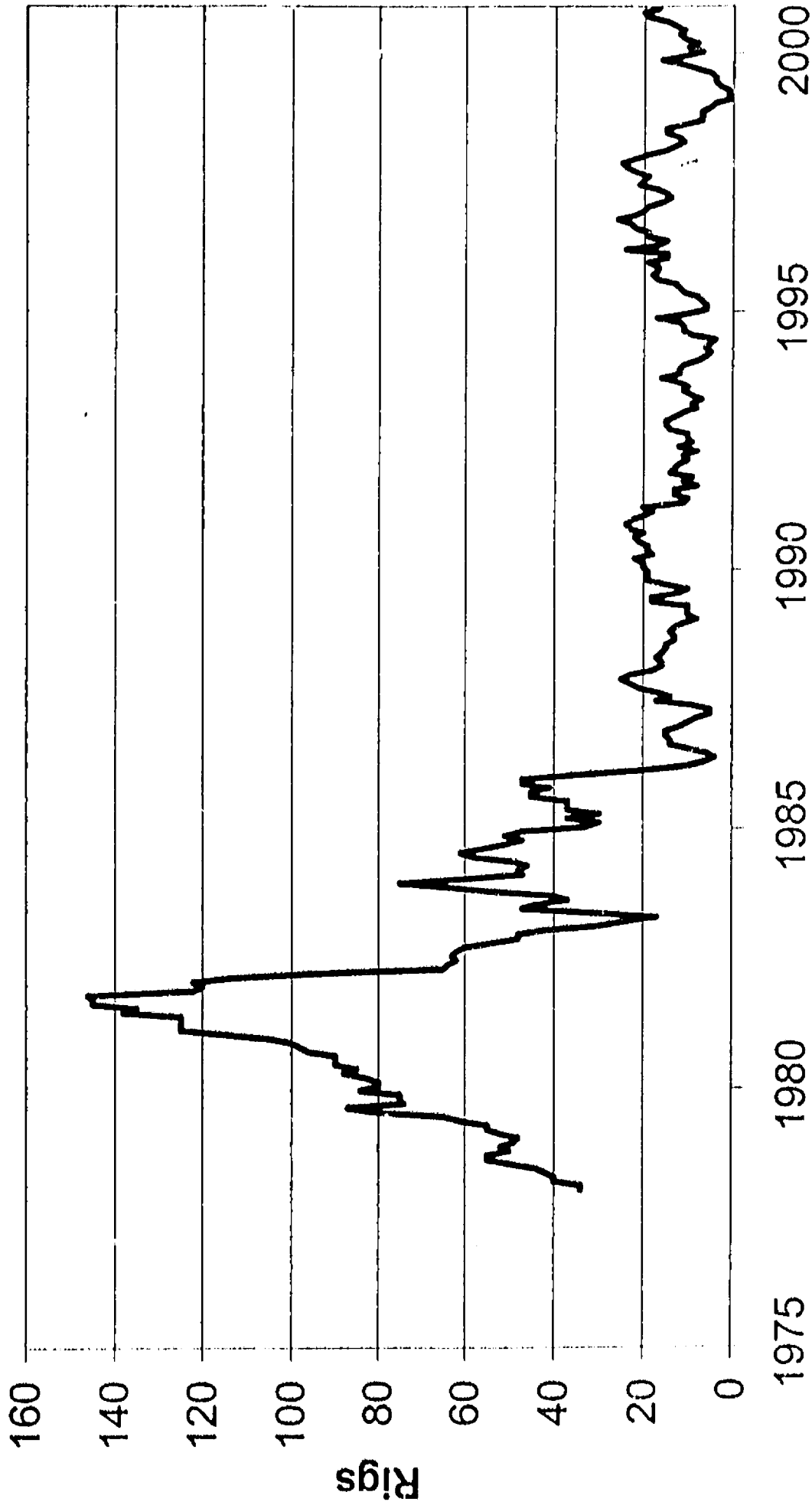


North Dakota Wells Producing Each Year



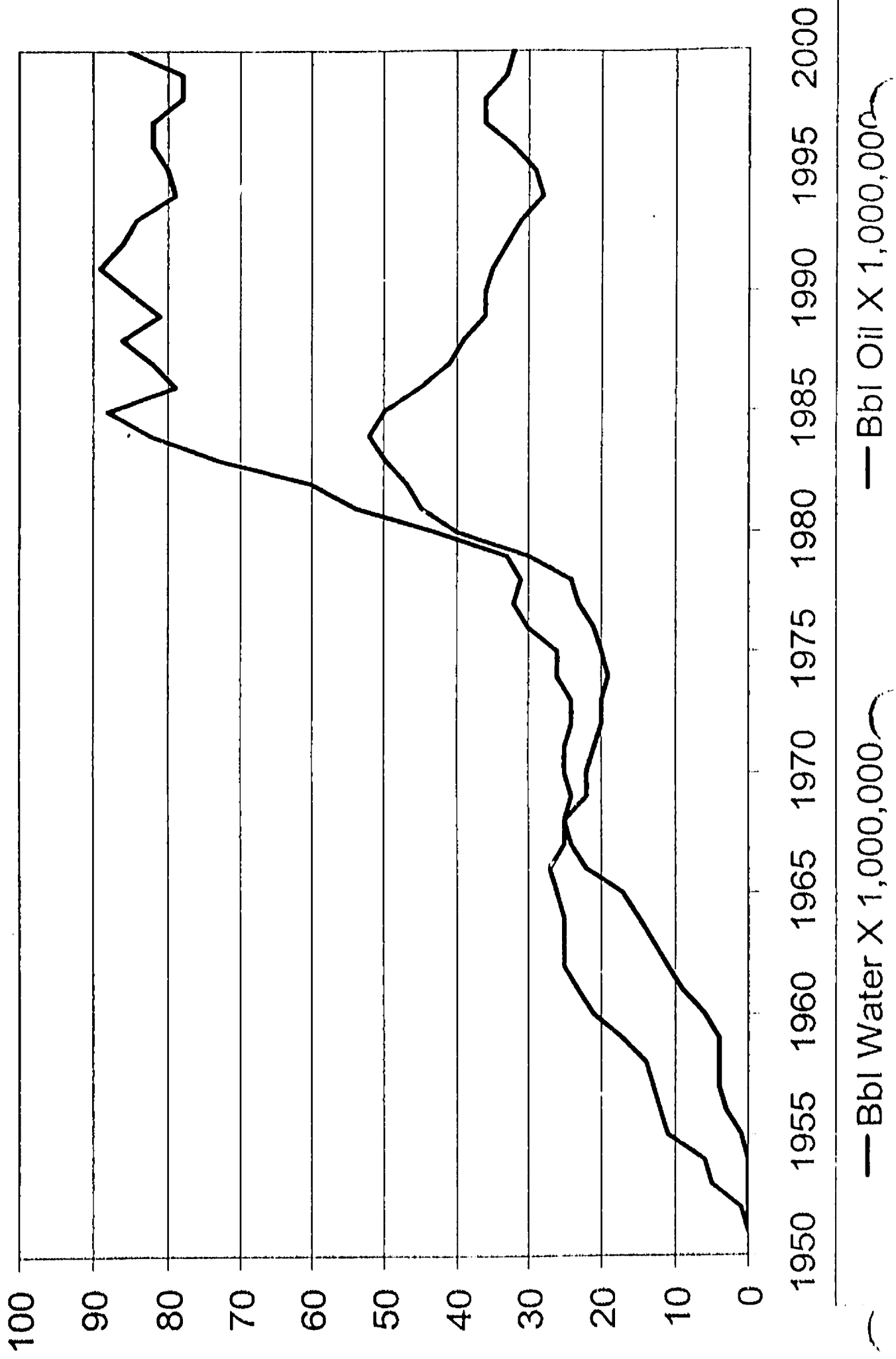


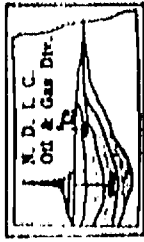
North Dakota Average Monthly Rig Count



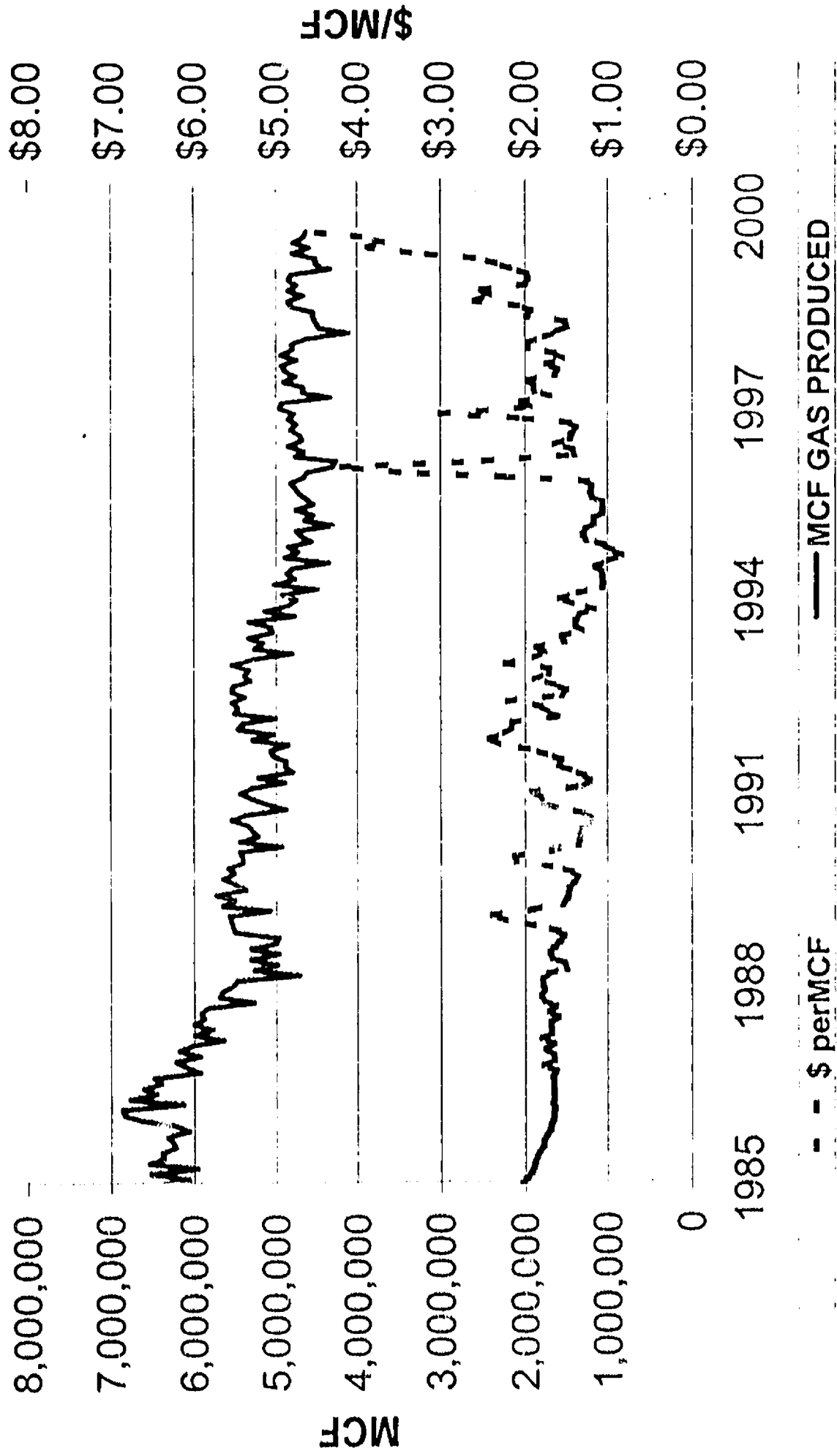


North Dakota Oil vs Water Production



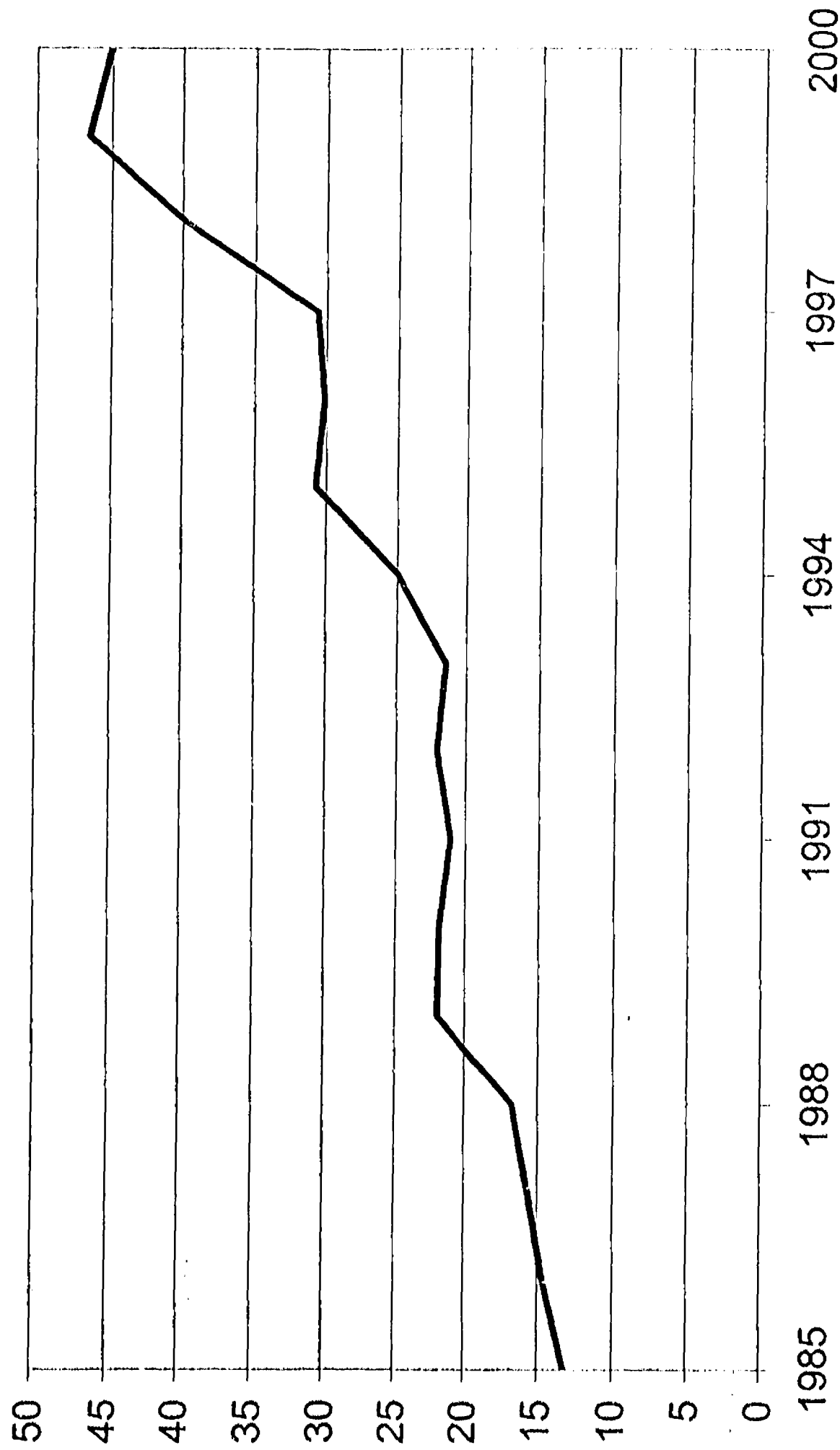


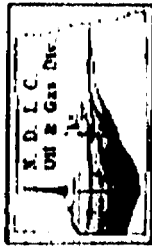
North Dakota Monthly Gas Produced and Price



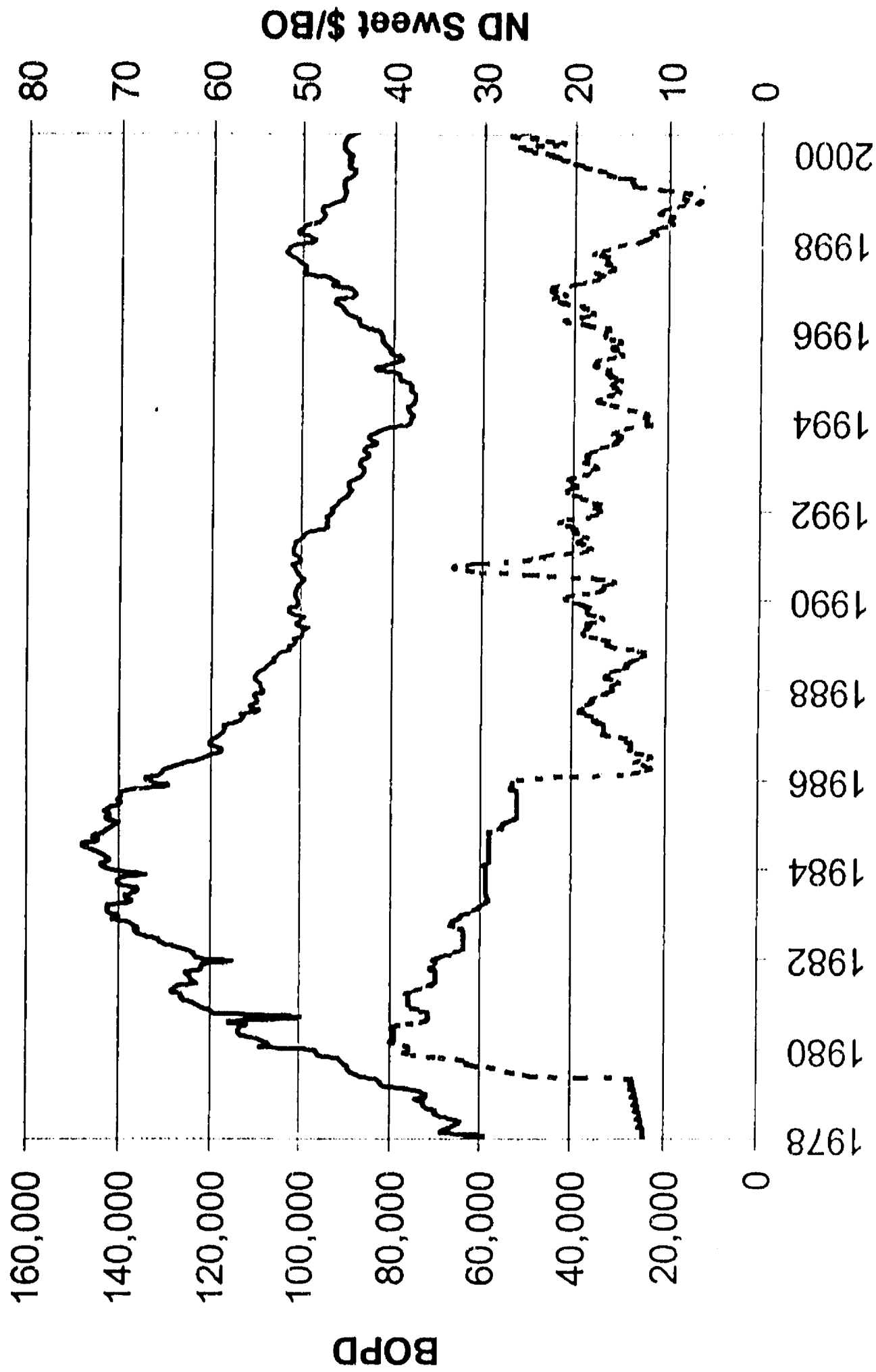


North Dakota % Production From Units



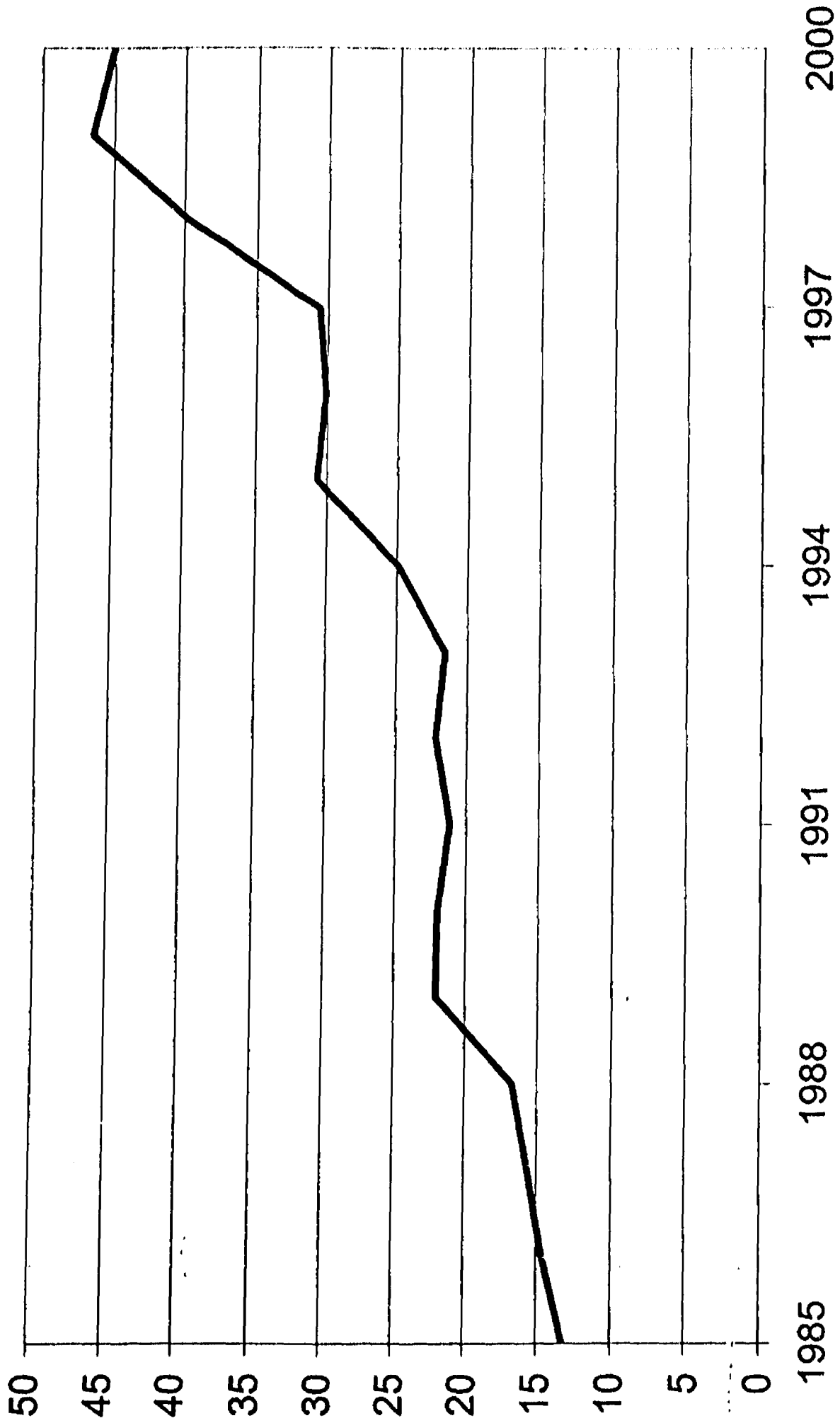


North Dakota Daily Oil Produced and Price





North Dakota % Production From Units





North Dakota Petroleum Council

Ron Ness
Executive Director
Maisha Remnitz
Office Manager

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Phone: 701.223.6380
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P.O. Box 1300
Bismarck, ND 58102-1300

Senate Natural Resources Committee

January 18, 2001

Senate Bill 2120

Testimony by Ron Ness, North Dakota Petroleum Council

Chairman Fischer, members of the Natural Resources Committee, my name is Ron Ness. I am the Executive Director of the North Dakota Petroleum Council. The North Dakota Petroleum Council represents both large and small oil and gas companies, pipelines, oil field service companies, and the BP Refinery in Mandan. I appear before you today in support of Senate Bill 2120, although I will be offering some amendments for your consideration.

First, let's define what a production unit is. It's an area in which all interest owners jointly participate in a project that involves the injection of fluids into a reservoir to increase the recovery of hydrocarbons. As you can see by the handout, units are critical to enhanced oil recovery. A unit can significantly increase the value to all stakeholders in the project.

Senate Bill 2120 was introduced at the request of former Attorney General Heidi Heitkamp in response to a situation involving the unitization of the Cedar Hills Field in Bowman County. There have been a number of efforts to unitize all or portions of this field in the past several years, but no plan has been able to gain the necessary support of 70% of the lessees, or working interest owners, in the field. North Dakota law currently requires that a plan of unitization be ratified, or agreed to, by the 70% of the working interest (lessee or oil company) owners and 70% of the royalty interest (mineral owner) owners. The former attorney general introduced this bill which would authorize the Industrial Commission to reduce the required percentage of working interest owners to 55%.

The members of the North Dakota Petroleum Council strongly support unitization of oil and gas fields in the State of North Dakota, which allows secondary recovery methods like water injection and air injection to be utilized. Currently, almost 50% of our daily production comes from units. We anticipate that number continuing to increase. We are hopeful that in the near future there will be some carbon dioxide

available for use in North Dakota fields. These recovery methods will result in greatly increased recoveries from North Dakota's oil fields, but they do require unitization. We agree that the 70% ratification requirement can prevent some fields from being unitized. However, our members have several concerns with Senate Bill 2120 as drafted. First, we are concerned that 55% is too low and could enable a single large owner to exercise too much control over unitization. Second, although the bill would authorize the Industrial Commission to lower the requirements, it gives no standard or criteria for the Commission to follow. Third, the bill does not address the potential problem with obtaining ratifications from royalty owners.

We, therefore, would like to propose the attached amendments to the bill. These amendments would simply lower the ratification requirement for both working and royalty interest owners from 70% to 60%. As amended, we think the bill would provide adequate protection for all mineral owners and lessees and would still help encourage unitization of oil and gas fields in the future. By reducing the percentage for all unit projects, it would ensure that all unit proponents receive the same opportunities to achieve unitization.

The North Dakota Petroleum Council asks your support for these amendments and for Senate Bill 2120 as amended.

Thank you for your consideration.

SB
2120

NORTH DAKOTA INDUSTRIAL COMMISSION

OIL AND GAS DIVISION

Lynn D. Helms
DIRECTOR

<http://explorer.ndic.state.nd.us>

Bruce B. Hicks
ASSISTANT DIRECTOR

IMPACT OF UNITIZATION

Enhanced Oil Recovery

- 44% of North Dakota oil production is from Enhanced Oil Recovery Units.
- Enhanced Oil Recovery Units yield major capital investments, and long term stable production and jobs.
- Average primary recovery (no EOR) is 20% of original oil in place.
- Average incremental secondary recovery is 15% of original oil in place.
- Average incremental tertiary recovery is 10% of original oil in place.

History of North Dakota Units

- The first unit in North Dakota was Tloga Madison Unit formed 4/1/58.
- 19 voluntary units were formed in North Dakota from 1958-1965.
- North Dakota's compulsory unitization statute was passed in 1965.
- 25 compulsory units were formed in North Dakota from 1965-1990.
- 36 compulsory units have been formed in North Dakota since 1991.
- 9 units have been terminated in North Dakota since 1984.
- 4 units were delayed by 3-10 years due to working interest ratification problems.
- 1 unit was never formed due to royalty interest ratification problems (-104 million barrels).

Production that has resulted from North Dakota Units

- Units have produced 685 million barrels of oil.
- Estimated primary production from those units would have been 464 million barrels.
- Incremental production to date is 219 million barrels (over \$5 billion at today's oil price).
- Ultimate estimated incremental is 373 million barrels (over \$9 billion at today's oil price).
- 58 units already produce incremental oil and 16 soon will for a 93% rate of success.



North Dakota Petroleum Council

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Executive Director
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Bismarck, ND 58502-1395

House Natural Resources Committee

Senate Bill 2120

March 1, 2001

Testimony by Ron Ness, North Dakota Petroleum Council

Chairman Rennerfeldt, members of the Natural Resources Committee, my name is Ron Ness. I am the Executive Director of the North Dakota Petroleum Council. The North Dakota Petroleum Council represents both large and small oil and gas companies, pipelines, oil field service companies, and the BP Refinery in Mandan. I appear before you today in support of Senate Bill 2120.

First, let's define, what is a production unit? It's an area in which all interest owners jointly participate in a project that involves the injection of fluids into a reservoir to increase the recovery of hydrocarbons. As you can see by the handout – units are critical to enhanced oil recovery. A unit can significantly increase the value to all stakeholders in the project. Many of our oil fields are reaching the end of their primary production and without secondary recovery methods like horizontal drilling that is most effectively done in a unit we will be leaving a tremendous amount of oil in the ground.

Senate Bill 2120 was introduced at the request of former Attorney General Heidi Heitkamp in response to a situation involving the unitization of the Cedar Hills Field in Bowman County. There have been a number of efforts to unitize all or portions of this field in the past several years, but until recently, no plan has been able to gain the necessary support of 70% of the lessees, or working interest owners, in the field. North Dakota law currently requires that a plan of unitization be ratified, or agreed to, by the 70% of the working interest (lessee or oil company) owners and 70% of the royalty interest (mineral owner) owners. The former attorney general introduced this bill which would authorize the Industrial Commission to reduce the required percentage of working interest owners to 55%.

The Senate amendments eliminated the 55% and the discretion of the Industrial Commission and lowered the current 70% required for all interests to 60%. The oil

and gas industry supports this percentage that still requires a super majority of approval to form a unit.

We support this bill in its current form. It would simply lower the ratification requirement for both working and royalty interest owners from 70% to 60%. We think the bill would provide adequate protection for all mineral owners and lessees and would still help encourage unitization of oil and gas fields in the future. By reducing the percentage for all unit projects, it would ensure that all unit proponents receive the same opportunities to achieve unitization.

The members of the North Dakota Petroleum Council strongly support unitization of oil and gas fields in the State of North Dakota, which allows secondary recovery methods like water injection and air injection to be utilized. Currently, almost 50% of our daily production comes from units. We anticipate that number continuing to increase. We are hopeful that in the near future there will be some carbon dioxide available for use in North Dakota fields. These recovery methods will result in greatly increased recoveries from North Dakota's oil fields, but they do require unitization. We agree that the 70% ratification requirement can prevent some fields from being unitized. However, our members had several concerns with Senate Bill 2120 as drafted. First, we were concerned that 55% is too low and could enable a single large owner to exercise too much control over unitization. Second, although the bill would authorize the Industrial Commission to lower the requirements, it gave no standard or criteria for the Commission to follow. Third, the bill did not address the potential problem with obtaining ratifications from royalty owners. The Senate amendments addressed each of these concerns and, again, we support the bill as it was amended in the Senate.

SB-2120 could be labeled an economic development bill; units increase the amount of oil produced in a pool and extend the life of wells and oil activity in an area. If this bill allows more units to be formed – it will provide the state more tax revenue, more high paying jobs, and more economic activity for communities and local businesses in western North Dakota. Just consider what the production unit being ratified in Bowman County means to the state and community:

- Begin secondary production from a unit that is estimated to still hold 2.5 billion dollars of oil reserves;
- Increase the states daily oil production by 10,000 barrels per day at full production;
- The two companies involved plan to invest more than 250 million dollars in the unit over the next three years;
- At least six rigs will be operating in the units for the next three years;

- Each rig creates up to 120 primary and secondary jobs.
- Job Service reports that the average wage in 1999 for the mining industry was 81% higher than the state average wage (\$42,981 which is \$19,231 above the statewide average and \$9,986 higher than the next best paying industry).

There have been concerns raised about this bill from a small group of individuals involved in the Little Knife oil field. We believe these concerns were not valid in the late '80s when the Little Knife unitization efforts were defeated on a number of occasions by a small number of royalty owners and they are not valid now. There are many safeguards in place to protect mineral and working owner interests. The Industrial Commission and the Oil and Gas Division regulate oil and gas activities and provide many avenues for concerns to be heard. Unitization of a field that is supported by a super majority of 60% of the owners is certainly favorable to losing the potential to produce millions or billions of dollars worth of oil forever due to the lack of support from a minority of owners -- as was done in Little Knife. The question remains -- Are the mineral owners in the Little Knife field better off today as a result of those failed units? The answer is clearly NO!

The North Dakota Petroleum Council urges your support for Senate Bill 2120. This bill is supported by the big and small oil companies operating in the state. If passed, it could have a positive impact on the future of oil production in our state.

Thank you for your consideration. I would be happy to answer any questions.

KAISER LAW FIRM

201 East 26th Street
Williston, North Dakota 58802-0849

Marvin L. Kaiser

Telephone: 701/672-1890
Telefax: 701/774-0774
e-mail: Kaiser@dia.net

January 26, 2001

Re: Senate Bill 2120: Ratification or
Approval of Oil and Gas Units

I am writing to you to provide information from the perspective of the North Dakota royalty owners and smaller oil and gas companies. I have worked for nearly 30 years in oil and gas matters. I am not being paid, nor was I asked to write by any industry or royalty group. Nevertheless, their perspective should be heard.

The compulsory ratification of an oil and gas unit, using the police powers of the State, should carry a substantial approval burden. When our statute was enacted in 1965, that percentage was 80 percent, which was consistent with other oil and gas producing states.

In 1991 some members of the industry were persuasive in getting the legislature to reduce this percentage to 70 percent. While approval was 70 percent, 80 percent was still required to terminate a unit. As I understand it today, this new proposal was to reduce the ratification percentage to 51 percent, which the Senate has now amended to 60 percent. I opposed the reduction from 80 percent to 70 percent, and vigorously oppose any further reduction.

No one interested in conservation can oppose the hope that units offer, which is the greater recovery of oil and gas from a field. Both the dominant oil company and the State, however, have had a tendency to view units as a single entity, because the production of any incremental oil is a tax benefit to the State and a revenue benefit to the oil company.

The challenge, however, is to conceive the unit so that individual property owners are all treated fairly in the process. This takes sincere thought and ultimate fairness. Property rights are impacted for many, many years to come. Many of the units formed by Amerada and Texaco have been in existence for more than 30 years, are likely to continue, and required 80 percent for ratification.

Most people who have had dealings with me and units believe that I am opposed to units, which is not true. I have supported a number of units, but have fought vigorously for an equitable formula. This fight also occurs in private unit meetings among the working-interest owners. The royalty owners almost never get an opportunity for input until the pie has been cut up by the working-interest owners.

Even with an 80 percent requirement, North Dakota was able to form about 36 units, vastly more than have been formed since the amendment that reduced the percentage to 70 percent. There is no compelling need to reduce this percentage any further.

I understand that this bill was introduced in response to the Bowman County fight between Burlington Resources and Continental Resources. This arguably should have been a difficult unit to form. Both of these parties had a substantial interest, and could veto each other's unit. The Commission was challenged, as were these two working-interest owners, to find a formula or methodology that was equitable to both of them. It seems they have achieved it without a change in the statute.

The unit agreement provisions are onerous to North Dakota landowners already for some of the following reasons:

1. The royalty owners do not participate in the drafting of the unit agreements, which significantly modify oil and gas leases.
2. Scientific data is known only by the working-interest owners, who share only the portions they wish to disclose in a public meeting.
3. Foreign substances may be injected into unit formations, which may or may not result in enhanced oil recovery.
4. Units allow expansion of area without further vote.
5. They are difficult to terminate. NDCC 38-08-09.4, sub-part 7 is challenging to determine if the State even could terminate, when termination is only allowed if "The Commission may not dissolve any unit. . . if the dissolution would be likely to result in waste or the violation of the correlative rights of any owner." This is a very tough standard.
6. The unit agreement doesn't require the company to perform the unit operations proposed to the Commission when it sought NDIC approval with respect to drilling additional wells, injection of substances, results of unitization, etc.

January 26, 2001
Page 2

Please kill this bill. It is unnecessary.

Sincerely,

Marvin L. Kaiser

MLK/jk

cc: Governor John Hoeven
Robert Harms, Esq.

WALTERS PETROLEUM ENTERPRISES, L.L.C.*William D. Walters, Jr., Manager*

1121 - 2nd Avenue West
P.O. Box 1948
Williston, ND 58802-1948
Telephone: (701) 572-3671
Fax: (701) 572-3618

February 28, 2001

Rep. Earl Rennerfeldt, Chairman
House Natural Resources Committee
North Dakota State Capitol Building
600 E. Boulevard Avenue
Bismarck, ND 58505

VIA FACSIMILE TRANSMISSION
701-328-1271

RE: Senate Bill 2120 Utilization

Dear Earl:

As you know, Senate Bill 2120 has passed the senate and is scheduled for hearing before the House Natural Resources Committee on March 1. This bill would lower the required unitization approval of working interest owners and mineral owners from 70% to 60%. This is not good for the oil industry, small oil producers or mineral owners in North Dakota.

I am writing this letter as a resident small independent oil producer, mineral owner and oil & gas attorney in North Dakota. This proposed reduction of voting approval % for units is unnecessary and potential disaster. I am not against units in concept and, in fact, we are active in units as working interest owners and mineral owners. On a regular basis we participate with unit operators in ongoing development of existing units. However, wrongly or mistakenly utilized, unitization can inequitably confiscate property rights and damage the economic health of North Dakota mineral owners and minority working interest owners.

The science involved with the units (engineering & geology) is not precise and is often subject of varying credible & industry opinion. Also, the unit participation formulas are subject to significant variation. Unit participation formulas directly affect and change royalty interests and entitlement. Approved unit agreements directly change existing lease rights, contract rights and property ownership interests. Therefore, a unit is not something that should, in effect, be almost unilaterally enforceable by one or two entities or owners. Moreover, the rights affected are so important that the protection of those rights should not be reduced in any manner. Senate Bill 2120 would reduce that protection and do so in a manner unprecedented in most oil producing states.

In the past everyone in the industry has seen unit proposals (participation formulas, estimates of primary & secondary recovery, etc.) that were incorrect and if approved would have been a financial disaster for the mineral owners and minority working interest owners in the proposed units. Had Senate Bill 2120 been law in these past instances it might have, in effect, prevented productive disagreement, discussion, constructive resolution and the eventual correct results.

page 2

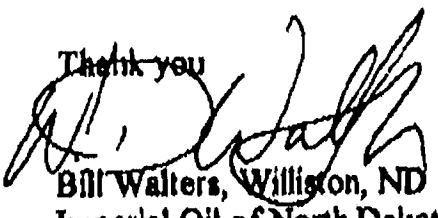
February 28, 2001

Further, you can look to the history of units in North Dakota for verification of these potential problems. Industrial Commission records provide evidence of forcefully disbanded units that had never worked as originally proposed and had served as nothing but a deprivation of property rights of North Dakota mineral owners & minority working interests. In addition, once formed, these nonperforming units can go on indefinitely, holding minerals in limbo which mineral owners could otherwise be leasing, deriving benefit and, hopefully, productive development. Senate Bill 2120 would make further unit disasters much more likely.

Opposition to Senate Bill 2120 is pro-North Dakota oil industry. The North Dakota oil industry is composed of mineral owner citizens (farmers, ranchers & others), small resident independent oil operators & companies, nonresident independents and nonresident majors. This bill would disadvantage all of these listed except for a very few nonresident major oil companies.

Due to a scheduling conflict I am unable to appear at the committee hearing on March 1. In my absence I ask that you read this letter to the committee. I ask that the committee assist the North Dakota oil industry and protect North Dakota mineral owners and oil operators by indicating its disapproval of senate bill 2120.

Thank you



Bill Walters, Williston, ND
Imperial Oil of North Dakota, Inc
Walters Petroleum Enterprises, LLC
The Mineral Mart, Inc.