MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION
SFN 2053 (2/85) 5M

GREAT SEAL
STATE OF NORTH DAKOTA

ROLL NUMBER

DESCRIPTION

2205

2001 SENATE FINANCE AND TAXATION

SB 2205

2001 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. 2205

Senate Finance and Taxation Committee

☐ Conference Committee

Hearing Date 1/30/01

Tape Number	Side A	Side B	Meter #
1	x		12.5-end
		x	0-16
2		x	21.1-36.3
Committee Clerk Signature	Lynelle [illegible]		

Minutes:

Senator Urlacher: Opened the hearing on SB 2205, relating to determination of the trigger price that determines application of oil extraction tax rates and exemptions.

Senator Wardner: Cosponsored, introduced the bill to the committee. Provides handout and explaines where the revenue goes. This bill does three things: Changes the trigger, Clears up language on monthly average, and Puts in an index. This is a fairness bill. We do have some amendments to clear up some language.

Senator Nichols: Does this bill affect all wells?

Senator Wardner: It affects all wells except for stripper wells.

Ron Ness: ND Petroleum Council, testified in support. Written testimony attached.

Senator Wardner: Who are the players in the ND oil field?

Ron Ness: We now longer have the major oil companies exploring and drilling in our state. We basically have regional and state-owned companies.

Senator Aaron Krauter: Co-sponsored the bill, testified in support. Feels bill gives some long term stability to oil industry.

Jeff Herman: Petro-Hunt LLC, testified in support. Written testimony attached.

Lynn Helms: Director of Oil & Gas Division, testified neutrally to provide some information. Provides handout and summarizes the main points. Explains coal bed methane gas and the outlook of drilling for next year.

Senator Urlacher: What about the reservations? Is there any forseeable movement there?

Lynn Helms: There is potential but there are tribal politics that puts a damper on it.

Senator Urlacher: Is there anything the state can do to help?

Lynn Helms: Nothing off the top of my head. I have been encouraging the executive branch to come up with something on a cooperative effort.

Jack Stark: Continental Resources, Inc., testified in support. Provides handout of graphs and goes over them.

Senator Wardner: What's your success rate on horizontal wells in ND?

Jack Stark: You spend substantially more, you risk more dollars when you drill a horizontal well to start with. As far as success rate, it depends on where you're at in the state.

Vicki Steiner: ND Assoc. Of Oil & Gas Producing Counties, testfied in support.

Senator Urlacher: Closed the hearing. Action delayed.

Discussion held later. Meter number 21.1-36.3.

AMENDMENT ACTION:

Motion made by Senator Wardner, Seconded by Senator Stenehjem, to move amendment numbered 10407.0201. Voice Vote taken. All in favor, amendment adopted.

COMMITTEE ACTION: 1/30/01

Motion made by Senator Christmann for a DO PASS AS AMENDED, Seconded by Senator Stenehjem. Vote was 6 yeas, 0 nays, 0 absent and not voting. Bill carrier was Senator Wardner.

FISCAL NOTE

Requested by Legislative Council
02/02/2001

Bill/Resolution No.:

Amendment to: SB 2205

1A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	1999-2001 Biennium		2001-2003 Biennium		2003-2005 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures						
Appropriations						

1B. **County, city, and school district fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

1999-2001 Biennium			2001-2003 Biennium			2003-2005 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

2. **Narrative:** *Identify the aspects of the measure which cause fiscal impact and include any comments relevant to your analysis.*

SB 2205 First Engrossment changes the "trigger price" mechanism that determines the oil extraction tax rates and exmptions. SB 2205 First Engrossment is not expected to affect revenues during the 01-03 biennium.

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*
   A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

   B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

   C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, of the effect on the biennial appropriation for each agency and fund affected and any amounts included in the executive budget. Indicate the relationship between the amounts shown for expenditures and appropriations.*

Name:	Kathryn L. Strombeck	**Agency:**	Tax Department
Phone Number:	328-3402	**Date Prepared:**	02/06/2001

FISCAL NOTE

Requested by Legislative Council
01/16/2001

Bill/Resolution No.: SB 2205

Amendment to:

1A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	1999-2001 Biennium		2001-2003 Biennium		2003-2005 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures						
Appropriations						

1B. **County, city, and school district fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

1999-2001 Biennium			2001-2003 Biennium			2003-2005 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

2. **Narrative:** *Identify the aspects of the measure which cause fiscal impact and include any comments relevant to your analysis.*

SB 2205 changes the "trigger price" mechanism that determines the oil extraction tax rates and exemptions. Based on the forecasted oil price, neither the current law trigger price, nor the proposed trigger price would be met. Therefore, SB 2205 is not expected to affect revenues during the 01-03 biennium.

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*
   A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

   B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

   C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, of the effect on the biennial appropriation for each agency and fund affected and any amounts included in the executive budget. Indicate the relationship between the amounts shown for expenditures and appropriations.*

Name:	Kathryn L. Strombeck	**Agency:**	Tax Department
Phone Number:	328-3402	**Date Prepared:**	01/29/2001

10407.0201
Title.

Prepared by the Legislative Council staff for
Senator Wardner
January 25, 2001

PROPOSED AMENDMENTS TO SENATE BILL NO. 2205

Page 1, line 15, after "average" insert "of the" and remove the overstrike over "~~daily~~" and insert immediately thereafter "closing"

Page 1, line 17, after "cents" insert ". When computing the monthly average price, the most recent previous daily closing price must be considered the daily closing price for the days on which the market is closed"

Page 4, line 1, remove "an average price of a barrel of crude oil of"

Page 4, line 2, replace "first" with "thirty-first"

Page 4, line 4, replace "consumer" with "producer"

Page 4, line 5, after "commodities" insert "as calculated and published by the United States department of labor, bureau of labor statistics," and replace "September thirty-first" with "June thirtieth"

Page 10, line 29, replace "taxable events" with "oil production"

Renumber accordingly

Date: 1/30/01
Roll Call Vote #: 1

2001 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2205

Senate Finance and Taxation Committee

☐ Subcommittee on ______________________
or
☐ Conference Committee

Legislative Council Amendment Number 10407.0201

Action Taken Move Amendment (Voice Vote)

Motion Made By Wardner Seconded By Stenehjem

Senators	Yes	No	Senators	Yes	No
Senator Urlacher-Chairman					
Senator Wardner-Vice Chairman					
Senator Christmann					
Senator Stenehjem					
Senator Kroeplin					
Senator Nichols					

Total (Yes) 6 No 0

Absent 0

Floor Assignment ______________________

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

Date: 1/30/01
Roll Call Vote #: 2

2001 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2205

Senate Finance and Taxation Committee

☐ Subcommittee on
or
☐ Conference Committee

Legislative Council Amendment Number

Action Taken Do Pass As Amended

Motion Made By Christmann Seconded By Stenehjem

Senators	Yes	No	Senators	Yes	No
Senator Urlacher-Chairman	✓				
Senator Wardner-Vice Chairman	✓				
Senator Christmann	✓				
Senator Stenehjem	✓				
Senator Kroeplin	✓				
Senator Nichols	✓				

Total (Yes) 6 No 0

Absent 0

Floor Assignment Wardner

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

REPORT OF STANDING COMMITTEE (410)
February 1, 2001 8:18 a.m.

Module No: SR-18-2057
Carrier: Wardner
Insert LC: 10407.0201 Title: .0300

REPORT OF STANDING COMMITTEE

SB 2205: Finance and Taxation Committee (Sen. Urlacher, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (6 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). SB 2205 was placed on the Sixth order on the calendar.

Page 1, line 15, after "average" insert "of the" and remove the overstrike over "~~daily~~" and insert immediately thereafter "closing"

Page 1, line 17, after "cents" insert ". When computing the monthly average price, the most recent previous daily closing price must be considered the daily closing price for the days on which the market is closed"

Page 4, line 1, remove "an average price of a barrel of crude oil of"

Page 4, line 2, replace "first" with "thirty-first"

Page 4, line 4, replace "consumer" with "producer"

Page 4, line 5, after "commodities" insert "as calculated and published by the United States department of labor, bureau of labor statistics," and replace "September thirty-first" with "June thirtieth"

Page 10, line 29, replace "taxable events" with "oil production"

Renumber accordingly

2001 HOUSE FINANCE AND TAXATION

SB 2205

2001 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB 2205

House Finance and Taxation Committee

☐ Conference Committee

Hearing Date March 7, 2001

Tape Number	Side A	Side B	Meter #
1	x		47
Committee Clerk Signature	Janie Stein		

Minutes:

REP. AL CARLSON, CHAIRMAN Opened the hearing and read the fiscal note.

REP. JOHN WARNER, Introduced the bill as a co-sponsor. He endorsed the concept of the bill. He spoke briefly about the disappointments in the oil fields. Although there has been a significant rise in the price of oil, oil is so volatile, we are not seeing the kind of long term committment of oil development in North Dakota. I hope this bill can address that problem.

SEN. RICH WARDNER, DIST. 37, DICKINSON Testified in support of the bill. This bill does three things: it adjusts the trigger, it puts in a producer price increase, and it also clarifies the five month average. He explained the history of the trigger back to 1985. He explained some of the incentives that were granted which were called "holidays". He stated these incentives have been good to North Dakota. He talked about the prices of North Dakota crude oil per barrel. He talked about West Texas Intermediate as a neutral intermediary. He talked about the five month average when the trigger can take place. He stated there are two major oil companies in southwestern North Dakota, however, most of the oil companies are small, local, independent companies from North Dakota who are trying to ma' e a living at this. They are taking big risks, as soon as they drill a well and hit, they reinvest it into more drilling. They add to our economy. If the oil industry drops out, to get it going again, is very tough. Right now, they would like to have more rigs drilling out there, but the problem is, they can't find enough employees. Williston State College has lost twenty some students who have left school and went to work in the oil fields, because the wages are up there where they can't afford not to go out there and work. Schools, cities and counties get money out of the production tax, and so does the state of North Dakota. The extraction tax goes to the Resources Trust Fund, School Stabilization Fund, the Tuition Apportionment Fund and the Energy Impact Fund, so it has a big impact on the state. If we can keep them drilling, it will be a big impact for our state.

REP. WINRICH Related to the computation of the average price of West Texas Intermediate, in the Wall Street Journal, why the minus two dollars and fifty cents?

SEN. WARDNER The minus two dollars and fifty cents is North Dakota.

REP. WINRICH But then when you explain the trigger price, you said it was set at thirty five dollars and fifty cents, because North Dakota crude was normally two dollars less than that. Aren't you making that correction twice?

SEN. WARDNER It would be my understanding, that you have to figure that in, that North Dakota trigger is really thirty three dollars. When you take a look at West Texas Intermediate, and you go to the Wall Street Journal, if it is at thirty six dollars per barrel, subtract two fifty and you are at thirty three fifty for North Dakota.

REP. WINRICH It seems to me the way the computation is done and the trigger is set, you are compensating for that difference twice instead of only once.

SEN. WARDNER I can understand what you are saying, but I think it is the way it has to be drafted.

REP. WINRICH Related to the last sentence in that section, why not average it over the days the market is open instead of throwing in extra days when it closed?

SEN. WARDNER I think the idea there is, if it closes on a Friday, you have a week-end and a holiday, then you use that Friday's average for the days they aren't open.

REP. WINRICH If the market is open twenty days in a month instead of thirty, why not average it over those twenty days?

SEN. WARDNER I would refer that to someone else.

REP. CARLSON The difference, I am assuming, is the difference in the quality of the oil when you take the west texas crude to ours, the difference in the two fifty, is that how you come up with that?

SEN. WARDNER That is correct.

REP. CARLSON You made a comment, "had our trigger kicked in, it would have adversely affected drilling in the state", I remember not too long ago when it was eight or nine dollars a barrel, and there were still people pumping. Obviously, there is a lot of difference between eight dollars a barrel and thirty three dollars a barrel, why when it was up to thirty three, would our trigger have adversely affected them?

SEN. WARDNER When oil was down to eight dollars per barrel, there wasn't very much drilling going on, there was production of the wells that were producing, but there were wells that were being closed in. Wells that were low producers, were stripper wells, they were closing them in. There were oil companies that were reducing their staff, and companies left the area and haven't come back. When the oil prices came back up, the people that hang in there, they go through the low times and hang in there hoping for the good times. The big thing is, the costs of production have gone up considerably, since 1987. If the incentives go, they are not going to be there.

REP. DROVDAL The purpose of this bill, is not so much the wells that were drilled in the past, or the ones that are declining, because oil is a non renewable resource, once it is drilled, it starts to deplete itself, but this is more to encourage future developments, isn't that the purpose of this bill?

SEN. WARDNER I would agree with that, but it does have some effect on those that are already there. Monies that are generated from current oil, are also monies that these companies are investing in future exploration. It is to keep our oil production up, and we need it.

REP. DROVDAL In discussion about the average prices and trigger prices, when I read Section 2, and continue on, most of the time it refers to the trigger price, the average price has nothing to do with that, is that why we got two different definitions in there?

SEN. WARDNER I believe you are right.

REP. RENNERFELDT Related to oil production at eighteen percent in North Dakota, how much is it in Wyoming and Montana?

SEN. WARDNER Montana is down to 7.6% and they are taxing it on a higher tax then we are. Wyoming was a negative 6.6%.

REP. LLOYD What is the probability that the trigger will go either direction, it doesn't matter, in a five month period?

SEN. WARDNER Currently, it almost happened. The way the world energy situation is, I would have to say, there is a thirty to forty percent chance, it could trigger in the future. The way we are doing it, we are lessening that probability by about half.

REP. LLOYD You are saying the current probability would be about thirty percent, and if this law is passed and adopted, it would be reduced in half or maybe as high as twenty percent?

SEN. WARDNER That is my opinion, I may be wrong. That is just from being around it as much as I have been.

RON NESS, NORTH DAKOTA PETROLEUM COUNCIL, Testified in support of the bill. See attached testimony. Addressed some of the questions which were asked previously. He related to the Cedar Hills Field in Bowman County, they are hoping to see eight to ten barrels of new production per day when the activity is completed there. Referred to Rep. Winrich's question regarding the two dollars and fifty cent issue. There is the adjustment for equating North Dakota crude to West Texas crude, we chose two dollars and fifty cents after a lot of research, there is the inflationary aspect, from 1991 to the present. Referred to Page 2 of his written testimony. He stated the starting point is thirty five fifty, then the two dollars and fifty cent differential for North Dakota crude.

REP. WINRICH Questioned some of the language in the bill.

REP. CARLSON Stated we would have the attorneys take a look at the language.

REP. LLOYD Asked what the probability was of reaching the five month trigger.

RON NESS If I could predict the future of oil prices, I would be somewhere on a yacht today, playing golf. What could have happened, if the trigger isn't defined, you could have had a one month nomally of seventy dollar crude, and it would have kicked the trigger off. What will happen to the crude prices in the future, there is absolutely no way to determine that.

REP. LLOYD That is not what I am getting at. All I want to know, is what is the probability, using historical data?

RON NESS These triggers have been put in place in 1987, they have never triggered.

REP. CARLSON Asked whether we have established a level where it would never trigger?

RON NESS In 1987, the original trigger was June to October time period. In 1991, they decided to make it a consecutive five months. Will it trigger at thirty three dollars, I don't know. If it was up to me, we would remove the trigger completely.

REP. DROVDAL Wouldn't just one bomb in the mid-east, trigger that?

RON NESS This fall, if anything would have happened, crude oil could have gone to forty dollars very easily.

JEFF HERMAN, REGIONAL LAND MANAGER, PETRO-HUNT, LLC, BISMARCK, Testified in support of the bill. See attached written testimony. Related to the question on a trigger, stating that during the Gulf War, the price went to thirty eight dollars. One bomb or one disruption, we could be there pretty quick.

REP. CARLSON Asked whether this bill would add to stabilization in production.

JEFF HERMAN Very definitely.

REP. SCHMIDT Is there a lot of merging going on?

JEFF HERMAN There is a lot of merging going on.

VICKY STEINER, NORTH DAKOTA OIL AND GAS PRODUCING COUNTIES, Testified in a neutral position. She stated her association agreed to the trigger at thirty three dollars for North Dakota, and was moving up to West Texas. She stated her association agreed to that, but they haven't agreed to the additional. She stated those questions were not raised on the Senate side. She was not sure where her association would sit on this bill, it is a bigger move than they understood.

REP. CARLSON Stated we wouldn't act on the bill today, and if she needed to get back to her people she would have the time.

REP. WINRICH Stated, if the intent of the bill is to set the trigger on North Dakota oil at thirty five fifty, then the bill makes sense the way it is written, but if it was to set it at thirty three, then there is a double correction.

VICKY STEINER Our educators met in December on this bill, and part of something to think about is the reason the trigger was put on, is because the feeling was, that if oil gets to a certain level, then we don't need to have oil at five percent, then the industry could pay the full eleven and a half percent tax. My counties and schools are on the five percent production tax. If extraction tax is really about school funding and water resources trust fund and foundation stabilization, it is really about all of those funds that kick in when the trigger kicks in. It is a lot of money to the general fund. If you are trying to move the trigger, why not set it at fifty dollars. My educators on the oil association, agreed with the concept that it should go with inflation. They thought it was fair to set it at thirty three back ten years ago, maybe it should be adjusted at thirty five fifty.

KEVEN SCHATZ SUPERVISOR OF OIL & GAS DEPARTMENT, STATE TAX DEPARTMENT, Clarified the question relating to holidays, when the price closes on a Friday, and there is oil that is sold on a week-end, or picked up on a tank on a week-end, they use that closing price on Friday until there is another closing price on Monday. That is the intent of the language in the bill.

REP. CARLSON Asked Mr. Schatz to look into the terminology to make sure it is correct regarding, average price, etc. He also asked for summary relating to where the money goes to on the production tax and where it goes to on the extraction tax.

SEN. WARDNER Returned to state that he had a chart relating to that.

With no further testimony, the hearing was closed.

COMMITTEE ACTION **3-12-01, TAPE #2, SIDE A, METER #372**

KEVIN SCHATZ, STATE TAX DEPARTMENT Appeared before the committee to explain the amendments which were supposed to clear up the terminology and the trigger.

SEN. WARDNER Also commented on his discussion with the schools and the counties regarding this bill and the amendments. He also gave statistics referring back to 1987 through the present time.

REP. CARLSON Commented just to summarize, right now we have a production tax of five percent, that is always taxed. We have an extraction tax of four percent, of which when a new well is drilled, a verticle well will get a fifteen month holiday and a horizontal well gets a twenty four month holiday. If the trigger kicks in, and they are beyond their holiday, then it goes from a four percent to a six and a half percent extraction tax, and when the trigger goes back down, it reverts back to four. That is basically, the bill. The question is, is the thirty eight dollars per barrel, the right number?

SEN. WARDNER Stated, if they are on the holiday and it triggers, that is the end of the holiday.

REP. WINRICH Made a motion to adopt the amendments as presented.

REP. RENNERFELDT Second the motion. **MOTION CARRIED BY VOICE VOTE.**

REP. DROVDAL Made a motion for a **DO PASS AS AMENDED.**

REP. BRANDENBURG Second the motion. **MOTION CARRIED.**

13 YES 0 NO 2 ABSENT

REP. RENNERFELDT Was given the floor assignment.

Date: 3-12-01
Roll Call Vote #: 1

2001 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. SB 2205

House FINANCE & TAXATION Committee

☐ Subcommittee on

or

☐ Conference Committee

Legislative Council Amendment Number

Action Taken Do Pass as amended

Motion Made By Rep. Drovdal Seconded By Rep. Brandenburg

Representatives	Yes	No	Representatives	Yes	No
CARLSON, AL, CHAIRMAN	✓		NICHOLAS, EUGENE	A	
DROVDAL, DAVID, V-CHAIR	✓		RENNER, DENNIS	✓	
BRANDENBURG, MICHAEL	✓		RENNERFELDT, EARL	✓	
CLARK, BYRON	✓		SCHMIDT, ARLO	✓	
GROSZ, MICHAEL	✓		WIKENHEISER, RAY	✓	
HERBEL, GIL	✓		WINRICH, LONNY	✓	
KELSH, SCOT	✓				
KROEBER, JOE	✓				
LLOYD, EDWARD	A				

Total (Yes) 13 No 0

Absent 2

Floor Assignment Rep. Rennerfeldt

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

REPORT OF STANDING COMMITTEE

SB 2205, as engrossed: Finance and Taxation Committee (Rep. Carlson, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (13 YEAS, 0 NAYS, 2 ABSENT AND NOT VOTING). Engrossed SB 2205 was placed on the Sixth order on the calendar.

Page 5, line 7, remove the overstrike over "~~average~~", remove "trigger", and replace "is exceeded" with "exceeds the trigger price"

Page 5, line 31, remove the overstrike over "~~average~~" and remove "trigger"

Page 6, line 1, replace "is exceeded" with "exceeds the trigger price"

Page 6, line 20, remove the overstrike over "~~average~~" and remove "trigger"

Page 6, line 21, replace "is exceeded" with "exceeds the trigger price"

Page 10, line 9, remove the overstrike over "~~average~~", remove "trigger", and replace "is exceeded" with "exceeds the trigger price"

Page 10, line 18, remove the overstrike over "~~average~~" and remove "trigger"

Page 10, line 19, replace "is exceeded" with "exceeds the trigger price"

Renumber accordingly

2001 TESTIMONY

SB 2205

North Dakota Petroleum Council

Ron Ness
Executive Director
Marsha Reimnitz
Office Manager

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Senate Finance & Taxation Committee

Senate Bill No. 2205
February 1, 2001

Testimony by Ron Ness, North Dakota Petroleum Council

Chairman Urlacher, members of the Finance & Taxation 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 2205.

Crude prices are high. North Dakota oil tax revenues have exceeded projections by nearly 160% for this biennium and that figure will likely increase. When prices are high, the state benefits from high tax collections. However, two years ago the outlook for oil tax revenues and the industry were bleak. We have seen $25 dollar crude oil or higher in North Dakota for nearly a year – yet this week, there are only 11 oil rigs operating in the state. Earlier this year, we did have 20 or more rigs operating for a few weeks but still much less new activity than I would expect after a year of high crude prices. In addition, our daily production of oil is still lingering around 90,000 barrels per day.

North Dakota is the ninth largest oil producing state. Why are we not seeing a significant increase in activity in the oil patch? We believe there are a number of reasons for the slow rebound in the industry.

First, oil prices remain highly volatile and subject to external forces, like OPEC. There is little assurance that oil prices will remain high for any sustained period of time. Any increase in world supplies, or a global or national recession, could easily return prices to the 1998 prices.

Second, the long-term prospects for natural gas prices appear more stable than those for oil prices, and companies actively drilling in the United States are looking for gas, and not oil. Currently 80% of rigs nationwide are drilling for natural gas. The Williston Basin produces primarily oil instead of gas. Natural gas demand continues to increase in the U.S. and 85% of the supply is domestic.

Third, the nature of the industry in North Dakota has changed dramatically since the 1980's. There are few major oil companies or even large independents left in the state. We have not had a major oil company drill a well in the state for more than a year. Most of our producers are smaller independents who must raise the capital necessary to drill wells. That capital goes first to areas with high and quick rates of return, like coal bed methane, shallow gas wells, or oil fields with a much higher rate of return.

Fourth, as a result of the deep decline in prices in the mid-1990's, the drilling and service industries in North Dakota have been deeply impacted. More than 1 million employees were laid-off in the industry and many businesses were closed. It is very difficult to secure a drilling rig and crew today. If a company wants to start a multi-well program, it will likely need to convince drilling companies to bring rigs in from out-of-state, and that may well increase the costs of drilling wells in North Dakota.

Finally, access to public lands over the past ten-years has been reduced by 60% and plans under consideration, or recently enacted, will make it much worse. Many companies are tired of fighting for access and have given up on operating on public lands. The only really new play in the state this past year is right in the middle of a Roadless area and the potential to drill additional wells is limited. Several of these new wells are producing 1,000 barrels per day.

In short, the increase in crude oil prices over the last year to 15 months has not brought a robust oil and gas industry back to North Dakota. The industry continues to need incentives to make it competitive with more attractive areas, like the coal bed methane plays in Wyoming and Montana, and pure gas plays in Wyoming and New Mexico. We believe that continued tax incentives are one thing the State of North Dakota can offer to the oil and gas industry to make investments in North Dakota attractive.

These incentives will hopefully allow the oil and gas industry to find the next big discovery that will increase lease bonuses to private mineral owners and the state, result in increased drilling activity with the positive impact on sales taxes and local economies, and increase production which will result in higher gross production tax and oil extraction tax revenues. If there is one message I hope to provide today it is – "more production means more tax revenues and economic activity in the long run regardless of whether the crude prices are high or low! Higher taxes discourage investment that is more likely when prices are high and companies have the finances to explore for oil and gas in our state.

The most important aspect of the bill is to clearly define the trigger mechanism. The trigger language presently in statute is ambiguous and needs clarification. This bill addresses those concerns and the amendments offered by Senator Wardner further clarify the specifics of the trigger.

The changes on page 1, as amended:

- Defines "Average price" for each month and specifically addresses how to compute the average for the month on days when the market is closed.

- It clarifies what we believe was the intention of the Legislature in 1987 and 1991 – that the trigger kicks in only if the average price for each of five consecutive months exceeds the trigger amount. A one or two month anomaly, like that caused by the Gulf War in 1981, would not affect the incentives.

- It provides a $2.50 differential from the oil from West Texas Intermediate at Cushing to reflect the equal value of North Dakota crude. *(Crude oil value varies widely dependent upon numerous factors, $2.50 represents a middle point that reflects North Dakota crude at the wellhead in relation to a barrel of West Texas Intermediate at Cushing. Arguments could be made for the amount to be higher or lower, but this seems to represent a modest value to use as a differential.)*

The changes on page 4, as amended:

- Defines and clarifies "Trigger price"

- It adjusts the $33 trigger for inflation, and indexes the trigger for the future. Thirty-three dollars in 1991, adjusted by the producer price index, is equal to $35.50 today. *(The fixed trigger price is currently $33 per barrel, the price of $35.50 adjust the trigger for inflation based on the producer price index for industrial commodities (PPI) inflation since 1991 to present (7.6%). The (PPI) is an inflationary indicator to measure wholesale price levels in the economy. In addition, other production costs have increased dramatically since 1987 and regulatory requirements have also added to production costs.)*

- The section instructs the Tax Commissioner to adjust the trigger price on an annual basis for inflationary impact based upon the producer price index and establishes the start point for the trigger index and directs the Commissioner as to where that inflationary information should be obtained.

The changes in the rest of the bill merely link the various sections back to the new trigger language in the definition section. The change in Section 4 clarifies that the new tax trigger is effective for oil production after June 30, 2001.

Production tax incentives in North Dakota have worked. Since 1994, when the tax incentive package was completed, North Dakota's enhanced oil recovery (EOR) production has increased 18%, while (EOR) production in Montana has dropped 7.6% and (EOR) production in Wyoming has dropped 6.6%. The increased production in our state has meant millions of new dollars invested that have created jobs and economic activity in western North Dakota, it has also returned millions of dollars in tax revenues to the schools, counties, and taxpayers. The North Dakota Petroleum Council urges a Do Pass recommendation on Senate Bill No. 2205.

Thank you for your consideration.

North Dakota

North Dakota
***1999 Population:** 633,666*
***1998 Gross State Product:** $17.2 billion*
***1999 Civilian Employment:** 330,000*

A Statistical Profile of North Dakota's Oil and Gas Industry

Oil and Gas Facilities (1999)	
Producing Oil Wells:	3,285
Producing Gas Wells:	96
Acreage under Lease for Oil and Gas Production (1986):	23.3 million
Refineries:	1
Retail Gasoline Stations:	886
Employment (1999)	
Oil and Gas Production:	1,806
Petroleum Refining:	234
Transportation:	969
Wholesale Products:	2,010
Retail Gasoline Stations:	3,840
Total	8,859
Production (1999)	
Oil:	31 million barrels
Gas:	39 billion cubic feet
Consumption (1997)	
Total Oil Products:	22.2 million barrels
Gasoline:	362 million gallons
Natural Gas (1998):	49.5 billion cubic feet
Proved Reserves (1999)	
Oil:	262 million barrels
Gas:	416 billion cubic feet

PETRO-HUNT CORPORATION
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400 East Broadway; Suite #514
Bismarck, ND 58502-0935
Phone: (701) 258-1557 FAX: (701) 258-1562

January 30, 2001

Senate Finance & Taxation Committee

RE: Senate Bill 2205

Chairman Urlacher and members of the committee:

My name is Jeff Herman, and I am the Regional Land Manager for Petro-Hunt, L.L.C. in their Bismarck Office. I appear before you today in support of the passage of SB-2205. My company has been involved in the Exploration and Production business in the Williston Basin since the late 1940's and we are currently one of the top producers in North Dakota. As such we have seen many ups and downs in the business, unfortunately it has been mostly down since about 1985 with the exception of few short-lived spikes. We are finally starting to see a little turn around in the industry and hope that it can be sustained.

That is the reason I appear today in support of SB-2205, because although we are currently experiencing a little spike, industry has been slow to react in the Williston Basin. As such I feel that it is very important to maintain the existing incentives in order to help to get the activity back to a healthy level, which would be of benefit to North Dakota in both jobs and increased tax revenue. I think there is a real danger that if this current spike is as short-lived as some in the resent past that the industry may lose the scarce few qualified professional, technical, rig and service company employees we currently have and we will never get them back again.

This industry needs stability in order to maintain and attract the qualified people that it takes to have a healthy level of activity, and the current incentives are an important part of the formula for stability. The Williston Basin has a number of things working against it in the Exploration & Production business when compared to many other Basins. Pools are deeper, primarily oil only and operating expenses are higher just to mention a few. So when we compete for exploration dollars with other Basins every little bit helps.

My company has drilled or reentered about ten wells and reworked a number of wells since this current price spike began, most of which were marginal type projects that were very price sensitive. If it were not for the current incentives at least half of those wells would not have been drilled or the reworks done. We have found it very difficult to contract the rigs and crews to do this work because of the people shortage I mentioned earlier. So I can't stress enough the need to get some stability back into this industry which would allow us to grow some good paying jobs and increase revenue to the State. The current incentives are helping to accomplish that so I encourage your support of SB-2205 to ensure that the incentives do not disappear in the middle of a long over due recovery.

Thank you if you have any questions, I would be happy to attempt to answer them.

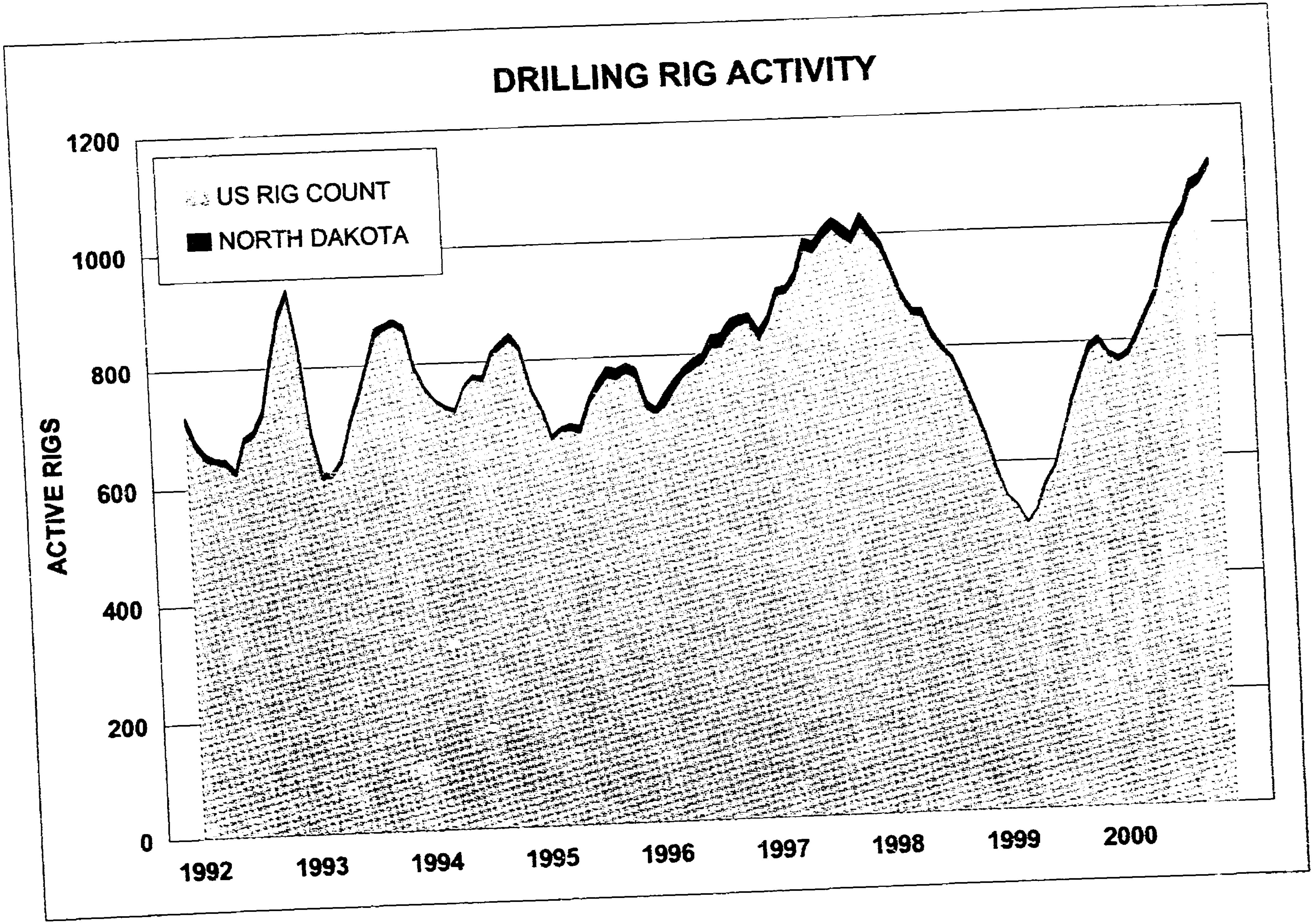
TESTIMONY IN SUPPORT OF SB 2205

Presented Before the Senate Finance and Taxation Committee

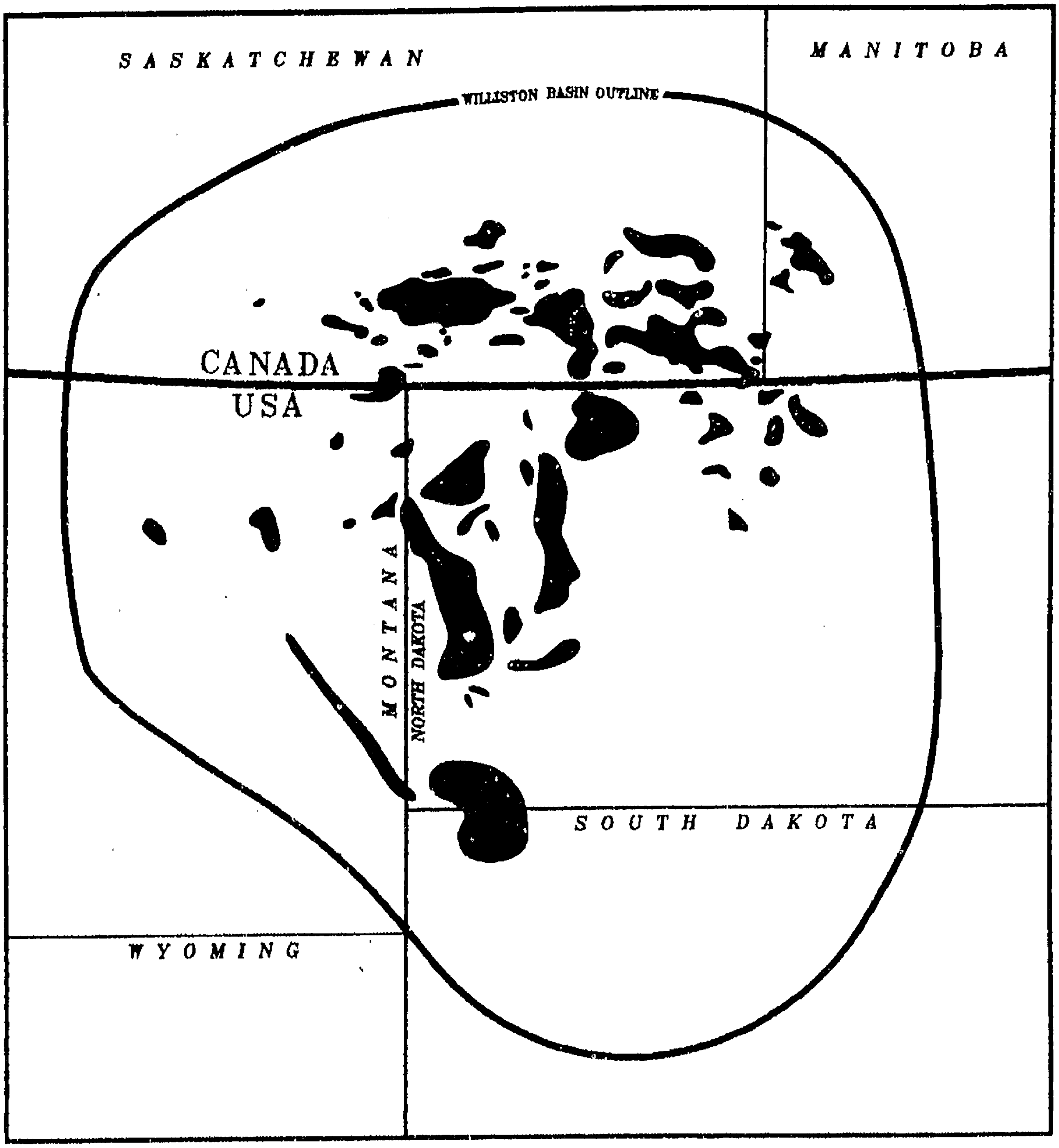
By

Jack H. Stark
V.P. of Exploration
Continental Resources Inc.
Enid, Oklahoma

January 30, 2001

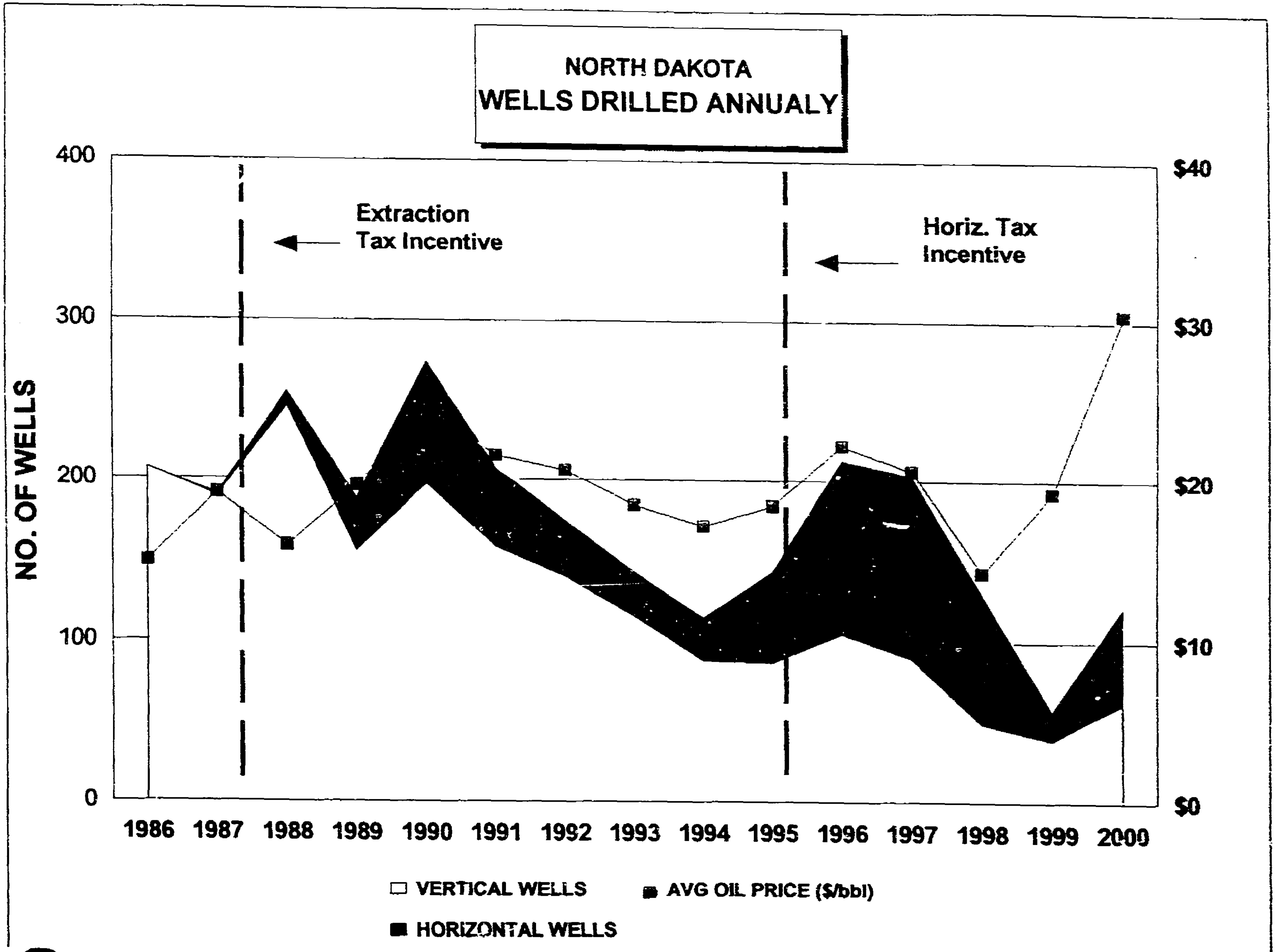

DRILLING RIG ACTIVITY
US RIG COUNT
NORTH DAKOTA
ACTIVE RIGS
0
200
400
600
800
1000
1200
1992
1993
1994
1995
1996
1997
1998
1999
2000

WILLISTON BASIN
CANADA AND USA

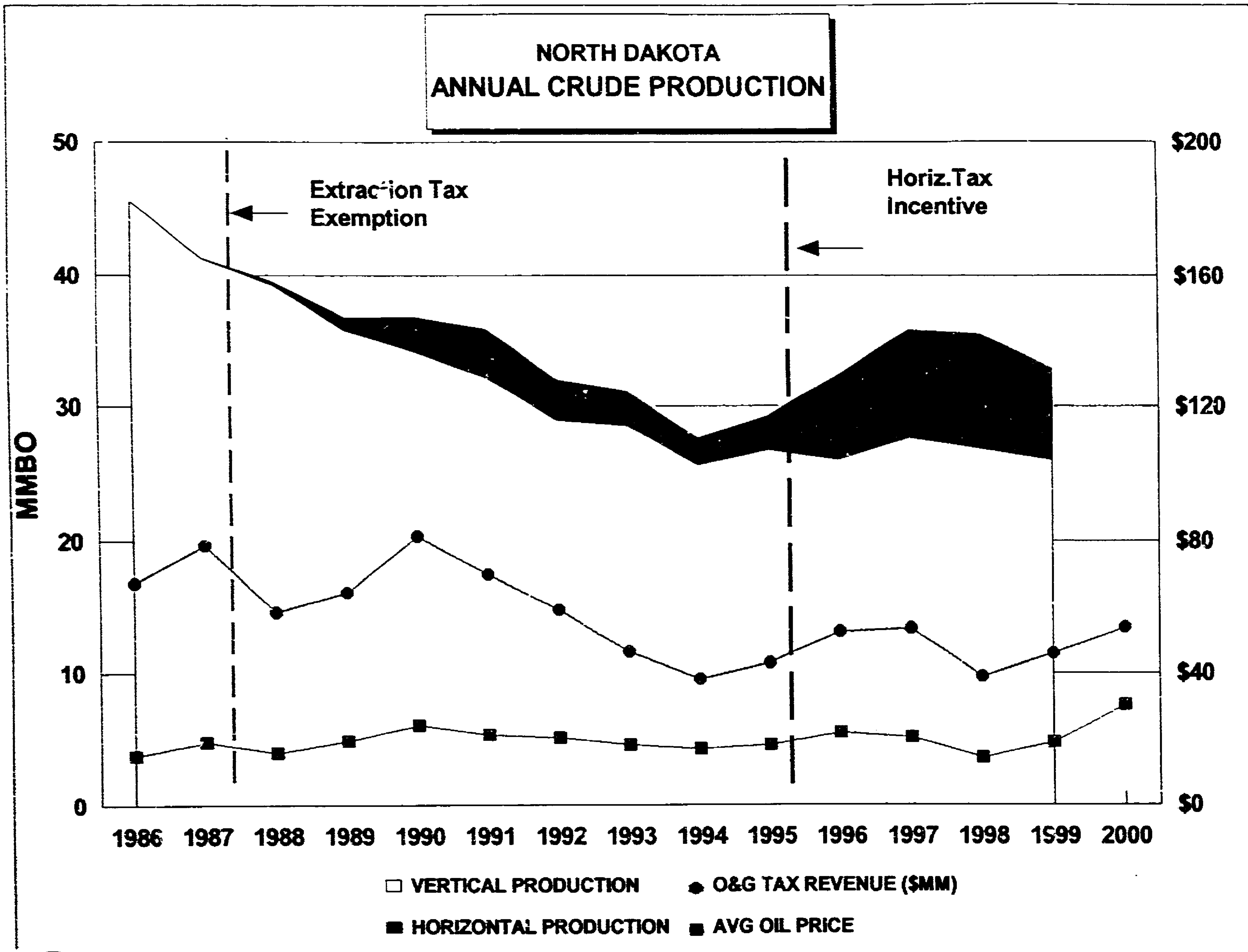


PRODUCING FIELDS

Data Source: Modified from Williston Basin Oil and Gas Fields Map
Minerals Diversified Services, Inc. – Bismarck, ND



NORTH DAKOTA
WELLS DRILLED ANNUALY
NO. OF WELLS
400
300
200
100
0
$40
$30
$20
$10
$0
Extraction
Tax Incentive
Horiz. Tax
Incentive
1986
1987
1988
1989
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
VERTICAL WELLS
AVG OIL PRICE ($/bbl)
HORIZONTAL WELLS

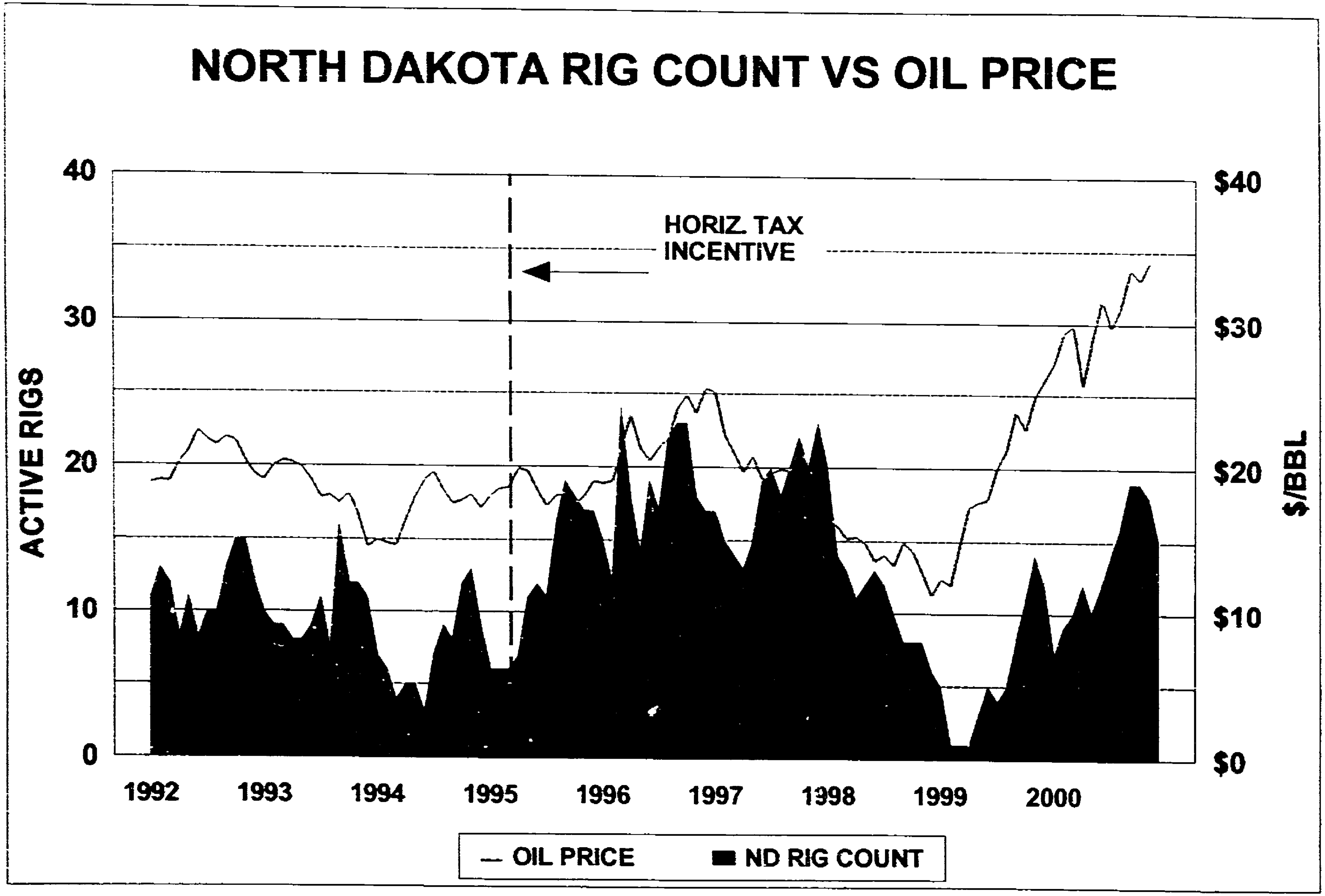


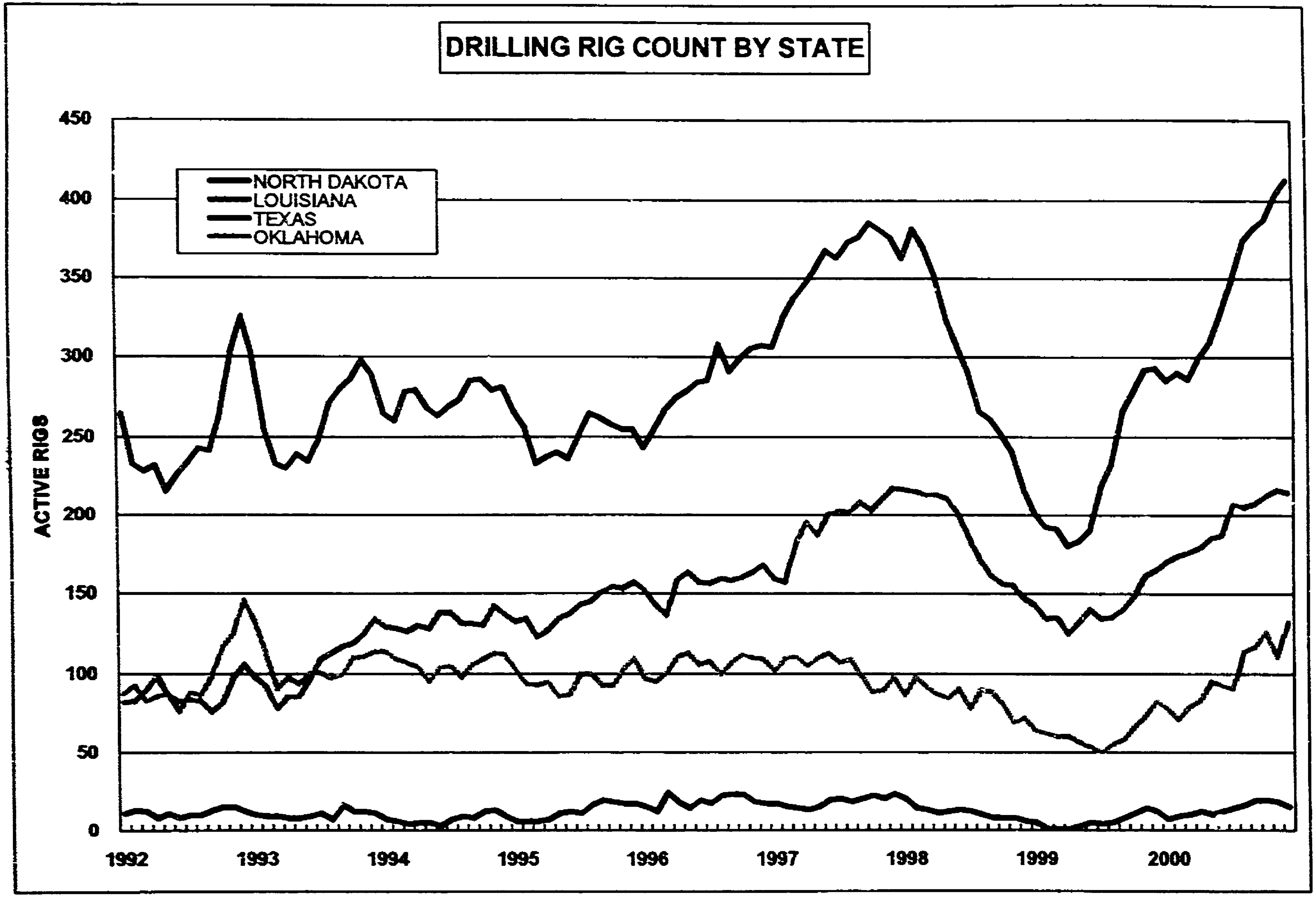
NORTH DAKOTA
ANNUAL CRUDE PRODUCTION
MMBO
50
40
30
20
10
0
$200
$160
$120
$80
$40
$0
Extraction Tax
Exemption
Horiz.Tax
Incentive
1986
1987
1988
1989
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
VERTICAL PRODUCTION
O&G TAX REVENUE ($MM)
HORIZONTAL PRODUCTION
AVG OIL PRICE

NORTH DAKOTA ANNUAL DRILLING , PRODUCTION AND REVENUE STATISTICS AND AVERAGE ANNUAL OIL PRICE

NORTH DAKOTA	Horizontal Wells	Horizontal Production	Vertical Wells	Vertical Production	Total Prod.	% Production INC/DEC	Total Wells	[illegible]	[illegible]
1986	0	0	207	45.6	45.6		207	$67.1	15.03
1987	1	0.01	189	41.29	41.3	-9.43%	190	$78.6	19.15
1988	9	0.22	246	39.3	39.52	-4.31%	255	$58.2	15.95
1989	32	0.96	156	35.8	36.76	-6.98%	188	$64.4	19.58
1990	77	2.7	197	34.1	36.8	0.11%	274	$81.4	24.48
1991	48	3.7	159	32.2	35.9	-2.45%	207	$69.8	21.49
1992	34	3	141	29	32	-10.86%	175	$58.9	20.56
1993	28	2.5	116	28.6	31.1	-2.81%	144	$46.4	18.46
1994	27	1.9	88	25.7	27.6	-11.25%	115	$38.3	17.18
1995	57	2.5	87	26.8	29.3	6.16%	144	$43.2	18.43
1996	107	6.23	105	26.1	32.3	10.24%	212	$52.6	22.15
1997	113	8.1	90	27.7	35.8	10.84%	203	$53.5	20.59
1998	83	8.6	48	26.9	35.5	-0.84%	131	$39.2	14.4
1999	18	6.8	38	26.1	32.8	-7.61%	56	$45.9	19.24
2000	61		61				122	$53.9	30.47
2001									

Source: North Dakota Industrial Commission
Oil and Gas Division


NORTH DAKOTA RIG COUNT VS OIL PRICE
ACTIVE RIGS
0
10
20
30
40
$0
$10
$20
$30
$40
$/BBL
1992
1993
1994
1995
1996
1997
1998
1999
2000
HORIZ. TAX INCENTIVE
OIL PRICE
ND RIG COUNT


DRILLING RIG COUNT BY STATE
NORTH DAKOTA
LOUISIANA
TEXAS
OKLAHOMA
ACTIVE RIGS
0
50
100
150
200
250
300
350
400
450
1992
1993
1994
1995
1996
1997
1998
1999
2000

SENATE BILL NO. 2205
SENATE FINANCE AND TAX COMMITTEE
JANUARY 30,2001

TESTIMONY OF A.G.GOLDEN

Chairman Urlacher, members of the Senate Finance and Tax Committee, my name is Al Golden and I am the owner of Golden Oil Company. I have been involved in various facets of the oil and gas industry in North Dakota for about 48 years. During that time, I have worked for a large number of companies who have drilled many wells in North Dakota, and I have also put together a number of drilling programs on my own prospects. I am former president of the Greater North Dakota Association, the Rocky Mountain Oil & Gas Association, and the North Dakota Petroleum Council Executive Committee.

North Dakota's Oil Extraction Tax became effective in 1981 as a result of Measure No. 6, approved by the voters in 1980. Since the 1950's, North Dakota has imposed a gross production tax of 5% on oil and gas. The Oil Extraction Tax placed another 6.5% tax burden on oil produced in North Dakota.

Following a period of low prices in the mid-1980's, the legislature saw the need to provide certain incentives to the oil and gas industry. In 1987, the legislature approved Senate Bill No. 2079, which lowered the Oil Extraction Tax rate on oil produced from "new wells" and from units to 4% and granted a 15-month "holiday" for new wells from the Oil Extraction Tax. In 1991, the legislature provided for a 5-year holiday for "incremental" oil produced from secondary recovery projects (e.g., a waterflood) and a 10-year holiday for "incremental" oil produced from a tertiary recovery project (e.g., a carbon dioxide injection project). The legislature has also provided incentives for work-over projects, for re-entries into shut-in wells, and for horizontal wells.

These incentives have been very valuable to the state of North Dakota. Since the incentives have been offered to the industry, the industry has undertaken the Bakken horizontal play in Billings and McKenzie Counties, the Lodgepole play in Stark and Dunn Counties, and the Red River horizontal play in Bowman and Slope Counties. In these three plays alone, more than 450 wells have been drilled. Today, oil produced from the Lodgepole pool in Stark County and the Red River pool in Bowman and Slope Counties accounts for nearly 30% of North Dakota's total production – 19.3% from the Lodgepole pool and 9.2% from the Red River "B" pool. Each of these plays needed to be economically justified for the companies that invested approximately $1 million for each of these wells. The 15-month holiday (or, since 1995, 24-month for horizontal wells) and the 4% Oil Extraction Tax rate after the holiday certainly helped each one of these projects meet the economic hurdles needed to justify that kind of capital expenditure.

The 1987 legislature included a "trigger" on the incentives – when the average price of oil between June 1 and October 31 of any year reached $33, the incentives would become ineffective. In 1991, the legislature revised this trigger to refer to any consecutive 5-month period in any year and also provided that if average prices fell below $33 in any subsequent five-month period in any year, the incentives would be reinstated.

In 2000, oil prices rose dramatically. For a time, it appeared that the trigger would be met, and the incentives would be eliminated. Yet, despite the increase in prices, there was no corresponding increase in activity in North Dakota, due in large part to the lack of price stability. In 1997, 211 permits were issued, and 203 wells were completed in North Dakota. When prices plummeted to $10 or less in 1998 and 1999, activity also plummeted. In 1999, only 58 permits were issued and 58 wells were completed. In 2000, with prices as high as $35, only 132 permits were issued and 98 wells were completed. The industry needs all assurances possible to create price stability. I believe that continued tax incentives are one way the State of North Dakota can help provide those assurances. These incentives will hopefully allow the oil and gas industry to find the next big discovery that will increase lease bonuses to private mineral owners and the state, result in increased drilling activity with the positive impact on sales taxes and local economies, and increase production which will result in increased gross production tax and oil extraction tax collections.

PETRO-HUNT CORPORATION

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Phone: (701) 258-1557 FAX: (701) 258-1562

March 6, 2001

House Finance & Taxation Committee

RE: Senate Bill 2205

Chairman and members of the committee:

My name is Jeff Herman, and I am the Regional Land Manager for Petro-Hunt, L.L.C. in their Bismarck Office. I appear before you today in support of the passage of SB-2205. My company has been involved in the Exploration and Production business in the Williston Basin since the late 1940's and we are currently one of the top producers in North Dakota. As such we have seen many ups and downs in the business, unfortunately it has been mostly down since about 1985 with the exception of a few short-lived spikes. We are finally starting to see a little turn around in the industry and hope that it can be sustained.

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Thank you if you have any questions, I would be happy to attempt to answer them.

Sen Wardner
SB 2205

OIL TAX DISTRIBUTION
{$20.00 PER BARREL OIL - 100 BARRELS PRODUCTION}
$20.00 x 100 BARRELS = $2000.00

A. WELL COMPLETED ON OR BEFORE APRIL 27, 1987 - 61/2 % TAX
B. WELL COMPLETED AFTER APRIL 27, 1987 - 4% TAX

*ASSUMPTION 4% TAX

OIL PRODUCTION TAX - 5%
$2,000.00 x .05 = $100.00 TAX

DISTRIBUTION

<u>1%</u>

1. 1% OF $2,000.00 = $20.00
2. 33 1/3 OF $20.00 = $6.67
3. 66 2/3 OF $20.00 = $13.33

<u>4%</u>

1. 4% OF $2,000.00 = $80.00

1ST MILLION - 75% COUNTY, 25% STATE
2ND MILLION - 50% COUNTY, 50% STATE
OVER 2 MILLION - 25% COUNTY, 75% STATE

*ASSUMPTION 1 MILLION OR LESS TO COUNTY

2. 75% OF $80.00 = $60.00
3. 25% OF $80.00 = $20.00

EXTRACTION TAX - 4%
$2,000.00 x .04 = $80.00

DISTRIBUTION

1. 60% OF $80.00 = $48.00 Gen fund
2. 20% OF $80.00 = $16.00 water proj
3. 10% OF $80.00 = $ 8.00
4. 10% OF $80.00 = $ 8.00 Found aid 8.9 Million"

STATE

GENERAL FUND CAPPED 62 M

1. $13.33
2. $20.00
3. <u>$48.00</u>

$81.33

OIL IMPACT GRANT FUNDS

$6.67

COMMON SCHOOL TRUST FUND

$8.00

RESOURCES TRUST FUND

$16.00

OIL TRUST FUND PROJECTED

COUNTY

45% COUNTY GENERAL FUND

45% OF $60.00 = $27.00

35% SCHOOL IN COUNTY

35% OF $60.00 = $21.00

20% INCORPORATED CITIES

20% OF $60.00 = $12.00

FOUNDATION AID STABILIZATION FUND

$8.00

COUNTY CAPS

POPULATION	CAPS
0-2999	3.9M
3000-5999	4.1M
6000+	4.6M

RICH WARDNER
SENATOR, DISTRICT 37
DICKINSON, NORTH DAKOTA

Sen. Wardner
SB 2205

OIL TAX CLASSIFICATIONS

Current Description of Oil Groups	Gross Production Tax	Extract Tax	Total Oil Tax	$33 Barrel Oil Trigger Extract Tax	Total Tax After Trigger
NATURAL GAS	5%	---	5%	---	5%
A QUALIFIED STRIPPER WELL	5%	---	5%	---	5%
A WELL DRILLED AFTER 4/27/87 DURING 15 MO. HOLIDAY	5%	---	5%	6.5%	11.5%
A WELL DRILLED AFTER 4/27/87 AFTER THE 15 MO. HOLIDAY	5%	4%	9%	6.5%	11.5%
A QUALIFIED WORKOVER WELL DURING THE 12 MO. HOLIDAY	5%	---	5%	6.5%	11.5%
A QUALFIED WORKOVER WELL AFTER THE 12 MO. HOLIDAY	5%	4%	9%	6.5%	11.5%
NONINCREMENTAL OIL FROM A QUALIFYING SECONDARY RECOVERY	5%	4%	9%	6.5%	11.5%
INCREMENTAL OIL FROM A QUALIFYING SECONDARY RECOVERY DURING THE 5 YEAR HOLIDAY	5%	---	5%	6.5%	11.5%
NONINCREMENTAL OIL FROM A QUALIFYING TERTIARY RECOVERY	5%	4%	9%	6.5%	11.5%
INCREMENTAL OIL FROM A QUALIFYING TERTIARY RECOVERY DURING THE TEN YEAR HOLIDAY	5%	---	5%	6.5%	11.5%
INCREMENTAL OIL FROM A QUALIFYING SECONDARY OR TERTIARY PROJECT AFTER THE HOLIDAY	5%	4%	9%	6.5%	11.5%
A WELL COMPLETED BEFORE 4/27/87 PRIMARY OIL	5%	6.5%	11.5%	6.5%	11.5%
A WELL INACTIVE FOR TWO YEARS BROUGHT INTO PRODUCTION TEN YEAR HOLIDAY	5%	---	5%	6.5%	11.5%

OIL TAX CLASSIFICATIONS

Current Description of Oil Groups	Gross Production Tax	Extract Tax	Total Oil Tax	$33 Barrel Oil Trigger Extract Tax	Total Tax After Trigger
A HORIZONTALLY DRILLED WELL 24 MO. HOLIDAY	5%	---	5%	6.5%	11.5%
A HORIZONTAL REENTRY WELL 9 MO. HOLIDAY	5%	---	5%	6.5%	11.5%
A HORIZONTALLY DRILLED WELL OR REENTERED WELL AFTER THE HOLIDAY	5%	4%	9%	6.5%	11.5%

Definition of Stripper Wells

<u>Well Depth</u>	Barrels <u>Per Day</u>
6,000 Feet Deep	10 or less
6,000 Feet to 10,000 Feet Deep	15 or less
10,000 Feet Deep or More	30 or less

OIL AND GAS DIVISION

D. Helms
ECTOR

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
Tioga 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 Production1994 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

)0 E Boulevard Ave Dept 405, Bismarck, North Dakota 58505-0840 Phone(701)328-8020 Fax(701)328-8022

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

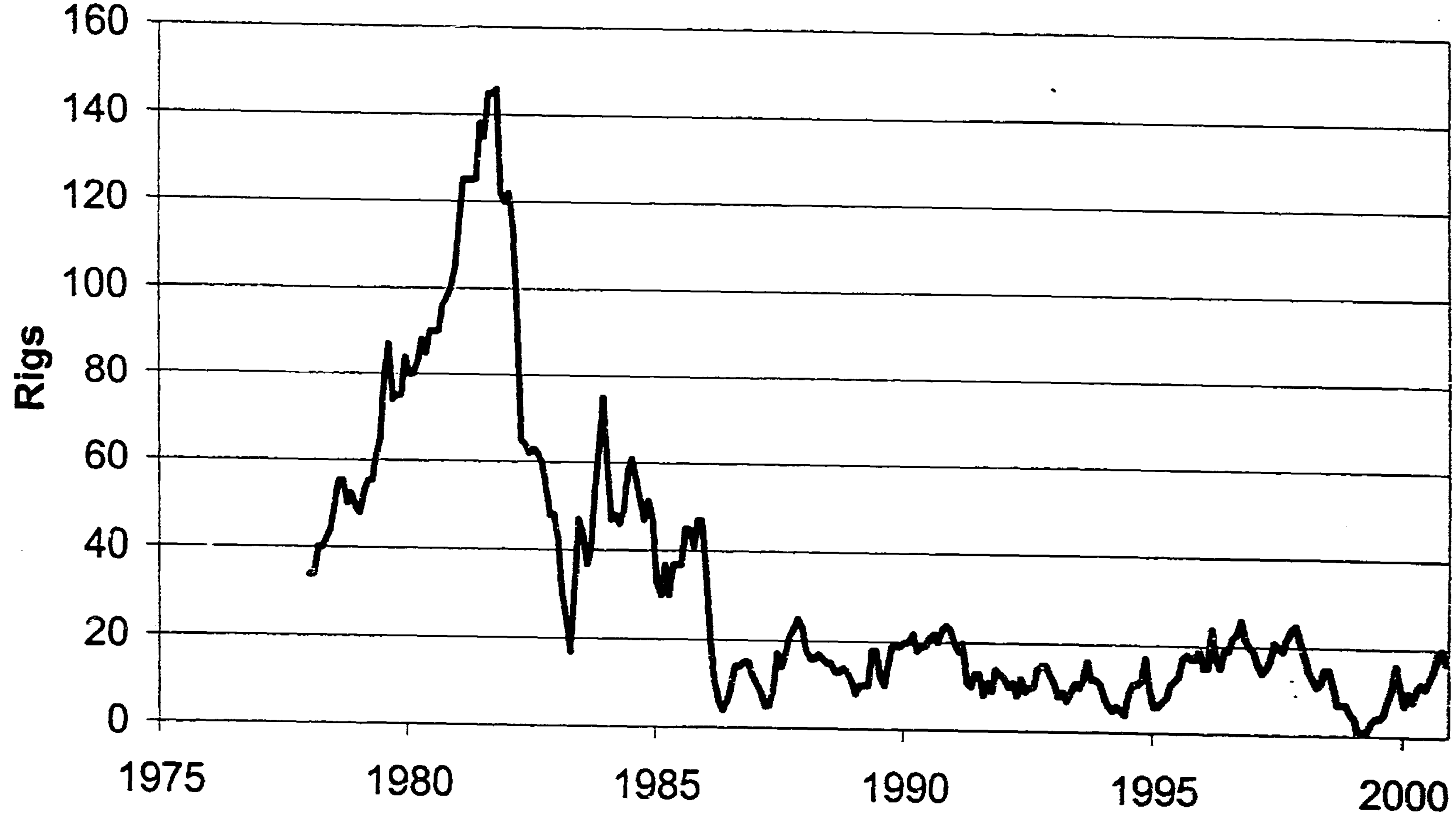
Horizontal Re-entry Well	
Average estimated life	10 years
Average cumulative oil (first 9 months)	16,000 barrels
Average cumulative oil (9 months – stripper)	110,000 barrels

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

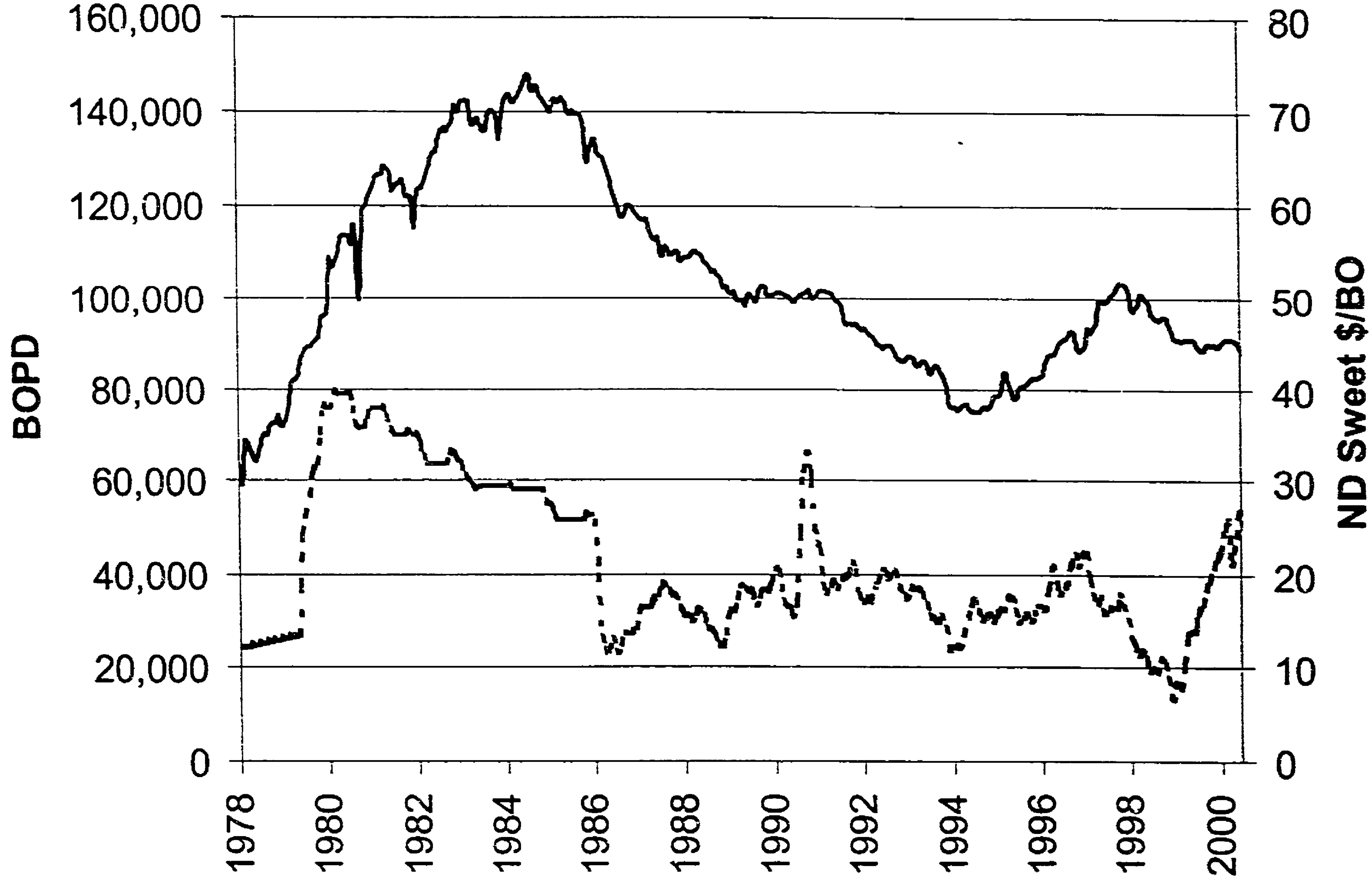
There have been approximately 184 Qualifying Workover Projects 1990 to date. Total spending on those projects has been approximately $32,900,000. Current production attributable to those projects is approximately 2,650 barrels per day.

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.

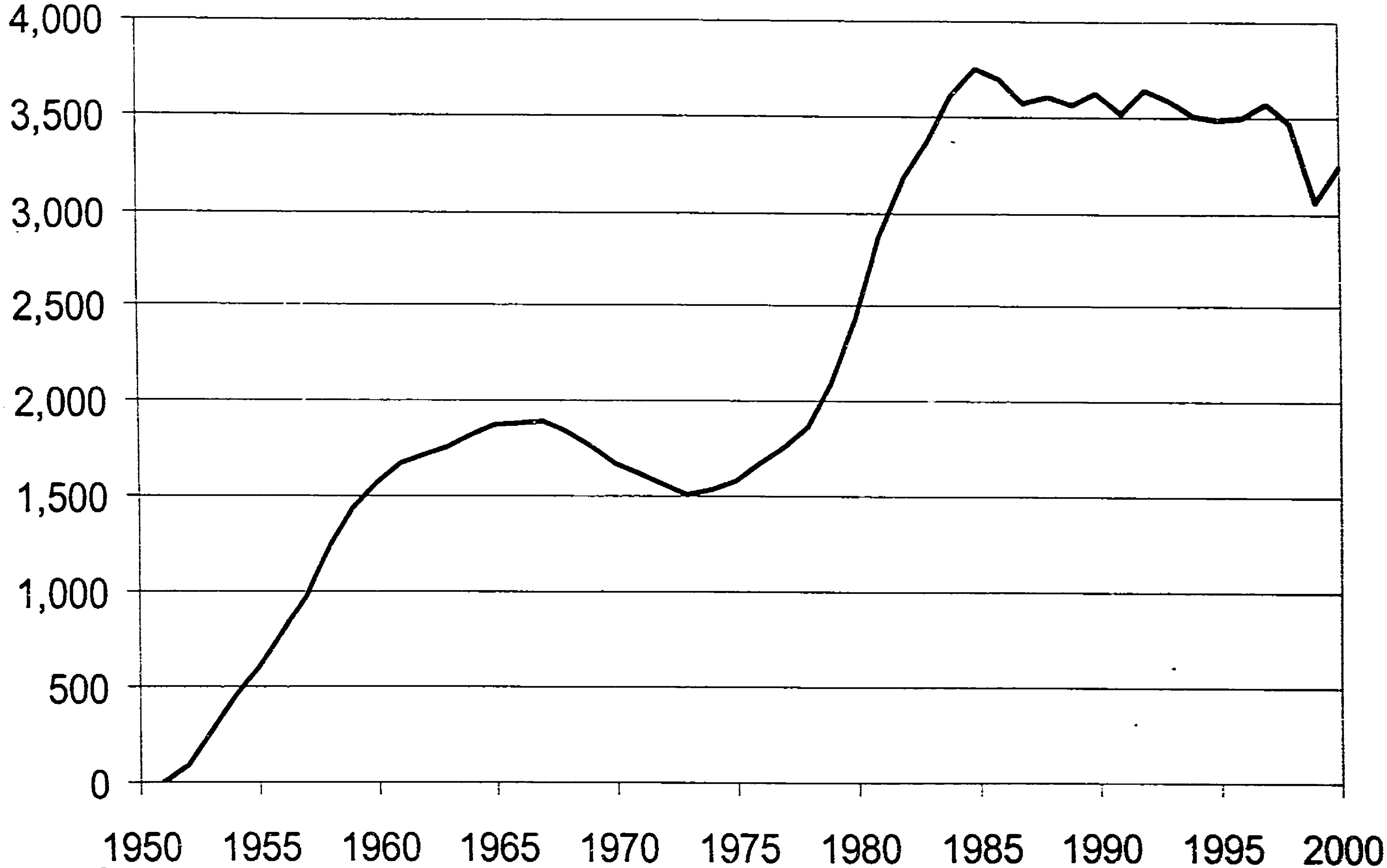
North Dakota Average Monthly Rig Count



North Dakota Daily Oil Produced and Price



North Dakota Wells Producing Each Year



North Dakota Petroleum Council

Ron Ness
Executive Director
Marsha Reimnitz
Office Manager

Email: ndpc@btigate.com
Phone: 701-223-6380
Fax: 701-222-0006
120 N. 3rd Street • Suite 225
P.O. Box 1395
Bismarck, ND 58502-1395

House Finance & Taxation Committee

Senate Bill No. 2205
March 7, 2001

Testimony by Ron Ness, North Dakota Petroleum Council

Chairman Carlson, members of the Finance & Taxation 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 2205.

This bill clearly defines the trigger mechanism on oil production incentives that was put in place by the 1987 legislature and amended in the 1991 session. Measure No. 6, in 1981, raised the total tax on oil production to 11.5% from 5%, by imposing a 6.5% excise tax. That large tax increase had an adverse impact on oil production once the oil boom slowed. Those tax incentives since completion in 1994, which for the most part have only the effect of reducing the total tax to a reasonable rate for new activity have been very valuable to the state of North Dakota. North Dakota's enhanced oil recovery production has increase 18%, while production in Montana has dropped 7.6% and production in Wyoming has dropped 6.6%. That increase in production has meant millions of dollars invested in our state created jobs and economic activity and has returned millions of dollars in tax revenues the schools, counties, and taxpayers.

The trigger language presently in statute is ambiguous and needs clarification. This bill addresses those concerns: **The changes on page 1:**

- Defines "Average price" for each month and specifically addresses how to compute the average for the month on days when the market is closed.

- It clarifies what we believe was the intention of the legislature in 1987 and 1991 – that the trigger kicks in only if the average price for each of five consecutive months exceeds the trigger amount. A one or two month anomaly, like that caused by the Gulf War in 1981, would not affect the incentives.

- It provides a $2.50 differential from the West Texas Intermediate oil valued at Cushing, Oklahoma to reflect the equal value of a barrel of North Dakota crude. (Crude oil value varies widely dependent upon numerous factors, $2.50 represents a middle point that reflects North Dakota crude at the well-head in relation to a barrel of West Texas Intermediate at Cushing. Arguments could be made for the amount to be higher or lower but this seems to represent a modest value to use as a differential.)

The changes on page 4:

- Defines and clarifies "Trigger price"

- It adjusts the $33 trigger for inflation, and indexes the trigger for the future. Thirty-three dollars in 1991, adjusted by the producer price index, is equal to $35.50 today. (The fixed trigger price is currently $33 per barrel, the price of $35.50 adjust the trigger for inflation based on the producer price index for industrial commodities (PPI) inflation since 1991 to present (7.6%). The (PPI) is an inflationary indicator to measure wholesale price levels in the economy. In addition, other production cost increases have increased dramatically since 1987 and regulatory requirements adding to the costs of production have also added to production costs.)

- The section also instructs the Tax Commissioner to adjust the trigger price on an annual basis for inflationary impact based upon the producer price index and establishes the start point for the trigger index and directs the Commissioner as to where that inflationary information should be obtained.

The changes in the rest of the bill merely link the various sections back to the new trigger language in the definition section. The change in Section 4, clarifies that the new tax trigger is effective for oil production after June 30, 2001.

Crude prices are high – North Dakota oil tax revenues have exceeded projections by nearly 170% for this biennium and that figure will likely increase. When prices are high, the state benefits from high tax collections. However, two years ago the outlook for oil tax revenues and the industry was bleak. We have seen $25 dollar crude oil or higher in ND for nearly a year – yet this week, there are only 11 oil rigs operating in the state. Earlier this year, we did have 20 or more rigs operating for a few weeks but still much less new activity than I would expect after a year of high crude prices. In addition, our daily production of oil is still lingering around 90,000 barrels per day. We need that number back to at least 100,000 barrels per day to see real economic impact.

North Dakota is the ninth largest oil production state, however, we are we not seeing a significant increase in activity in the oil patch? We believe there are a number of reasons for the slow rebound in the industry.

First, oil prices remain highly volatile and subject to external forces, like OPEC. There is little assurance that oil prices will remain high for any sustained period of time. Any increase in world supplies, or a global or national recession, could easily return prices to the 1998 level.

Second, the long-term prospects for natural gas prices appear more stable than those for oil prices, and companies actively drilling in the United States are looking for gas, and not oil – currently 80% of rigs nationwide are drilling for natural gas. The Williston Basin produces primarily oil instead of gas. Natural Gas demand continues to increase in the U.S. and 85% of the supply is domestic.

Third, the nature of the industry in North Dakota has changed dramatically since the 1980's. There are few major oil companies or even large independents left in the state. We have not had a major oil company drill a well in the state for more than a year. Most of our producers are smaller independents, who must raise the capital necessary to drill wells. That capital goes first to areas with high and quick rates of return, like coal bed methane, shallow gas wells, or oil fields with a much higher rate of return.

Fourth, as a result of the deep decline in prices in the mid-1990's, the drilling and service industries in North Dakota have been severely impacted. More than 1 million employees were laid-off in the industry nationwide and many businesses were closed. It is very difficult to secure a drilling rig and crew today. If a company wants to start a multi-well program, it will likely need to convince drilling companies to bring rigs in from out-of-state, and that may well increase the costs of drilling wells in North Dakota.

Finally, access to public lands over the past ten-years has been reduced by 60% and plans under consideration or recently enacted will make it much worse. Many companies are tired of fighting for access and have giving up on operating on public lands. In fact, the only really new play in the state this past year is right in the middle of a Roadless area and the potential to drill additional wells is limited, several of these new wells are producing 1,000 barrels per day.

In short, the increase in crude oil prices over the last year to 15 months has not brought a robust oil and gas industry back to North Dakota. The industry continues to need a reasonable structure tax to make it competitive with more attractive areas, like the coal bed methane plays in Wyoming and Montana, and pure gas plays in Wyoming and New Mexico. We believe that the reasonable tax rates passed in 1987 – 1994 are one thing the State of North Dakota can offer to the oil and gas industry to make investment in North Dakota attractive. We hope that more investment in exploration and production the oil and gas industry will find the next big discovery that will increase lease bonuses to private mineral owners and the state, result in increased drilling activity with the positive impact on sales taxes and local economies, and increase production which will result in increased gross production taxes and oil extraction taxes.

If there is one message I hope to provide today is that – "more oil production means more tax revenues and more economic activity in the long run regardless of whether the crude prices are high or low! Higher taxes discourage investment that is more likely to occur when prices are high and companies have the finances to explore for oil and gas in our state.

The North Dakota Petroleum Council urges a do-pass recommendation on Senate Bill No. 2205. Thank you for your consideration.