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2005 HOUSE FINANCE AND TAXATION

HB 1530

2005 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. **HB 1530**

House Finance and Taxation Committee

☐ Conference Committee

Hearing Date **MARCH 22, 2005**

Tape Number	Side A	Side B	Meter #
1	**x**		**0.9**
Committee Clerk Signature			

Minutes:

REP. WES BELTER, CHAIRMAN Called the committee meeting to order.

REP. RICK BERG, FARGO Introduced the bill. This is an issue which we will have a lot of input on. The big questions people are saying, why when the price of oil is so high, over two dollars at the pump, should we do any incentive for the oil industry. The answer to that question is, why is gas over two dollars a gallon. It is because the price of gas is determined by other countries because our production in the United States is too low. Part of the national importance of something like this is, how do we increase production in North Dakota, or in the United States. If we increase the supply, it will have a direct impact in bringing down the price. The other issue important to me as I look at this, is any other industry that is going strong, we use the legislature for technology industries and other industries to help them to continue to grow. When times are good, that's when people want to increase their production in a particular industry. In the oil industry, times are good now, this is an opportunity where a small incentive can have a tremendous impact on growing and ultimately, production to the state. My interest is probably a little devious, I want to generate more money for the state of North Dakota. If we can encourage more drilling, these wells will produce for twenty years, we have an opportunity to have stability and more revenue for the state of North Dakota.

He submitted a handout showing Montana tax on horizontal production and North Dakota tax on horizontal production, together with North Dakota drilling statistics. See attached copies. He went through each page of the handout. He stated our tax rate is 11.5%, the only state of the top ten producing states in the country that is higher then us, is Wyoming. The next highest state is Louisiana, at 6.8%. He felt the oil industry is critical to our state. If this is an important industry to us, we need to have a fair but competitive business climate.

REP. CONRAD The other states have months, why are we going with barrels instead of months?

REP. BERG Referred to the back page of his handout. It is smarter for us to say, let's do it on a thousand barrels, or a hundred thousand barrels, rather than twenty four months. You may have a well that comes in at a thousand barrels a day, and you are giving that great well an exemption for eighteen or twenty four months. From a business perspective, if I know I may not get a good well, but I will have a lower tax on my first one hundred thousand barrels, it is easy for me to plan that. From the state, I think it is fair, we are saying if you are going o drill a new well, we are going to give you a break on the first hundred thousand barrels. If you hit a well that is producing a thousand barrels a day, maybe you don't need a break for eighteen or twenty four months.

REP. DROVDAL Bringing up the idea of the months, if we had a twenty four month exemption where we had an inflationary figure that dropped that exemption, such as 5% to 11.5%, isn't it true when we look at these other states, that they don't have this trigger?

REP. BERG Yes, related to handout again. When we put our exemption in, we said, if the price of oil ever got so high, then it would all go away, and they would pay 11.5%. You can see the basic tax rate, but you have to dig a little deeper and see what incentives other states have to encourage new drilling. That is where we are missing the boat, by positioning our state at the top of that tax rate. Our old incentive gave a twenty four month exemption on, every new well paid the five percent, then there was a twenty four month exemption and at the end of twenty four months, they paid 9%. This proposal says, they will have a 5% only, on the first hundred thousand barrels, then instead of going to 4% on top of the 5%, it goes to 6.5%. It is a higher rate once they get through the hundred thousand barrels.

REP. HEADLAND Related to Section 3, where it talks about "spudding".

REP. BERG Stated, under every well they plant a potato !!!!!

The real answer was - A wild cat is going into a new field which they don't have any information about, it is a high risk well, that, if it hits, every competitor will be in there drilling that field, if it doesn't hit, there is no information that anyone can have.

REP. KELSH Is there any new wells being drilled right now?

REP. BERG Absolutely.

REP. KELSH If you had your way, what would your fiscal note say?

REP. BERG Referred to the last page of his handout, stating he would look at this at a longer term then a two year cycle. I would look at this over the next twenty years of revenue coming up.

This is exactly what my fiscal note would say, that there is going to be forty one million dollars more coming in to cities, and counties, in the state of North Dakota.

REP. KELSH If there is new drilling going on, what is the need for the incentive, they are already doing it, and the price is determining that they are making a profit, it is profitable, why the need?

REP. BERG Referred to page two of his handout. This is exactly what is happening in Montana and North Dakota. There are very similar oil fields, it is commonsense, if I am in the drilling business, and I have land leased in Montana and North Dakota, and I have ten rigs, I can go over to Montana and pay one half percent tax for eighteen months, and it will take me two years to drill these wells, I am going to move all my rigs to Montana, and hopefully if the price of oil is up, that is fine. When that is completed, I will move to North Dakota. What happened in 1995, is what is happening right now.

REP. BELTER Referred to the handout with the charts of the ten top producing states, one of the things that concerns me with our overall tax policy in North Dakota, is that we are the second highest in the nation, I realize the people in the oil business, look at every aspect of our tax structure. Just looking at it, it looks like North Dakota has a very high tax according to other states. Did you look at possible dropping our rate to 9%, instead of giving the first hundred thousand, maybe only give fifty or eighty thousand tax free?

REP. BERG Here is my premise, it is up to the state, whatever the deal was, the deal was. Someone drilled a well, a trigger kicked in, they are paying 11.5%, so be it. My full focus is looking forward. How do we encourage new wells drilled. I think we should focus on new wells. When you look at comparing other states, you need to compare apples to apples.

REP. DROVDAL Related to Rep. Kelsh's question, regarding the 5% to 11.5% tax, which makes us uncompetitive. Isn't it also part of the problem that there are a number of rigs out there, that can only do this or that, is that why we are competing on this tax rate with other states?

REP. BERG Absolutely, that is the way I see it, we have a set number of rigs out there, they are going to go where they can generate the most return, and if our price of oil drops down, there will be a lot of rigs setting idle again. We need to generate that production.

REP. KELSH We are only at a 11.5% tax rate because we are above $36.48 per barrel. If the price of oil dropped below that, we would be at 6.5%?

REP. BERG Correct. This is the most important point I can make, if that trigger is off, and the price is back down to $24 a barrel, there will be a lot of rigs setting empty. The time to increase production, is when the price of oil is at the top. That is when people are willing to drill. I want to increase the production of oil per day.

REP. SCHMIDT Asked how many rigs are drilling in the top ten producing states?

REP. BERG The ranking is in order of production, referred to the handout on page 2.

REP. CONRAD Asked how many jobs go with each one of the wells.

REP. BERG My fiscal note does not include anything to go with new jobs generated. If we looked at increasing from one hundred fifty wells to two hundred wells, I think the impact you would see in direct jobs, and support services would generate many times over in western North Dakota.

REP. BOB SKARPHOL, Co-Sponsor of the bill, testified in support. As someone who has worked in the industry for sometime, I have developed a certain amount of knowledge about North Dakota's oil fields. Every oil field in the world has different characteristics. Some characteristics make it relatively easy to recover oil, some make it difficult. Some of these characteristics relate to the quality of the gas. He mentioned several different kinds of characteristics related to drilling. What makes North Dakota somewhat unique, we for some reason, have more then our share of these problematic characteristics in our reservoir. That is the reason we need to make ourselves more attractive with these tax incentives. I don't believe the price of oil is relevant in this discussion. We need to be competitive.

ROBERT HARMS, PRESIDENT OF THE NORTHERN ALLIANCE OF INDEPENDENT PRODUCERS Testified in support of the bill. See attached written testimony. Also read a couple of paragraphs from a letter from Sen. Conrad.

REP. KELSH Can you tell me how a wild cat situation works, what kind of an agreement they need with a mineral rights owner?

ROBERT HARMS The wild cat situation, a typical arrangement would be, that I might want to try a wild cat in an area that I think may have the potential for oil and gas production, but hasn't had proven production. I may lease up about two thousand acres, to protect my initial investment, and drill a wild cat.

REP. KELSH If a wild cat driller would be able to get an artisian well, who would be responsible for the unexpected water flow that would cause damage to the surrounding land?

ROBERT HARMS Deferred the question to one of the oil and gas drillers. He stated, they would seal off the water zone, so that by the time they run pipe down there, those formations would be isolated.

REP. GRANDE Referred to the term "spudding"

ROBERT HARMS The term "spudding" comes from, the basic idea is the company makes the selection and it is when a person first begins to drill, is called "spudding".

TOM LUTTRELL, VICE-PRESIDENT FOR CONTINENTAL RESOURCES Testified in support of the bill. Submitted a handout relating to the Bowman/Slope Counties' Red River formation play spawned by 1995 horizontal tax incentives, together with maps of North Dakota and Montana monthly oil production. North Dakota has a lot of oil to be developed but it comes from unconventional areas. '

Mr. Luttrell also submitted a letter from Gary Polasek, Technical Manager of Headington Oil Company, Dallas Texas. See attached copy.

REP. GRANDE One of the comments you made, you stated production was not up in 2004, even though the prices were not up, going back to the chart Rep. Berg gave us, but in 2004 it says we were up, so the incentives placed in 1995, there was a jump to 58 wells, and in 2004 it shows it is up to 120, that seems like quite a jump, as soon as prices went up in 2000, so did the well count. So to me, I am looking at it, that the oil price was an incentive to get that many wells up, am I misreading this?

TOM LUTTRELL Deferred to someone else who would elaborate on that.

REP. CONRAD Related to the 1500 new wells in the letter Mr. Luttrell submitted from Gary Polasek, how many in North Dakota and how many in Montana, or what estimate.

TOM LUTTRELL Stated he thought the potential of 1500 wells would be in North Dakota. If the Bakken formation can be figured out, I don't think that is an unrealistic number.

REP. CONRAD This formation goes way beyond the counties in North Dakota?

TOM LUTTRELL Yes.

JACK STARK, VICE-PRESIDENT OF EXPLORATION, CONTINENTAL RESOURCES, INC., ENID, OKLAHOMA Testified in support of the bill. He stated over eleven years of operating in North Dakota, they have invested approximately 260 million dollars in drilling equipment in this state. During that time have produced approximately 30 million barrels of oil. The company currently operates about 235 wells. We are the fourth largest oil producer in the state. During 2004, we produced two million barrels of oil, and generated seven million dollars worth of production and extraction tax revenue for the state. In 2005, we expect that to increase to about three million barrels.

Mr. Stark submitted a handout relating to annual crude production in North Dakota, the number of wells drilled annually, the Bakken Resource Map of the Williston Basin, horizontal well cost versus oil price and Montana annual crude production. Explained each chart.

See attached copies.

Mr. Stark stated North Dakota had 1% of all oil wells.

REP. BELTER Referred to handout, stating it is shocking that we only have 1% of all of the United States rigs, yet, we are in the top ten producing states in the nation, is the reason because of the cost of drilling here is so much higher?

JACK STARK The cost, which includes tax. It is a more harsh environment, these winters are cold up here. These are hard reservoirs to produce. We are drilling conventional wells elsewhere.

REP. FROELICH Do you have rigs in Alaska?

JACK STARK No.

REP. FROELICH Could someone in this room estimate how many new wells are expected in 2009?

JACK STARK I would love to tell you that I know, but I don't.

REP. FROELICH I heard the number 1500 new wells?

JACK STARK I don't know exactly where Mr. Polasek came up with that in his letter. I will tell you, if you look at the Bakken Resource Map I have here, you could easily drill 1500 wells in this area.

REP. HEADLAND You don't have any rigs currently, drilling in North Dakota.

JACK STARK Yes, we do, we are in the Cedar Hills field. No new wells.

REP. HEADLAND How many available new rigs do you have, if we should pass this?

JACK STARK We had an option with four rigs right now, our option would put them in Montana. We have plans to have two additional rigs up here, we would like to have as many as four. We have one rig in Bowman County, and three in Montana.

REP. GRANDE You just mentioned you have four rigs, are they within the green shaded area? Are any of them productive?

JACK STARK The dark green area, referring to the map, is where the horizontal wells are drilling, with the little brown dots, is where the wells were drilled previously, before the horizontal drilling.

REP. KELSH Referred to page 3 of the handout, it looks like the number of nonconventional drilling wells started in 1994, before the incentives were passed, to me it looks like price has a lot more to do with it then incentives.

JACK STARK There is a correlation between rig and well drilling, you have seen the price double almost triple here, but I have not seen the rig count triple.

JEFF HUME, SENIOR VICE-PRESIDENT, CONTINENTAL RESOURCES, INC.

Testified in support of the bill. Submitted a handout from Tim Lechner, of the Headington Oil Co. The handout related to Williston Basin Drilling Rig Day Rates, Bakken Horizontal well production rates, Montana versus North Dakota, Weekly rig count from Baker Hughes, Differential rig count, North Dakota minus Montana. See attached copies.

REP. CONRAD Montana has eighteen months, and we are talking about one hundred thousand barrels? Do you prefer one over the other?

JEFF HUME I prefer the time, I get more barrels produced if I have a poor well.

LOREN KOPSING, SMALL INDEPENDENT OIL & GAS PRODUCER, MISSOURI RIVER ROYALTY, BISMARCK Testified in support of the bill. We operate 52 wells in Montana and North Dakota. We also market natural gas, we sell it to the state, and we market electricity. My origin was the oil business. My point today is, small companies don't have in-house geologists and geophysicists, like the large exploration companies do, people bring us deals and we look at them. We looked at a deal in McKenzie County, but when we got down to the deal, there was this 6.5% additional tax, what business can stand that. It is such a huge amount of money in a deal, it is a total deal killer.

CLARK CRAWFORD, PETROLEUM LANDMAN, BISMARCK, ND Testified in support of the bill. Stated that when he started in the business, in the early 70's, the tax was 5%, in the early 80's, it went to 11.5%, then in the mid 90's, the legislature saw the wisdom of giving us incentives and the horizontal drilling boom occurred in Bowman County. I think the 11.5% is too high. Currently, we are one of the highest severence taxed states in the nations. Rep. Berg talked about Wyoming being higher, but keep in mind, Wyoming has no income tax. Gave several incentives other states had. This bill sends a message to the oil companies that we want them to do business in North Dakota.

RYAN KOPSING, VICE-PRESIDENT OF THE MISSOURI RIVER ROYALTY CORPORATION, BISMARCK Testified in support of the bill. He stated they are small players in the business. Submitted a handout showing costs of drilling oil. He stated no good can come out of high taxes, even if they drill dry holes, it is good. Gave a brief explanation of going to Houston to a meeting, where people were advertising for well drillers to come to their state. Gave the example of putting a 11.5% tax on the farming industry, the Red River Valley will probably still work, but a farm in Glen Ullin, will not be able to operate.

LAWRENCE BENDER, ATTORNEY, REPRESENTING NORTHERN ALLIANCE PRODUCERS, BISMARCK Proposed amendments for the wild cat wells which will define wild cat well, as to what it is, and more than one mile away from a well that is producing from the same pool. He proposed an amendment to Section 3 of the bill, to change the opportunity to revoke your election from the spudding period time to the actual completion date. Completion is a term, defined by the Industrial Commission and its rules, and we believe that it is more appropriate, at the completion time, that the operator can elect whether he would go forward with the break in this proposal or the existing proposal in effect right now. In Subsection 3 of the bill, having to do with the Industrial Commission notifying the tax department, as to the election that is made, I don't believe there is a significant problem with this, but you may have a situation, when the election actually comes into the office, we suggest, after the word "shall", say "ascertain and notify". It means the Industrial Commission would actually make that determination.

RON NESS, NORTH DAKOTA PETROLEUM COUNCIL Submitted his testimony in support of the bill. See attached copy.

PAUL ARNSON, DIAMOND RESOURCES INC. Testified in support of the bill. He stated their company is located in Williston for the last twenty five years. He stated the Bakken formation is the hotest zone now in North Dakota. He stated the horizontal wells cost approximately three million dollars to drill and complete. There is no doubt that the tax incentives in HB 1530, will cause a number of wells to be drilled, that otherwise would not be drilled. Benefits from that activity, will more then make up for the lost revenue in extraction tax during the holiday period.

AUSTIN GILLETTE, FT. BERTHOLD Testified in support of the bill. He said in 1997, the legislature provided this same incentive for the Ft. Berthold Reservation, this is a good bill.

BARB ARNOLD-TANGENDAL, VOICES FOR NORTH DAKOTA CHILDREN

Testified in opposition of the bill. She stated she is opposed because it is a competition for capital here, and we see many bills that haven't gone through because of taxation. It actually galled me today, to see that a bill had not followed the legislative process, but actually gets to be heard, but beyond that, I heard this is making North Dakota more attractive. We haven't passed working family tax credit incentives, that would also make North Dakota more attractive. Is this bill going to lower gas prices at the pump, No. Is this the best way to spend nine million dollars of North Dakota taxpayer dollars? I have heard we are supporting next generation drilling. What about the next generation of North Dakotans? We couldn't pass dependent care incentives, we aren't helping the higher ed board produce the next workers out of here. I think you need to look at the broad picture of how you are investing your state dollars. I have heard today, that this is a pro business legislature. I always thought it was a citizens legislature. I stand opposed to this bill.

REP. BELTER You made the comment that it did not follow the legislative process, although I do not support delayed bills, however, this is the legislative process, you have an opportunity to have a hearing. Furthermore, I would also like to point out that the people of North Dakota, on a per capita basis, do support higher education as one of the highest levels in the country. Some of those points, you need to recognize.

REP. WEILER Asked what is Voices for North Dakota's Children.

BARB ARNOLD TANGENDAL It is an advocacy collaboration that represents children's caucus, the North Dakota Headstart Association, the Association for the Education of Young Children, other types of early childhood programs.

REP. WEILER Have you testified in opposition of all the other bills in this legislation that have had tax incentives?

BARB ARNOLD TANGENDAL I have followed a lot of bills, but this is one, I thought, nine million dollars - that is a lot of taxpayer dollars. We had Domestic Violence Spending cut yesterday. It is hard for me, when I see childcare being cut from Human Services, because it costs too much. I don't understand that. It is my right, as a citizen, to come before you and share my opposition to those types of things. I have not been at every tax incentive bill, because I have to take personal leave, I have been here for the past two hours.

PAM SHARP DIRECTOR OF OFFICE OF MANAGEMENT & BUDGET Testified in opposition of the bill. See attached written testimony.

REP. DROVDAL One of the important things this bill does, is it gives out a bait or something for wildcat wells, which will be our future, exploring new areas and new ideas. That is what has kept North Dakota producing oil. The next two years will be critical for us to maintain a level of production in North Dakota, don't you feel the wildcat part of the bill is a step forward for North Dakota?

PAM SHARP I am not that well versed on wildcat portions.

LYNN HELMS, DIRECTOR OF THE INDUSTRIAL COMMISSION'S OIL & GAS DIVISION Testified in a neutral position. Submitted written testimony plus charts and graphs. See the attached copy.

REP. OWENS Referred to the first chart regarding permits for North Dakota.

LYNN HELMS I can only plot permits for North Dakota, I didn't have the data for the state of Montana.

CINDY KLEIN, DAKOTA RESOURCE COUNCIL Submitted written testimony in opposition of the bill. See attached copies.

With no further testimony, the hearing was closed.

COMMITTEE ACTION Tape #2, Side A, Meter # 49.1 to side B

REP. NICHOLAS Made a motion for a do pass.

REP. BELTER Stated he wanted more discussion on the bill.

Some of the committee members felt the fiscal note was too high.

REP. HEADLAND Wanted more information such as a breakdown on Montana's tax rate versus North Dakota's, from Pam Sharp with OMB.

REP. DROVDAL Stated, what will entice drillers to stay or come to North Dakota is the new wildcat wells and new discovery fields.

REP. KELSH Wondered if all wildcat wells were verticle.

REP. DROVDAL Stated, the majority so far have been verticle, but with the new development of horizontal, it is more expensive. Horizontal is still fairly new, I don't know if there is a real answer.

REP. SCHMIDT Stated, he thought $50 per barrel should be enough of an incentive to drill more oil.

REP. CONRAD Also requested information from Pam Sharp.

REP. BELTER Asked the intern to get the information, and the bill would be acted on at a later date.

2005 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. **HB 1530**

House Finance and Taxation Committee

❑ Conference Committee

Hearing Date **March 28, 2005**

Tape Number	Side A	Side B	Meter #
1	X		0.9
Committee Clerk Signature Janice Stein			

Minutes:

COMMITTEE ACTION

JOHN WALSTAD, LEGISLATIVE COUNCIL Came to the committee meeting to explain the provisions of HB 1530, and also explain the amendments to the bill.

KEVIN SCHATZ STATE TAX DEPARTMENT Clarified some of the questions which were asked. Under current law, a verticle well is subject to a fifteen month exemption from the oil extraction tax, and a new horizontal well is subject to a twenty four month exemption.

REP. BELTER Asked whether they get that exemption regardless or only if they produce 33 barrels?

KEVIN SCHATZ Only if the trigger is not in effect.

REP. BELTER They get is if the price is below $36.48?

KEVIN SCHATZ Yes. After that the exemptions come off.

REP. CONRAD Related to Pam Sharp's testimony, regarding Montana's tax rate of 8.35%

while North Dakota is 8.58%. Can you explain that?

KEVIN SCHATZ Commented, stating they contacted the Montana Department of Revenue and calculated that based on fortune dollars for the month, divided by the number of barrels produced, it is based on production.

REP. CONRAD So their tax is basically, the same as ours. They take a different number of months, but when someone is figuring what the cost is, they will have to figure in Montana's at this rate, and we are basically, the same rate.

KEVIN SCHATZ Yes

REP. DROVDAL That 8% figure, is based on the history before November of this last year?

KEVIN SCHATZ Actually, it was based on the November production and December reporting. It would have been in effect after the trigger.

REP. DROVDAL Asked what the tax rate is for Montana for new wells, and North Dakota's tax rate for new wells?

KEVIN SCHATZ Submitted a handout with the same information published in the red book, which gives the working interest and the nonworking interest and the rates.

On horizontal wells drilled in Montana, the working interest pays .76%, the nonworking interest owner pays 15.06%. Nonworking interest is somebody who has an interest in the well, but is actually not doing anything with the operation of the well.

REP. OWENS Is it safe to assume, that if the trigger was in place, the tax rate in North Dakota could be lower?

KEVIN SCHATZ If the trigger was not in place, the tax rate would be lower. When the trigger is in effect, they are paying the full 15.5%.

There were some comments from the sidelines regarding interest rates, etc., could not hear what was said.

JOHN WALSTAD Continued explaining more sections of the bill, stating section 3, is the election. It relates to horizontal wildcat wells only, the election is before "spudding", when the bit hits the dirt. Before that time, the well operator can make an election to have a one hundred thousand barrel exemption for that well, after which the full 11.5% tax would apply., or, no one hundred thousand barrel exemption and when the price of oil drops below that trigger number, assuming it is beyond the exemption period, the rate would be 9% from that production well, until it dries up.

REP. DROVDAL Asked that someone explain the 1/2% tax rate which was quoted that Montana has.

ROBERT HARMS Commented, that in discussing the Montana tax rate versus the North Dakota tax rate, it would probably be most useful, if you make the distinction, that the bill really attempts to address new production from horizontal wells. The wildcat version is a separate provision. Montana law provides that, for a new horizontal well, gets an exemption beginning at 1/2 of one percent for an eighteen month period, and then it goes to nine percent. That extra point to six, is some type of administrative fee.

REP. DROVDAL Can you explain how that fits into the fifteen percent, and non participating.

ROBERT HARMS Montana has seen fit to tax the royalty owner, separately, if North Dakota wanted to follow suit, we would raise our taxes on all mineral owners in the state to 15.06%. A mineral owner, leases the minerals to an oil company or oil corporate, for a royalty. That mineral owner is taxed at a separate rate in Montana at 15.06% . The remainder of that lease comes under the working interest provision, and that is what we are talking about in this bill.

REP. DROVDAL Under that tax, the developer or driller, would get .76%?

ROBERT HARMS It is part of the .76%, I am not sure if .26% goes to Montana, but it is part of the .76%.

REP. DROVDAL Regarding the gross production tax, is that taken out of the share of the mineral owner, after the taxes are taken out?

ROBERT HARMS My understanding is, it all comes out of the same pocket. There is only so much out of a barrel of oil that is going to get allocated. The company pays the higher percentage to the state, 1/2 of one percent gets paid to the royalty owner.

REP. FROELICH Then Montana would have a higher tax because they have a 15.06% royalty tax?

ROBERT HARMS I agree with respect to the royalty owner, but they are treated separately, for tax purposes in Montana. All we are saying is, on the working interest side, Montana still has one half of one percent. North Dakota is still higher on new horizontal wells.

REP. BELTER Regarding the 15.06%, is it the 15.06% of the price of oil, or 15.06% of whatever the royalty owner gets?

ROBERT HARMS That is my understanding, that it is the 15.06% of what the royalty owner gets. That is only on the 1/8 royalty that the royalty owner gets. We are trying to compare apples to apples, if we get into the entire blended rate, then I have to agree with OMB, that the blended rate is probably down. But, the goal of the bill is to get new investments.

JOHN WALSTAD Explained the amendments to make sure they did what Rep. Belter wanted them to. After his explanation, Rep. Belter was not sure they did what he wanted.

RON NESS, NORTH DAKOTA PETROLEUM COUNCIL Gave information of the requirements and definition of wildcat wells. He stated they must be one mile from any well or producing zone. Mr. Ness gave statistics of wildcat wells, horizontal wells and verticle wells. He stated wildcat wells have never been specified in the code.

ROBERT HARMS Submitted a booklet of oil & gas statistics to committee members.

The bill will be acted on at a later date.

2005 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. **HB 1530**

House Finance and Taxation Committee

☐ Conference Committee

Hearing Date **March 29, 2005**

Tape Number	Side A	Side B	Meter #
1	**X**		**0.5**
Committee Clerk Signature			

Minutes:

COMMITTEE ACTION

REP. DROVDAL AND REP. BELTER Presented two sets of amendments to the bill.

Rep. Drovdal explained his amendments which would put an incentive for wildcat wells, it would be their choice if they wanted the first one hundred thousand barrels of crude oil, would be taxed at 5% and after that it would go to 9%. A wildcat well would be defined as a well drilled more then one mile outside the boundaries of an established oil field. It would also reduce the maximum tax paid on other wells drilled after June 30, 2005, to a maximum of 9%. If they would leave the trigger that is currently in place, if crude oil prices drop below $36.48, they would be able to ask for the twenty four month exemption on the four percent that they continue to pay.

REP. BELTER 'S Amendments would deal only with the wildcat well. It would allow an option with one hundred thousand barrels, with a nine percent tax after that date. It would not deal at all with other wells.

REP. WRANGHAM Asked when the trigger would kick in and on what?

REP. DROVDAL Deferred the question to Lynn Helms.

REP. HEADLAND Questioned the June 30, 2005 date, and if there was a new fiscal note.

REP. BELTER Stated that the Drovdal amendments would have a 4.537 million dollar fiscal note. Belter amendments would have a fiscal impact of $284,000.

LYNN HELMS Addressed Rep. Wrangham's question, the way the oil tax trigger will work, is if a well was spudded, recently enough, that it is still in its twenty four month window, when that tax trigger occurs, it will trigger back to five percent until the end of that twenty four months, and then go to nine percent thereafter. If an existing well had part of its twenty four month exemption window left to it, it would get the remaining portion of that exemption window, and then it would get nine percent thereafter, as long as oil prices stayed below that tax trigger of $36.48.

REP. DROVDAL Made a motion to adopt the Drovdal amendments.

REP. WEILER Second the motion. Motion failed.

REP. BRANDENBURG Made a motion to adopt the Belter amendments.

REP. WRANGHAM Second the motion. Motion carried by voice vote.

REP. BRANDENBURG Made a motion for a **do pass as amended.**

REP. WRANGHAM Second the motion. **Motion carried**

14 YES 0 NO 0 ABSENT

2005 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. **HB 1530**

House Finance and Taxation Committee

☐ Conference Committee

Hearing Date **March 31, 2005**

Tape Number	Side A	Side B	Meter #
1	**X**		**0.8**
Committee Clerk Signature			

Minutes:

COMMITTEE ACTION

REP. GRANDE Made a motion to reconsider the action by which the bill was passed out of the committee.

REP. BRANDENBURG Second the motion. Motion carried by voice vote.

REP. DROVDAL Submitted proposed amendments to the bill. He stated projections are that the oil prices will not stay as high as they are right now, and we are competing with 16 other states. These amendments will reduce the 11.5% total rate, or the 6.5% extraction tax rate, the first year the 11.5% would be reduced to 10%, the second year of the biennium, it would reduce to 9%, the maximum oil tax between the extraction and oil tax would be 9%. It only affects new wells drilled after June 30, 2005. If the prices stay up, the old wells will continue to pay the 11.5%. That would have a fiscal note of 2.5 million dollars. The trigger is still in place, if the price drops down to $35.00, the trigger will kick back in. With this bill, the new wells will qualify up to the point of 110,000 barrels, from that point, they would lose the exemption. The second provision of this is, of these wells which we are starting to lower the total cost on, if the trigger kicks in, we will delay their trigger up to three months, before they would drop down to the 5%, if that kicks in, it would bring in an additional 2.5 million dollars.

There were several questions from committee members relating to the amendments.

REP. CONRAD Submitted information to committee members, relating to graphs showing dollars versus barrels through 2006. She had a copy of a bill from Montana which showed Montana was proposing our tax rate. She felt we need to consider very carefully, what we are doing here. We are being asked to pay higher prices at the pumps, and now what is being proposed is to give the oil companies a tax break. I don't know how this makes sense to the public.

REP. DROVDAL Stated, the oil companies were paying downtime to their workers because there is such a shortage of rigs and workers. He stated some company is sending a person to China, to bring a rig back, because there aren't anymore rigs available. These are some of the highest paying jobs in North Dakota, it is a very important industry. We need to keep a stable flow of oil to keep this industry going.

JOHN WALSTAD Was asked to give a breakdown of the numbers with the amendments. He stated he didn't do the numbers that they need to ask Kathy Strombeck to explain it.

REP. DROVDAL Realized a part of the amendment was not what he intended. He asked John Walstad to correct the amendment to only expire the 110,000 barrels and the three month delay.

REP. CONRAD Why did we go from 100,000 barrels to 110,000 barrels?

REP. DROVDAL Stated the 100,000 barrels had to do with wildcats, the 110,000 is what an average well produces in a two year period.

REP. DROVDAL Made a motion to adopt the amendment 50834.0408 with the correction added.

REP. GRANDE Second the motion. Motion carried by voice vote.

REP. IVERSON Made a motion for a **do pass as amended and be referred to appropriations.**

REP. BRANDENBURG Second the motion. **Motion carried**

9 Yes 4 No 1 Absent

REP. DROVDAL Was given the floor assignment.

FISCAL NOTE

Requested by Legislative Council
04/14/2005

Amendment to: Engrossed
HB 1530

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.*

	2003-2005 Biennium		2005-2007 Biennium		2007-2009 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.*

2003-2005 Biennium			2005-2007 Biennium			2007-2009 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.*

The first engrossment with Senate amendments eliminates the fiscal effect of the bill.

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:	John Walstad	**Agency:**	Legislative Council
Phone Number:	328-2916	**Date Prepared:**	04/14/2005

FISCAL NOTE

Requested by Legislative Council
04/01/2005

Amendment to: HB 1530

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.*

	2003-2005 Biennium		2005-2007 Biennium		2007-2009 Biennium	
	General Fund	**Other Funds**	**General Fund**	**Other Funds**	**General Fund**	**Other Funds**
Revenues				$710,000		
Expenditures						
Appropriations						

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

2003-2005 Biennium			2005-2007 Biennium			2007-2009 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.*

Engrossed HB 1530 reduces the oil extraction tax rate from 6.5% to 5% for FY 06 and 4% for FY 07 and subsequent years. The bill also grants a 100,000 barrel exemption from the 6.5% oil extraction tax for new wildcat wells.

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.*

The rate reduction provisons in Section 2 of Eng. HB 1530 will reduce permanent oil tax trust fund and resources trust fund revenues by an estimated $2.55 million in FY 06. Because the March forecast assumes current law incentives re-trigger in FY 07, the 4% rate is assumed to have no negative fiscal impact. (Note: if the current law incentives do not trigger back on because prices remain high, the second year rate reduction impact would be -$9.44 million with an oil price of $37).

Section 2 also delays the re-triggering of the current law holiday by three months for new wells. Because the March forecast assumes the current law incentives re-trigger in FY 07, this one-quarter delay is expected to increase oil revenues an estimated $2.52 million.

Section 3 limits the current law holiday to the first 110,000 barrels of production. Because the March forecast assumes the re-triggering of these current law holidays, this provision is expected to increase oil revenues an estimated $1.02 million by disallowing a portion of the current-law holiday for high producing wells.

If the March forecast is incorrect, and the current law incentives do not re-trigger, these positive impacts will not occur.

Section 4 grants a 100,000 barrel exemption for new wildcat wells. This provision is expected to decrease oil revenues by an estimated $280,000 in FY 06.

Only those estimates that are consistent with the March forecast are included in the "revenue boxes" above.

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:**	Office of Tax Commissioner
Phone Number:	328-3402	**Date Prepared:**	04/01/2005

FISCAL NOTE

Requested by Legislative Council
03/17/2005

Bill/Resolution No.: HB 1530

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.*

	2003-2005 Biennium		2005-2007 Biennium		2007-2009 Biennium	
	General Fund	**Other Funds**	**General Fund**	**Other Funds**	**General Fund**	**Other Funds**
Revenues		($112,000)		($9,853,000)		
Expenditures						
Appropriations						

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

2003-2005 Biennium			2005-2007 Biennium			2007-2009 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.*

HB 1530 grants a 100,000 barrel exemption from the 6.5% oil extraction tax for new horizontal wells drilled after the effective date of the act. At the conclusion of the exemption, those wells that are not exempt due to stripper classification would be subject to an oil extraction tax rate of 6.5%.

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.*

HB 1530 will reduce permanent oil tax trust fund and resources trust fund revenues by an estimated $9.853 million in the 2005-07 biennium. Because of the emergency clause, there will be an estimated $112,000 reduction in the current biennium as well.

These negative impacts are consistent with production and price levels contained in the March 2005 forecast, and assume all new horizontal wells will opt for this exemption. The estimated revenue loss is only through FY 06, because the forecast assumes current-law holidays for all new wells trigger back in place in FY 07.

If enacting HB 1530 causes an increase in production beyond the forecasted level, and beyond any increase induced by high prices, there would be a partial positive offset to the negative fiscal impact from any additional 5% gross production tax collections. Also, some new wells opting for this tax exemption will pay a 6.5% oil extraction tax at the end of their 100,000 barrel exemption. This may result in positive revenues in the 2007-09 biennium.

The 100,000 barrel exemption for wildcat wells is assumed to have no negative fiscal impact relative to the existing forecast. Nearly all current oil production activity in the state is occurring in known fields and reservoirs. If successful wildcat activity were to take place, resulting in production in excess of forecast, it would be revenue positive to the state.

   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:**	Office of Tax Commissioner
Phone Number:	328-3402	**Date Prepared:**	03/21/2005

Date: 3-29-05
Roll Call Vote #:

2005 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO.

House FINANCE & TAXATION Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number Belter amends

Action Taken Carried by Voice Vote

Motion Made By ______ Seconded By ______

Representatives	Yes	No	Representatives	Yes	No
BELTER, WES, CHAIRMAN					
DROVDAL, DAVID, V-CHAIR					
BRANDENBURG, MICHAEL					
CONRAD, KARI					
FROELICH, ROD					
GRANDE, BETTE					
HEADLAND, CRAIG					
IVERSON, RONALD					
KELSH, SCOT					
NICHOLAS, EUGENE					
OWENS, MARK					
SCHMIDT, ARLO					
WEILER, DAVE					
WRANGHAM, DWIGHT					

Total (Yes) ______ No ______

Absent ______

Floor Assignment ______

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

Date: 3-29-05
Roll Call Vote #: 1

2005 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. HB 1530

House FINANCE & TAXATION Committee

Reconsidered

☐ Check here for Conference Committee

Legislative Council Amendment Number 50834.0405

Action Taken D P as amended

Motion Made By Rep. Seconded By Rep.

Representatives	Yes	No	Representatives	Yes	No
BELTER, WES, CHAIRMAN	✓				
DROVDAL, DAVID, V-CHAIR	✓				
BRANDENBURG, MICHAEL	✓				
CONRAD, KARI	✓				
FROELICH, ROD	✓				
GRANDE, BETTE	✓				
HEADLAND, CRAIG	✓				
IVERSON, RONALD	✓				
KELSH, SCOT	✓				
NICHOLAS, EUGENE	✓				
OWENS, MARK	✓				
SCHMIDT, ARLO	✓				
WEILER, DAVE	✓				
WRANGHAM, DWIGHT	✓				

Total (Yes) 14 No 0

Absent 0

Floor Assignment Rep Drovdal

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

50834.0409
Title.0500

Adopted by the Finance and Taxation Committee
March 31, 2005

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1530

Page 1, line 3, remove "horizontal or wildcat"

Page 1, line 4, after "57-51.1-02" insert "and subsection 3 of section 57-51.1-03" and after "reduction" insert "and exemption"

Page 1, line 5, remove "horizontal or wildcat", after the first semicolon insert "and", and replace "; to provide an expiration" with a period

Page 1, remove line 6

Page 1, line 23, after "57-51.1-03" insert ", not subject to subsection 6,"

Page 2, line 8, overstrike "or"

Page 2, line 11, overstrike the period and insert immediately thereafter "; or

6. For oil produced from wells spudded after June 30, 2005, and not otherwise exempt under section 57-51.1-03, oil extracted is subject to a reduced rate of five percent of the gross value at the well under this section for production through June 30, 2006, and a reduced rate of four percent for production after June 30, 2006. If a well taxed at the rate under this section spudded before July 1, 2007, becomes eligible for exemption under subsection 3 of section 57-51.1-03, the exemption does not apply to production from that well until three additional months of production from that well is taxed under this subsection after the exemption would otherwise have applied."

Page 2, line 13, overstrike "all taxable" and insert immediately thereafter "those" and after "wells" insert "identified in subsections 1 through 5 and not otherwise exempt under section 57-51.1-03"

Page 2, after line 17, insert:

"**SECTION 3. AMENDMENT.** Subsection 3 of section 57-51.1-03 of the North Dakota Century Code is amended and reenacted as follows:

3. For a well drilled and completed as a vertical well, the initial production of oil from the well is exempt from any taxes imposed under this chapter for a period of fifteen months, except that oil produced from any well drilled and completed as a horizontal well is exempt from any taxes imposed under this chapter for a period of twenty-four months. The exemption under this subsection for a well spudded after June 30, 2005, and before July 1, 2007, applies to only the first one hundred ten thousand barrels of oil produced from the well or to the time period specified in this subsection, whichever is reached first. Oil recovered during testing prior to well completion is exempt from the oil extraction tax. The exemption under this subsection becomes ineffective if the average price of a barrel of crude oil exceeds the trigger price for each month in any consecutive five-month period. However, the exemption is reinstated if, after the trigger provision becomes

effective, the average price of a barrel of crude oil is less than the trigger price for each month in any consecutive five-month period."

Page 2, line 22, remove "horizontal or"

Page 2, line 23, remove "horizontal or"

Page 2, line 29, remove "- **EXPIRATION DATE**"

Page 2, line 30, remove "horizontal or wildcat" and replace "for which a permit is granted or renewed under" with "that are spudded"

Page 2, line 31, remove "section 38-08-05" and replace "and before July 1, 2009, and is" with a period

Page 3, remove lines 1 through 3

Renumber accordingly

Date: 3-31-05
Roll Call Vote #: 2

2005 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. SB 1530

House FINANCE & TAXATION Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number 50834.0409

Action Taken Do Pass as Amended & Refer to Approps

Motion Made By Rep. Iverson Seconded By Rep. Brandenburg

Representatives	Yes	No	Representatives	Yes	No
BELTER, WES, CHAIRMAN	✓				
DROVDAL, DAVID, V-CHAIR	✓				
BRANDENBURG, MICHAEL	✓				
CONRAD, KARI		✓			
FROELICH, ROD		✓			
GRANDE, BETTE	✓				
HEADLAND, CRAIG	✓				
IVERSON, RONALD	✓				
KELSH, SCOT		✓			
NICHOLAS, EUGENE	✓				
OWENS, MARK	✓				
SCHMIDT, ARLO		✓			
WEILER, DAVE	A				
WRANGHAM, DWIGHT	✓				

Total (Yes) 9 No 4

Absent 1

Floor Assignment Rep. Drovdal

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

REPORT OF STANDING COMMITTEE

HB 1530: Finance and Taxation Committee (Rep. Belter, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (9 YEAS, 4 NAYS, 1 ABSENT AND NOT VOTING). HB 1530 was placed on the Sixth order on the calendar.

Page 1, line 3, remove "horizontal or wildcat"

Page 1, line 4, after "57-51.1-02" insert "and subsection 3 of section 57-51.1-03" and after "reduction" insert "and exemption"

Page 1, line 5, remove "horizontal or wildcat", after the first semicolon insert "and", and replace "; to provide an expiration" with a period

Page 1, remove line 6

Page 1, line 23, after "57-51.1-03" insert "<u>, not subject to subsection 6,</u>"

Page 2, line 8, overstrike "or"

Page 2, line 11, overstrike the period and insert immediately thereafter "<u>; or</u>

<u>6.</u> <u>For oil produced from wells spudded after June 30, 2005, and not otherwise exempt under section 57-51.1-03, oil extracted is subject to a reduced rate of five percent of the gross value at the well under this section for production through June 30, 2006, and a reduced rate of four percent for production after June 30, 2006. If a well taxed at the rate under this section spudded before July 1, 2007, becomes eligible for exemption under subsection 3 of section 57-51.1-03, the exemption does not apply to production from that well until three additional months of production from that well is taxed under this subsection after the exemption would otherwise have applied.</u>"

Page 2, line 13, overstrike "all taxable" and insert immediately thereafter "<u>those</u>" and after "wells" insert "<u>identified in subsections 1 through 5 and not otherwise exempt under section 57-51.1-03</u>"

Page 2, after line 17, insert:

"**SECTION 3. AMENDMENT.** Subsection 3 of section 57-51.1-03 of the North Dakota Century Code is amended and reenacted as follows:

3. For a well drilled and completed as a vertical well, the initial production of oil from the well is exempt from any taxes imposed under this chapter for a period of fifteen months, except that oil produced from any well drilled and completed as a horizontal well is exempt from any taxes imposed under this chapter for a period of twenty-four months. <u>The exemption under this subsection for a well spudded after June 30, 2005, and before July 1, 2007, applies to only the first one hundred ten thousand barrels of oil produced from the well or to the time period specified in this subsection, whichever is reached first.</u> Oil recovered during testing prior to well completion is exempt from the oil extraction tax. The exemption under this subsection becomes ineffective if the average price of a barrel of crude oil exceeds the trigger price for each month in any consecutive five-month period. However, the exemption is reinstated if, after the trigger provision becomes effective, the average price of a barrel of crude oil is less than the trigger price for each month in any consecutive five-month period."

Page 2, line 22, remove "horizontal or"

Page 2, line 23, remove "horizontal or"

Page 2, line 29, remove "**- EXPIRATION DATE**"

Page 2, line 30, remove "horizontal or wildcat" and replace "for which a permit is granted or renewed under" with "that are spudded"

Page 2, line 31, remove "section 38-08-05" and replace "and before July 1, 2009, and is" with a period

Page 3, remove lines 1 through 3

Renumber accordingly

2005 SENATE FINANCE AND TAXATION

HB 1530

2005 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1530

Senate Finance and Tax Committee

☐ Conference Committee

Hearing Date April 7, 2005

Tape Number	Side A	Side B	Meter #
2	x		37 - end
2		x	0 - 5211
Committee Clerk Signature	Sharon Renfrow		

Minutes:

Chairman Urlacher opened the hearing on HB 1530, a bill relating to an oil extraction tax exemption for oil from new horizontal or wildcat wells.

Representative Berg introduced the bill and distributed a handout comparing Montana and North Dakota taxes on horizontal oil production. This bill was introduced for three reasons: the price of gas is too high, we need a strong business climate for an important industry and he wants the state to make more money. Everyone is concerned about the price of gas and have concerns for the future. The primary reason for increased gas prices is lack of domestic production. It is a good policy for our country and our state to encourage new production and this bill will do that. For North Dakota to have a growing economy, we need a strong business climate. Today our tax rate in the oil industry for new wells is the second highest in the country. The rate on new wells has gone up from 9% to 11 1/2 % on all wells and on new wells it has gone from a 24 month exemption to 11 1/2% on November 1, 2004 and is a real challenge for that industry. The third reason is having a strong business climate will encourage more people to come to North Dakota and will encourage new production, thus producing more revenue for the state. He explained the handout. The fiscal note shows a positive impact of $700,000 and assumes no new production. If we have a 20 - 25% increase, you could add $8 million to the state of North Dakota. North Dakota is the number 8 producer of oil in the country and we want to maintain or improve that ranking. This bill only applies to new wells.

Senator Every asked how quickly and how much will this bill affect our gas prices? (meter 886)

Representative Berg said it depends on production level and consumption needs of the country. We have ethanol plants coming on line, this will all reduce use of foreign oil.

Senator Every said last week he paid $2.36 per gallon in Devils Lake for gas. He thinks it would be a long time for this bill to affect consumer prices.

Representative Berg said one question is will this incentive increase production? It happened in 1995 and in November of 2004 production dropped, there is no question about it. He believes an incentive will help. Would raising taxes discourage production? Yes, there is no question. The opposite is also probably true. If we double production in the Unites States, there is no question that would help relieve the pressure on gas prices. We are held hostage unless we have ongoing long term production. No one can answer the question but the larger question is whether increasing production will be good for gas prices or will it be bad?

Senator Wardner asked in the feature with 110,000 barrels, that is good for two years, why? (meter 1120)

Representative Berg said it should be whatever the committee feels is appropriate. The bill lowers the tax on new wells from 11 1/5% to 9% on new wells. Prior to November 1, 2004, the tax on new wells was 0 for 24 months. There is 5% that does collect on all taxation so prior to November, a new well would pay 5% tax, would be exempt from 4% for 24 months, at the end of 24 months, that well would pay 5% plus 4%. In November of 2004, the tax went to 11 1/2%. So this bill does not take it back to what it was, but to go from 11 1/2% to 9%, broken down at 5% and 4% for the extraction and production tax. That is the main component. We are also saying if the price of oil drops below the price of $37 per barrel, a new well would still be eligible for the old 24 month exemption for the months that have not been used. There would be a three month delay before the exemption kicks in and if the well produces over 110,000 barrels, there would be no exemption. If the price of oil stays up, the state of North Dakota will make another $40 million. Looking at the history, we will see an increase in production that is not factored in there. If someone takes a risk and brings in a new field, we are going to encourage them to do this. If someone hits oil in a new field, that creates activity and production. If people are not doing the wild catting, there is no excitement or interest in investing.

Senator Urlacher said Legislative Council will explain the funding.

Senator Every said he has a couple more questions. In looking at the top 10 producing states, Representative Berg said we need this bill because we are second to the last in the top 10 as far as rates and to go to 11 1/2 to 9% that still leaves us second to the last and it still leaves us 4 1/2% ahead of Montana. How does that give us an advantage over Montana, why not lower it enough to make us competitive with Montana.

Representative Berg said he fully supports a more competitive level. How about 6%.

Senator Every said that it still leaves us second to the last. Alaska went from 9.9 to 4.9, is there data to support that change increased production.

Representative Berg said if you look at the previous page, if the question is does an incentive work, we have to look at the facts. In 1994, the change between 94 and 95, we had a 34% increase in drilling activity, and in 1996 it was a 42% change. The price of oil was flat during that period, all he can say is there is no place where it is clearer the incentive has an impact here in North Dakota.

Senator Every confirmed he has no data to suggest that the states that have lowered their rates have increased production.

Representative Berg said for North Dakota this is the data. (meter 1756) The reverse will happen if the rates go up, if you look at the previous page, before November, North Dakota was ahead of Montana. Since then, something has caused the drilling activity to go down, the price of oil was the same in North Dakota and Montana so he is assuming it was the rate hike that caused the drilling activity to go down.

Senator Wardner asked how many other states have a trigger mechanism like we do?

Representative Berg said he can't answer that. The trigger was added by a conference committee in the '95 session. He can't say the trigger was logically placed and had a lot of public debate. A horizontal well is probably $4 million, it is a very expensive well. The trigger makes it difficult for prospective drillers to anticipate their costs. The high volume well will pay the tax and those dollars are used to offset the incentive in new wells.

Senator Every asked what the governor's office and OMB think about this?

Representative Berg said he has a strong belief in the legislative process. The public can weigh in, the legislature makes its decision and then the governor makes his decision. He has not recruited anyone. Change is difficult and decisions need to be made with public input.

Senator Every said he did not answer the question. His question is did he talk to the governor's office and OMB and how did they weigh in on it?

Representative Berg said he did not specifically talk to the governor about the bill, he does not think that is his role.

John Walstad, Legislative Council, explained what the bill does. (meter 2326) Senator Wardner has done a great job of putting together a summary (attached). The last two pages are very helpful. In 1951 someone stuck oil in North Dakota. A tax on this new resource was instituted in 1953, a 5% oil and gas production tax, a tax that applies to all oil and gas produced in North Dakota, based on the value at the well. That tax is not affected at all by this bill, it is subject to very few exemptions and is allocated between the producing county, subdivisions within the county and the state general fund. In 1980, an initiated measure created an oil extraction tax, 6 1/2% on oil only, not natural gas, that goes primarily to the state general fund. The extraction tax has been the subject of legislation since 1981, addressing tax incentives, tax reductions, whatever was deemed at the time to encourage production within the state. This bill applies only to wells spudded on or after July 1, 2005. Spudded means when the drill bit hits the dirt and is different from when a well is completed. The first section of the bill defines wild cat well. The definition was lifted from the Oil and Gas Division's rules. It is a well that is more than one mile outside the boundaries of an established oil field. The second section relates to a section of law that does not provide an exemption from the extraction tax but does provide a rate reduction to 4%. There is an exemption for horizontal wells for 24 months and vertical wells for 15 months after they are completed under current law. There is a trigger mechanism that takes away the 4% rate if the price of oil for 5 consecutive months spikes above the original level of $33 but it has a growth clause based on an industrial production index and the price is now $36. Currently the price of oil is above that and the exemption periods are also subject to that trigger so they do not apply to wells that are new so they are now subject to a tax of 11 1/5 %. Page two, the first 5 subsections would remain subject to the trigger and subsection 6 would not be subject to the trigger. Under subsection 6 wells spudded after June 30, 2005 would be subject to a reduced rate of 5% for production through June 30, 2006 and then subject to a 4% rate through infinity. This bill only addresses wells drilled during a 24 month period. Page 2, lines 17 - 20 are also significant. If a well is subject to this reduced rate and the price drops which triggers the exemption back into play, those wells would be eligible for the exemption but an additional 3 months from that well will be subject at that rate than otherwise would have been exempt. (meter 3329) There is new language on page 3, vertical well production would be exempt for 15 months but it would be further limited by this language which limits it to 110,000 barrels. The wild cat provision, 6 and 4, calls for making an election, the first 100,000 barrels are exempt from the 6 1/2 extraction tax, and it doesn't matter what the price of oil is. There have been several drafts of this bill. Initially, this election provision was a choice a wild catter would make about the future of oil pricing. That is no longer part of the draft. This election is pointless, there is no situation where the wild catter would not take the exemption. It doesn't make sense any more. He would recommend making it available for any wild catter.

Senator Wardner said, on the election, the choice is to take the 100,000 barrels or not.

Mr. Walstad said that is correct and its a no brainer.

Senator Urlacher asked about the fiscal note, there is automatically a flow through positive or negative?

Mr. Walstad said he has not looked at it for awhile. Some of the oil extraction tax money gets set aside for the resources trust fund. There is a statutory oil trust fund also. The bulk of oil extraction tax flows straight to the general fund.

Senator Wardner said 60% of the oil extraction tax goes to the general fund, 20% goes to the resources trust fund, the water one, 10% goes to the common schools trust fund and 10% goes to the foundation aid stabilization fund, for schools and we are moving towards the cap of $20 million on that and he believes we passed legislation when we hit the cap it will go to the common schools trust fund.

Representative Drovdal testified in favor of the bill. He would like the committee to look at the 110,000 barrel maximum, it was supposed to be on both new vertical and horizontal wells. Their committee took a lot of time with the bill and they came out with a comprehensive energy policy. The highest rate is Wyoming who does not have a sales tax. 9% is still high but it is more competitive. There are a number of things that trigger oil companies to come to North Dakota. Price is one, tax climate is one and 11 1/2 is too high, the wild cat discovery is important as Montana has discovered. This only affects the excise tax that goes primarily to the general fund. He discussed the fiscal note. (meter 4725) It would definitely be a positive impact.

Senator Cook asked what was the first fiscal note?

Representative Drovdal said it was a negative $3 million.

Ron Ness, North Dakota Petroleum Council, testified in favor of the bill. (written testimony) (meter 5059) To answer Senator Every's question, do incentives work? Montana has been trying to follow North Dakota in relation to oil and gas activity for many years. Since they passed the tax incentive in Montana oil production in Richland County had tripled in three years. Why, because they found oil and the people in Richland County appreciate the value of incentives. As Senator Every said, we will still be the second to the highest tax in the nation.

Senator Every said he agrees gas and oil are good corporate citizens, the consumers pay a lot as well. He asked Mr. Ness how much consumers pay per gallon.

Mr. Ness said 21 cents per gallon state tax and the total tax is 40 cents per gallon, the price today would be $1.84 if you take away the tax. Very few other products include the tax in the ticket price. We pay too much tax on gas. We are taxing a commodity consumers must use daily.

Senator Wardner asked about the trigger. There is $2.50 that comes in so the trigger in reality is 2 cents shy of $39.

Mr. Ness said the trigger that triggers in and out the tax incentive is at $36.48 currently. Because there is a differential of $2.50 in the Nimex price and the North Dakota price so that is $38.98. The average price of crude oil has to be below that for 5 consecutive months for the triggers to be back in place. If that happens, everything in the bill is meaningless except the 110,000 barrel max and the wild cat clause. The state needs to focus on getting back over 100,000 barrels per day. That means a healthy economy. For 25 years we have been tinkering with this tax code. Next session we need to step back and simplify this. (meter 104, side B)

Bob Harms, President of Northern Alliance of Independent Producers, testified in favor of the bill. (written testimony)

Senator Every asked if he would be opposed to the bill applying to wild cat bills only?

Mr. Harms said yes, the bill has been worked over significantly with a fair amount of industry input, it is revenue neutral.

Dale Frank, North Dakota State Engineer with the State Water Commission, said the Resources Trust Fund is dedicated to water projects. He requested that someone do a specific evaluation of HB 1530 impact on the Resources Trust Fund. He noted there is a footnote it could have a negative impact.

Senator Every asked if he has talked to OMB about the impact?

Mr. Frank said no, he has not talked to anyone, he just found out about the bill recently.

Tom Luttrell, Enid, OK, Chairman of the Northern Alliance of Independent Producers, testified in favor of the bill. (written testimony) (meter 909) He wanted to point out the tax reduction also applies to royalty owners and their share of the oil.

Senator Wardner asked what were the day contract rates he mentioned?

Mr. Luttrell said the cheapest he has heard of was $14,000 and the highest was $18,000.

Senator Wardner asked per day?

Mr. Lutrell said yes.

Senator Wardner said he has received calls and emails that say they are over in Montana drilling because their leases are ready to run out.

Mr. Lutrell said that is not true at all. They have good long term leases. It is a combination of where you are going to put your money. Companies aren't driven by lease expirations, they are driven by opportunity to go out and find oil. Even if leases were expiring, leases are one of the lower expenses in their industry and renewing the leases is cheaper than drilling a well. They are looking for an equal opportunity to drill a horizontal well in Montana or North Dakota. Where would you put your money right now, its a no brainer, you drill in Montana, there is a huge difference.

Senator Every said he noticed by his accent that he is not from North Dakota. Where is he from and who does he work for.

Mr. Lutrell said he is from Oklahoma and he works for Continental Resources Inc.

Senator Every asked how he should go back to his constituents and explain that we give big out of state corporations these tax breaks when they are paying over $120 million in state and federal taxes at the pump.

Mr. Lutrell said the tax break is not only for huge out of state companies but a reason for giving the tax breaks to big out of state companies is that where the investment is going to come from to drill the wells and increase oil production. We are talking about creating thousands of high paying jobs, 50 - 110% higher than the average wage in North Dakota. North Dakota is competing with California, Texas, Oklahoma, Gulf of Mexico for those investment dollars.

Senator Every said he agrees it creates jobs and is good for the economy and all of that. However, what about Alaska? Alaska went from 9.9 to 4.9 and they have 11 wells and we have 15 so is the incentive not there, why are we not going to Alaska?

Mr. Luttrell said their is a huge effort in Washington to open up a substantial portion of Alaska for oil drilling. The vast majority of Alaska, he would say 80% or more, is currently off limits to drilling.

Senator Every said Alaska is a lot bigger than North Dakota he would assume.

Mr. Luttrell said its twice as big as Texas, the majority of it is off limits to drilling and there is a huge effort to open it up.

Loren Kopsheng, Missouri River Royalty, Bismarck, North Dakota testified in favor of the bill. (meter 2204) They are a local oil and gas production company. They employ 54 people. He started in the business in 1981 at the peak of the boom. Oil was at $39 and everyone was putting money into the oil patch. It turned into heartbreak, in 1986 they received $8.62 per barrel. Tremendous exploration activity came out of it. He had wells on the Wachter ranch west of Mandan. It was reaching this far. Things were happening. The industry needs incentive. This is an economic development bill. The risks are huge.

Senator Every asked if all his friends are making money today.

Mr. Kopsheng said his friend that drilled wells has moved to Arizona and is drilling water wells and he would love to return to North Dakota.

Vicki Steiner, Oil and Gas Producing Counties, testified in favor of the bill. (meter 2715) They will benefit from the bill.

Mary Wall, North Dakota Council of Education Leaders, testified in opposition to the bill. (meter 2766) They are grateful for the money that has come to them through the oil extraction tax. In large part she is against the bill because she has questions and concerns centering primarily on the fiscal note that indicates a possible loss of revenue of $2.55 million the first year and $9.44 million. They would appreciate knowing what this means to them as school districts. The committee should consider "don't pass this bill and they will come". Consider the price of oil, the incentive applies to when prices are low and that makes sense. An incentive when prices are high is contrary to common sense. She doesn't know anything about the oil industry, it is very complex. When this bill was first introduced she heard comments on the radio that raised concerns that taxes are different between the two states but taken together its a wash. Maybe this has changed with changes in the bill. The oil and gas division of the industrial commission said they would be neutral on the bill because if oil prices remained high, the oil rigs in Montana would move probably east regardless of the tax situation. Maybe there is a possibility they will still come if we don't pass the bill.

Cindy Klein, Dakota Resource Council, appeared in opposition to the bill. (written testimony) (meter 3381)

Senator Every asked if she is not so much against the incentives, its the timeliness?

Ms. Klein said yes.

Don Morrison, North Dakota Progressive Coalition, testified in opposition to the bill. (meter 4155) Behind this bill is a lot of blind faith, oil prices are high, profits are up and the legislature responds by giving away more to those who are doing well. He does not fault the oil industry for seeking these changes, it is in their best interest. The legislature is supposed to make decisions for all of North Dakota. This legislature is trying to take away a lot from a lot of people because there is not enough money. Many North Dakotans do not have bones to be taken away and this bill will not help those people. The last minute, late night introduction of this bill makes you wonder about the accountability to the people of North Dakota. It is unbelievable that oil industry will leave all that oil in North Dakota if this bill doesn't pass. Our oil law is very complicated and the oil industry and the legislature have been very busy working on our oil tax laws. The legislature does not have to give in to the oil industry. The oil companies should pay their own way.

Paula Grosinger, resident of Mandan, testified in opposition to the bill. (meter 4776) There has been testimony that these are private resources on private lands and they should not be taxed because we are not a socialist state. Representative Koppelman's argument in testimony in the house was along these lines. The legislature has a responsibility to protect the non renewable resources of our state. When they are gone, we won't have an opportunity to tax them again. The prices will dictate new drilling. She is a small business person, she runs a small publishing company and price determines whether or not she operates her business, it was not tax incentives. That is true of the oil business as well.

Chairman Urlacher closed the hearing on HB 1530.

2005 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. **HB 1530**

Senate Finance and Taxation Committee

☐ Conference Committee

Hearing Date **April 12, 2005**

Tape Number	Side A	Side B	Meter #
#1	X		0.0 - 51.4
Committee Clerk Signature	Sharon Renfrow		

Minutes: COMMITTEE WORK

SEN. URLACHER: opened the discussion and handed out an amendment for consideration at a later time of you prefer. Any discussion?

SEN. WARDNER: the bill only deals with the price or the tax on oil when its over the trigger price. When its under the trigger price, it does not deal with that at all. When we talk about the trigger, its 2 cents shy of \$39 and so that you understand, you read it some place you'll see that the trigger is \$36.48 but because ND oil, because we have sour crude in there, the price is less than the price of East Texas sweet crude. There's a differential of \$2.50 so you can subtract it off of the price of the oil but you can add it onto the trigger, it doesn't matter its the same. So for all practical purposes we're talking about the trigger being \$39 a barrel. Now when it goes over the trigger for 5 consecutive months, its over that it triggers off all of the incentives and the incentives are two tax holidays, on a vertically drilled well its 15 months, what does that mean? It means they pay a 5% production tax over that 15 months but they pay no tax on the extraction part, which when the holiday is on when it comes off its 4%. Now, on horizontal wells its a 24 month holiday, so now the holidays go away when the trigger triggers when the price is over $39 a barrel but you also have another thing that happens and that is the tax on the extraction goes from 4% to 6 ½ %. So there's 2 things that happen when that trigger goes off and so we are dealing with that. We're not dealing with when its under the trigger at all because that's not the problem. What this bill does is that it phases it in from June 30, 2005 to June 30th of 2006 any well spudded. And when we talk about spudding that means when the bit hits the ground, when she starts turning the earth, that spudding and what happens during that time period the wells whether they are vertical or horizontal and their over the trigger (price over the trigger) it would mean that they would be taxed instead of that 6 ½ it would be reduced to 5%, that's what the bill does. Then the next year basically oil produced from wells that were spudded during that period automatically go to 4%.

Example: a well is spudded during that period it comes into production, its in production for 1 week and we move to July 1st of 2006 it goes to 4%. Any well drilled then after that in 2006-07 the extraction would be 4% so in essence what we're doing is we're moving the extraction tax on the 6 ½ % to 9% so no matter what whether the trigger was on or off, the extraction tax would be at 4%. You'd have a 5% production, 4% extraction total of 9 so it would be consistent. What's still there is the fact that when the trigger goes above the trigger price you would lose the 24 and 15 month tax holiday, you'd lose those. When it goes below you'd get them back. Now there's one other thing in the bill that I don't know why its just for that 2 periods, 2 year period. During that 2 year period if for some reason during that time period for 2 years, the price drops below the trigger price and these wells are not old enough to be off of their holiday, in other words they've been production for 9 months or if is a vertical well or its been in production for 15 months if its a horizontal well, they still have time left on their holiday then they can play it out in time to the end of their holiday (the months that are remaining) or if a 110 barrels are pumped out of that well, that would stop. 110,000, that would stop the holiday and it would kick it back to the 4% extraction tax. That's basically what it says, although there's a part in that says there's a 3 month delay on that. What I just explained is a 3 month delay on that and so if it came off.

Example of 15 months, you'd go to 18 months and then it would kick in. There is a delay on it. The overall concept is simply this, is that your going from a 6 1/2% extraction tax to a 4% extraction tax, that's what it all shakes out. Then the other part of the bill is the oil cap provision it just simply says that if you elect to take the first 100,000 barrels you get your extraction tax and after that it follows the rules that we've put in place before and more than likely it's be at 4% for the extraction and 5% for the deduction for a total of 9. The one thing about the wildcats you never know what their going to produce and sometimes their outside, they have to be at least over a mile outside of what is a designated field and it would be the oil and gas division that would determine that whether its a wildcat or not so that some company doesn't go out here and say oh we're a wild cat, you got to be outside the boundaries of 1 mile of an existing field and that is to encourage wildcating and people exploring places where they have to ___. So Mr. Chairman that's kind of what the bill does in summary.

SEN. COOK; there is one condition in this bill that would change the tax policy for existing wells then, is that correct? And that would be if you go below the trigger that as far as the holidays if they had not yet reached 110,000 barrels they could continue to get a lower tax break if we passed this bill, is that correct? If you hadn't reached the 110,000 barrel cap and you have time left on your trigger, you could continue to use that time if we pass this bill.

SEN. WARDNER: that's right, but that's only on the well spudded during that 2 year period. 110,000 barrels is only on that 2 years, its not very major really because if it was played out into the future and was in place permanent, then it would definitely be a factor, it'd be a positive for the State to do that. Just so everyone knows, wells that are producing before or spudded before 2005 they are just the way the law is now, there is no change in that and they have nothing to do with the 110,000 whether it'd be a wildcat or a well.

SEN. COOK: the oil crashes that we had in 81-82 to what degree was that because of tax policy that came to affect the initiated measure 6 or was that oil crash nationwide or was it unique in ND?

SEN. WARDNER: it was the price of oil, there's no question about it, tax may have played a small part of it but it was really the price the demand for oil and that particular thing.

SEN. TOLLEFSON: I can remember measure 6 and the rest that went with that, but that almost drove the oil industry out of the State of ND, did it not?

SEN. WARDNER: that's true, what happened is when it crashed they sold rigs to South America what they call put em in the bone pile, we got rid of them, we lost our work force and that's been a problem getting the work force back to work out there even though they are high paying jobs. People are reluctant to give up some security because their worried that the oil will drop on them and then they will be sitting with nothing.

SEN. URLACHER: a lot of those rigs were scrapped out as well and it never existed anymore.

SEN. TOLLEFSON: do you think that the what taxes exist today would create another measure 6 or no or another situation that would cause oil companies to leave ND?

SEN. WARDNER: I think I would be stretching it I said that at the 6 1/2% would cause a bust in the oil fields, however it does make it a little more difficult for em out there. Keep in mind that when this trigger is on, they do not have any kind of a holiday with the extraction tax, its from the 1st barrel on they don't get anything. I hate to be looking over at MT, but MT has no trigger, so the first barrel has a .76% that's all they collect, even when we have a trigger on it we're collecting 5, their collecting less than a 1% tax on oil and they have an 18 month holiday. Now even we were to put this at if this bill gets it at 9 after its all said and done (total of 9) we have a 24 month holiday on horizontal wells with a 5% production tax, they are at 18 months with a .76% which is less than 1% tax, their still ahead of us. That's what really the issue is, there's a lot of people that say their finishing up leases in MT but I'm told that now their going over there because they know their going to hit a well and they don't have to worry the tax structure it benefits them.

SEN. EVERY: I would also assume that it would be a stretch to say that for a 2% decrease in the rate that BP going to be coming any time soon.

SEN. WARDNER: I agree with you I don't know if its going to bring the big players into the state but it would help the local the smaller companies and the independents in the state.

SEN. EVERY: the charts that I saw before the trigger would ever hit, those wells were considered stripper wells, the production was up here at the beginning and it goes down and starts to curve off and before that trigger would ever hit, we're down to about here there considered stripper wells aren't they?

SEN. WARDNER; so your saying that when they come off the holiday their down to strippers, there might be some wells like that but I would say on the majority, no they still have some significant productivity left before they get to stripper.

SEN. BERCIER: I'm looking at the fiscal note and I guess the concern I've got within the fiscal note is number 3, goes down to a small note that says if the current law incentives do not trigger back on because prices remain high, the 2nd year reduction impact would be a negative 9.44 million with an oil price of $37 a barrel and I know the oil industry does a lot for the state and Sen. Wardner was talking about gambling, this appears to be a gamble within itself just looking at the fiscal note.

SEN. WARDNER: I did check it out and if you expect the State to continue to get the same revenue you would have to anticipate that your going to have to increase the number of wells. But also if we don't do anything, how many wells will they not drill that they may have and I believe that fiscal note is projecting, they project on what the average wells have been drilled in the past that that many are going to drilled in the future. We don't know that and I have to say in all fairness if we leave it as is I don't know how many their NOT going to drill because the taxes weren't that and the other side of it if we change it to 9% I don't know how many more wells are gonna drill because it is like that. So that is the debate that's there, but he fiscal note is predicated on that we are having the same number of wells drilled as we have in the past, we're averaging them out that's what they have to do.

SEN. COOK: if we were to pass this and if the consequence of this was that there was increased oil production in ND, where does that excess oil, that increased oil go to? We produce x amount of barrels today we have one refinery in the state that I believe has all the oil they can use, where does the oil that's not used by the Mandan Refinery go right now and where would any excess oil produced as a consequence of passing this legislation? Any idea of where that would go?

SEN. WARDNER: in all honesty, I don't know where it would go, I've been told that the Mandan Refinery could use some more. I do know that we've been talking about the Tribes building a refinery up at Makoti but we don't have enough crude oil for them, they would have to get theirs out of Canada unless they start drilling a lot of wells on the reservation, but they still would need some help from Canada.

SEN. COOK: personally I think there's a lot that I think will agree with me when we look at the price of gasoline in this country right now, what we are lacking is refinery capabilities state side. I think that somewhere not just as a state but I hope as a nation put together some policy that is going to encourage or promote more refinery capabilities within our borders and of course if we have them we need to have oil to be shipped to these refineries. What's anybody doing to address that concern or why don't we see?

SEN. WARDNER; before I answer that question, keep in mind that when oil comes into production and Sen. Every mentioned that the production goes down, so we're constantly in a downward trend so you got to continue to bring in more oil to keep that refinery going. I guess that's the energy bill in Congress that needs to be passed and it needs to have not only fossil fuels, the renewables and stuff like that in the whole package, I don't know why they haven't done something there but I agree with you that we should be a team, when I say a team I'm talking about wind, ethanol, biodiesel, crude oil, coal and natural gas, we should all be working together to solve the energy problems in this country and we need to do our part here in ND.

SEN. TOLLEFSON: just a comment about what happens to oil in ND, a lot of it, the old portal pipeline now I think owned by BN pumps a lot of that right down to MN for refinery purposes, that's out of western ND, northwestern ND and north of Minot, a viable and exciting business for them. Now that's not supplying any refineries here in ND but that's where a lot of its going, even now.

SEN. URLACHER: well the oil taxation and development is pretty complex, we have made it complex and I guess we all have gotten a considerable amount of public opinion on this issue and of course a late introduction of the bill along with busy looking at a way that we could adjust to promote development in ND, I have submitted that amendment there for whatever you want to do with it. I thought it might depending on your feelings whether you want to address the bill as is or whatever you want, its an alternative. I know there seems to be quite a little resistance from the public opinion but that's your call.

SEN. BERCIER: just some comments. We would probably just exporting more of our own nonrenewable resource out, once you take it out its done. I guess that is a good question, why aren't we doing more refining in ND? they bring good paying jobs into the state also. I was looking at the stock markets this morning I believe sweet crude is at $50 a barrel for ND, in NY its $52 and some cents and we have in production in ND I believe its 19 rigs vs. 15 the same time a year ago.

SEN. TOLLEFSON; maybe you noticed, how do our rigs compare to MT? Do you recall that?

SEN. BERCIER: in the paper there wasn't a comparison, in discussion yesterday I believe with the 19 rigs we're right at par with MT right now.

SEN. URLACHER: I think the last report there was 24 rigs in MT.

SEN. EVERY: some of the comparisons that I saw upstairs on Friday were very comparable between the 2 states. It appears as though MT is way ahead of us in a lot of categories because (this is the way I understand it) theirs are 1280 feet apart and ours are about half of that, so whatever numbers that we get from MT we have to divide in half to compare them with ND, is that right? They have a bigger base to draw from or something. But the numbers after they did that were very comparable. Obviously everyone knows how I feel about the bill, nothing has changed since the last time we talked about the bill in my mind and I did spend a lot of time looking at it and as far as turning it into a study, I would much rather see it turned into a study then to actually pass a bill at a time when gas prices are at an all time high. I think it would be suicide for all of us to do that. But having said that, I don't even like the idea of studying at this point, I think that we have as much history in this room between a few guys here that knows the business, knows how everything works, knows about tax and tax policy that the thing really doesn't need to be studied, we've done plenty without studying it over the years. According to them upstairs since 1987 our revenues that have been lost within ____ given to the gas and oil its been 350 million dollars and with 350 million dollars ya know the state, we could own our own refinery and have a pretty good little income off of that. I mean we've made these decisions without actually having to study it, I think that studying at this point is sending the wrong message its saying that you know what big industry is more important than some of the other things that we still have yet undecided in this, I'm going to resist the amendments if they move forward but I would much rather see it as a study than to have the bill passed.

SEN. URLACHER: well the reason I say that, it is complex and I think there's times when we need to look at simplification because people need to understand, is what it is, we're discussing this issue here trying to understand and if we can find ways to simplify things for understanding purposes and benefits too the state and the oil company for development I think that's the thing we need to look at in the study process, not leaning one way or the other but there's value and going back and looking at what we've created over time.

SEN. EVERY: I would agree with that, however there's nothing that would stop anyone of us from going up stairs over the next interim and spending 2 years with them hammering out something that we can introduce at the beginning of the next legislative session that would be easy to explain and easy to get our arms around and something that everybody would understand AND would make sense for the public and maybe at that time would be much better timing than what the timing is of this in which is poor.

SEN. WARDNER: on the incentives and that's true what he says is true, the dollar amount incentives however without those incentives we don't know how much revenue the state would have received. I just want to point out that its not only the state but you talk about the leasing and the royalties and all the service organizations, companies that service these wells, I mean. Remember my dairy cow bill how a dairy cow generates a lot of economic activity, oil wells are like dairy cows they generate a lot of economic activity around a well but if you calculate it on what they pump, Sen. Every's right, but when we did put that incentive in in 95 for horizontals, boom spike went right up as far as exploration and drilling and production in the state.

SEN. URLACHER: we need to recognize the actual costs that are involved and in order to balance out as to what incentives are justified and what isn't. There's a lot of things in here that we ourselves probably don't all understand.

SEN. EVERY: I would totally agree with Sen. Wardner's argument because I think I used that same argument on my sales tax holiday bill on how it might increase the revenues and how it might increase shop keepers, so your rebuttal wasn't much of an argument, I agree with you.

SEN. WARDNER: made a **MOTION FOR DO PASS**, seconded by Sen. Cook.

SEN. COOK: I seconded it for to get it up for a vote, I still have a lot of questions or concerns on this as far as the actual impact it could have on ND and to what degree it will benefit our State and I disagree with the comments on the study, ya we can go up there and bid our time and do our homework, we can do that on every piece of legislation that ultimately gets studied. There are far more benefits for reasons for a study than a benefit of the one individual who may do their own homework, its a collective benefit for all to sit at the table and have those same discussions and go through the same learning curve together in a process where there's chance to rebuttal and testimony is given in an ultimate report is given. There is a tremendous amount of benefit to a study and this is a very complicated issue and it has great implications. I know the oil industry is considered at what I want to say, a dirty industry out there is the one that we just go after for revenue, by gosh I'm glad we have it in our state. We don't know what all the income tax that comes into our state and the corporate income tax because of oil production in the state of ND. I know what the oil industry does to my town in Mandan, I'd hate to see that refinery gone and very very interested and concerned about oil tax policy as far as it benefits the state. Its a very complicated issue but we need to move forward in some degree I think.

SEN. TOLLEFSON: I would like to offer a **SUBSTITUTE MOTION , THIS MOTION WOULD BE TO ACCEPT THE STUDY RESOLUTION 50834.0501.**

SEN. URLACHER: do we have a second?

SEN. EVERY: I think we have a motion on the table don't we?

SEN. TOLLEFSON: its a motion and this is a substitute motion and can be recognized.

SEN. EVERY: I think we have to act on the motion that's on the table first.

SEN. WARDNER: I think you can do it but to do that motion, you have to vote on that first.

SEN. TOLLEFSON: that's right, that takes precedence first.

SEN. WARDNER: you have to vote on that first and if you get a second for it you vote on that and if it passes, it squashes the other one. When I first came into the legislature they used to do that all the time, it would drive me nuts.

SEN. URLACHER: its driving me nuts right now.

SEN. WARDNER; Sen. Tollefson was here then and I think he's done it before.

SEN. TOLLEFSON; I'm doing it again.

SEN. URLACHER; I need a second.

SEN. WARDNER: if you get a second you could sure check out the procedure if its right, if not throw it out.

SEN. COOK; I'll throw a second on that too then.

SEN. TOLLEFSON: granted this is really a huge bill, 1530 is a huge bill, its got more effect on the state of ND than I realized perhaps in maybe you too. But I do think that the timeliness of the bill and the public perception of what we would do should we pass this bill could be a real negative and I'm not just talking about politics I'm talking about posturing. I think the study resolution as was suggested here and about to be voted on could be the answer for a lot of questions, either a) understanding and b) as well as giving the people a chance to absorb what this is all about. I think its the thing to do, I really do and I hope you for that.

SEN. URLACHER: my feeling that over this period of time we will have a better handle as to where oil is going and the fluctuations within the pricing that the committee is justifiable to move in that direction.

SEN. EVERY: I would add that again I agree that studying is the right thing to do in a case as big as this, however we've spent 350 million dollars without doing any studying up to this point and the timing for this is not appropriate. I feel that there is many more important things that need to be done at the 11th hour than to spend a whole bunch of time on what we can do to help a few big out of state companies and I agree with the study, I'd rather see the study than the bill but I'm going to resist the study as well.

SEN. URLACHER; any further discussion?

SEN. BERCIER: I have a question on this procedure here, we're not going to vote on the bill, it will be, we'll be voting on the amendment that will wash the bill off to the side, is that correct?

SEN. URLACHER: that's my understanding.

SEN. COOK; hog house amendment.

SEN. EVERY: substitute motion.

SEN. TOLLEFSON: write that one down.

SEN. WARDNER; since I've been in the Senate, I've never done it but over in the House it was always done.

SEN. URLACHER: well, do you want to vote or not?

SEN. EVERY: question.

ROLL CALL VOTE: 3-3-0 **MOTION FAILS**

SEN. EVERY: I would **MOVE A DO NOT PASS,** seconded by Sen. Bercier.

SEN. WARDNER: my motion is still there.

SEN. URLACHER: we have a motion on the floor by Sen. Wardner for Do Pass, seconded by Sen. Cook. Any discussion?

SEN. EVERY: question

ROLL CALL VOTE: 3-3-0 **MOTION FAILS**

SEN. EVERY: I make a **MOTION FOR DO NOT PASS**, seconded by Sen. Bercier.

SEN. URLACHER: a motion for do not pass, seconded by Sen. Bercier, any discussion?

ROLL CALL VOTE: 3-3-0 **MOTION FAILS**

SEN. COOK; I'm going to one more time **MOVE THE AMENDMENTS 50834.0501**, seconded by Sen. Tollefson.

SEN. BERCIER: where does this put everything else, it should be a hog house.

SEN. COOK; these are the amendments presented they are hog house amendments to study it and I do believe the study is the way we gotta go.

SEN. URLACHER: any further discussion?

ROLL CALL VOTE: 4-2-0

SEN. COOK: I make a **MOTION FOR DO PASS AS AMENDED**, seconded by Sen. Tollefson.

SEN. URLACHER: any further discussion? If not, call the roll

ROLL CALL VOTE: 4-2-0 **MOTION PASSES**, Sen. Wardner will carry the bill.

SEN. URLACHER: thank you much I hope there is no objection to how the procedure was handled, you had an opportunity

SEN. EVERY: every one handled their constituencies well.

SEN. TOLLEFSON: Don't forget Every, substitute motion.

Date: 4-12-05
Roll Call Vote #: 1 (2)

2005 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. *HB* 1530

Senate **Finance and Taxation** Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number

Action Taken Do Pass

Motion Made By Wardner Seconded By Cook

Senators	Yes	No	Senators	Yes	No
Sen. Urlacher	✓		Sen. Bercier		✓
Sen. Wardner	✓		Sen. Every		✓
Sen. Cook	✓				
Sen. Tollefson		✓			

Total (Yes) 3 No 3

Absent

Floor Assignment

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

50834.0501
Title.

Prepared by the Legislative Council staff for
Senate Finance and Taxation
April 11, 2005

PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1530

Page 1, line 1, after "A BILL" replace the remainder of the bill with "to provide for a legislative council study of North Dakota's oil and gas tax structure.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

SECTION 1. LEGISLATIVE COUNCIL STUDY - OIL AND GAS TAX STRUCTURE - COMPARISON TO OTHER STATES - SIMPLIFICATION. The legislative council shall consider studying, during the 2005-06 interim, North Dakota's oil and gas tax structure, including comparison to the oil and gas tax structure of other producing states and consideration of the feasibility and desirability of simplification of North Dakota's oil and gas tax structure. The legislative council shall report its findings and recommendations, together with any legislation required to implement the recommendations, to the sixtieth legislative assembly."

Renumber accordingly

Date: 4-12-05
Roll Call Vote #: 2 (1)

2005 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. *HB* 1530

Senate **Finance and Taxation** Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number

Action Taken Substitute Motion to offer Amendments of Study Resolution

Motion Made By Tollefson Seconded By Cook

Senators	Yes	No	Senators	Yes	No
Sen. Urlacher	✓		Sen. Bercier		✓
Sen. Wardner		✓	Sen. Every		✓
Sen. Cook	✓				
Sen. Tollefson	✓				

Total (Yes) 3 No 3

Absent

Floor Assignment

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

Date: 4-12-05
Roll Call Vote #: 3

2005 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. *HB* 1630

Senate **Finance and Taxation** Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number

Action Taken Do Not Pass

Motion Made By Every Seconded By Bercier

Senators	Yes	No	Senators	Yes	No
Sen. Urlacher		✓	Sen. Bercier	✓	
Sen. Wardner		✓	Sen. Every	✓	
Sen. Cook		✓			
Sen. Tollefson	✓				

Total (Yes) 3 No 3

Absent

Floor Assignment

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

Date: 4-12-05
Roll Call Vote #: 4

2005 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. *HB* 1530

Senate **Finance and Taxation** Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number

Action Taken Adopt Amendments.

Motion Made By Cook Seconded By Tollefson

Senators	Yes	No	Senators	Yes	No
Sen. Urlacher	✓		Sen. Bercier		✓
Sen. Wardner	✓		Sen. Every		✓
Sen. Cook	✓				
Sen. Tollefson	✓				

Total (Yes) 4 No 2

Absent 0

Floor Assignment

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

Date: 4-12-05
Roll Call Vote #: 5

2005 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. ***HB*** 1530

Senate **Finance and Taxation** Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number

Action Taken DP as Amended

Motion Made By Cook Seconded By Tollefson

Senators	Yes	No	Senators	Yes	No
Sen. Urlacher	✓		Sen. Bercier		✓
Sen. Wardner	✓		Sen. Every		✓
Sen. Cook	✓				
Sen. Tollefson	✓				

Total (Yes) 4 No 2

Absent 0

Floor Assignment Wardner

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

REPORT OF STANDING COMMITTEE

HB 1530, as engrossed: Finance and Taxation Committee (Sen. Urlacher, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (4 YEAS, 2 NAYS, 0 ABSENT AND NOT VOTING). Engrossed HB 1530 was placed on the Sixth order on the calendar.

Page 1, line 1, after "A BILL" replace the remainder of the bill with "to provide for a legislative council study of North Dakota's oil and gas tax structure.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

SECTION 1. LEGISLATIVE COUNCIL STUDY - OIL AND GAS TAX STRUCTURE - COMPARISON TO OTHER STATES - SIMPLIFICATION. The legislative council shall consider studying, during the 2005-06 interim, North Dakota's oil and gas tax structure, including comparison to the oil and gas tax structure of other producing states and consideration of the feasibility and desirability of simplification of North Dakota's oil and gas tax structure. The legislative council shall report its findings and recommendations, together with any legislation required to implement the recommendations, to the sixtieth legislative assembly."

Renumber accordingly

2005 TESTIMONY

HB 1530

w24

HB 1530
Finance and Tax Committee
House of Representatives
State Capitol
Bismarck, North Dakota

March 22, 2005

Mr. Chairman, and members of the Committee, my name is Robert W. Harms and I am president of the Northern Alliance of Independent Producers. We are in support of HB 1530. The bill is a necessary and incremental step in order to continue our development of new and unconventional oil reserves (like the Bakken formation) and to make our tax structure more competitive, so we can continue to attract new investment in an industry that is vital to our state.

The Northern Alliance of Independent Producers is an oil and gas trade association of independent producers, operating in North Dakota, South Dakota and Montana. We have approximately 30 members who are some of the most aggressive oil and gas producers operating in the Williston Basin. They include: Continental Resources, Inc., Headington Oil Company, Encore, Northern Energy, Armstrong Corporation, Wyoming Resources Corp., Zinke & Trumbo, St. Croix Exploration, Knapp Oil, Eagle Operating (and a host of other companies ranging from California, Fairbanks, Michigan, Denver, Dallas, Oklahoma, Billings, Sidney, Kenmare, Williston, Dickinson, Belfield and Bismarck.)

Together these companies represent significant new investment in North Dakota employing hundreds of professional engineers and geologists, land men, roughnecks, and others in the oil and gas industry.

NAIP members drilled 54% of the new horizontal wells in ND in 2003 and 40% of the new horizontal wells in 2004. At an average cost of $2.5 million per well, this represents $180 million of new investment in the last two years just to drill the wells.

We are here this morning in support of HB 1530. A number of our members will explain why the bill is necessary, and why it makes good sense for the state and the industry. They will include Tom Luttrell, Chairman of the Northern Alliance, Jack Stark of Continental Resources, Jeff Hume (who will present for Continental and Headington), Clark Crawford of Northern Energy, and Lawrence Bender of Pearce & Durick, who will suggest an amendment to the bill. A number of other members may also testify.

The bill does two things:

1. It gives a producer the choice to make an election to have the first 100,000 barrels from any new horizontal well drilled after the effective date of the bill, to be exempt from the 6.5% oil extraction tax. Once 100,000 barrels is reached, the full tax of 11.5% (5% gross production and 6.5% extraction tax) is applied.

2. It also provides the same 100,000 exemption from the extraction tax, for new discoveries (or wildcat wells) which is a new incentive. This feature is designed to encourage producers to take the extra risk and seek out new discoveries in North Dakota.

The bill applies only to new investment, (not existing production) has a 4 year sunset clause, and an emergency provision. It allows a producer to use either the 100,000 barrel exemption, or to stay under current law of 11.5% tax burden with the hope it will be modified in the future, or that prices will drop below the price trigger of $36.48 to lower the tax rate.

Let me close with a couple of last thoughts:

1. HB is an incremental step in keeping ND competitive. We need to keep moving as circumstances change, to keep the state competitive. Tax rates DO matter.

2. An incentive is necessary now, even with record oil prices.

- It signals the industry--- "ND is a good place to do business"
- We are in the midst of the "Bakken" play, which is a new and unconventional formation from which we hope to extract a new and exciting oil development in North Dakota and potentially one of the largest in the US. But, it's difficult and requires the application of new innovative technology, new methods, is high risk and particularly expensive. An incentive for horizontal drilling will keep the companies drilling in the "Bakken" play, which has the potential of developing 4.6 million acres (7200 square miles) across 9 western counties in North Dakota.
- It helps make ND more competitive. (We are competing against other states.)

  Montana tax rate: .5% then to 9%

  North Dakota tax rate: 11.5%
- But, perhaps as important as anything is that it will help in a small way to lead towards more energy security and independence for our country. America imports 60% of its oil, much of it from unstable regions of the world (e.g. the Middle East).

- One more reason for an incentive for horizontal drilling: Incentives work and they matter. That was our experience in North Dakota in 1995, that has been Montana's experience in 1999 and the IOGCC has studied incentives for years and concludes that a state gets $2 back for every $1 of investment (which has a net economic benefit of 28 times the investment.)

Mr. Chairman, members of the Committee, HB 1530 is a good signal to the industry and its good policy for our state. It will help us continue to employ North Dakotans in an industry that has proven time and time again that it can deliver for North Dakota. We urge a DO PASS on HB 1530.

Handout from
Tom Luttrell
HB 1530

March 21, 2005

To The House Finance and Taxation Committee

Headington Oil, Limited Partnership would like to voice our support of HB 1530 which will exempt the first 100,000 barrels produced from all horizontal wells from the 6.5% extraction tax. Headington believes **this tax incentive is crucial at this time** in helping us, as well as other operators who are in the early stages of trying to unlock production in paying quantities from the unconventional Bakken formation in North Dakota. As I've said in previous correspondence and that I think needs to be repeated because of its importance is that the **results of the Bakken in Richland county Montana CANNOT be extrapolated into North Dakota**. The Bakken reservoirs' characteristics change considerably as the play heads east into North Dakota, and unfortunately, not always for the better. Headington knows this first hand having drilled the most new grassroots Bakken wells in North Dakota in the last year as well as the most new Bakken wells in Montana. **Without this tax relief to help us develop the complex technologies that we recognize as being needed in order for the Bakken to have a chance at succeeding, there exists the very real possibility that the industry may prematurely walk away from this play and the 1,000,000 plus acres that have been leased in hopes of Bakken development.**

While oil prices are certainly higher, so are all other cost inputs. **Drilling rig rates are up 50% to 70%** and rising with just about each new well drilled. Everyone is well aware of the **50% to 80% increases seen in steel prices** in the last 2 years as a result of foreign steel demand. In Montana, our average initial production rates have been just over 400 BOPD compared to an average initial rate of only 150 BOPD thus far in North Dakota. Again, we think we can improve upon these results if given additional time to do so. This additional time can only be realized with sufficient rates of returns on our investments that will allow us to continue drilling and developing technology, especially very expensive hydraulic fracturing technology, that will pave the way for **the potential to drill approximately 1,500 new Bakken wells over the next several years and the realization of the severance taxes these wells represent. In addition to the severance taxes collected, the new discretionary income from the numerous mineral owners that will be spent in the state will spur on the state's economy for many years to come.**

Gary N. Polasek

Dallas Region Technical Manager
Headington Oil Company
7557 Rambler Rd.
Suite 1100
Dallas, TX 75231
214.696.7785
GaryP@headington.com

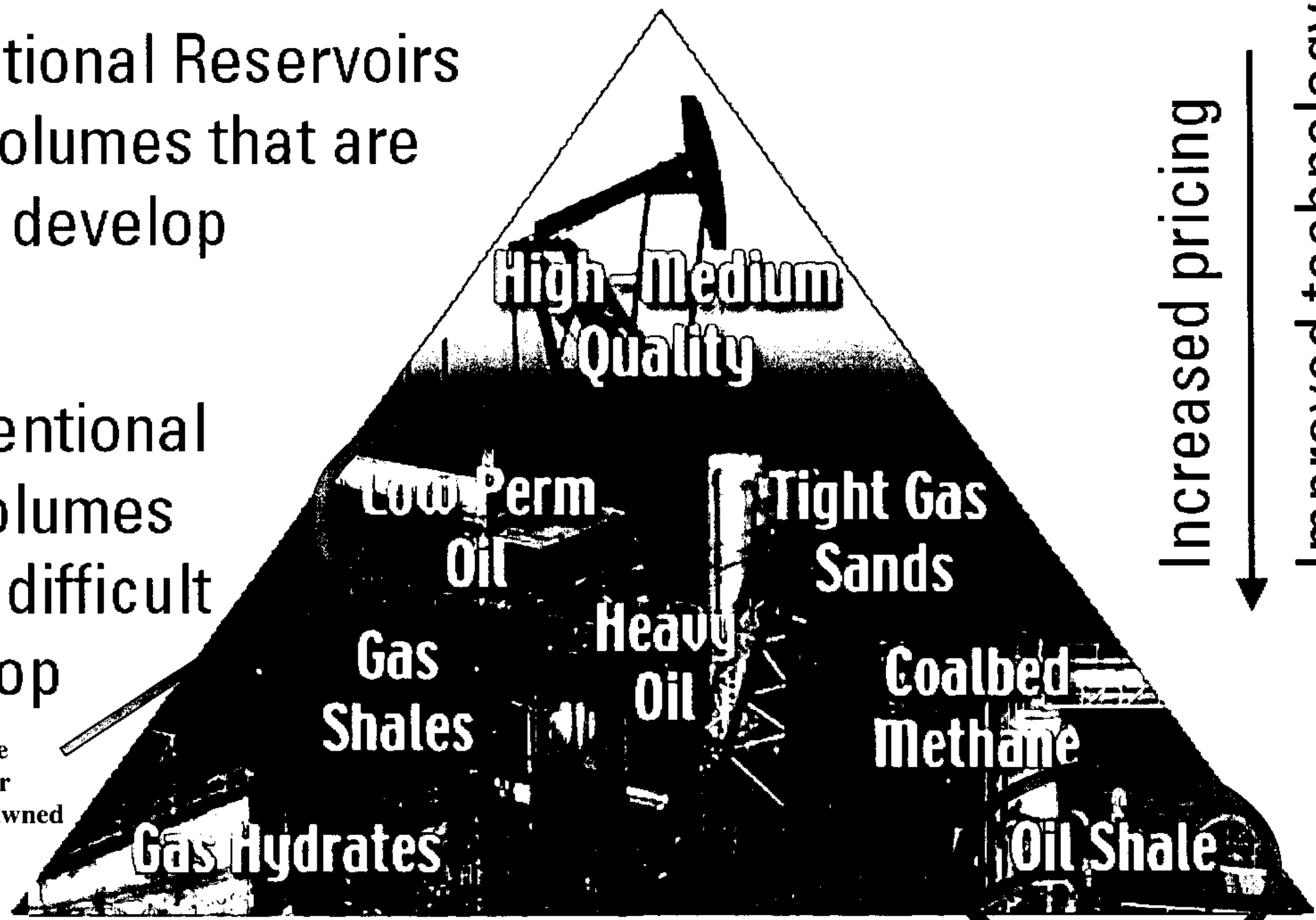
Tom Lutrell?
HB 1530

Resource Triangle

Conventional Reservoirs
Small volumes that are
easy to develop

Unconventional
Large volumes
that are difficult
to develop

The Bowman/Slope Counties Red River formation play spawned by 1995 horizontal tax incentives.



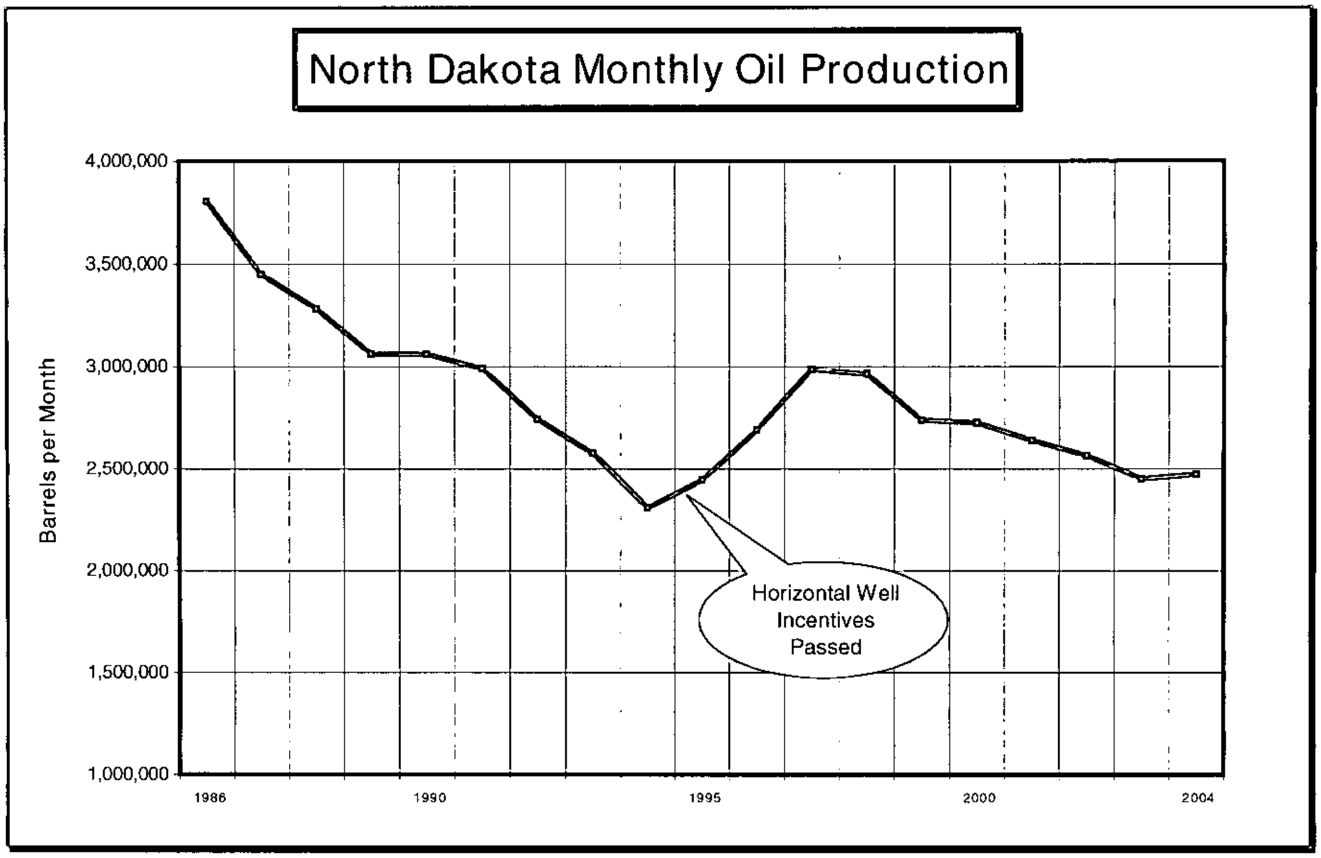
Increased pricing

Improved technology

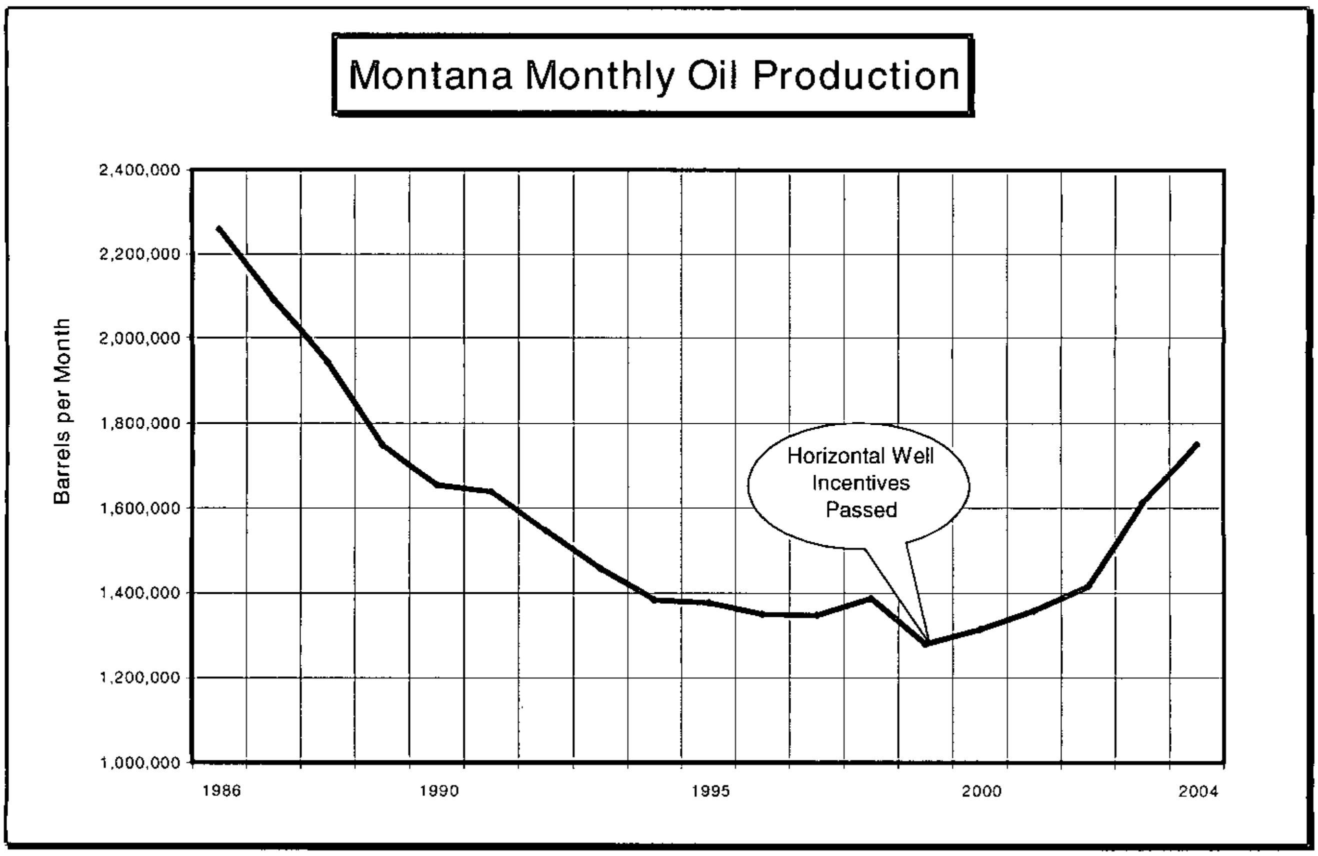
Copy

The Bakken formation horizontal play possibility.

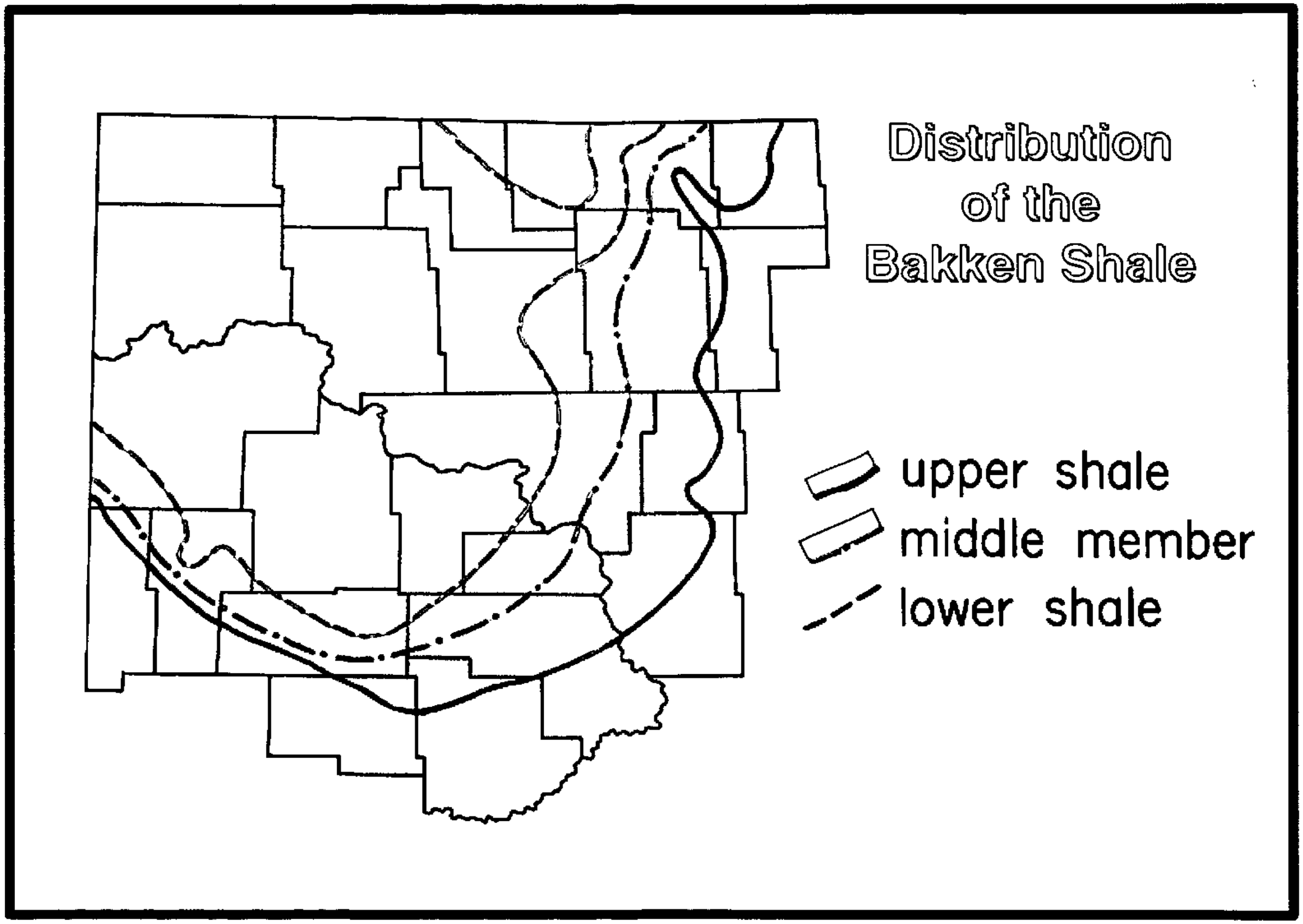
SOURCE: Stephen Holditch SPE Presentation 6/25/2001



North Dakota Monthly Oil Production
Barrels per Month
4,000,000
3,500,000
3,000,000
2,500,000
2,000,000
1,500,000
1,000,000
1986
1990
1995
2000
2004
Horizontal Well Incentives Passed

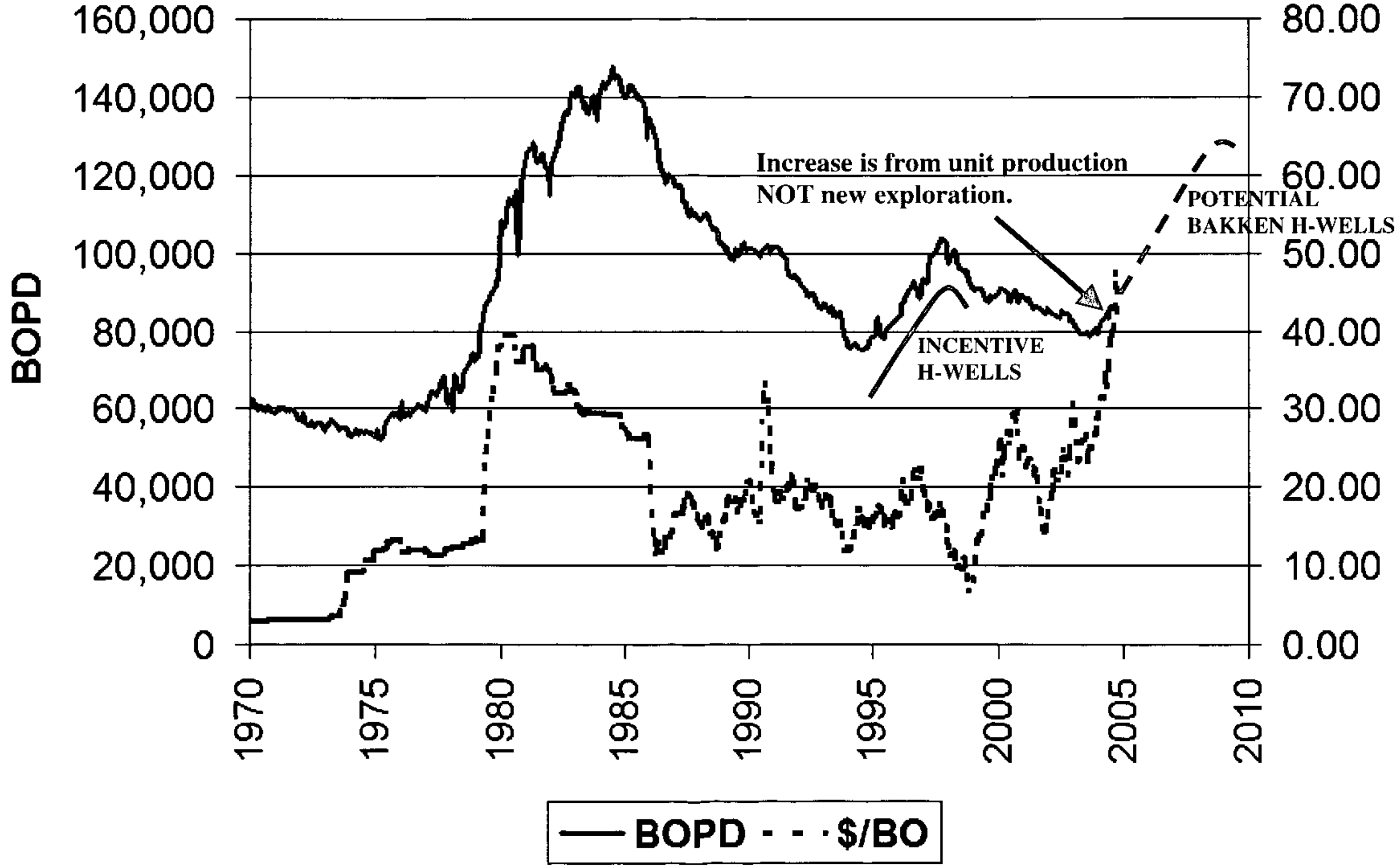


Montana Monthly Oil Production
Barrels per Month
2,400,000
2,200,000
2,000,000
1,800,000
1,600,000
1,400,000
1,200,000
1,000,000
1986
1990
1995
2000
2004
Horizontal Well Incentives Passed

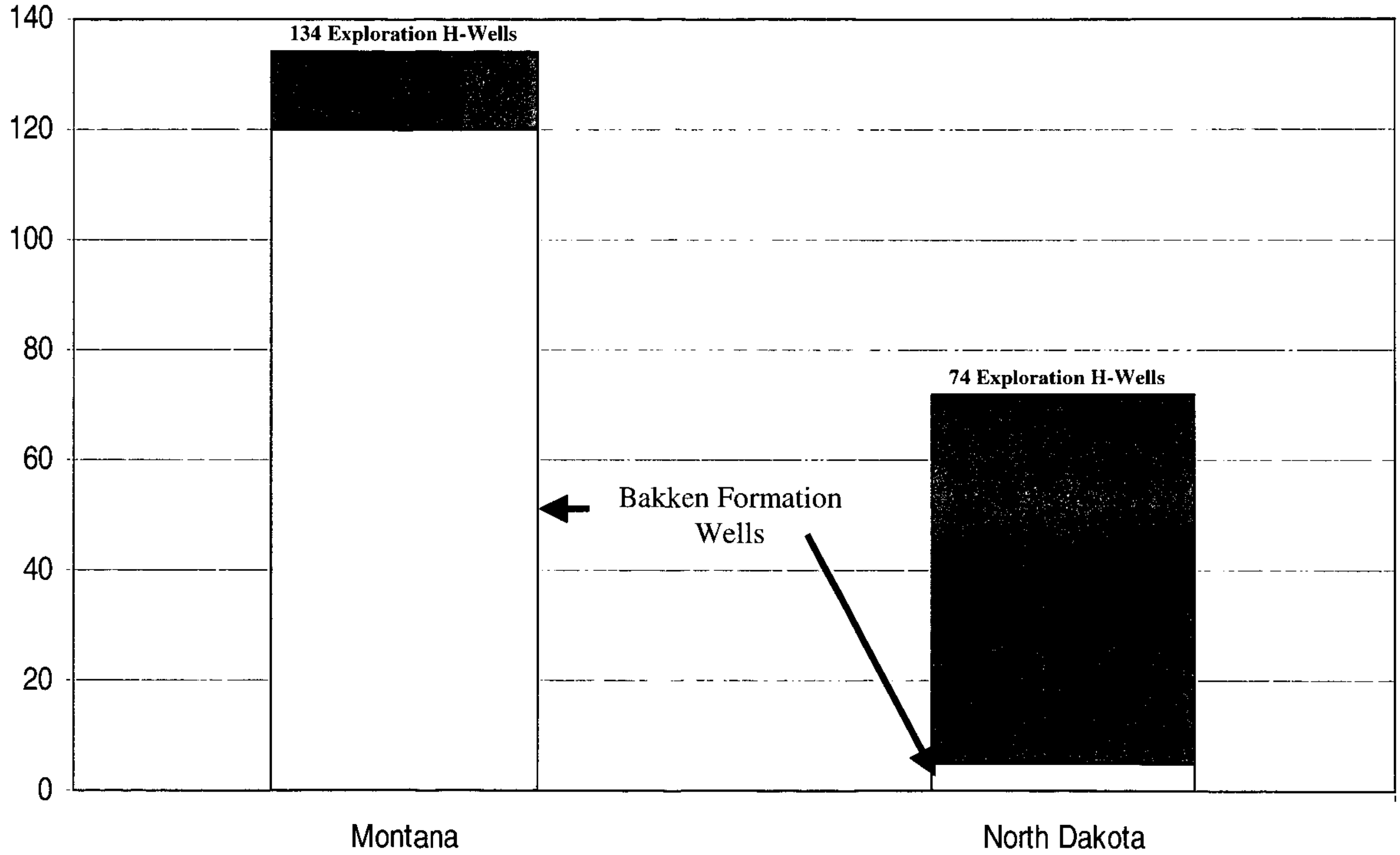


SOURCE: Julie LeFever, North Dakota Geological Survey

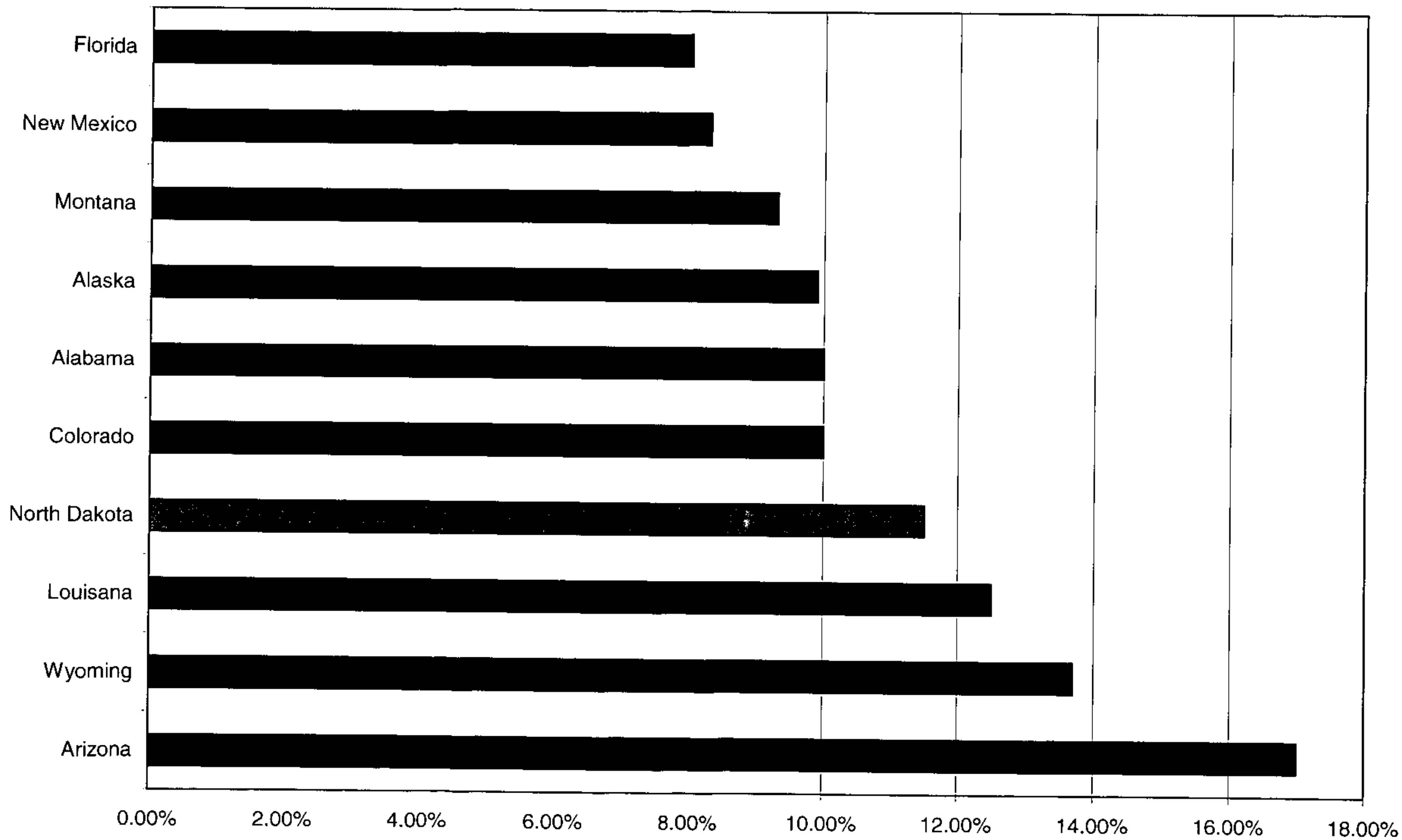
North Dakota Daily Oil Produced and Price



Exploration Horizontal Wells Drilled in 2004



Top Ten Oil Tax States



HB-1530

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Testimony Presented Before the House Finance and Taxation Committee, State of North Dakota

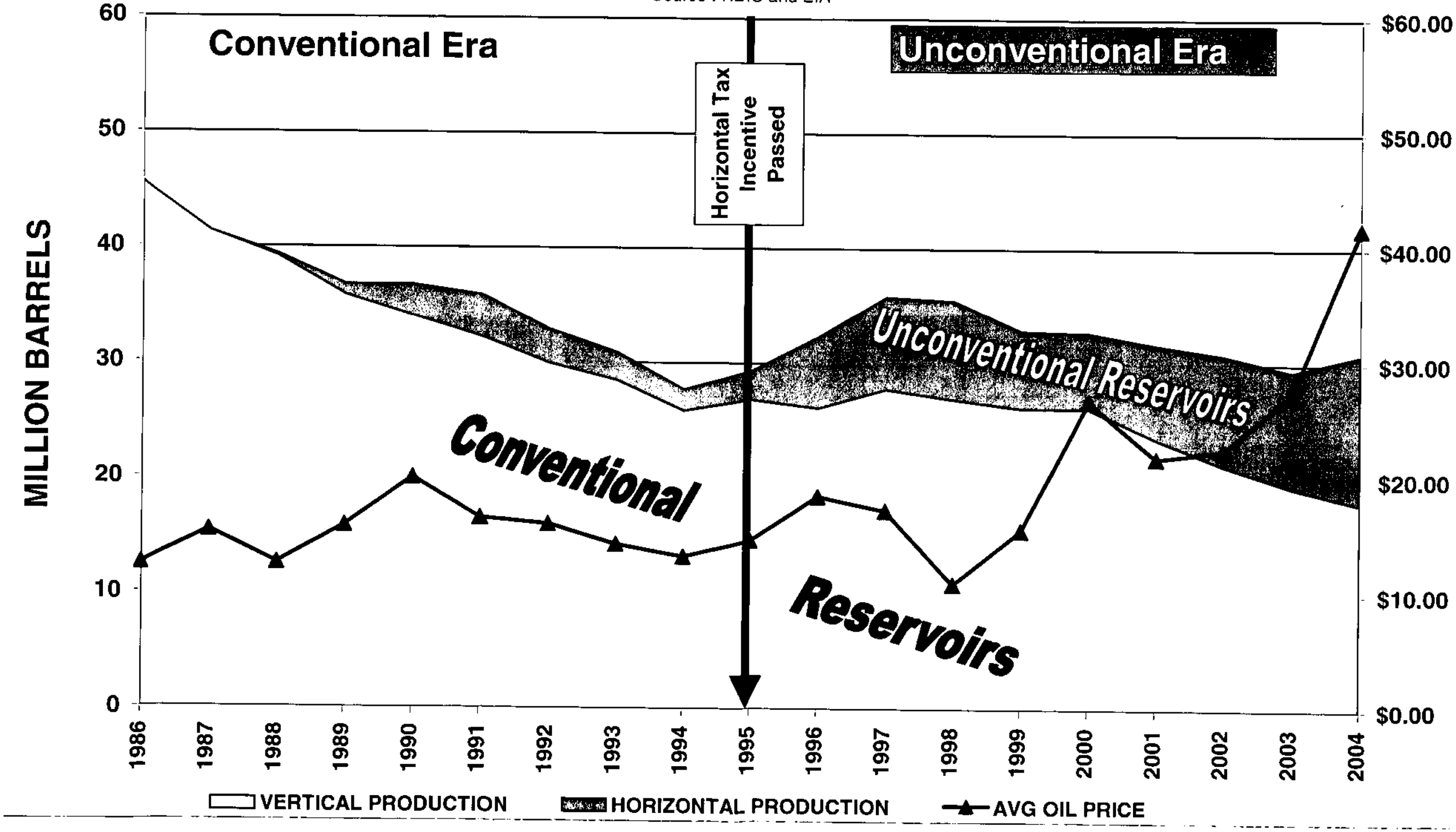
By

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

March 22, 2005

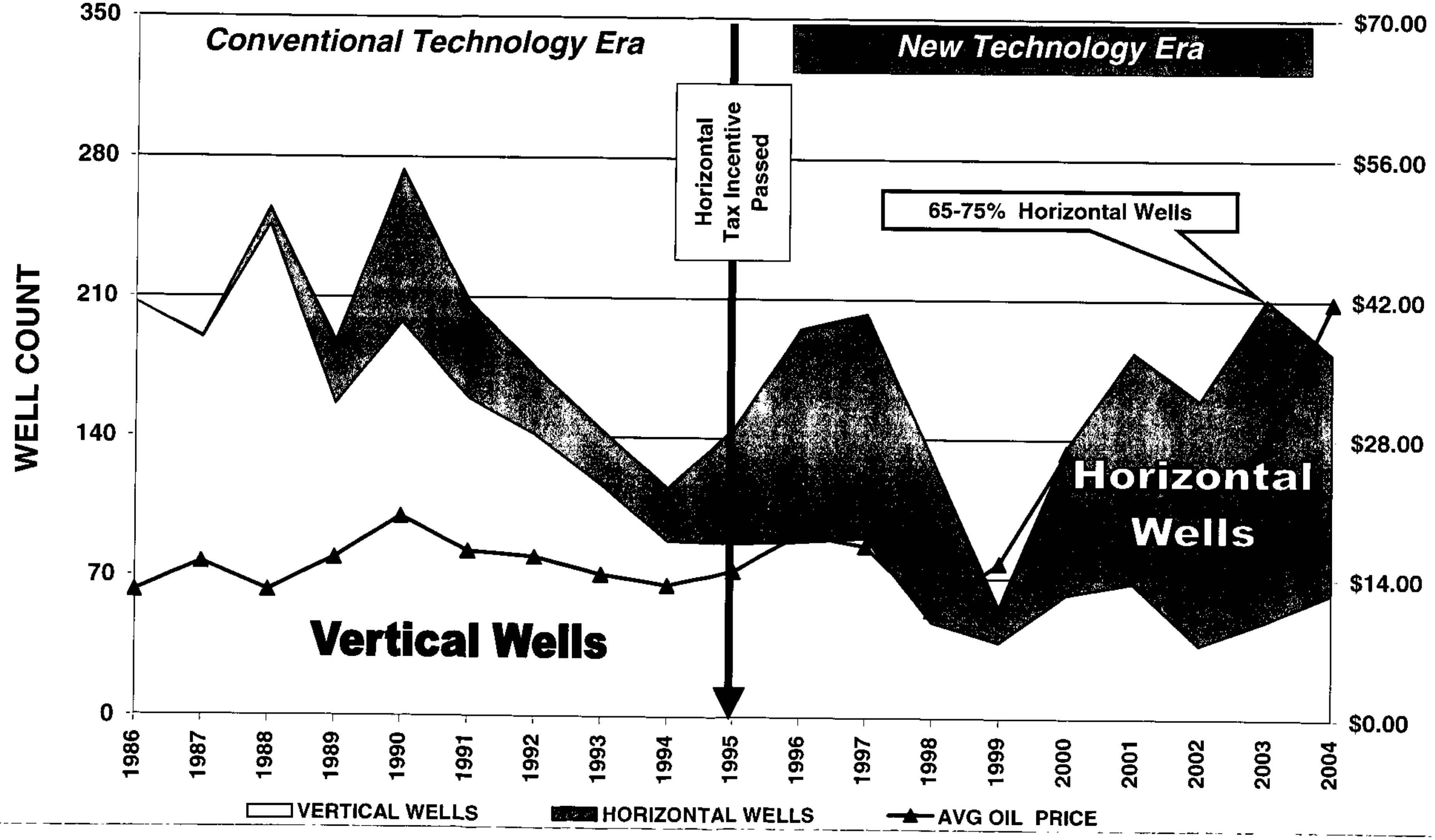
NORTH DAKOTA
ANNUAL CRUDE PRODUCTION

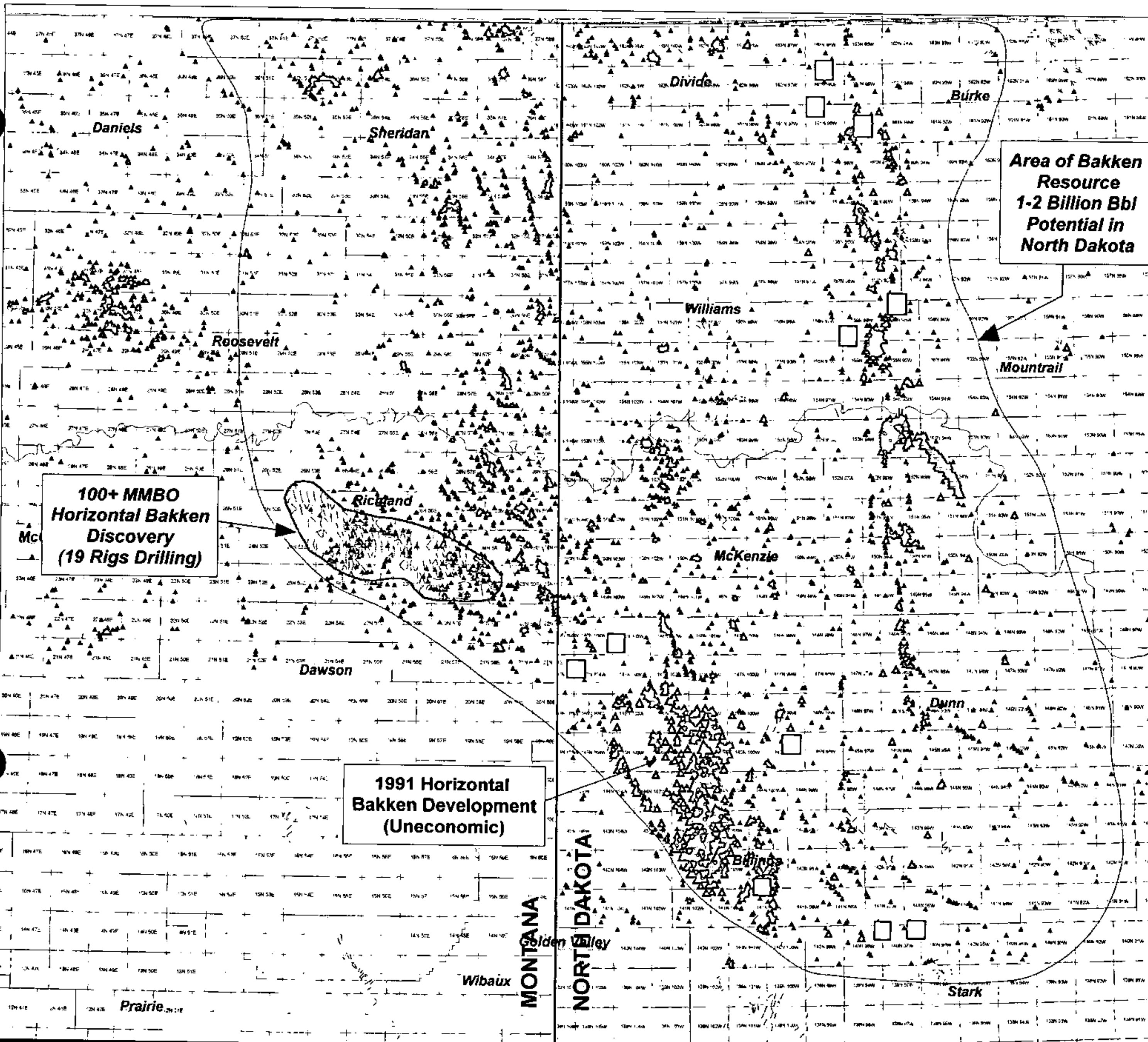
Created 2/1/2005 by Jack H Stark, Sr VP Exploration , Continental Resources, Inc.
Source : NDIC and EIA



NORTH DAKOTA
NUMBER OF WELLS DRILLED ANNUALLY

Created 2/1/2005 by Jack H Stark, Sr VP Exploration , Continental Resources, Inc.
Source : NDIC and EIA





Montana Tax on Horizontal Production	North Dakota Tax on Horizontal Production
0.5% for 18 months 9.0% after 18 months	11.5% No Tax Incentive When Price is Above $36.48/bbl

△ Bakken Producers - 9 %

△ Non-Productive Bakken Penetrations - 91 %

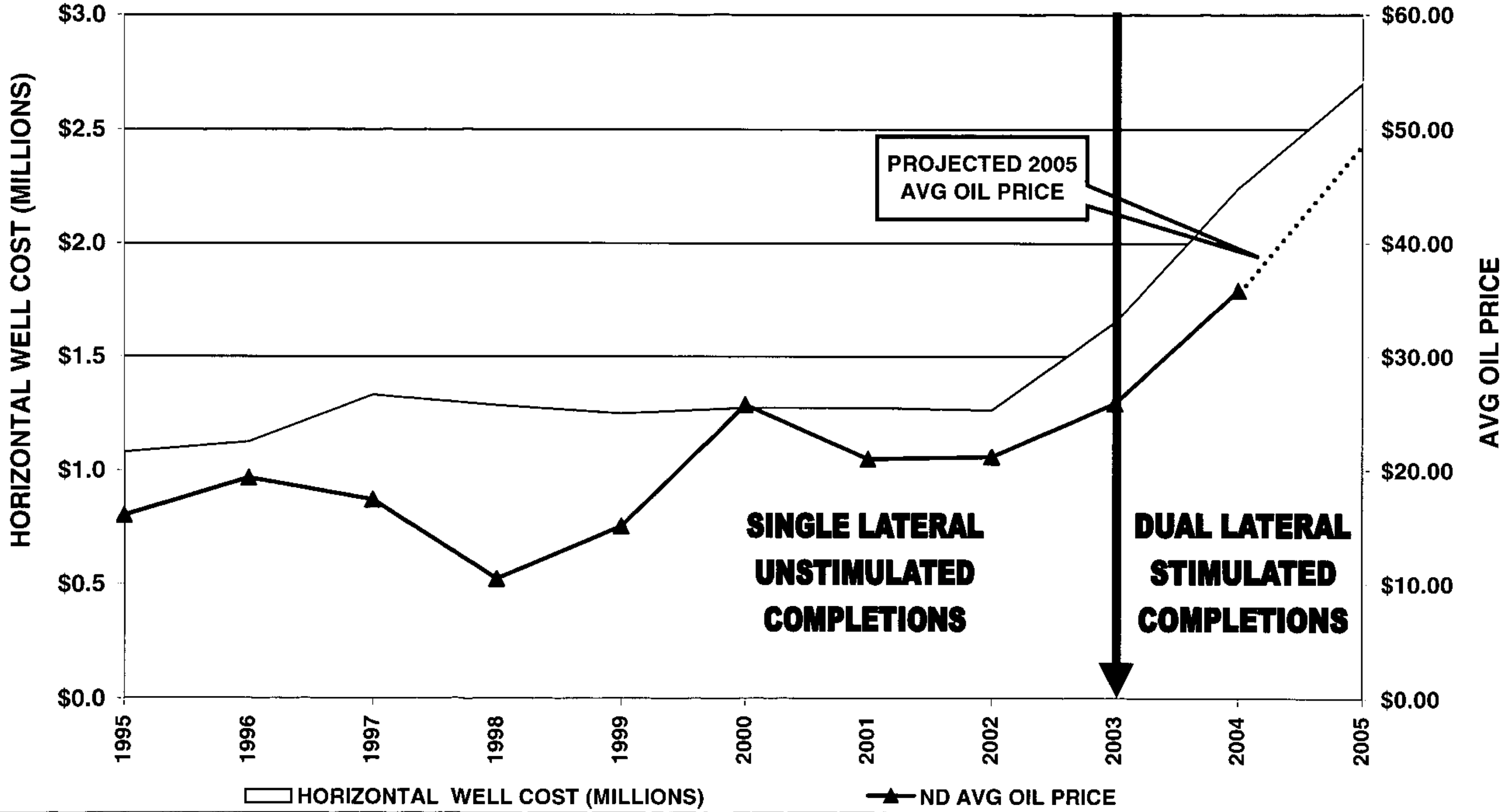
□ Recent Bakken Horizontal Tests

6 miles

Bakken Resource Map
Williston Basin
N. Dakota & Montana
January 2005

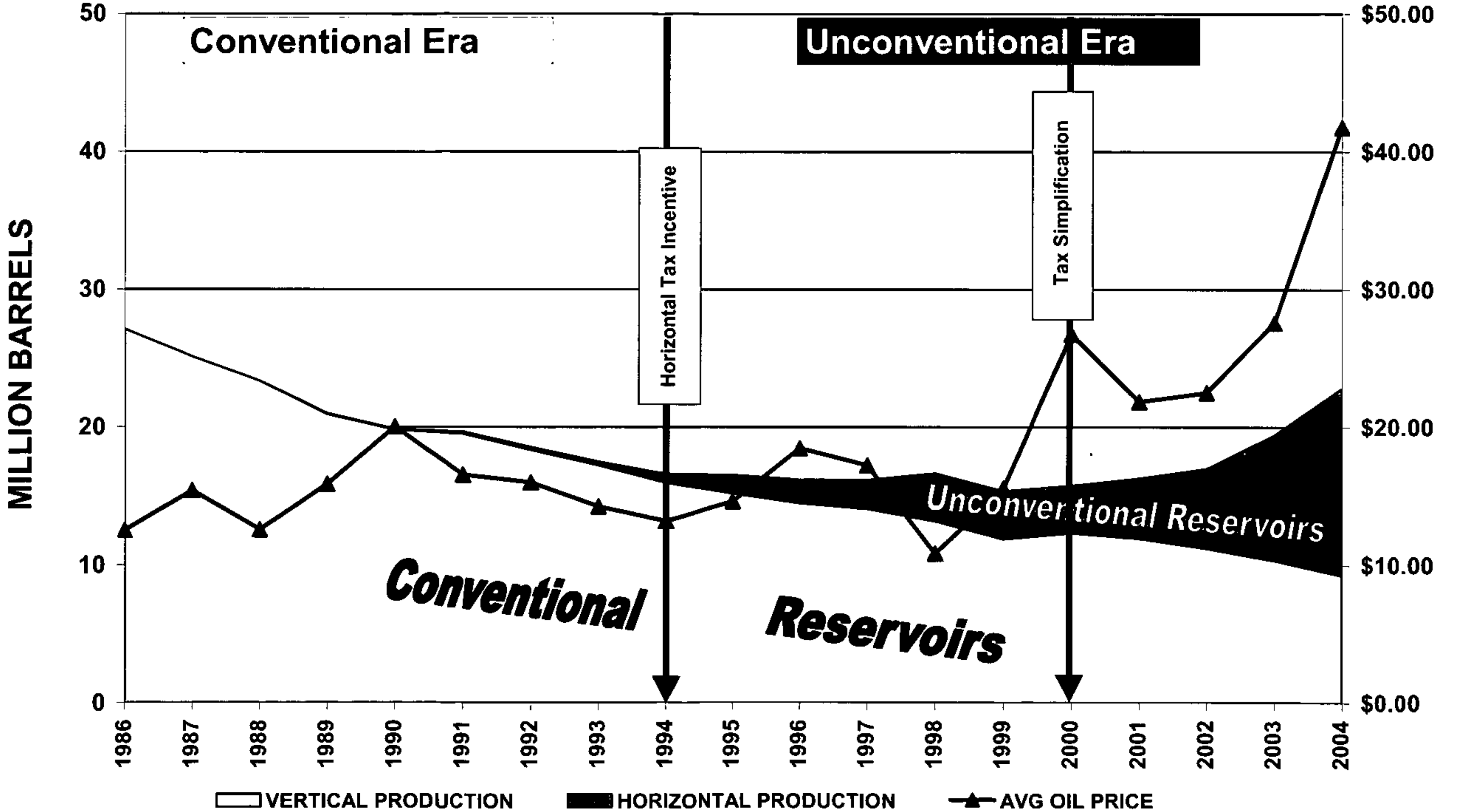
WILLISTON BASIN
HORIZONTAL WELL COST vs OIL PRICE

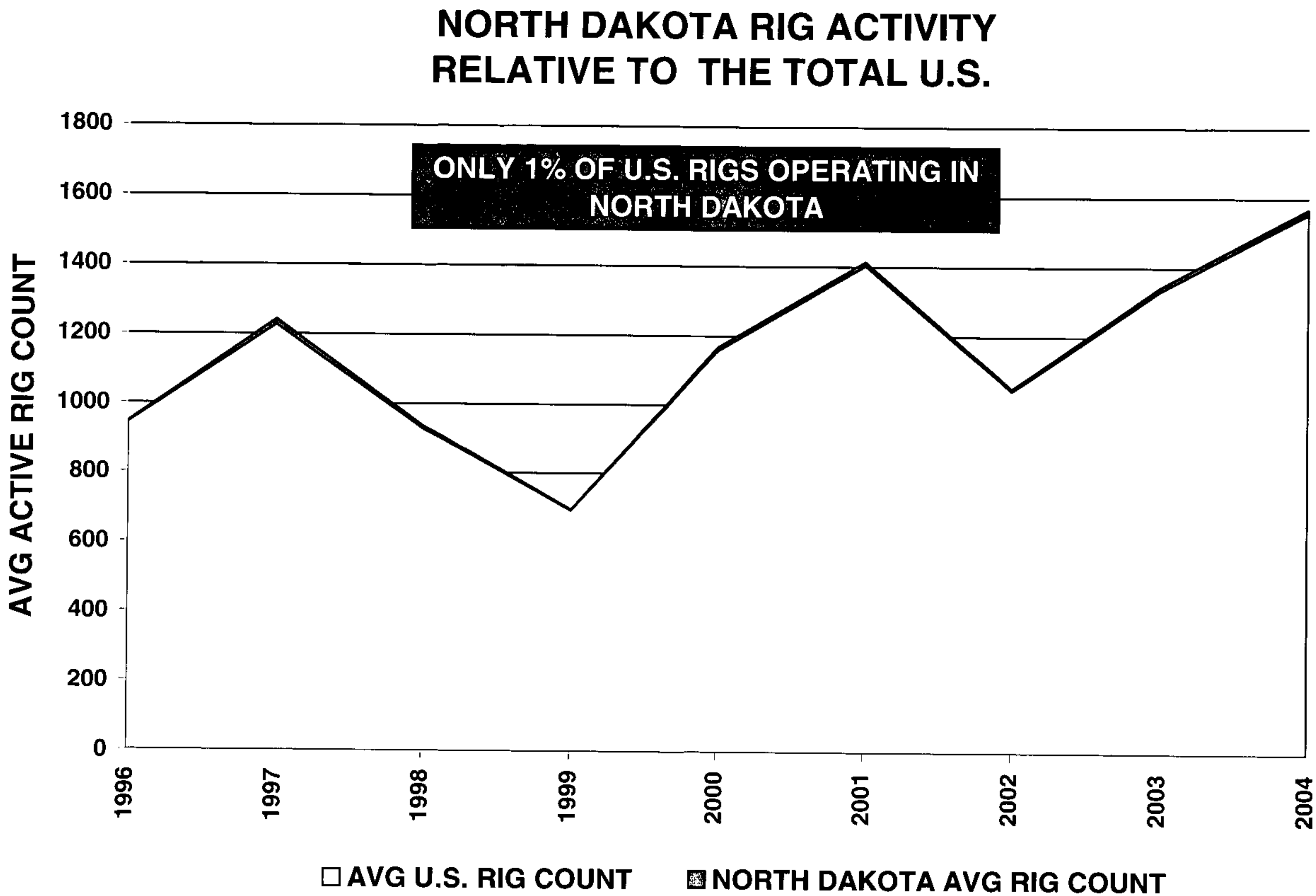
Created 3/1/2005 by Jeff Hume, Sr VP Resource Development , Continental Resources, Inc.
Source : CRI and NDIC

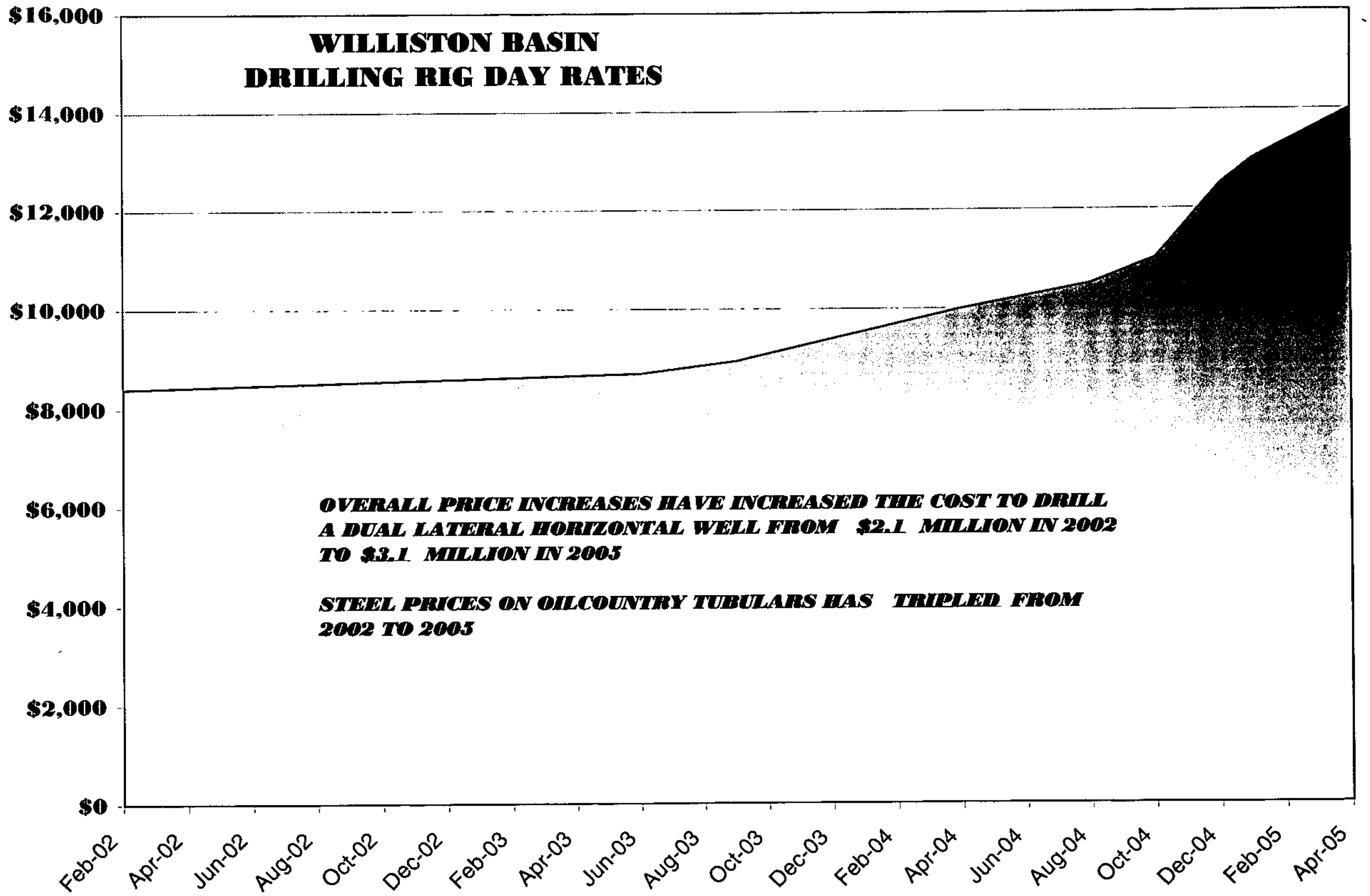


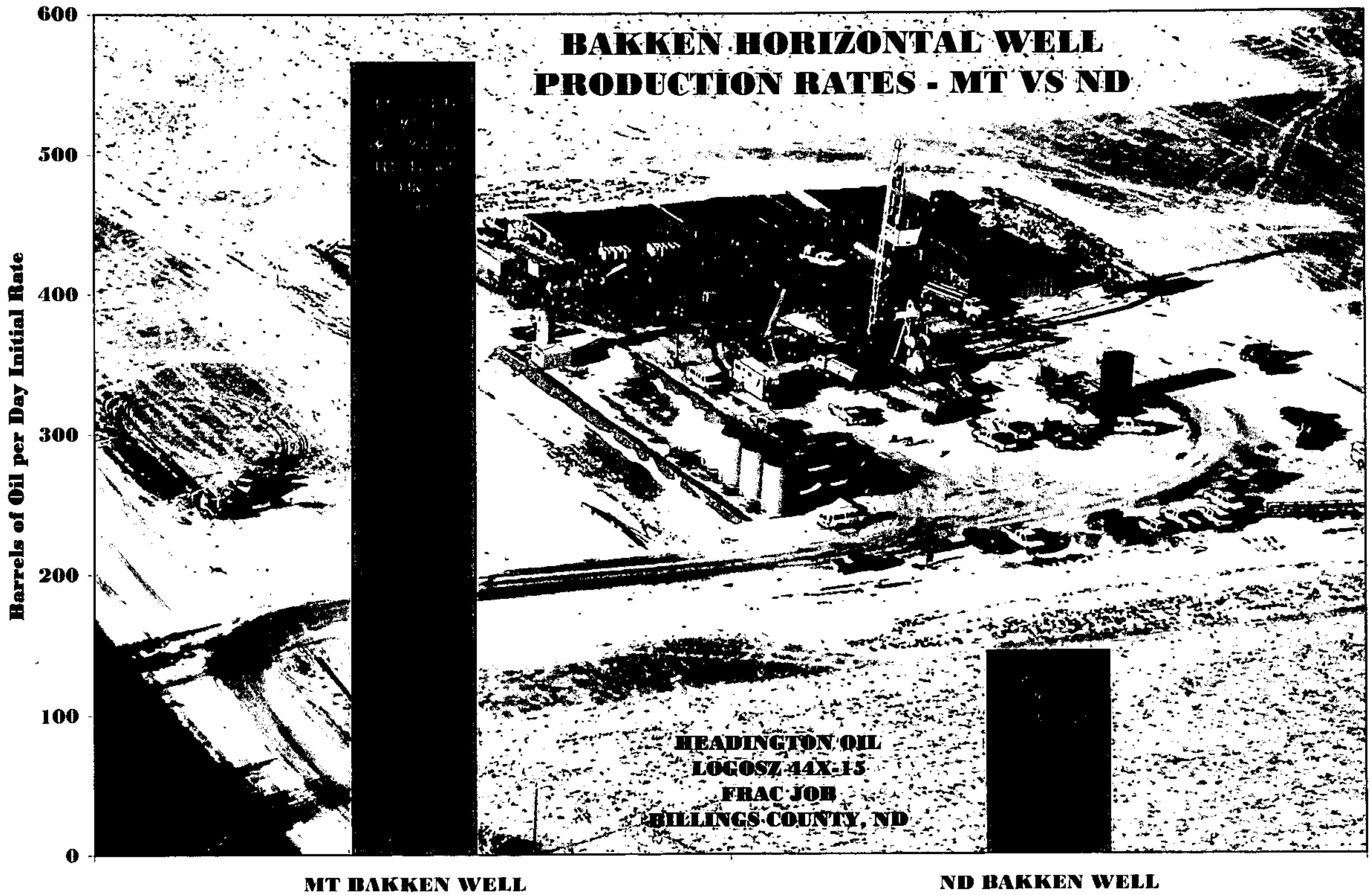
MONTANA
ANNUAL CRUDE PRODUCTION

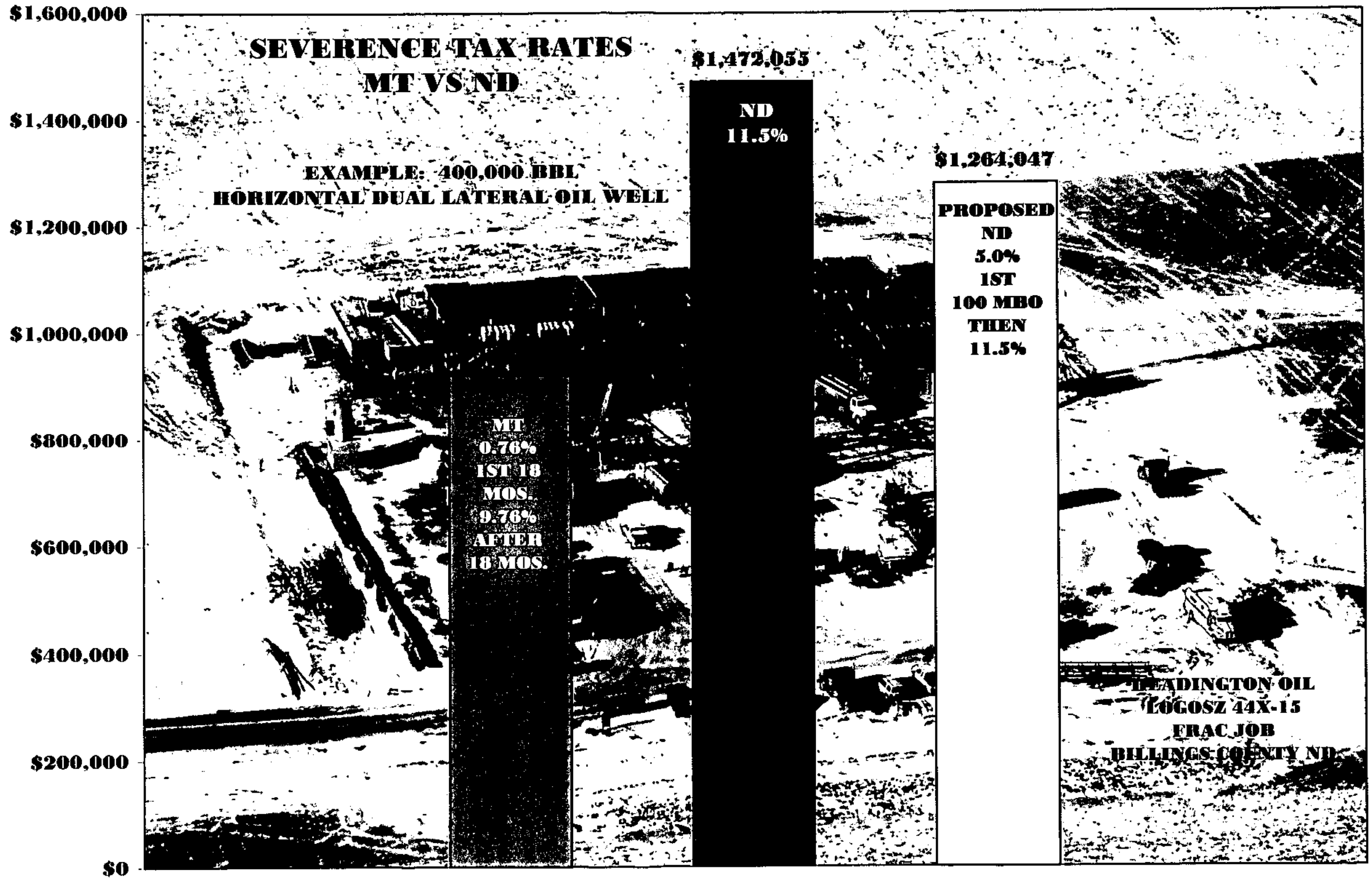
Created 2/1/2005 by Jack H Stark, Sr VP Exploration , Continental Resources, Inc.
Source : MBOGC and EIA



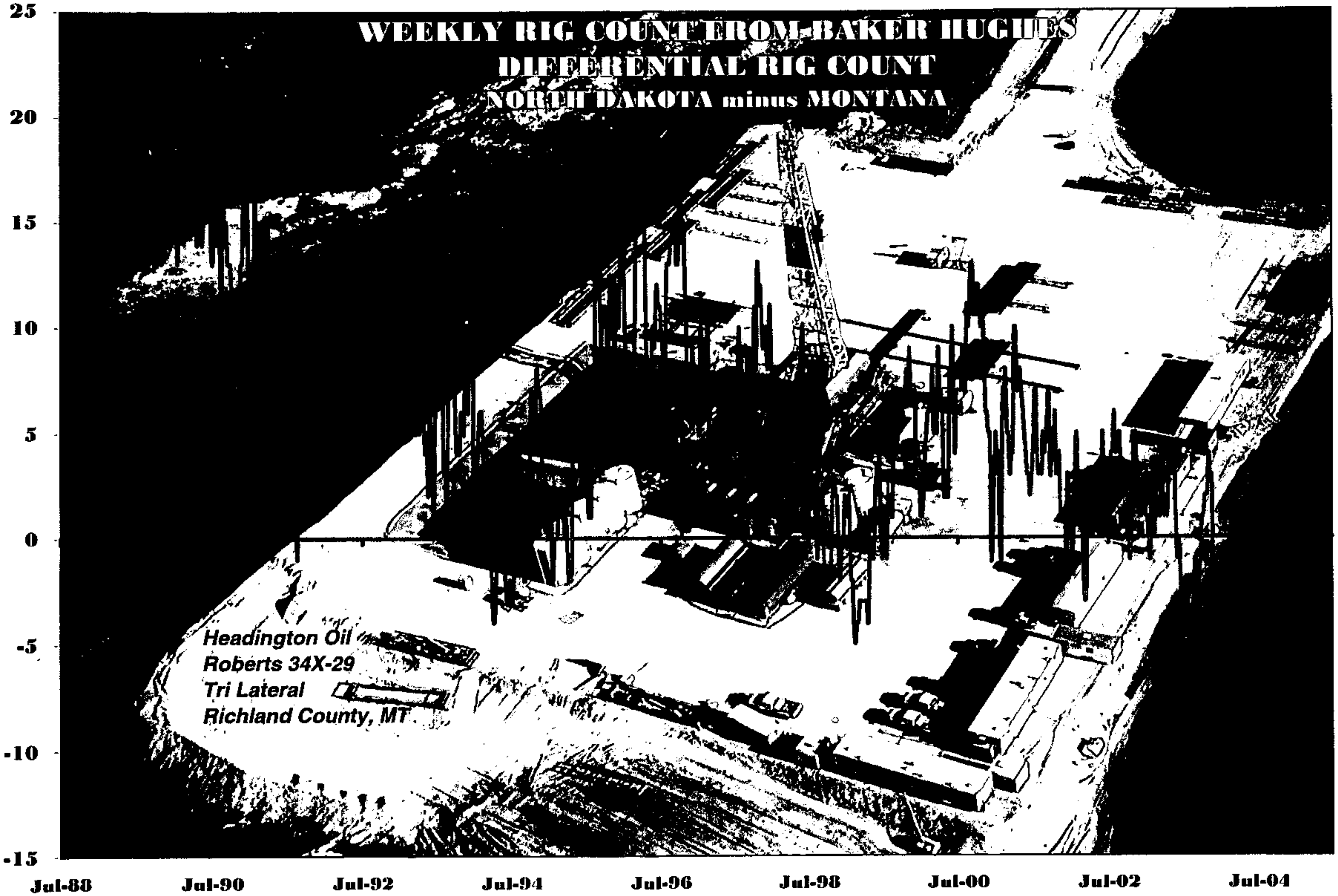

NORTH DAKOTA RIG ACTIVITY
RELATIVE TO THE TOTAL U.S.
ONLY 1% OF U.S. RIGS OPERATING IN NORTH DAKOTA
AVG ACTIVE RIG COUNT
1800
1600
1400
1200
1000
800
600
400
200
0
1996
1997
1998
1999
2000
2001
2002
2003
2004
AVG U.S. RIG COUNT
NORTH DAKOTA AVG RIG COUNT


WILLISTON BASIN
DRILLING RIG DAY RATES
$16,000
$14,000
$12,000
$10,000
$8,000
$6,000
$4,000
$2,000
$0
Feb-02
Apr-02
Jun-02
Aug-02
Oct-02
Dec-02
Feb-03
Apr-03
Jun-03
Aug-03
Oct-03
Dec-03
Feb-04
Apr-04
Jun-04
Aug-04
Oct-04
Dec-04
Feb-05
Apr-05
OVERALL PRICE INCREASES HAVE INCREASED THE COST TO DRILL A DUAL LATERAL HORIZONTAL WELL FROM $2.1 MILLION IN 2002 TO $3.1 MILLION IN 2005
STEEL PRICES ON OILCOUNTRY TUBULARS HAS TRIPLED FROM 2002 TO 2005


BAKKEN HORIZONTAL WELL
PRODUCTION RATES - MT VS ND
Barrels of Oil per Day Initial Rate
600
500
400
300
200
100
0
HEADINGTON OIL
LOGOSZ 44X-15
FRAC JOB
BILLINGS COUNTY, ND
MT BAKKEN WELL
ND BAKKEN WELL



SEVERENCE TAX RATES
MT VS ND
EXAMPLE: 400,000 BBL
HORIZONTAL DUAL LATERAL OIL WELL
$1,600,000
$1,400,000
$1,200,000
$1,000,000
$800,000
$600,000
$400,000
$200,000
$0
MT
0.76%
1ST 18
MOS.
9.76%
AFTER
18 MOS.
$1,472,055
ND
11.5%
$1,264,047
PROPOSED
ND
5.0%
1ST
100 MBO
THEN
11.5%
LOGOSZ 44X-15
FRAC JOB


WEEKLY RIG COUNT FROM BAKER HUGHES
DIFFERENTIAL RIG COUNT
NORTH DAKOTA minus MONTANA
25
20
15
10
5
0
-5
-10
-15
Jul-88
Jul-90
Jul-92
Jul-94
Jul-96
Jul-98
Jul-00
Jul-02
Jul-04
Headington Oil
Roberts 34X-29
Tri Lateral
Richland County, MT

Ryan Kopsing
HB 1530

Sinclair

DAILY DRILLING REPORT
RIG PHONE # 701863-7031

FOREMAN Bob Stenehjem SPUD DATE 08:00 PM: ON 05/24/03 REPORT# 37 DATE 06/30/03
OPERATOR Sinclair Oil Corporation WELL NAME AND # State Saetz # 14-36 STATE PERMIT 15418
LEGAL NE,NE, Sec. 36, T-147N , R-98W COUNTY McKenzie STATE North Dakota
PROSPECT/ FIELD Lone Butte Field GROUND ELV 2504 KB 21 KB.ELV 2525
CONTRACTOR Nabors Drilling Rig 684 LAST CASING RUN 67 JOINTS 36# J-55 DEPTH SET 3040

06:00 AM: DEPTH 14,200 DRILLING PROGRESS 0 FORMATION RED RIVER

ACTIVITY AT REPORT TIME TRIP IN TO RUN CASING Weather CLEAR TEMP 59 F°

BIT#	SIZE	MAKE	TYPE	SER. NO.	JETS	IN	6:00 AM	FEET	HOURS	FT PR H	RPM	B W	IADC DULL BIT GRADING
12	8	Smith	F-37-H	MN1310	13/13/13	13614	14,200	586	52 1/2	11.2			4 / E / 1/8

Mud Weight 9.8 Vis(sec) 47 hthp@250°F ml/30min 13 Flow line temp 120 Plastic Vis 22 Yield 10 Gels 6/9
Salt 80850 Lime ppb 2.4 API Fluid loss 2.1 corr. solids % by vol 8.9 Low gravity solids ppb 22.2 Oil / Water 80/20
Electrical Stability 518 daily loss 28 Cum 1671 diesel add 43 Cum 1363 salt water add 20 Cum 360
salt Cl X 1.65

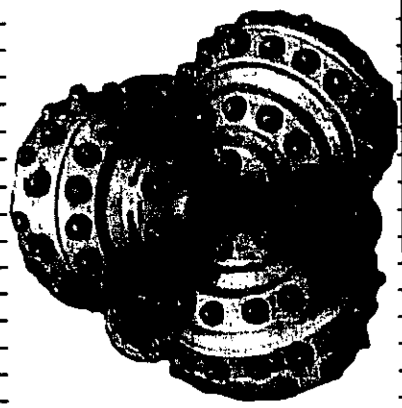
pump#	Model	SPM	PSI	GPS	GPM	BPS	BPM	AVDP	AVDC	AVDC	K SPM	K PSI
1	National 9-P-100 9 1/4" X 6"	90	1300	3.4	306	0.08	7.28	133.2	218.6	0	52	450
2	National 9-P-100 9 1/4" X 6"	0	0	0	0	0	0	0	0	0	0	0

Collars 30 Length 876.03 OD 6.5 ID 2.5 Threads 0 Air Weight 79831 EFF Weight 68113
BHA BIT, 30 DRILL COLLARS

DEVIATION SURVEY

3/4° @ 14,155 @ @ @ @
@ @ @ @ @

HOURS	FROM	TO	DESCRIPTION OF OPERATIONS
3	6:00 AM	9:00 AM	TD CIRCULATE FOR LOG
2	9:00 AM	11:00 AM	SHORT TRIP 20 STANDS OK
3	11:00 AM	2:00 PM	CIRCULATE FOR LOGS
1	2:00 PM	3:00 PM	PUMP PILL AND DROP SURVEY
6	3:00 PM	9:00 PM	TRIP OUT FOR LOGS
5 1/2	9:00 PM	2:30 AM	LOGGING
1/2	2:30 AM	3:00 AM	PULL WEAR BUSHING
3	3:00 AM	6:00 AM	TRIP IN HOLE WITH BIT
24	HOURS		



HOURS	
	DRILLING
	RIG SERVICE
1	SURVEYS
11	TRIPS
	CUT DRILLING LINE
6	CIRCULATE
	D.S.T.
5 1/2	LOGGING
	RIG REPAIR
	NIPPLE UP & DOWN
1/2	PULL WEAR BUSHING
24	

Driller Depth 14,200 feet
Logger Depth 14,210 feet

	Bottom	Top
Quichlook	14192	3028
Platform Express Compensated Neutron	14192	3028
Borehole Compensated Sonic Log	14162	3028
Cyberlook	14192	9520
Platform Express Array Induction Log	14202	3028

COSTS	DAILY	CUMULATIVE
WELDER		600
CSC, TBG, WH, EQ		40,256
PIT LINER, SURVEY		18,353
ROAD LOC		30,749
DAY WORK 874	8450	307,721
FOOTAGE		0
MOBILIZATION		55,000
BOILER		0
CASING CREW		4,500
CEMENT		25,868
CORR INN		0
MUD	1812	51,561
MUD OIL 59098		56,598
T invert mud		5,915
F WATER 7790		11,704
S WATER 0		0
TEST B.O.P		2,000
SALT		0
RIG FUEL 34100		36,600
BITS		90,853
SHAKER SCREEN		1,260
RENTAL EQ	1320	48,205
SAFETY EQ	95	3,504
TRUCKING		5,081
CORING		0
D.S.T		6,668
LOGGING	36689	36,689
INSPECTION D.C.		947
MISC		395
MUD LOGGER		0
GEOLOGIST	675	15,525
SUPERVISION	850	40,684
		585
		0
		0
		0
+ 5%	2,495	44,891
TOTAL	52,386	942,712

FUEL USED	CUMULATIVE USED
574	29167

Petroleum Experience Incorporated

PETROLEUM EXPERIENCE
P.O. BOX 2436
WILLISTON, NORTH DAKOTA
PHONE 701-774-8357 FAX 701-774-0125

Operator:	Sinclair Oil Corp	RPT#:	51	Date: 01/26/05		Location Days:	55	Spud Days:	51
WELL NAME:	Robert Peterson #11-2	RIG: Nabors Rig #688		KDB:	23'	GL:	2,246'	KDB:	2,269'
Depth:	14,320'	Footage:	TD	Formation Top: Red River "C" 14,085'		Lithology: 90% Limestone 10% Anhydrite			
CSG SIZE:	9.625"	CSG MD:	3,010'	CSG TVD:	3,010'	Trip BKGD:	6,300	Conn BG:	BKGD: 491
Supervisor:	Charles W. Slack	Telephone 701-842-2103		cwslack1@direcway.com		Geol Peter Walden:	701-842-2104		

PRESENT OP: Circulate & Prep to pump 40 bbls fresh water sweep around and out to pits in preparation for DST #3

Weather: Temp 20F, Mostly cloudy skies early, then partly cloudy this afternoon. Colder. High 22F. Winds ESE at 5 to 10 mph.

EXECUTIVE SUMMARY: Strap out of hole (No Correction SLM) MIRU Schlumberger logger's, Logger's TD = 14,343' 23 ft deeper.
Log well as per procedure and TIH with RR Bit#10, Circulate bottoms up gas through Gas Buster.
Circulate and wait on orders. NDIC Mr Jessie Franks visited location today with P&A tops.

MW Out	MW In	VIS	PV	YP	GELS	Hi-Temp WL	HT-API Cake	API WL	Unc SLD	Losses	Centrifuge
10.5	10.5	53	20	18	7/13/23	14 cc	2/2	6 cc	14	0	0
Flow Temp	**Ck Temp**	**OIL**	**WTR**	**Oil/Wtr**	**Pm**	**Pf**	**Salt %Wt**	**CL**	**E-Electric**	**LIME**	**ECD ppg**
	90	67	19	78/22	n/a	n/a	28.16	45,000	831	3.51	10.6

BIT#	SIZE	TYPE	IN	OFF	FTG	HRS	RPM	WOB	I O D L B G O T R	
10	8.75 HTC	HC44 6-2-7	13,458'	14,320'	862'	99.5	60	60	2-2-NO-A-F-1/8-NO-TD	8.7

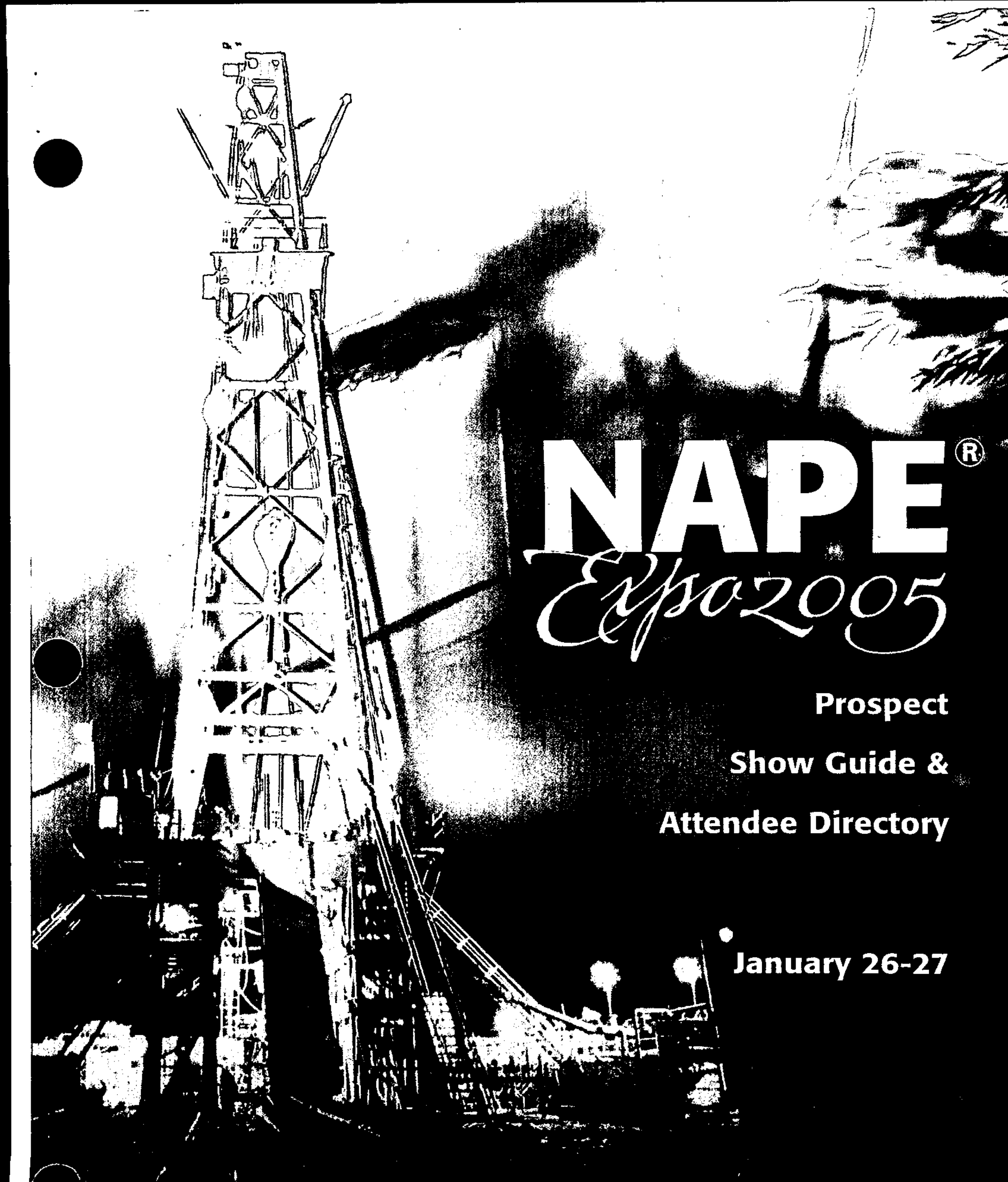
BIT#	SERIAL#	PRESS.	GPM	Nozzles	TFA	Jet Vel	ANNULAR VELOCITY 8 3/4" & 10% Excess 9.63"		BIT HP
10	6021563	1530	320	2-16, 1-14	0.543	186	DP = 139/108	DC = 228/156	62

BHA:	BHA #10	**BHA:** Bit, BS, (29) spiral 6 1/2" drill collars	
Length:	907.43	**BHA Hours Since Inspection:** 99.50	**BOP Test due:** 4-Feb-05
Bf Weight:	68,987	**Drill Pipe:** (3,893', 4 1/2" XH 20 ppf Grade "E") (4,836', 4 1/2" 20 ppf X95) (4 1/2" S135 16.6 & 20 ppf)	
Survey Depth	Degrees	Max Overpull: Grade "E" Overpull = 188K **"X95" Overpull = 187K** "S135" Over pull = 270K	

Survey Depth	Degrees						Strap	Rig Fuel (Gals)		OBM Diesel (bbls)	
11,344'	0.50	Pickup Wt:	350K					Delivered	0	Delivered	0
12,431'	0.75	Rotating Wt:	345K	SPR Pump #1	800 psi at 70 stks		Strap	Delivered	0	Delivered	0
13,408'	0.75	Slackoff Wt:	340K	SPR Pump #2	825 psi at 56 stks		86.0	Prev-Vol	16,230	Pre-Vol	202
14,370'	1.00						86.0	Report Vol	14,553	Report Vol	202
								Net Used	1,677	Net Used	0

Start	End	Hours	Operations In Sequence (Boiler turned off during good weather)
6:00	13:00	7:00	Drop survey, POOH (SLM = No correction) 30-50K overpull in Charles Salt zone
13:00	20:00	7:00	MIRU Schlumberger loggers, conduct safety meeting. Driller's TD = 14,320' Logger's TD = 14,343'
			Run #1 Platform Express, CND, Iinduction, GA F/TD up T/3,010'. RDMO Loggers
20:00	2:00	6:00	TIH with RR Bit #10
2:00	6:00	4:00	Wash to bottom with no indications of fill and circulate bottoms up gas through Gas Buster.
			Continue circulating.
Total Hours Today		24:00	

Daily Cost:	$68,703	Accum Cost:	$1,692,063	LAST BOPE TEST DATE:	01/05/05
Daily Mud Cost:	$6,433	Cum Mud Cost:	$72,018	ACCIDENTS REPORTED TODAY:	None



NAPE® Expo2005

Prospect Show Guide & Attendee Directory

January 26-27

PRESENTED BY THE AMERICAN ASSOCIATION OF PROFESSIONAL LANDMEN AND THE INDEPENDENT PETROLEUM ASSOCIATION OF AMERICA

State	County/Parish	Basin	Primary Objective	Secondary Objective	Company Name	Booth
[illegible]		North Slope	Grandstand sands 300 ft gross bbb1200 ft	Chandler 70 ft, Ninuluk 80 ft	Gary L. Nydegger & Associates	660
[illegible]	Choctaw		Smackover	Norphlet	Mesa Energy, LLC	2309
AL	Choctaw	UPDIP Smackover	Smackover - 3D- Oil		Vision Exploration, LLC	303
AL	Escambia	Gulf Coast	Smackover	Haynesville	Strago Petroleum Corporation	1453
AL	Multiple	Black Warrior	Mississippian (Chesterian) Sandstones	Knox Carbonates	Weyerhaeuser Company	457
AL	Multiple	Black Warrior	Neal Shale	Pennsylvanian Sandstones	Weyerhaeuser Company	457
AL	Various	Black Warrior	Carter Gas	Lewis & Penn	Colitas Exploration Co, LLC	1107
AL	Various	Black Warrior	Shale Gas		Colitas Exploration Co, LLC	1107
AL		Black Warrior	Pottsville	Knox	Thomasson Partner Associates, Inc.	913
AR	Madison		Fee Minerals Available for Lease		Cameron Mineral Trusts	1756
AR	Multiple	Ouachita Mountains	Jackfork Group	Stanley Group	Weyerhaeuser Company	457
AR	Union	Central Gulf Coast	Smackover/Cotton Valley	Hosston/James/Rodessa	Jura-Search Inc.	2350
AZ	Coconino	Coconino Plateau	Wind Turbines		Bioenergy Development Group LLC	766
CA	Colusa	Sacramento	Forbes		Petrogulf Corporation	2243
CA	Fresno	San Joaquin	Lowstand Turbidites		Black Coral, LLC	1263
CA	Glenn	Sacramento Valley	Forbes-Upper Cretaceous		Nana Oil & Gas, Inc.	1163
CA	Kern	San Joaquin	Cretaceous		Cameros Energy, Inc.	1563
CA	Kern	San Joaquin	Lerdo	Chanar	Cameros Energy, Inc.	1563
CA	Kern	San Joaquin	Gibson	Oceanic	Prime Natural Resources, Inc.	568
CA	Kern	San Joaquin	Ethcegoin		Prime Natural Resources, Inc.	568
CA	Kern	San Joaquin	Middle Miocene		Prime Natural Resources, Inc.	568
CA	Kern	San Joaquin	Upturn Trend/Stevens	Monterey	Oxy Resources California, LLC	2359
CA	Kerr	San Joaquin	Phacoides Sandstone	Pant of Rocks Sandstone	GASCO Energy, Inc.	429
CA	Los Angeles	Los Angeles	Torrance Field- Main Zone	Torrance Field- Del Amo Zone	Oil & Gas Technology Fund, Inc.	2144
CA	Merced	San Joaquin	Lowstand Jurbidites		Black Coral, LLC	1263
CA	Yolo	Sacramento	Winters		Petrogulf Corporation	2243
[illegible]	Archuleta	San Juan	Dakota	Morrison Sand	Lynx Production Company, Inc.	1258
[illegible]	Baca	Hugoton	Topeka	Red Cave Wabaunsee	Cholla Production, LLC	966
[illegible]	Garfield	Piceance	Mesa Verde	Wasatch	Retamco Operating Inc.	843
CO	Jackson	North Park	Coalbed Methane	Niobrara & Dakota Sandstones	Lane Lasrich, CPL	2044
CO	Jackson	North Park	Niobrara Coalmont (CBM) Dakota-Lakota	Sundance Morrison	Nielson & Associates, Inc	667
CO	Lincoln	Denver	J-sand (Cretaceous)		Oil & Gas Technology Fund, Inc.	2144
CO	Mesa	Piceance	Mesaverde	Wasatch	Great Northern Gas Company	2259
CO	Moffat	Eastern Green River	Almond	Fox Hill	Redwine Resources, Inc	1126
CO	Moffat	Sand Wash	Niobrara	Williams Fork Coal	Koch Exploration Company, LLC	1863
CO	Moffat	Sandwash	Almond	Lewis	Julander Energy Company	563
CO	Montrose	Paradox	Pennsylvanian	Mississipian	Redwine Resources, Inc	1126
CO	Rio Blanco	Piceance	Dakota	Morrison	EnCana Oil & Gas (USA) Inc.	1158
CO	Rio Blanco	Piceance	Williams Fork Coals		Great Northern Gas Company	2259
CO	Yuma	Denver Basin	Niobrara		J.M. Huber Corporation	551
CO		DJ, Piance	Producing Properties		Madison Energy Advisors, Inc.	1915
CO	Rio Blanco	Piceance	Williams Fork Coal, Sandspong		Koch Exploration Company, LLC	1863
FL	Bay/Calhoun/Washington		Smackover Trend		PLS, INC.	558
FL	Collier	South Florida	Lower Sunniland	Upper Sunniland	US Capital Energy, Inc.	1865
IL		Illinois	Coalbed Methane		Suncor Energy (Natural Gas) America Inc.	2027
IL	Marion	Illinois	Pennsylvanian	Devonian	Oil & Gas Technology Fund, Inc.	2144
IL	Marion	Illinois	Silurian Reef	Devonian Dolomie	Spyglass Energy Group LLC	2213
KS		Forest City / Cherokee	CBM Cherokee Section	Cherokee	Suncor Energy (Natural Gas) America Inc.	2027
KS	Barber	Anadarko	Shale - Chattanooga/Woodford	Numerous	Energy Supply Corporation	420
KS	Clark	Anadarko	Big Basin - Viola	Mississippian	Reeves Exploration	1769
KS	Clark	Mid-Continent	Viola	Miss	Marmik Oil	2325
KS	Cowley	Mid-Continent	Pawnee, Bartlesville	Ft Scott, Altamont	Marmik Oil	2325
KS	Elk	Cherokee	Mississippian	CBM Cherokee	J.M. Huber Corporation	551
[illegible]	Lane	Anadarko	Marmaton		The Blanco Co.	1868
[illegible]	Leavenworth	Forest City	McLouth Sand-Cherokee Coals		Cholla Production, LLC	966
[illegible]	Mitchell	Salina	Lansing (Pennsylvanian)		Oil & Gas Technology Fund, Inc.	2144
KS	Rush	Central Kansas Uplift	Penn Sands Lansing/Kansas City	Arbuckle	Inter-American Corporation	1459
KS	Scott	Anadarko Shelf	Morrow	Lansing-Kansas City	Cholla Production, LLC	966
KS	Trego	Western Kansas	Mississippian/Pennsylvanian	Arbuckle Group	Wevco Production, Inc.	1764

State	County/Parish	Basin	Primary Objective	Secondary Objective	Company Name	Booth
[illegible]	Wallace	Anadarko	Morrow	Arbuckle	Reeves Exploration	1769
[illegible]	Bell	Appalachian	Devonian Shale	Maxon Sand, Mississippian Big Lime	NGAS Resources, Inc.	740
[illegible]	Harlan	Appalachian	Devonian Shale	Maxon Sand, Mississippian Big Lime	NGAS Resources, Inc.	740
KY	Leslie	Appalachian	Devonian Shale	Maxon Sand, Mississippian Big Lime	NGAS Resources, Inc.	740
KY		Southern Illinois	Devonian Shale Gas		Thomasson Partner Associates, Inc.	913
LA	Acadia	Bosco Field- Nodosaria	Nod A Sand	Marg Tex strat sands	Clayton Williams Energy, Inc.	2416
LA	Acadia	Branch Field-Nodosaria	3 Discorbis Sands	NS-1 & 2, Homeseekers E, Nod A & B	Clayton Williams Energy, Inc.	2416
LA	Acadia	Gulf Coast	Frio - (Bol Mex)	Frio - (Nobion Struma)	Denex Oil & Gas, Inc	1058
LA	Acadia	Gulf Coast	Miogyp	Camerina	GLS, LLC	666
LA	Acadia	Gulf Coast	Siph. davisi		GLS, LLC	666
LA	Acadia	Gulf Coast	Miogyp	Camerina	GLS, LLC	666
LA	Acadia	Gulf Coast	Lamerina	MioGyp	Stephens Production Company	353
LA	Acadia	Gulf Coast	Camerina	Marig TEX	Stephens Production Company	353
LA	Allen		NW Oberlin 3-D		Orbit Energy, Inc.	2317
LA	Assumption	Gulf Coast	Operc	Ridgefield	Gulf Coast 3D	468
LA	Avoyelles	Gulf Coast	Lower Tuscaloosa - 3D- GAS	Fractured Chalk	Vision Exploration, LLC	303
LA	Beauregard		Cockfield	Cook Mountain	American Energy Services, Inc.	1165
LA	Beauregard		Cockfield 3-D Amplitude		Orbit Energy, Inc.	2317
LA	Beauregard		Frio 3-D Amplitude		Orbit Energy, Inc.	2317
LA	Block 12	Gulf of Mexico	Siph. d. A Sand	Siph. d. B Sand	Maritech Resources, Inc.	426
LA	Calcasien	Gulf Coast	Hackberry		White Oak Energy, LLC	324
LA	Calcasieu	Gulf Coast	Vicksburg	Hackberry	Benchmark Oil and Gas Company	434
LA	Calcasieu	Gulf Coast	Tertiary sandstones		Chroma Energy	1101
LA	Calcasieu	Gulf Coast	4 Miocene Sands		J.L. Allen Exploration Ventures, LLC	527
LA	Calcasieu	Gulf Coast	Lower Hackberry		J.L. Allen Exploration Ventures, LLC	527
LA	Calcasieu	Gulf Coast	Lower Hackberry		J.L. Allen Exploration Ventures, LLC	527
LA	Calcasieu	Gulf Coast	Miocene		J.L. Allen Exploration Ventures, LLC	527
[illegible]	Calcasieu	Gulf Coast	Hackberry		New Century Exploration, Inc.	645
[illegible]	Calcasieu	S LA-Edgerly Field	Hackberry		New Century Exploration, Inc.	645
LA	Calcasieu		Hackberry Sand		Optimistic Oil Company	1705
LA	Calcasieu		Cib Haz		Kimsu Oil Company	2136
LA	Calcasieu		1st Camerina		Kimsu Oil Company	2136
LA	Calcasieu		2nd Camerina		Kimsu Oil Company	2136
LA	Cameron	Gulf of Mexico	Pleistocene		Resource Solutions, LLC	1127
LA	Cameron	Gulf of Mexico	Pleistocene		Resource Solutions, LLC	1127
LA	Cameron	Gulf of Mexico	Pleistocene		Resource Solutions, LLC	1127
LA	Cameron	Gulf of Mexico	Pliocene, Pleistocene		Resource Solutions, LLC	1127
LA	Cameron		Marg Howei		Kimsu Oil Company	2136
LA	Cameron		Marg Howei		Kimsu Oil Company	2136
LA	Cameron		Upper Planulina		PLS, INC.	558
LA	Concordia	North Louisiana	Turnbull Island		ExxonMobil Production Company	1729
LA	Evangeline	Gulf Coast	Cockfield/Yegua		PYR Energy Corporation	402
LA	Federal	Offshore	Pliocene		Mariner Energy Inc.	1049
LA	Federal	Offshore	Pleistocene		Mariner Energy Inc.	1049
LA	Federal	Offshore	Pleistocene		Mariner Energy Inc.	1049
LA	Iberia	South Louisiana	Discorbis 14	Discorbis 15	Mach Energy, L.L.C.	1169
LA	Iberville	Tertiary	Cib Hazz	Marg Howei	Burlington Resources Inc.	300
LA	Jackson PA	N. Louisiana Salt	Bossier Sandstones	Cotton Valley Sandstones	Weyerhaeuser Company	457
LA	Jefferson	Gulf Coast	Lower Cris I	Upper Cris I, Big Hum	Ginger Oil Co.	2200
LA	Jefferson Davis	Gulf Coast	Yegua	Hackberry	Fife Oil Company	2128
LA	Jefferson Davis	Gulf Coast Onshore	Bol mex	Marg tex	Denbury Onshore, LLC	1809
LA	Lafayette	Gulf Coast	Marg Tex Sand	Camerina Sands	Voyager Petroleum, Inc.	865
LA	Lafayette	South Lousiana	Oligocene pays	Miocene pays	EnerVest Management Partners, Ltd	2305
LA	Lafayette	Gulf Coast	Bol mex	[illegible]per Frio	Fife Oil Company	2128
LA	Lafourche	Gulf Coast	9600, 9800', 9900', Sds		Ginger Oil Co.	2200
[illegible]	Lafourche	Gulf Coast	Bol Series	Tex Series	Gulf Energy Management	400
[illegible]	Lafourche	Miocene	Hollywood (Middle Miocene Cris I)		Stone Energy Corporation	459
[illegible]	Lafourche	Terrebonne/Thibodaux Field	Miocene Sand		Optimistic Oil Company	1705
LA	Morehouse	North Louisiana	Hope Mineral Fee		ExxonMobil Production Company	1729
LA	Natchitoches	North Louisiana	Natchitoches Mineral		ExxonMobil Production Company	1729

State	County/Parish	Basin	Primary Objective	Secondary Objective	Company Name	Booth
	Plaquemines	South Louisiana	Miocene pays		EnerVest Management Partners, Ltd	2305
	Plaquemines		Cib Op 1 & 2	Texas W Sands	Banks Petroleum	2349
LA	Pointe Coupee	Gulf Coast	Lower Tuscaloosa - Gas	Chalk	Vision Exploration, LLC	303
LA	Sabine	North Louisiana	Converse Mineral Fee		ExxonMobil Production Company	1729
LA	Sabine	Sabine Uplift	Mooringsport	James Lime	Black Stone Minerals Company, LP	1732
LA	Sabine		Saratoga (Horizontal)		Suncoast Technical Services, Inc	465
LA	Saint Bernard	Gulf Coast	Big Hum		Sandalwood Oil & Gas, Inc.	1966
LA	Saint Bernard	Middle Miocene	Cris I	Tex W	Yuma Exploration & Production Company	2201
LA	Tangipahoa	Gulf Coast	Tuscaloosa/Wilcox	CamerinaMarg Tex	Gulf Coast 3D	468
LA	Tensas	Gulf Coast	Cretaceous		Osyka Permian	2414
LA	Tensas	Gulf Coast	Lower Tulscaloosa - 3D - Oil	Fractured Chalk	Vision Exploration, LLC	303
LA	Terrebonne	Gulf Coast	Hackberry		White Oak Energy, LLC	324
LA	Terrebonne	Gulf Coast	Tex 'W' Sand		Voyager Petroleum, Inc.	865
LA	Terrebonne	Gulf Coast	Tex W		White Oak Energy, LLC	324
LA	Terrebonne	Gulf Coast	50-51 Sands		White Oak Energy, LLC	324
LA	Terrebonne	Gulf Coast	Tex W		White Oak Energy, LLC	324
LA	Terrebonne	Gulf Coast	50-51 Sands		White Oak Energy, LLC	324
LA	Union	North Louisiana	Monroe Gas Rock		ExxonMobil Production Company	1729
LA	Vermilion	Live Oak Field	Planulina Sands	Multiple Sands	Stovall Heirs	467
LA	Vermilion	Gulf Coast	Camerina		Cane River Resources, Inc.	2132
LA	Vermilion	Gulf Coast	Discorbis Sand	Het Sand	Kinnickinnick Exploration Inc.	860
LA	Vermilion	Gulf Coast	Camerina 1 and 2	Marg tex Sand	Kinnickinnick Exploration Inc.	860
LA	Vermilion	Lower Miocene	Cristellaria A 1st Sand @ 21,000'		Yuma Exploration & Production Company	2201
LA	Vermilion	S Louisiana-Leleux Field	Camerina Sand		Optimistic Oil Company	1705
LA	Vermilion	Gulf Coast	MIOGYP		Fife Oil Company	2128
	Vernon	North Louisiana	Vernon Mineral Fee - 8,500 acres		ExxonMobil Production Company	1729
	West Cam 464	Gulf of Mexico	Ang B - Pleistocene	Valv H - Pleistocene	Manti Operating	2012
	West Cam 479	Gulf of Mexico	Ang B - Pleistocene		Manti Operating	2012
LA	West Cameron Blk 455	Gulf of Mexico	Lentic Pleistocene	Valv H-Pleistocene	Manti Operating	2012
LA	Winn	Gulf Coast	Upper Jurassic	Upper Jurassic	Rising Star Energy	718
LA		Gulf of Mexico - Deepwater	Tertiary		Woodside Energy (USA) Ltd.	1559
MI	Allegan	Michigan	Upper Devonian Detroit River	Reed City, Antrim	Cowen Oil & Gas LLC	2412
MI	Grand Traverse	Michigan	Brown Niagaran Reef(s) 2+		Cowen Oil & Gas LLC	2412
MI	Jackson	Gulf Coast	Tertiary sandstones		Chroma Energy	1101
MI	Monroe	Michigan	Trenton - Black River		Texas Keystone Inc.	2448
MI		Michigan	Trenton - Black River	Burnt-Bluff, Clinton, Niagaran, Multiple Upper Devonian, Antrim	Cowen Oil & Gas LLC	2412
MS	Clarke	Interior Salt	Smackover - Oil		Vision Exploration, LLC	303
MS	Forrest	Mississippi Interior Salt	Lower Tuscaloosa	Wilcox	Petro-Pro, LLC	2225
MS	Hancock	Mississippi Salt	Hosston		Black Stone Minerals Company, LP	1732
MS	Jefferson Davis		Harper		PLS, INC.	558
MS	Marion	Mississippi Salt	Hosston		Weyerhaeuser Company	457
MS	Multiple	Black Warrior	Pennsylvania Sandstones	Knox Carbonates	Weyerhaeuser Company	457
MS	multiple	Black Warrior	Mississippian (Chesterian) Sandstones	Knox Carbonates	Weyerhaeuser Company	457
MS	Perry	Mississippi Salt	Upper Hosston	James Lime Cotton Valley Lime	Lucas Petroleum Group, Inc.	2358
MS	Simpson	Mississippi Salt	Smackover	Wilcox CBM	Weyerhaeuser Company	457
MS	Various	Black Warrior	Carter	Sanders, Lewis, Abernathy, Penn	Colitas Exploration Co, LLC	1107
MS	Yazoo	Mississippi Salt	Norphlet	Smackover Cotton Valley/Haynesville	HP Associates	2207
MT	72,000 acres	Overthrust	Paleozoics thru Cretaceous	Eagle, Muddy, Dakota, Morrison, Swift	Thomasson Partner Associates, Inc.	913
MT	Big Horn	Powder River	Cretaceous Muddy Depth: 1800' Potential Reserves: 15-75 BCFG	Cretaceous Greybull Sandstone Depth: 2100' Potential Reserves: 80 BCFG	Highline Exploration	2263
MT	Big Horn	Powder River	Cretaceous Greenhorn Cretaceous Belle Fourche (Frontier) Depth: 1000' Reserves: 20- 50 BCFG		Highline Exploration	2263
	Big Horn	Powder River	Coalbed Methane		Crow Nation	867
MT	Confidential	Confidential	Unconventional Shallow Biogenic Gas	Deeper Conventional & Unconventional Oil & Gas	Lario Oil & Gas Company	825
MT	Lewis & Clark	Montana Disturbed Belt	Mississippian carbonates, Madison Group	Devonian Duperow & Pennsylvanian t Tyler and Quadran	Calpine Natural Gas L.P.	1167
MT	Powder River	Powder River	CBM Ft Union		Rocky Mountain Gas	1758

State	County/Parish	Basin	Primary Objective	Secondary Objective	Company Name	Booth
MT	Richland	Williston	Bakken/Middle Member	Red River	Douglas K. Morton, WY Prof. Geologist	366
MT	Richland	Williston	Bakken Dolomite	Bakken Shale	EOG Resources, Inc.	2215
MT	Roosevelt	Williston	Lodgepole	Nisku	Sinclair Oil Corporation	659
MT	Roosevelt	Williston	Bakken - Three Forks horizontal test		Ansbro Petroleum Company	1920
MT	Rosebud	Central Montana Uplift	Upper Cretaceous		Anadarko Petroleum Corporation	1133
MT	Treasure	Central Montana Uplift	Upper Cretaceous		Anadarko Petroleum Corporation	1133
MT	Wheatland & Golden Valley	Central Montana	Cretaceous	Mississippian	Redwine Resources, Inc	1126
ND		Williston	Tyler Light Oil		Suncor Energy (Natural Gas) America Inc.	2027
ND	Dunn	Williston	Bakken	Birdbear (Nisku)	JAG Oil Limited Partnership	803
ND	Dunn	Williston	Middle Bakken horizontal test		Ansbro Petroleum Company	1920
ND	Dunn	Williston	Middle Bakken horizontal test		Ansbro Petroleum Company	1920
ND	McKenzie	Williston	Bakken	Birdbear (Nisku)	JAG Oil Limited Partnership	803
ND	McKenzie	Williston	Horizon Mission Canyon/Ratcliffe		Lario Oil & Gas Company	825
ND	McKenzie	Williston	Bakken Siltstone	Mississippian Rival Formation	Missouri Basin Well Svc. Inc.	362
ND	Mountrail	Williston	Bakken	Madison	The Prospective Investment and Trading Co.	801
ND	Ward	Williston	Mission Canyon/Bluell-Sherwood Intervals		Douglas K. Morton	366
ND	Williams	Williston	Bakken	Madison	The Prospective Investment and Trading Company, Ltd.	801
NE	Chase	Cambridge Arch - Central Kansas Uplift	Cherokee (Mississippian)		Oil & Gas Technology Fund, Inc.	2144
NE		Denver - Julesburg	Dakota	Niobrara	Thomasson Partner Associates, Inc.	913
NM	Eddy	Delaware	Morrow	Strawn	Lantana Oil & Gas Partners	321
NM	Eddy	Permian	Morrow	Strawn	Great Western Drilling Company	625
NM	Eddy	Permian	Morrow Sands	Atoka & Strawn	Capstone Oil & Gas Company, LP	1349
NM	Eddy	Permian	Morrow	Atoka, Strawn, Cisco-Canyon	Capstone Oil & Gas Company, LP	1349
NM	Guadalupe	Tucumcari	Pennsylvanian	Permian	Inter-American Corporation	1459
NM	Lea	Permian	Morrow	Delaware/Bone Spring	Griffin Petroleum Company	1548
NM	Lea	Permian	San Andres	Queen	Griffin Petroleum Company	1548
NM	Lea	Permian	Bone Spring	Queen	Nearburg Producing Company	344
NM	Lea		Morrow	Strawn & Wolfcamp	Ensley Properties, Inc.	1051
NM	Rio Arriba	San Juan/San Juan Sag/Chama	Dakota Sand	Morrison Sand	Lynx Production Company, Inc.	1258
NM	Rio Arriba	San Juan/San Juan Sag/Chama	Mancos Shale	Permian/Paleozoics	Lynx Production Company, Inc.	1258
NM	Santa Fe	biomass, MSW and forest thinnings	Nambe landfill		Bioenergy Development Group LLC	766
NV	Elko	Smith Creek	Devonian Simonson	Mississippian Sandstones	Cedar Strat Corp.	1801
NV	Eureka	Blackburn Field Offset	Devonian Dolomite	Mississippian Sand	East Guadalupe Resources LLC	1069
NV	Nye	Basin and Range	Devonian	Diamond Peak	Pioneer Oil and Gas	1712
NV	Nye	Ike Spring Wash	Devonian Simonson	Devonian Sivy Dolomite	Cedar Strat Corp.	1801
NV	Nye	Road Valley	Tertiary Volcanics	Paleozoics (Guilmelte/ Ely)	Tetuan Resources Corp	1762
NV	White Pine	Basin & Range	Diamond Peak Formation, Guilmette	Ely Limestone, Chainman Shale, Joana Limestone	Stonegate Resources, LLC	1161
NV	White Pine	Basin & Range	Diamond Peak Formation, Guilmette	Ely, Chainman, Joana	Stonegate Resources, LLC	1161
NV	White Pine	Long Valley	Tertiary Volcanics	Paleozoics	Tetuan Resources Corp	1762
NV	White Pine	Newark-Railroad Valley	Paleozoic carbonates	fractured Tertiary volcanics	Oil & Gas Technology Fund, Inc.	2144
NV	White Pine	Railroad Valley	Tertiary Volcanics	Paleozoics	Tetuan Resources Corp	1762
NY	Chemung	Appalachian	Trenton-Black River		Reeves Exploration	1769
NY	Steuben	Appalachian	Devonian Shale	Heldberg Llime	Spyglass Energy Group LLC	2213
NY	Tioga	Appalachian	Trenton - Black River	Oriskany	MegaEnergy, Inc.	1351
NY		Appalachian	Shallow Trenton		Thomasson Partner Associates, Inc.	913
OK	Adair	Anadarko Basin	Prue Sandstone	Red Fork Sandstone	Radiant Energy, LC	1166
OK	Alfalfa	Anadarko Basin	Red Fork Sandstone	Mississippi Chat	Radiant Energy, LC	1166
OK	Beckham	Anadarko	Springer Sands (Lower Morrow/) Cunningham/Britt	Red Fork & Upper Morrow	Condor Resources, Inc/Scarth-Williford	1162
OK	Bryan	Arkoma	Simpson Group	Oil Creek, McClish,Bromide,Vida	MidContinent Partners	1761
OK	Bryan	Greater East Texas	Very Shallow Cretaceous		Reeves Exploration	1769
OK	Carter		Oil Creek Sand	Goddard, Sycamore, Viola & Simpson	The Daube Company	2265
OK	Cimarron	Anadarko	Morrow		Cholla Production, LLC	966
OK	Cleveland	Anadarko	Ordovician	Silurian-Devonian	Okland Oil Company	1645
OK	Ellis	Anadarko	Morrow	Cottage Grove	Pinnacle Energy Services, LLC	2307

State	County/Parish	Basin	Primary Objective	Secondary Objective	Company Name	Booth
	Ellis	Anadarko	Morrow		Capstone Oil & Gas Company, LP	1349
	Grady		Fee Mineral Acreage		Cameron Mineral Trusts	1756
OK	Greer		Fee Mineral Acreage		Cameron Mineral Trusts	1756
OK	Jackson		Fee Mineral Acreage		Cameron Mineral Trusts	1756
OK	Le Flore	Ouachita	Jackfork - Potato Hills		Reeves Exploration	1769
OK	McClain	Anadarko	Ordovician	Silurian-Devonian	Okland Oil Company	1645
OK	McCurtain	Rock Creek	Arbuckle Dolomite		Mark Svoboda Petroleum Geologist	337
OK	McLain	Raven	Sycamore, Woodford, Hunton		Mark Svoboda Petroleum Geologist	337
OK	Multiple	Ouachita Mountains	Jackfork Group	Stanley Group	Weyerhaeuser Company	457
OK	Pittsburg	Arkoma	Spiro- 4BCF	12,100' PTD	WhitMar Exploration Co.	2327
OK	Roger Mills	Anadarko	Red Fork	Cottage Grove, Oswego	Pinnacle Energy Services, LLC	2307
OK	Sequoyah		Brent Sand (Atoka)	Cromwell, Hunton	Mesa Energy, LLC	2309
OK	Washita	Anadarko	Lower Redfork	Upper Redfork Granite Wash	Ward Petroleum Corporation	1544
OK	Woodward	Anadarko	Hunton	Springer	Pinnacle Energy Services, LLC	2307
OK	Woodward	Anadarko	Morrow Sandstone		Okland Oil Company	1645
OK		Anadarko	Springer/Hunton		Brigham Oil & Gas, L.P.	1443
PA	Lycoming	Appalachian	Trenton-Black River	Knox	Reeves Exploration	1769
LA	Block 12	Gulf of Mexico	Siph. d. A Sand	Siph. d. B Sand	Maritech Resources, Inc.	426
TN	Bledsoe	Appalachian	Knox	Trenton	The Thomas Company	534
TN	Bledsoe	Appalachian	Knox	Trenton	The Thomas Company	
TN	Coffee	Nashville Dome	Knox, Chatanooga Shale, Trenton, Stones River, Murfreesboro	Gas Gathering	Bioenergy Development Group LLC	766
TN	County	Appalachian	Knox	Big Lime	The Thomas Company	534
TN	County	Appalachian	Knox	Big Lime	The Thomas Company	
TN	Fentress	Appalachian Basin	Mont Eagle, Fort Payne	Devonian Shale	Tennessee Oil & Gas Association	2400
TN	Hancock	Appalachian	Knox	Trenton	Reeves Exploration	1769
	Jackson	Illinois/Appalachian	Copper Ridge (Knox)	Conasaoga & Basal Sand	Tennessee Oil & Gas Association	2400
	Morgan	Appalachian	Trenton	Monteagle, Ft. Payne, Knox	Tennessee Oil & Gas Association	2400
TN	Overton	Appalachian	Fort Payne, Trenton Group	Black River, Knox	Tennessee Oil & Gas Association	2400
TX		Fort Worth	Barnett Shale		ENVOI Limited	2229
TX	Anderson	East Texas	Cotton Valley and Bossier	Rodessa, Pettit, Travis Peak, James Lime	ExxonMobil Production Company	1729
TX	Anderson	East Texas	Austin Chalk	Subclarksville	Reeves Exploration	1769
TX	Anderson	East Texas	James Line	Odessa	Electro-Seise, Inc.	340
TX	Angelina	East Texas	Upper Glen Rose		Harman, Hills & Culver Operating Co.	565
TX	Angelina		Acreage Available for Lease		Cameron Mineral Trusts	1756
TX	Aransas	Gulf of Mexico (shoreline)	Frio (Texas Miss)	Deeper Frio Sands	La Mesa Group	1105
TX	Archer	Bend Arch	Caddo reef	Mississippian reef	Reeves Exploration	1769
TX	Bee	Wilcox	Wilcox Massive		ENCO Exploration Company	367
TX	Bee	Wilcox	Wilcox Luling	Wilcox Slick	ENCO Exploration Company	367
TX	Block A325	Gulf of Mexico	PL 6-1 Sand	PL 6-2, PL 6-3, PL 6-4 Sands	Maritech Resources, Inc.	426
TX	Block A325	Gulf of Mexico	PL 1-2, PL 1-4 Sands	PL 1-3 U, PL1-3L Sands	Maritech Resources, Inc.	426
TX	Block A325	Gulf of Mexico	PL 6-1A Sand	PL 6-1B Sand	Maritech Resources, Inc.	426
TX	Block 321	Gulf of Mexico	Lower Cib. op.	Cib.op. N and O Sands	Maritech Resources, Inc.	426
TX	Brazoria	Gulf Coast	Frio		Cane River Resources, Inc.	2132
TX	Brazoria	Gulf Coast	Frio, Vicksburg	Yegua	Cherokee Production	1552
TX	Brazoria	Gulf Coast	Lower Frio Anomalina	Lower Frio Tex Miss	Playa Exploration, Inc.	
TX	Brazoria	Gulf Coast	Lower Frio Anomalina	Lower Frio Tex Miss	Playa Exploration, Inc.	1550
TX	Brazoria	Texas State Waters	Upper Miocene		Resource Solutions, LLC	1127
TX	Brazoria	Upper Texas Gulf Coast	Lower Frio Anomalina 16,500' -17,500' AVO- Amplitude play		Zachry Exploration, Inc.	1860
TX	Brazos		Georgetown	Austin Chalk	Banks Petroleum	2349
TX	Brown	Fort Worth	Barnett Shale, Horizontal Wells		WEJCO, Inc.	756
TX	Burleson		Austin Chalk	Georgetown & Edwards	Banks Petroleum	2349
TX	Cameron		Acreage Available for Lease		Cameron Mineral Trusts	1756
	Chambers	Gulf of Mexico (onshore)	Uvig	Discorbis D2	Aspect Energy LLC	550
	Chambers	Gulf of Mexico (onshore)	Discorbis & Uvig	Nodosaria Blanpiedi	Aspect Energy LLC	550
TX	Cherokee	Central Basin Trend	Travis Peak	Rodessa, James & Pettet	Barrow-Shaver Resources Company	449
TX	Cherokee	East Texas	Woodbine		Pickens Energy Corporation	1919
TX	Clay	Fort Worth	Mississippian Chappel	Bryson Caddo	Bettis, H.M.	768

PROSPECTS BY LOCATION

State	County/Parish	Basin	Primary Objective	Secondary Objective	Company Name	Booth
TX	Cochran		Acreage Available for Lease		Cameron Mineral Trusts	1756
TX	Cochran	Permian	Devonian	San Andres Strawn	TransGlobal Oil Co.	760
TX	Coleman		Acreage Available for Lease		Cameron Mineral Trusts	1756
TX	Colorado	Gulf Coast	Wilcox (Middle) West Taylor Baker		Alcorn Exploration, Inc.	1067
TX	Colorado	Gulf Coast	Wilcox (Middle) North Taylor Baker		Alcorn Exploration, Inc.	1067
TX	Colorado	Gulf Coast	Frio		Cane River Resources, Inc.	2132
TX	Colorado	Gulf Coast	Frio	Yegua Miocene	Carolina Oil and Gas	1560
TX	Colorado	Gulf Coast	Lower Wilcox	Middle / Upper Wilcox	Everest Resource Company	503
TX	Colorado		Yegua		Suncoast Technical Services, Inc	465
TX	Concho	Concho Arch	Goen Reefing	King Sands	Electro-Seise, Inc.	340
TX	Concho	Permian	King Sand	Goen Lime	Mesa Energy, LLC	2309
TX	Crane	Permia Central	Fusselman Formation	Devonian	Lewis & Reeves	564
TX	Crockett	Permian	Cisco Carbonate	San Andres	Beach Exploration, Inc.	1125
TX	Culberson		Acreage Available for Lease		Cameron Mineral Trusts	1756
TX	De Witt		Edwards	Wilcox	East Guadalupe Resources LLC	1069
TX	De Witt	Gulf Coast	Upper Wilcox A3	J sand	Camden Resources, Inc.	2016
TX	De Witt	Gulf Coast	Lower Wilcox		Camden Resources, Inc.	2016
TX	De Witt	Gulf Coast	Lower Wilcox		Camden Resources, Inc.	2016
TX	Denton	Fort Worth	Barnett Shale	Upper Conglomerates (A&D)	R.L. Adkins Corp.	669
TX	Dewitt	Gulf Coast	Yegua Y-5 Sand	Yegua 4-1 & 4-2 Sands	New Century Exploration, Inc.	645
TX	Dewitt	Gulf Coast	Yegua 4-5 5200' Sd	Yegua 4-2 & 4-3 Sands	New Century Exploration, Inc.	645
TX	Dewitt	Gulf Coast	Lower Wilcox	Upper/Middle Wilcox	US Enercorp, Ltd	961
TX	Dickens	Eastern Shelf	Tannehill sand		Reeves Exploration	1769
TX	Dimmit	Maverick	Glenrose	Edwards / Georgetown	H&M Resources, LLC	443
TX	Dimmit	Maverick	Edwards/Georgetown	Austin Chalk/Olmos	Synergy Exploration LLC	427
TX	Duval	Gulf Coast	Wilcox - House	Wilcox - Massive	Caliente Energy, LP	643
TX	Duval	South Texas	Pettus	Walstead	PetroSales	1268
TX	Duval	South Texas	Pettus	Catahoula	PetroSales	1268
TX	Duval	South Texas Onshore	Queen City No Pipe	Cook Mountain	Teal Energy USA, Inc.	664
TX	Duval	South Texas Onshore	Cook Mountain Stepout	Jackson	Teal Energy USA, Inc.	664
TX	Duval	South Texas Onshore	Queen City 3-4 MMCFD		Teal Energy USA, Inc.	664
TX	Duval	South Texas Onshore	Edwards/Sligo Attol Reef	Wilcox/Queen City	Teal Energy USA, Inc.	664
TX	Eastland		Acreage Available for Lease		Cameron Mineral Trusts	1756
TX	Ector	Permian	Devonian		Production Gathering Co., LP	1768
TX	Edwards	Permian	Canyon Sands		Beach Exploration, Inc.	1125
TX	Edwards	Val Verde	Ellenburger	Lower Canyon	Lone Star Production Company	1140
TX	Federal	Offshore	Lentic	Middle Miocene	Mariner Energy Inc.	1049
TX	Fort Bend	Texas Gulf Coast	Yegua	Wilcox	Strago Petroleum Corporation	1453
TX	Fort Bend	Yegua	Cook Mountain		Darcy Energy LLC	2406
TX	Freestone	East Texas	Bossier		Anadarko Petroleum Corporation	1133
TX	Frio	GOM	Austin Chalk	Georgetown - Budda	Energy Frontiers Partners LP	451
TX	Gaines	Central Basin Platform	San Andres	Yates Sand	Fairchild Petroleum Interests	1849
TX	Gaines	Permian	San Andres	Yates/Queen	Griffin Petroleum Company	1548
TX	Galveston	Gulf of Mexico	Frio S Sand	Frio Upper Andrau Sand	Aminex, USA Inc.	1707
TX	Galveston	Gulf Coast	Frio (Big Gas Sand)		Petrus Exploration LLC	1804
TX	Galveston	Texas State Waters	Lower Oligocene (Frio / Vicksburg)		Santos USA Corp.	1749
TX	Galveston	Texas State Waters	Frio		Santos USA Corp.	1749
TX	Garza	Central Basin Platform	Strawn Lime	Ellenburger	Fairchild Petroleum Interests	1849
TX	Glasscock	Midland	Strawn Lime		Fairchild Petroleum Interests	1849
TX	Goliad	Gulf Coast	Wilcox: J-Sands	Wilcox: Lower Massive	Caliente Energy, LP	643
TX	Goliad	Gulf Coast	Wilcox - Lower Wilcox	Wilcox - Middle Wilcox	Caliente Energy, LP	643
TX	Goliad	Gulf Coast	Cook Mountain	Yegua	Lighthouse Exploration, Inc.	1819
TX	Goliad	Wilcox	Upper Wilcox Brandon Sands	Upper Wilcox Nita Sands	BLAKEnergy	543
TX	Goliad	Wilcox	Upper Wilcox Brandon Sands	Upper Wilcox Luling Sands	BLAKEnergy	543
TX	Grimes	Brazos	Knowles Limestone reefs	Pettit Limestone Rodessa Limestone - Glen Rose Limestone Georgetown Limestone - Buda Limestone	Carr Resources, Inc.	900
TX	Hansford	Western Anadarko	Morrow Sand Formation	Cleveland Sand Formation	Jones Energy, Ltd.	1353
TX	Hardeman	Hardeman	Mississippian Chappel	Penn. Conglomerates	DALCO Energy, Inc.	450

State	County/Parish	Basin	Primary Objective	Secondary Objective	Company Name	Booth
	Hardeman	Hardeman	Mississippian Chappel	Conglomerate Canyon	Bettis, H.M.	768
	Hardeman	Hardmean	Mississippian Mud Mound	Polo Pinto	DDD Exploration, Inc.	2245
	Hardin		Acreage Available for Lease		Cameron Mineral Trusts	1756
TX	Hardin	Texas Gulf Coast	Middle to Lower Wilcox		Hamman Oil and Refining	619
TX	Harris		Yegua	Vicksburg, Jackson Sds.	American Energy Services, Inc.	1165
TX	Harris		Frio	Miocene	Ensley Properties, Inc.	1051
TX	Harris/LaVaca		Yegua Trend		PLS, INC.	558
TX	Haskell		Acreage Available for Lease		Cameron Mineral Trusts	1756
TX	Henderson	East Texas	Rodessa	Pettit	Bivins Energy Corporaton	767
TX	Henderson	East Texas	James Reef	Glen Rose Strat	Reeves Exploration	1769
TX	Hidalgo	Gulf Coast	Lower Vicksburg S.S.	Lower Vicksburg S.S.	Texas H.B. P., LLC	466
TX	Hidalgo	South Texas	Deep Frio		Dewbre Petroleum Corporation	633
TX	Hidalgo	South Texas Onshore	Frio-Vicksburg		Teal Energy USA, Inc.	664
TX	Hockley		Acreage Available for Lease		Cameron Mineral Trusts	1756
TX	Hockley	Permian	Upper Clearfork		Beach Exploration, Inc.	1125
TX	Jack	Fort Worth	Barnett Shale	Aroka/Caddo Conglomerates	Sinclair Oil Corporation	659
TX	Jackson	South Texas	Wilcox	Frio	Geonatural Exploration & Production	360
TX	Jasper	Gulf Coast	Yegua Y-1, Y-3	Cook Mountain	AC Exploration, LLC	441
TX	Jasper		Acreage Available for Lease		Cameron Mineral Trusts	1756
TX	Jefferson	Gulf Coast	Frio	Hackberry, Miocene	Ayco Energy, LLC	1861
TX	Jefferson Davis City				Crosstex Energy Services, L.P.	1513
TX	Jim Hogg	South Texas	Wilcox Hinnant 10 MMCFD	Queen City 3 MMCFD	Teal Energy USA, Inc.	664
TX	Jim Wells	Gulf Coast	Hockley	Yegua	Lighthouse Exploration, Inc.	1819
TX	Johnson	Fort Worth	Barnett Shale		La Mesa Group	1105
TX	Johnson	Fort Worth	Barnett Shale	Conglomerates (A&D)	R.L. Adkins Corp.	669
TX	Karnes	Gulf Coast	Miocene 2700' Sand		New Century Exploration, Inc.	645
	Kenedy	Gulf Coast - Oligocene	Cib Haz		BNP Petroleum Corp.	316
	Kent	Permian	Canyon Reef		ExxonMobil Production Company	1729
	King	Matador Arch	Canyon reef	Atoka conglomerate	Reeves Exploration	1769
TX	KKimble	Llano area	Penn Sands		Reeves Exploration	1769
TX	Kleberg	Gulf Coast - Oligocene	Cib Haz		BNP Petroleum Corp.	316
TX	Kleberg	Gulf Coast - Oligocene	Marg Tex		BNP Petroleum Corp.	316
TX	Kleberg	Gulf Coast - Oligocene	Marg Frio		BNP Petroleum Corp.	316
TX	Kleberg	Gulf Coast - Oligocene	Nonion Struma		BNP Petroleum Corp.	316
TX	Kleberg	Gulf Coast - Oligocene	Zone 20 - Marg Tex		BNP Petroleum Corp.	316
TX	Knox	Knox-Baylor	Atoka conglomerate	Tannehill sand	Reeves Exploration	1769
TX	La Salle	South Texas	Wilcox and Edwards	Sligo	ExxonMobil Production Company	1729
TX	Lasalle	S. Texas	Olmos	Escondido	Battlecat Oil & Gas, LP	627
TX	Lasalle	S. Texas	Olmos	Escondido & Wilcox	Battlecat Oil & Gas, LP	627
TX	Lavaca	Gulf Coast	Wilcox	Yegua	Banks Petroleum	2349
TX	Lavaca	Gulf Coast	Lower Wilcox	Middle Wilcox	Benchmark Oil and Gas Company	434
TX	Lavaca	Gulf Coast	Yegua	Frio Miocene	Carolina Oil and Gas	1560
TX	Lavaca	Gulf Coast	Yegua		Mueller Exploration, Inc.	513
TX	Lavaca	Gulf Coast	Yegua 3700' Sand		New Century Exploration, Inc.	645
TX	Lavaca	Gulf Coast	Yegua 3700' Sand		New Century Exploration, Inc.	645
TX	Leon	East Texas	Bossier		Anadarko Petroleum Corporation	1133
TX	Leon	East Texas	SubClarkesville Sand		Carr Resources, Inc.	900
TX	Leon	East Texas	Cotton Valley Sand	Bossier Sand	PYR Energy Corporation	402
TX	Leon	East Texas	Cotton Valley Reef		Reeves Exploration	1769
TX	Leon City				Crosstex Energy Services, L.P.	1513
TX	Liberty	Gulf Coast	Yegua	Cockfield	Galisteo Energy, L.L.C.	2360
TX	Liberty	Texas Gulf Coast	Wilcox	Tegua	Galisteo Energy, L.L.C.	2360
TX	Live Oak	Gulf Coast	U. Wilcox - Slick/Luwing	Queen City	US Enercorp, Ltd	961
TX	Live Oak	Gulf Coast	Hockley/ Pettus	Frio	US Enercorp, Ltd	961
	Live Oak		Sligo		Calpine Natural Gas L.P.	1167
	Matagorda	Gulf Coast	Frio	Miocene	Crest Resources, Inc.	2364
TX	Matagorda	Gulf Coast	Frio Tex Miss Sands		New Century Exploration, Inc.	645
TX	Matagorda	Gulf Coast	Lower Yegua (Anomalina U.) S.S.	Lower Yegua (Anomalina U.) S.S.	Texas H.B. P., LLC	466
TX	Maverick	Gulf Coast (Chittim Field)	Buda, Glenn Rosa & Rodssa	Georgetown	J-W Operating Company	750

State	County/Parish	Basin	Primary Objective	Secondary Objective	Company Name	Booth
TX	Maverick	Maverick	Jurassic		Ashtola Exploration Company	1150
[illegible]	Mc Culloch	Llano	Penn sands	Ellenburger	Reeves Exploration	1769
TX	McMullen	South Texas	Producing Wilcox		Madison Energy Advisors, Inc.	1915
TX	Menard	Llano area	Penn Sands	Ellenberger	Reeves Exploration	1769
TX	Midland	Biodiesel production facility	22,000,000g biodiesel presold annually	animal feed	Bioenergy Development Group LLC	766
TX	Mitchell	Permian	Ellenburger	Strawn	Grayhawk Energy, Inc.	862
TX	Mitchell	Permian	Cisco		HP Associates	2207
TX	Montague	Fort Worth	Mississippian Barnett Shale	Pennsylvanian Caddo Conglomerates	DALCO Energy, Inc.	450
TX	Montgomery	Gulf Coast	Lower & Middle Wilcox		Samson Resources Company	404
TX	Nacogdoches		Acreage Available for Lease		Cameron Mineral Trusts	1756
TX	Newton	Gulf Coast	Wilcox	Yegua	Alcorn Exploration, Inc.	1067
TX	Nueces	Gulf Coast	Frio	Catahoula	Nova Oil and Gas	1767
TX	Orange	Gulf Coast	Hackberry	Frio	Benchmark Oil and Gas Company	434
TX	Orange	Gulf Coast	Yegua		GM Southeast Energy Ventures, LLC	559
TX	Panola	East Texas	Travis Peak	Pettet	AC Exploration, LLC	441
TX	Panola		Acreage Available for Lease		Cameron Mineral Trusts	1756
TX	Parker	Fort Worth	Barnett Shale Gas	Shallow Straen & Conglomerates	Harding Company	405
TX	Parker	Fort Worth	Barnett Shale	Bend Cong.	Pitts Oil Company	1901
TX	Parker	Fort Worth	Barnett Shale		Spindletop Oil & Gas Co./Giant Energy Corp	934
TX	Pecos	Central Basin Platform	Yates-Queen	Canyon-Strawn	Fairchild Petroleum Interests	1849
TX	Pecos	Delaware	Devonian	Atoka	Abraxas Petroleum Corporation	1164
TX	Pecos	Delaware	Upper Wolfcamp Carbonate	Upper Wolfcamp Sand	Hanley Petroleum Inc.	915
TX	Pecos		Acreage Available for Lease		Cameron Mineral Trusts	1756
TX	Pecos	Permian	Pennsylvanian Detrital	Strawn Limestone	Beach Exploration, Inc.	1125
TX	Pecos	Permian	Devonian, Montoya	Atoka, Wolfcamp and Delaware	Ameritex Oil & Gas, LLC	335
TX	Pecos	Permian	Horiz Gas		Capstone Oil & Gas Company, LP	1349
TX	Polk		Acreage Available for Lease		Cameron Mineral Trusts	1756
[illegible]	Reagan	Midland	Fusselman	Ellenburger Canyon	Bettis, H.M.	768
[illegible]	Red River	East Texas	Jurassic Conglomerate	Cretaceous Sandstone	Digital Magnetotelluric Technologies	965
TX	Reeves	Permian	Devonian	Fusselman	Great Western Drilling Company	625
TX	Refugio	Gulf Coast	Lower Upper Frio	Miocene/Upper Frio	Cavalla Energy Resources, Inc.	665
TX	Robertson	East Texas	Georgetown		Energy Frontiers Partners LP	451
TX	Rusk	East Texas	Austin Chalk		Harwood Capital Inc.	333
TX	Rusk	East Texas	Cotton Valley	Pettit / Travis Peak	Lantana Oil & Gas Partners	321
TX	Rusk	East Texas	Cotton Valley Taylor Sands	Pettit Limestone Rodessa Limestone	Carr Resources, Inc.	900
TX	Shelby	East Texas	Travis Peak		Pinkston Energy Co., LLC	1108
TX	Shelby	East Texas	James Lime		The Blanco Co.	1868
TX	Shelby	East Texas	Cotton Valley Sands-Gas	Travis Peak	Burk Royalty Co.	1242
TX	Sherman	Anadarko - NW Shelf	Pennsylvanian Lime		ConocoPhillips Company	341
TX	Smith	East Texas	Cotton Valley	Sand, James Line	Electro-Seise, Inc.	340
TX	Starr	Gulf coast	Queen City	Cockfield	Lighthouse Exploration, Inc.	1819
TX	Starr	South Texas Onshore	Queen City 9000'		Teal Energy USA, Inc.	664
TX	Starr		Rincon		PLS, INC.	558
TX	Stonewall		Acreage Available for Lease		Cameron Mineral Trusts	1756
TX	Sutton	Permian	Strawn	Ellenburger	Great Western Drilling Company	625
TX	Throckmorton	Bend Arch	Upper Cado Limestone	Beud Conglomerate	Dominion Land and Minerals	460
TX	Tom Green	Midland Basin/Eastern Shelf	Strawn Lime	Canyon Lime	Fairchild Petroleum Interests	1849
TX	Tom Green	Midland Basin/Eastern Shelf	Canyon Sand	Canyon Lime	Fairchild Petroleum Interests	1849
TX	Trinity	East Texas GOM	Travis Peak	Glen Rose	Energy Frontiers Partners LP	451
TX	Trinity		Acreage Available for Lease		Cameron Mineral Trusts	1756
TX	Tyler	Gulf Of Mexico	Eagle Ford / Woodbine Lowstand Deltaic Sandstones		Santos USA Corp.	1749
TX	Tyler	N/A	Fee Mineral Acreage Available for Lease		Cameron Mineral Trusts	1756
TX	Upshur	East Texas	Cotton Valley Limestone/Haynesville- Gas	Cotton Valley Sands and Bossier.	Burk Royalty Co.	1242
TX	Upshur	East Texas	Travis Peak- Gas	Multiple Travis Peak Sands	Burk Royalty Co.	1242
[illegible]	Upshur		CVL		Energy Frontiers Partners LP	451
[illegible]	Upton/Crane/Ector	Permian	Wolfcamp	Glorieta	Griffin Petroleum Company	1548
TX	USA	Fort Worth	Barnett Shale	Conglomerates	G&F Oil, Inc.	2452
TX	Val Verde	Permian-Val Verde	Straw-Ellenburger	Canyon-Wolfcamp-Strawn	Page Exploration	1704

State	County/Parish	Basin	Primary Objective	Secondary Objective	Company Name	Booth
[illegible]	Victoria		Frio		Suncoast Technical Services, Inc	465
[illegible]	Ward	Montoya	Devonian		Abraxas Petroleum Corporation	1164
TX	Ward	Permian	Wolfcamp	Queen	Griffin Petroleum Company	1548
TX	Webb		Acreage Available for Lease		Cameron Mineral Trusts	1756
TX	Webb	Onshore and Offshore Gulf	Tertiary sandstones		Chroma Energy	1101
TX	Webb	South Texas Onshore	Lobo Wilcox Stepout	Cretaceous Navarro	Teal Energy USA, Inc.	664
TX	Wharton	Gulf Coast	Wilcox	Yegua	Banks Petroleum	2349
TX	Wharton	Gulf Coast	Cook Mountain	Yegua	Forest Oil Corporation	712
TX	Wharton	Gulf Coast	Frio	Miocene	Lighthouse Exploration, Inc.	1819
TX	Wharton	Gulf Coast	Frio	Miocene	Lighthouse Exploration, Inc.	1819
TX	Wharton	Gulf Coast	Wilcox		Mueller Exploration, Inc.	513
TX	Wharton	Gulf Coast	Yegua		PYR Energy Corporation	402
TX	Winkler	Permian Basin	Atoka	Wolfcamp	Capstone Oil & Gas Company, LP	1349
TX	Wise	Fort Worth	Barnett Shale	Conglomerates (S&D)	R.L. Adkins Corp.	669
TX	Yoakum	Permian	Devonian	San Andres Wolfcamp	TransGlobal Oil Co.	760
TX		Gulf of Mexico	Plio-Pleistocene Sands		Anadarko Petroleum Corporation	1133
TX		Gulf Coast	Frio	Miocene	Brigham Oil & Gas, L.P.	1443
TX		Gulf of Mexico	Plio - Pleistocene Sands	Miocene - Paleogene Sands	Anadarko Petroleum Corporation	1133
TX		Gulf of Mexico - Shelf	Tertiary		Woodside Energy (USA) Ltd.	1559
TX		Permian	Pennsylvanian Reef	Fusselman	Brigham Oil & Gas, L.P.	1443
UT	Carbon	Uintah	Blackhawk Coalbed Methan		Robert L. Bayless, Producer	1551
UT	Carbon	Uintah	Wasatch Mesaverde	Mancos, Dakota Morrison	Stonegate Resources, LLC	1161
UT	Carbon	Uintah	Wasatch Mesaverde	Mancos, Dakota Morrison	Stonegate Resources, LLC	
UT	Emery	Central Utah	Kaibab Limestone	White Rim Sandstone	Digital Magnetotelluric Technologies	965
UT	Grand	Paradox-northern shelf	Miss-Leadville	11-12 Penn-Perm thru Cambrian	Gary L. Nydegger & Associates	660
UT	Juab	Cental Utah Overthrust	Navajo Jurassic	Twin Creek Kaibab Permian	Pioneer Oil and Gas	1712
[illegible]	Juab	Central Utah Thrust Belt	Navajo	Twin Creek & Mississippian	International Petroleum, LLC	1706
[illegible]	Millard	Central Utah Overthrust	Navajo	Twin Creek	Pioneer Oil and Gas	1712
UT	Rich	Overthrust	Phosphoric	Dinwoody	Energy Investments, Inc.	661
UT	San Juan	Paradox	Ismay/Desert Creek		Lane Lasrich, CPL	2044
UT	San Juan	Paradox	Upper Ismay	Desert Creek & Lower Ismay	Stonegate Resources, LLC	1161
UT	San Juan	Paradox	Upper Ismay	Desert Creek & Lower Ismay	Stonegate Resources, LLC	
UT	Sanpete	Central Utah Overhthrust	Navajo	Twin Creek Kaibab Permian	Pioneer Oil and Gas	1712
UT	Sanpete	Central Utah Thrust Belt	Navajo	Twin Creek & Mississippian	International Petroleum, LLC	1706
UT	Sevier	Central Utah Overthrust	Navajo	Twin Creek Kaibab Permain	Pioneer Oil and Gas	1712
UT	Sevier	Central Utah Thrust Belt	Navajo	Twin Creek & Mississippian	International Petroleum, LLC	1706
UT	Uintah	Uintah	Jurassic	Wasatch/Mesa Verde	Retamco Operating Inc.	843
UT	Uintah	Uintah	Cedar Mountain, Dakota, Entrada	Mancos and Mesaverde	Lane Lasrich, CPL	2044
UT	Uintah	Uintah	Uintah		Great Northern Gas Company	2259
UT	Wasatch	Uintah	Emery	Black Hawk	Pioneer Oil and Gas	1712
VA	Caroline	Taylorsville Triassic	Triassic		Reeves Exploration	1769
VA	Wythe	Appalachian	Trenton-Black River	Knox	Reeves Exploration	1769
WA	Adams	Columbia River	Eocene/Roslyn	Oligocene/Ohanapecosh	Douglas K. Morton, WY Prof. Geologist #947	366
WA	Multiple	Grays Harbor	Eocene Submarine Fan Sandstones	Miocene Deltaic Sandstones	Weyerhaeuser Company	457
WA	Multiple	Puget	Coalbed Methane	Eocene Deltaic Sandstones	Weyerhaeuser Company	457
WV	Cabell	Appalachian	Trenton Black River/St. Peter	Devonian Shale	Carter Oil & Gas, Inc.	1540
WV	Jackson	Appalachian	Devonian Shale	Salt Sands	Carter Oil & Gas, Inc.	1540
WY		Greater Green River	Basin Centered Gas		Rakhit Petroleum Consulting Ltd.	1945
WY	Campbell	Powder River	Minnelusa	Sussex, Parkman	Gary L. Nydegger & Associates	660
WY	Campbell	Powder River	Gas - Various Coalbed Formations		Comet Energy	1260
WY	Carbon	Greater Green River / Washakie	Mesa Verde CBM	Sussex, Frontier	Julander Energy Company	563
WY	Carbon	Hanna	Tertiary coals		Anadarko Petroleum Corporation	1133
WY	Carbon	Hanna	Mesaverde	Lewis	Anadarko Petroleum Corporation	1133
WY	Carbon	Hannah	Fractured Niobrara		Retamco Operating Inc.	843
[illegible]	Carbon	Washakie	Almond & Allen ridge Coals	Cretaceous Sands	Redwine Resources, Inc	1126
[illegible]	Converse	Powder River	Ft Union CBM		Rocky Mountain Gas	1758
WY	Converse	Powder River	Gas - Various Coalbed Formations		Comet Energy	1260
WY	Fremont	NE Green River - Seminole Thrust	Pennsylvanian Tensleep	Nugget, Dakota, Muddy	Ansbro Petroleum Company	1920
WY	Fremont	Wind River	Various		Crow Nation	867

PROSPECTS BY LOCATION

State	County/Parish	Basin	Primary Objective	Secondary Objective	Company Name	Booth
WY	Hot Springs	Big Horn Basin	40,000+ Acreage Position		Lane Lasrich, CPL	2044
WY	Johnson	Powder River	Wall Creek (Frontier)	Tensleep	Mesa Energy, LLC	2309
WY	Johnson	Powder River	Gas - Various Coalbed Formations		Comet Energy	1260
WY	Lincoln	Green River	Frontier	Muddy	MegaEnergy, Inc.	1351
WY	Lincoln	Overthrust	Ordovician Bighorn	Mississippian Mission Canyon	Ansbro Petroleum Company	1920
WY	Natrona	Powder River/Casper Arch	Tensleep	Jurassic	Pioneer Oil and Gas	1712
WY	Sublette	Greater Green River	Lance	Mesaverde	GASCO Energy, Inc.	429
WY	Sublette	Green River	Mesa Verde	Lance	ExxonMobil Production Company	1729
WY	Sublette	Green River	Mesa Verde	Lance	ExxonMobil Production Company	1729
WY	Sublette	Moxa Arch	Madison		Wold Oil Properties, Inc.	507
WY	Sweetwater	Greater Green River - Great Divide	Almond Sandstone - Wamsutter Trend		Lane Lasrich, CPL	2044
WY	Sweetwater	Green River	Mesa Verde		Anadarko Petroleum Corporation	1133
WY	Sweetwater	Green River	Mesa Verde	Lance	ExxonMobil Production Company	1729
WY	Sweetwater	Green River	Mesa Verde	Lance	ExxonMobil Production Company	1729
WY	Sweetwater	Green River	Almond	Lewis	Wold Oil Properties, Inc.	507
WY	Sweetwater	West Rock Springs	Rock Springs coals		Anadarko Petroleum Corporation	1133
WY	Uintah	Overthrust Belt	Kemmerer Coals CBM	Adaville Coals CBM	Rocky Mountain Gas	1758
WY	Uintah	Overthrust Belt	Bighorn Mission Canyon	Cretaceous, Permo-Pennsylvanian Weber Phosphoria Nugget Fm.,Twin Creek Fm.	Nerd Gas Company	614
WY		Big Horn	Tensleep	Phosphoria	Thomasson Partner Associates, Inc.	913
WY		Green River	Madison	Frontier/Dakota	Anadarko Petroleum Corporation	1133
WY		Green River	Frontier	Dakota	Thomasson Partner Associates, Inc.	913
WY		Powder River	Muddy Sandstone	Dakota Sandstone	Thomasson Partner Associates, Inc.	913
WY		Powder River	Tensleep	Cretaceous	Thomasson Partner Associates, Inc.	913
		Beetaloo	McMinn.	Velkerri	Robert L. Bayless, Producer	1551
		Chaco - Pirity Sub-basin	Mesozoic-Tertiary	Paleozoic-Mesozoic	La Mesa Group	1105
		Gulf of Mexico	Miocene	Oligocene	Alitheia Resources	1851
		Offshore State waters	Siph Davisi and Planulina	Discorbis Bol and Amph B	Clayton Williams Energy, Inc.	2416
		Rift Valley, Rockies	Pliocene	Miocene	Thomasson Partner Associates, Inc.	913
		Sorell Basin	Thylacine Sandstone	Flaxmans	Santos USA Corp.	1749
		Yucatan	Cretaceous Carbonates		US Capital Energy, Inc.	1865
		Yucatan, Offshore	Cretaceous Carbonates		US Capital Energy, Inc.	1865
		Yucatan, Onshore	Cretaceous Carbonates		US Capital Energy, Inc.	1865
	EC 178	Gulf of Mexico	Pleistocene		Stone Energy Corporation	459
	GB 26	Gulf of Mexico	Trim A Sands		Stone Energy Corporation	459
	SMI 235	Gulf of Mexico	36 Sand (9200 TUD SAND)		Stone Energy Corporation	459
	SS 104	Gulf of Mexico	Upper Miocene (CRIS K) Sandss		Stone Energy Corporation	459
	WC 176	Gulf of Mexico	LM-1 Sand, Camerina Sand		Stone Energy Corporation	459
	WC 177	Gulf of Mexico	M2/OC Sand (CIB OP)	L3 Sand	Stone Energy Corporation	459
	WC 332	Gulf of Mexico	Disc B, CIB CARST		Stone Energy Corporation	459
21 States			Mineral Interests for White Oak Royalty Company and General Life Insurance Company		Wold Oil Properties, Inc.	507

Lawrence Bender

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1530

Page 1, Line 10, after "drilled", add "which has a surface location"

Page 1, Lines 10 & 11, delete "outside the boundary of an established field", add "from the surface location of a well that produces from the same pool."

Page 2, Line 25, delete "spudded", add "completed"

Page 2, Line 25, delete "spudding", add "completion"

Page 2, Line 26, after "shall", add "ascertain and"

Page 2, Line 27, delete "spudded", add "completed"

And renumber accordingly.

North Dakota Petroleum Council

Ron Ness
President
Marsha Reimnitz
Office Manager

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

House Bill 1530

House Finance and Taxation Committee

March 22, 2005

Mr. Chairman, and members of the Committee, my name is Ron Ness, President of the North Dakota Petroleum Council. The North Dakota Petroleum Council represents more than 100 companies involved in all aspects of the oil and gas industry including oil and gas production, refining, pipeline, mineral leasing, consulting, legal work, and oil field service activities in North Dakota, South Dakota, and the Rocky Mountain region. Our membership produced 24 million of the 32 million barrels of oil produced in North Dakota in 2004. We represent 18 of the top 25 North Dakota oil producers. I appear before you today in support of tax relief from the 11.5% tax rate.

HB 1530 is a novel idea that will temporarily make North Dakota more competitive with Montana. Although, the current high oil prices provide plenty of incentive to explore for oil, the issue is what is a fair tax rate. We believe the 11.5% tax on oil is too high - it is not fair and it is not competitive with other states in the region, like Montana. Since 1981, when Measure No. 6 was first approved, and the 11.5% tax on oil production was instituted, the North Dakota Petroleum Council and its members have firmly believed that an 11.5% tax on oil is excessive, and our position remains the same today. We have worked with the legislature during virtually every session since 1987 to minimize the effects of that tax rate and we have received reasonable and fair treatment from the Legislature in minimizing the impacts of a high tax rate.

Regardless of the success of this bill, we do intend to be back before you next session with a comprehensive, broad-based proposal for reform of North Dakota's oil tax structure.

We intend to try and lower the 11.5% top tax rate permanently and simplify the tax code for the oil and gas industry instead of continuing this constant tinkering with the tax code each session. North Dakota's oil and gas industry will contribute over $200 million just in oil and gas production taxes this biennium. Our members also pay significant amounts in corporate income tax, sales tax, and property tax. A simplified and competitive rate that companies can rely on when making investments is critical for a healthy business environment for our industry.

Thank you, I would be happy to answer any questions.

Co24

Testimony on HB 1530
Finance and Taxation Committee
March 22, 2005

Pam Sharp, Director
Office of Management and Budget

- When oil is $40 per barrel, the entire oil extraction tax is only $2.60 per barrel. $2.60 incentive cannot have anywhere near the impact as the price itself, which is twice the level it was 18 months ago. The price of oil sometimes fluctuates that much even on a daily basis.

- Montana's effective combined tax rate on recent collections is 8.35% while North Dakota's is 8.58%. Granted, the rates are very complex and Montana puts more emphasis on taxing the royalty owners than the working interest, however, in the end Montana collects about the same amount of tax as North Dakota

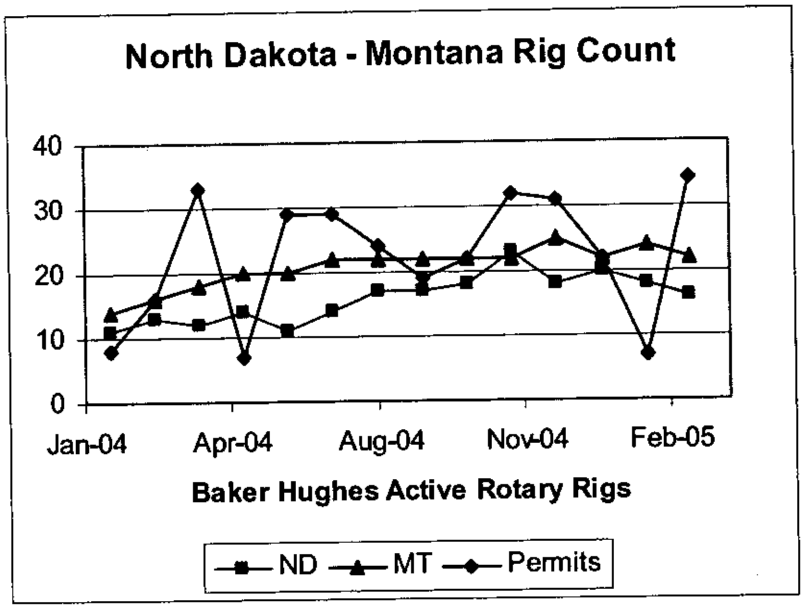
- In 2004 Montana produced 24.4 million barrels of oil compared to North Dakota production of 31 million barrels of oil.

- In the quarter ending in December, **Montana collected $31 million** in taxes from oil – 28% was from gas and 72% was from oil. In a comparable quarter in North Dakota after the incentives triggered off, **North Dakota collected $32 million** in taxes with 96% being from oil and 4% being from gas.

- Recent increases in activity in Montana that appears to be outpacing North Dakota can be attributed to the fact that Montana leases in the area are expiring and North Dakota's have 8 to 10 years remaining – not the fact that we tax higher. Also, the field is well defined in Montana and is still being established in North Dakota.

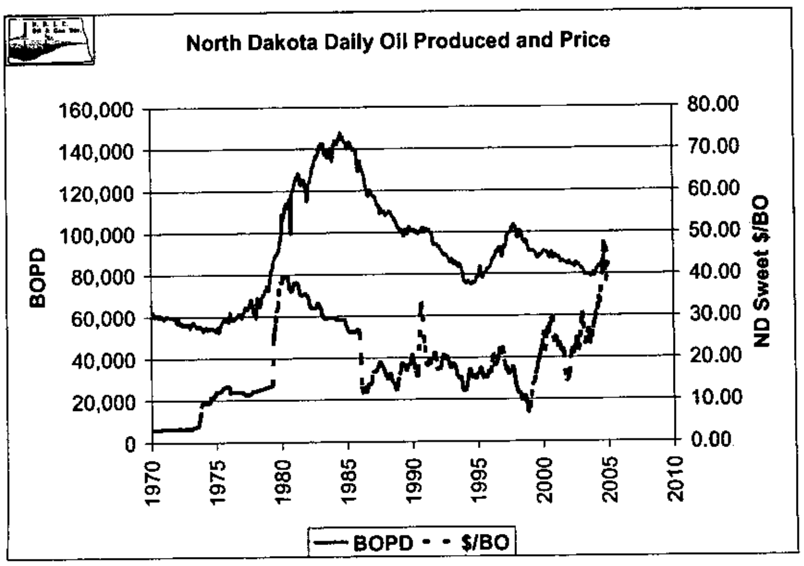
LYNN Helms
HB 1530

N. D. I. C.
Oil & Gas Div.



Oil and gas operators have drilled over 150 middle Bakken horizontal wells in Montana and 6 in North Dakota. I offer the following reasons in what I believe to be the order of priority:

- Industry took 2-3 years developing **technology** to drill 400-1,500 barrel/day wells
  - North Dakota wells drilled so far produce only 1/5-1/4 as much as the Montana wells
- Most Montana **leases** are private and state with 3-5 year terms and will expire soon
- The **geology and productive area** in Montana is better defined than in North Dakota
- The current **tax** on new horizontal wells in Montana is lower than in North Dakota
- Approximately 150-200 of these highly profitable Montana locations remain to be drilled
  - Each rig can drill 6-8 wells per year
  - The 25 rigs in MT could remain employed there for an additional 12-18 months



Lynn Helms
HB 1530

N. D. I. C.
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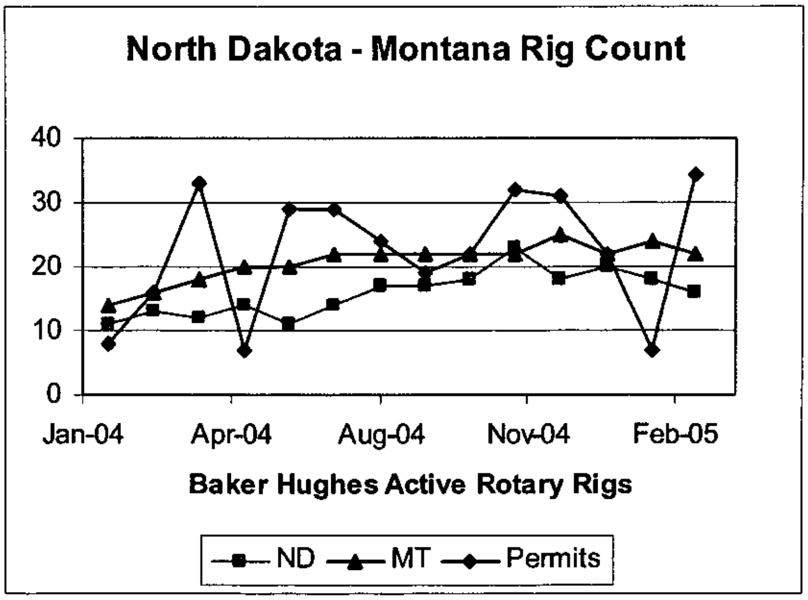

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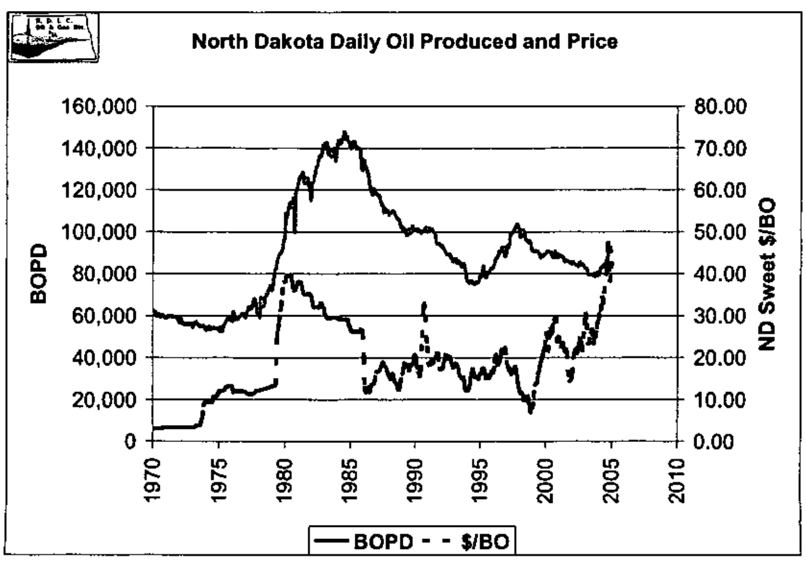
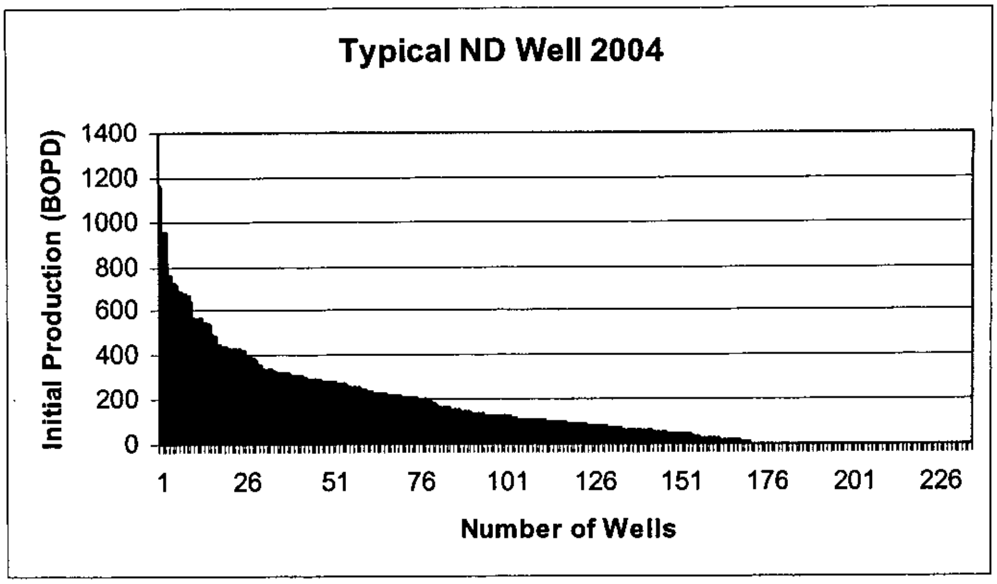


N. D. I. C.
Oil & Gas Div.



Initial production reported on NDIC Oil & Gas Division Form 6

220 BOPD – average well
- 80 MBO 12 months - 120 MBO 24 months – 253 MBO 10 years
- costs $2,500,000 to drill and complete
- Breakeven oil price $19

1 well 1166 BOPD - 100 MBO in 3 months

1% > 900 BOPD - 100 MBO in 4 months

5% > 550 BOPD - 100 MBO in 6 months

10% > 400 BOPD - 100 MBO in 8 months

20% > 275 BOPD – 100 MBO in 12 months

31% > 185 BOPD - 100 MBO in 24 months

50% > 110 < 185 BOPD - reach 100 MBO between 2 and 10 years

25% > 0 < 110 BOPD – don't reach 100 MBO in 10 years

33% < 1 BOPD

drc

"Watchdogs of the Prairie"
Organizing North Dakotans Since 1978

Dakota Resource Council • PO Box 1095 • Dickinson, ND 58602-1095

FAX TRANSMITTAL MEMO

TO: House Finance & Taxation Committee Clerk

FROM: Cindy Klein - DRC Staff

SUBJECT: Testimony HB 1530 - I could not get to Bismarck today due to very icy roads - Please make copies for the Committee members and distribute. If there is a fee, please let me know. My contact information is below. CK

3 pages, including cover sheet. If you do not receive all pages, please call (701) 483-2851

Copy

TESTIMONY: HB 1530
House Finance and Taxation Committee
March 22, 2005

Chairman Belter and members of the Finance and Taxation Committee,

My name is Cindy Klein and I am here today to provide testimony for Dakota Resource Council (DRC) in opposition to HB 1530. Dakota Resource Council is a member-based, grassroots organization with over 600 members in the State of North Dakota.

It is irresponsible, at this time of record high oil prices, to offer such a windfall to a thriving industry. On March 21, 2005, West Texas Intermediate Crude prices were at $57.01/barrel. This would seem like plenty of incentive for oil exploration. Even the North Dakota Petroleum Council expressed a timing concern in a recent legislative update.

There have been about 250 drilling permits issued since January of 2004. Of those, about 43 were classified as "wildcat" wells. Of the seven wells that I was able to get information on, there has been over 170,000 barrels of oil produced. One well alone has produced almost 90,000 barrels of oil in just over 10 months.

If there is a problem with the structuring of the oil and gas taxes in North Dakota, then the solution is not to provide an exemption to the extraction tax. The solution is to re-examine the tax configuration and revise it. It is too near to the end of the session and legislators have little time to conduct the kind of review that would be necessary for an overhaul of the system. Perhaps that job would be better left to an interim committee or for the beginning of the next session.

Unlike the oil industry, many North Dakotan's, whose labor is invaluable for our quality of life, are not seeing their bottom line go up. North Dakota is near the bottom in teachers pay and that makes it difficult to attract and retain good teachers. This legislature is finding it hard to give our state employees a fair cost of living raise. In addition, new oil production brings inspection requirements and there may be damage to environment, crops, stock, and infrastructure, for which there could be no compensation. You are being asked to consider a new huge tax break for an industry that has no need.

Generally, the rationale for an oil and gas tax exemption is that it should encourage exploration and production at a time when prices are low - not when prices are at record highs. If we are going to give tax exemptions when prices are at record highs, why do we tax at all? Oil cannot be reproduced or renewed, but rather, extraction is a one-time liquidation of an asset. We can't sell the same oil twice. At this time of strong markets, why should we bend over backwards to forgo potential state revenues from an asset that will increase further in value as it is depleted? This is not a sound business practice, and individuals who manage their assets in this way would be justly ridiculed for poor business sense.

We also question the fact that there is no fiscal note attached to this bill, and respectfully ask to be provided with the estimated amount of revenue that will be lost to the State of North Dakota.

For these reasons, we respectfully ask you for a DO NOT PASS recommendation on HB 1530.

Kevin Schatz
HB 1530

during section of Bill

North Dakota Office of State Tax Commissioner
Oil and Gas Taxes Division

Montana and comparable North Dakota data:

Montana's gross collection for the latest quarter (production periods July, August, September) was $31 million (approximately 28% gas tax and 72% oil tax) for an average tax rate of 8.35%. North Dakota's gross collections for the same production periods were $24.5 million (approximately 4.4% gas tax and 95.6% oil tax) for an average tax rate of 7.36%. For the period October, November, and December 2004 (North Dakota trigger in affect) we collected $32 million (adjusted for prior period refund of 1.75 million) (approximately 4% gas tax and 96% oil tax) for an average tax rate of 8.58%.

Oil Production Growth

	Montana		North Dakota	
	Barrels	Change	Barrels	Change
2001	16.3m	+3.07%	31.7m	-3.15%
2002	17.0m	+4.12%	30.8m	-2.92%
2003	19.4m	+12.37%	29.3m	-5.12%
2004	24.4m*	+20.49%	31.0m	+5.79%

* Estimated based on 1st 10 months comparison to previous year

Oil Wells Drilled

	Montana Oil Wells Drilled	North Dakota Oil Wells Drilled
2002	57	96
2003	97	99
2004	90	72*

* Through September

North Dakota Office of State Tax Commissioner
Oil and Gas Taxes Division

Incentives for oil

----- Montana -----

	Working Interest	Royalty Interest
Primary Production		
New Wells - Vertical		
New well - 1st 12 months (exempt)	.76%	15.06%
New well - pre 1999 after exemption	12.76%	15.06%
New well - post 1999 after exemption	9.26%	15.06%
New Wells - Horizontal		
New well - 1st 18 months (exempt)	.76%	15.06%
New well - pre 1999 after exemption	12.76%	15.06%
New well - post 1999 after exemption	9.26%	15.06%
Stripper Wells (requalified every year)		
Stripper wells <=3 bpd (exemption)	.76%	15.06%

Stripper exemption triggers @ $38/bbl NYMEX for report quarter then pre 1999 and post 1999 new well rates apply (M.T. trigger for this incentive took affect April 2004 - current)

	Working Interest	Royalty Interest
Stripper wells < 15 bpd (reduction)		
1-10 bpd	5.76%	15.06%
over 10 bpd	9.26%	15.06%

Stripper reductions trigger @ $30/bbl NYMEX for report quarter then pre 1999 and post 1999 new well rates apply (M.T. trigger for this incentive took affect Jan - Mar 2003 and again July 2003 - current)

----- North Dakota -----

	All Interests
New Wells - Vertical	
New Well - 1st 15 months (exempt)	5%
New Well - After Exemption	9%
New Wells - Horizontal	
New Well - 1st 24 months (exempt)	5%
New Well - After Exemption	9%

Incentives trigger if NYMEX - $2.50 exceeds $34.11/bbl for 2004 and $36.48 for 2005
Rates become 12.5% until price is below trigger, then remaining incentive periods reinstated.
(N.D. trigger took affect October 2004 - current)

	All Interests
Stripper Wells (once a stripper always a stripper)	
Stripper wells <= 10 bpd @ <6,000 ft	5%
Stripper wells <= 15 bpd @ >6,000 & <10,000 ft	5%
Stripper wells <= 30 bpd @ depth of >10,000 ft	5%

Stripper wells do not trigger

	All Interests
Horizontal Recompletions - Exemption	
1st 9 months production (exempt)	5%
After exemption prior rate	9% or 12.5%

North Dakota Office of State Tax Commissioner
Oil and Gas Taxes Division

Incremental Production

Horizontal Recompletions - Incremental Reduced Rate		
1st 18 months increment only*	5.76%	15.06%
After 18 months - pre 1999 wells	12.76%	15.06%
After 18 months - post 1999 wells	9.26%	15.06%

* Base rate remains at pre 1999 or post 1999 rate

Enhanced Recovery - Incremental Reduced Rate		
New or expanded secondary increment*	8.76%	15.06%
New or expanded tertiary increment*	6.06%	15.06%

* Base rate remains at pre 1999 or post 1999 rate

Incremental reductions trigger @ $30/bbl NYMEX for report quarter then pre 1999 and post 1999 new well rates apply (M.T. trigger for incentive to[illegible]ct Jan - Mar 2003 and again July 2003 - current)

Workover Projects	
12 months production (exempt)	5%
After exemption	9%

Inactive Wells	
120 months production (exempt)	5%
After exemption prior rate	9% or 12.5%

Enhanced Recovery Projects	
Base production (reduced)	9%

These incentives trigger if NYMEX - $2.50 exceeds $34.11/bbl for 2004 and $36.48 for 2005 Rates become 12.5% until price is below trigger, then remaining incentive periods reinstated. (N.D. trigger took affect October 2004 - current)

Indian Lands	
60 months production (exempt)	5%
After exemption	9%

Indian land wells do not trigger

Enhanced Recovery - Incremental Exemption	
New or expanded secondary increment 60 months	5%
New tertiary increment 120 months	5%
After exempt period reduced rate increment	9%

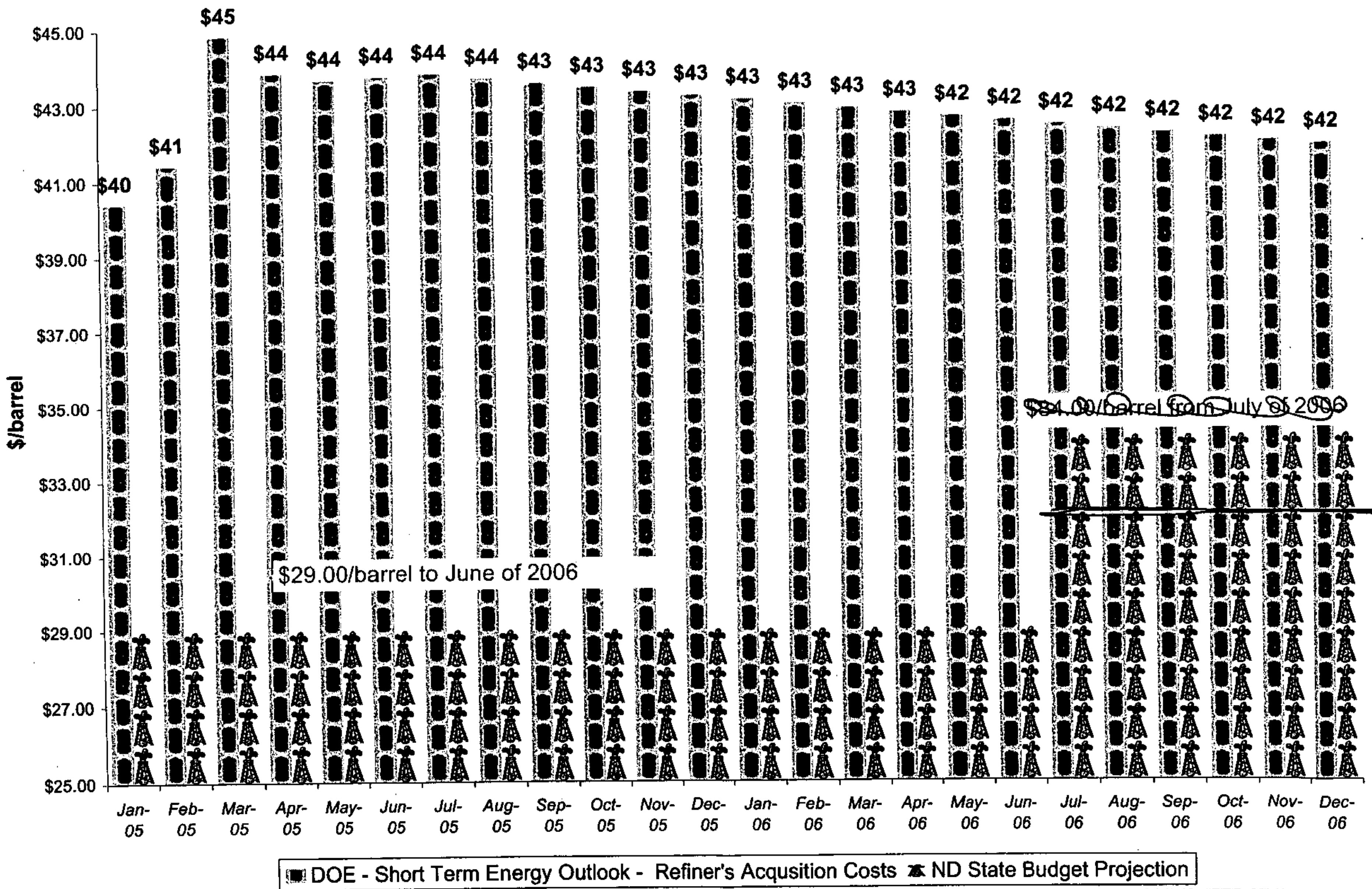
Incremental exemptions do not trigger

Rep. Conrad

$42.70/Barrel is the average projected price of the cost of oil to refineries by DOE

Downloaded: March 22, 2005

Source: http://tonto.eia.doe.gov/steo_query/app/papage.htm



$32 from July 2006

Willcat oil well spudded after the effective date of August 1, 2005.

"Wildcat well" means a well drilled more than one mile outside the boundaries of an established oilfield.

The well operator may elect to use one of the following exemptions before they spud the well,
1. Exempt the first 100,000 barrels of production from extraction tax.
2. Or not to exempt the first 100,000 barrels of production from extraction tax.

After the spudding of the well the election is irrevocable.

Example # 1

Tax incentives are triggered off. (Price of oil is above the trigger price for five consecutive months.)
Well spudded after June 30, 2005 and before June 30, 2006.
Well operator elects the 100,000 barrel extraction exemption.

	Production Tax	**Extraction Tax**	**If Incentives Trigger On (Oil Price BelowTrigger)**
Vertical Wildcat Well 15 Month Holiday or 100,000 barrels	5%	No extraction tax on first 100,000 barrels Of production	When the incentives trigger on, if there is any time left on the 15 mo. or another 10,000 barrels which ever comes first, extraction tax is 0%. After the holiday the extraction tax is collected at a rate of 5% and then 4% in 2006.
Horizontal Wildcat Well 24 Month Holiday or 100,000 barrels	5%	No extracton tax on first 100,000 barrels of production	When the incentives trigger on, if there is any time left on the 24 mo. or another 10,000 barrels which ever comes first, the extraction tax is 0%. After the holiday the extraction tax is collected at a rate of 5% and then 4% in 2006.

Example # 2

Tax incentives are in place (triggered on)

Well spudded after June 30, 2006 and before July 1, 2007.

Well operator elects the 100,000 barrels extraction exemption.

All wells will get 100,000 barrels of oil production exempt from the 4% extraction tax and when that point is reached, **IF there is anytime left** on the monthly tax holiday (15 mo. for vertical wells and 24 mo. for horizontal wells) they will receive an exemption from the extraction tax until the time is up or the **well reaches 110,000** which ever comes first. After that point in time a tax rate of 4% will be collected for extraction on the production of the well.

Note: Oil producing wells are never exempt for the 5% Production Tax.

After Transition Period:

Wells spudded after July 1, 2007

	Incentives are triggered ON		**Incentives are triggered OFF**	
	Production Tax	**Extraction Tax**	**Production Tax**	**Extraction Tax**
Vertical Well 15 month Holiday	5%	New Wells 15 mo. Tax Holiday, Then 4%	5%	New Wells No Tax Holiday. 4%
Horizontal Well 24 month Holiday	5%	New Wells 24 mo. Tax Holiday, Then 4%	5%	New Wells No Tax Holiday. 4%
Vertical Well Wildcat 15 month Holiday	5%	100,000 Barrels Plus Time left on 15 mo. holiday. Then, 4%	5%	100,000 Barrel Plus Time left on 15mo. holiday Then, 4%
Horizontal Well Wildcat 24 month Holiday	5%	100,000 Barrels Plus Time left on 24 mo. holiday Then, 4%.	5%	100,000 Barrel Plus Time left on 24mo. holiday Then, 4%.

HB 1530 OIL TAX REDUCTION ON NEW-NEW OIL WELL

Transition Period:
New oil wells spudded after June 30, 2005 and before June 30, 2006.

	After (6-30-05) to Production Tax	Before (6-30-06) Extraction Tax	After (6-30-06) to Into the future years Production Tax	Extraction Tax
Vertical Well **15 month Holiday** **Or** **110,000 Barrels**(Effective until 7/01/07)	5%	5%	5%	4%
Horizontal Well **24 month Holiday** **Or** **110,000 Barrels**(Effective until 7/01/07)	5%	5%	5%	4%

New oil wells spudded after June 30, 2006.

	Production Tax	Extraction Tax
Vertical Well **15 month Holiday** **Or** **110,000 Barrels**(Effective until 7/01/07)	5%	4%
Horizontal Well **24 month Holiday** **Or** **110,000 Barrels**(Effective until 7/01/07)	5%	4%

Wells spudded after June 30, 2005, but before July 1, 2007

IF a well becomes eligible for exemption, (the price of oil drops below the trigger price for five consecutive monthes) the exemption does not apply to production from that well until three additional months of production from that well are taxed at the rates listed above.
THEN if the well has time left on it's tax holiday or 110,000 barrel production mark has not been reached, **THE exemption** will kick in and the oil production from those wells will be taxed at the 5% production tax level only until the 110,000 barrel production is met or the holiday is finished, which ever comes first.

Sen. Wardner

THE NEED TO UPDATE HORIZONTAL WELL TAX INCENTIVES

- ND oil production is declining. In contrast Mt oil production is increasing.

- The difference is horizontal drilling activity.
  ND has 15 horizontal drilling rigs operating
  Mt has 22 horizontal drilling rigs operating
  Availability of rigs, geology and tax policy are all factors. We should do what we can, by making our tax policy more competitive.

- The taxes on horizontal wells, is a huge factor in making investments decisions.
  Montana tax rate: **.5% for 18 months, followed by 9% tax**
  North Dakota tax rate: **11.5% permanent**
  North Dakota taxes are 11% higher initially, and 2.5% higher after incentives.

- North Dakota will loose investment dollars impacting state oil revenues, as reflected in recent trends of drilling rigs migrating to Mt, and SD.

- Montana has no price trigger on horizontal wells, placing ND at a long term and significant disadvantage, that should be reconsidered by policy makers

- The Bakken play currently underway, has huge potential for North Dakota (7,200 square miles, and 4.6 million acres in 9 counties), but is high risk and expensive, making tax incentives very important for continued risk capital. (6 of 8 recent Bakken wells are uneconomic.) Its potential can add millions of new investment and state revenues, if we create a climate in which continued investment can be made through competitive and stable tax incentives.

- Circumstances have changed. September 11, 2001 impacted world oil markets. World oil consumption is up. Prices are volatile and impact all suppliers. Costs have increased dramatically. (Well costs of $1.2 million, now exceed $3 million because of new technology, higher material and labor costs, etc., narrowing margins, and making tax policy an important investment factor.)

- North Dakota should continue its long standing practice of encouraging new investment, by creating competitive tax policies that incentivize the oil industry towards new and high risk investment. That policy has proven successful for the State. We should continue to offer an investment climate that <u>pays</u> dividends, through additional investment, new tax revenue and continued high employment. State revenues will increase long-term, if we refine tax policy on horizontal wells.

- Competitive tax incentives are vital to maximize the opportunity that current oil prices and advanced technology provide in developing the Bakken formation. We risk loosing that opportunity, if we don't make our tax policy competitive.

Top Ten Producing States (OIL & Gas Journal PRODUCTION REPORT)

Rank	State	Basic Tax Rate	Current Horizontal Well Tax Rate With Incentives	
1	Louisiana	12.50%	6.81%	24 month or 100% of cost exemption
2	Texas	4.60%	4.60%	120 month or 50% of cost exemption for high cost gas wells
3	Alaska	9.90%	4.95%	Well must be drilled ≥3 miles from existing wells or fields
4	California	5.23%	5.23%	
5	New Mexico	8.29%	8.29%	
6	Oklahoma	7.00%	2.85%	48 month or 100% of cost exemption
7	Wyoming	13.70%	13.70%	
8	North Dakota	11.50%	11.50%	Currently 6.5% extraction tax, if NYMEX WTI < $36.48 for 5 months then exempt 24 months & 4% thereafter
9	Kansas	8.00%	6.18%	24 months exempt from 4.33% severance tax
10	Montana	9.00%	5.59%	18 months exempt except 0.5% resource indemnity tax
	Average	8.97%	6.97%	

ND Oil Incentives

Assumptions:
- Trigger ends 6/30/06
- Average Well produces 253,000 Barrels
- Estimated increase in drilling with incentive from 150 wells/year to 200 per year: 300 to 400 per bienium
- Law has emergency clause and goes into effect April 1, 2005

Current Law - no incentive	Months	Barrels	Oil price	Tax	State Tax	County Tax 5%	Total Oil Income
Average well	15	90,338	$35.54	6.5%	$208,690	$160,531	$3,210,613
	9	30,113	$29.33	0.0%	$0	$44,161	$883,214
	3	5,019	$27.96	4.0%	$5,613	$7,017	$140,331
Years 3-12		107,530	$30.00	4.0%	$129,036	$161,295	$3,225,900
Years 13-20		20,000	$30.00	0.0%	$0	$30,000	$600,000
		253,000			$343,339	$403,003	$8,060,058

Volume Option (100B)	Months	Barrels	Oil price	Tax	State Tax	County Tax 5%	Total Oil Income
Average well	12	80,300	$36.68	0.0%	$0	$147,270	$2,945,404
	6	20,075	$30.67	0.0%	$0	$30,785	$615,700
	9	25,094	$28.53	6.5%	$46,536	$35,797	$715,932
Years 3-12		107,531	$30.00	6.5%	$209,685	$161,297	$3,225,930
Years 13-20		20,000	$30.00	0.0%	$0	$30,000	$600,000
		253,000			$256,221	$405,148	$8,102,966

	Tax per well	Wells	State Tax	County Tax 5%
State Revenue Current law	$343,339	300	$103,001,719	$120,900,871
Volume Option	$256,221	400	$102,488,407	$162,059,321
			-$513,312	$41,158,451

Blended rate-Volume based	
Total Oil Income	$8,102,966
Total Tax paid	$661,369
Blended rate	8.2%

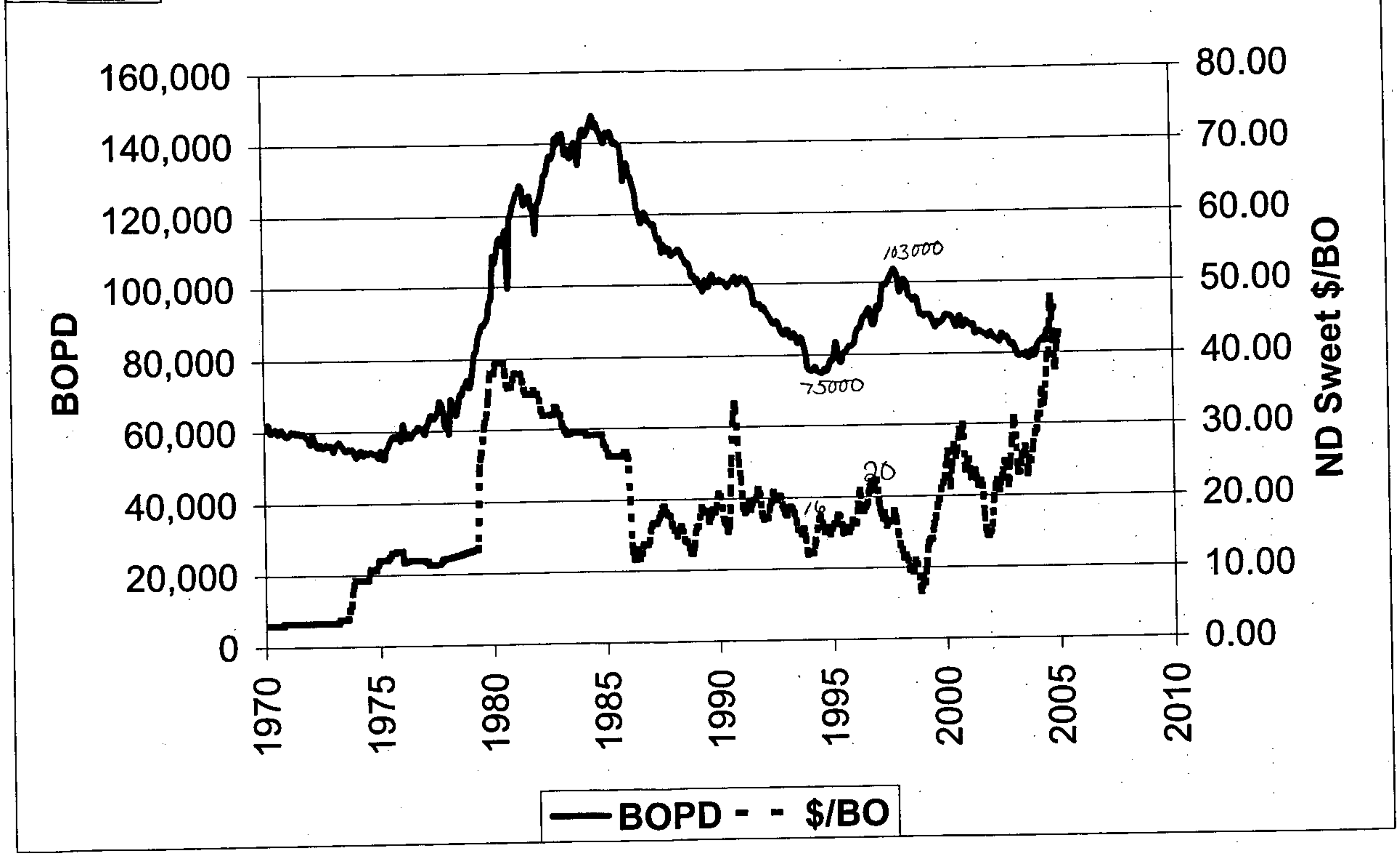
Proposed Oil Extraction Tax Holiday
New wells drilled after July 1, 2005
Exempt for 100,000 barrels
Horiz wells only; production and decline provided by industry
Bold = Exempt under current law

	JAS-05	OND-05	JFM-06	AMJ-06	JAS-06	OND-06	JFM-07	AMJ-07	JAS-07	OND-07	JFM-08	AMJ-08	JAS-08	OND-08	JFM-09	AMJ-09
JAS-05																
Wells Drilled	24															
Production	388,800	388,800	388,800	388,800	194,400	194,400	194,400	194,400	97,200	97,200	97,200	97,200	48,600	48,600	48,600	48,600
OND-05																
Wells Drilled		24														
Production		388,800	388,800	388,800	388,800	194,400	194,400	194,400	194,400	97,200	97,200	97,200	97,200	48,600	48,600	48,600
JFM-06																
Wells Drilled			24													
Production			388,800	388,800	388,800	388,800	194,400	194,400	194,400	194,400	97,200	97,200	97,200	97,200	48,600	48,600
AMJ-06																
Wells Drilled				24												
Production				388,800	388,800	388,800	388,800	194,400	194,400	194,400	194,400	97,200	97,200	97,200	97,200	48,600
JAS-06																
Wells Drilled					24											
Production					388,800	388,800	388,800	388,800	194,400	194,400	194,400	194,400	97,200	97,200	97,200	97,200
OND-06																
Wells Drilled						24										
Production						388,800	388,800	388,800	388,800	194,400	194,400	194,400	194,400	97,200	97,200	97,200
JFM-07																
Wells Drilled							24									
Production							388,800	388,800	388,800	388,800	194,400	194,400	194,400	194,400	97,200	97,200
AMJ-07																
Wells Drilled								24								
Production								388,800	388,800	388,800	388,800	194,400	194,400	194,400	194,400	97,200
JAS-07																
Wells Drilled									24							
Production									388,800	388,800	388,800	388,800	194,400	194,400	194,400	194,400
OND-07																
Wells Drilled										24						
Production										388,800	388,800	388,800	388,800	194,400	194,400	194,400
JFM-08																
Wells Drilled											24					
Production											388,800	388,800	388,800	388,800	194,400	194,400
AMJ-08																
Wells Drilled												24				
Production												388,800	388,800	388,800	388,800	194,400
JAS-08																
Wells Drilled													24			
Production													388,800	388,800	388,800	388,800
OND-08																
Wells Drilled														24		
Production														388,800	388,800	388,800
JFM-09																
Wells Drilled															24	
Production															388,800	388,800
AMJ-09																
Wells Drilled																24
Production																388,800
Total New Production	388,800	777,600	1,166,400	1,555,200	1,749,600	1,944,000	2,138,400	2,332,800	2,430,000	2,527,200	2,624,400	2,721,600	2,770,200	2,818,800	2,867,400	2,916,000
Fiscal year New Production				3,888,000				8,164,800				10,303,200				11,372,400
Subject to New Holiday				3,888,000				0				-				-
Forecasted Price				$ 35				$ 30				$ 30				$ 30
Negative Impact of Exemption				$ (8,845,200)				-				972,000				1,555,200
Positive Impact of 2.5% after 100,000 barrels								-				$ 729,000				$1,166,400

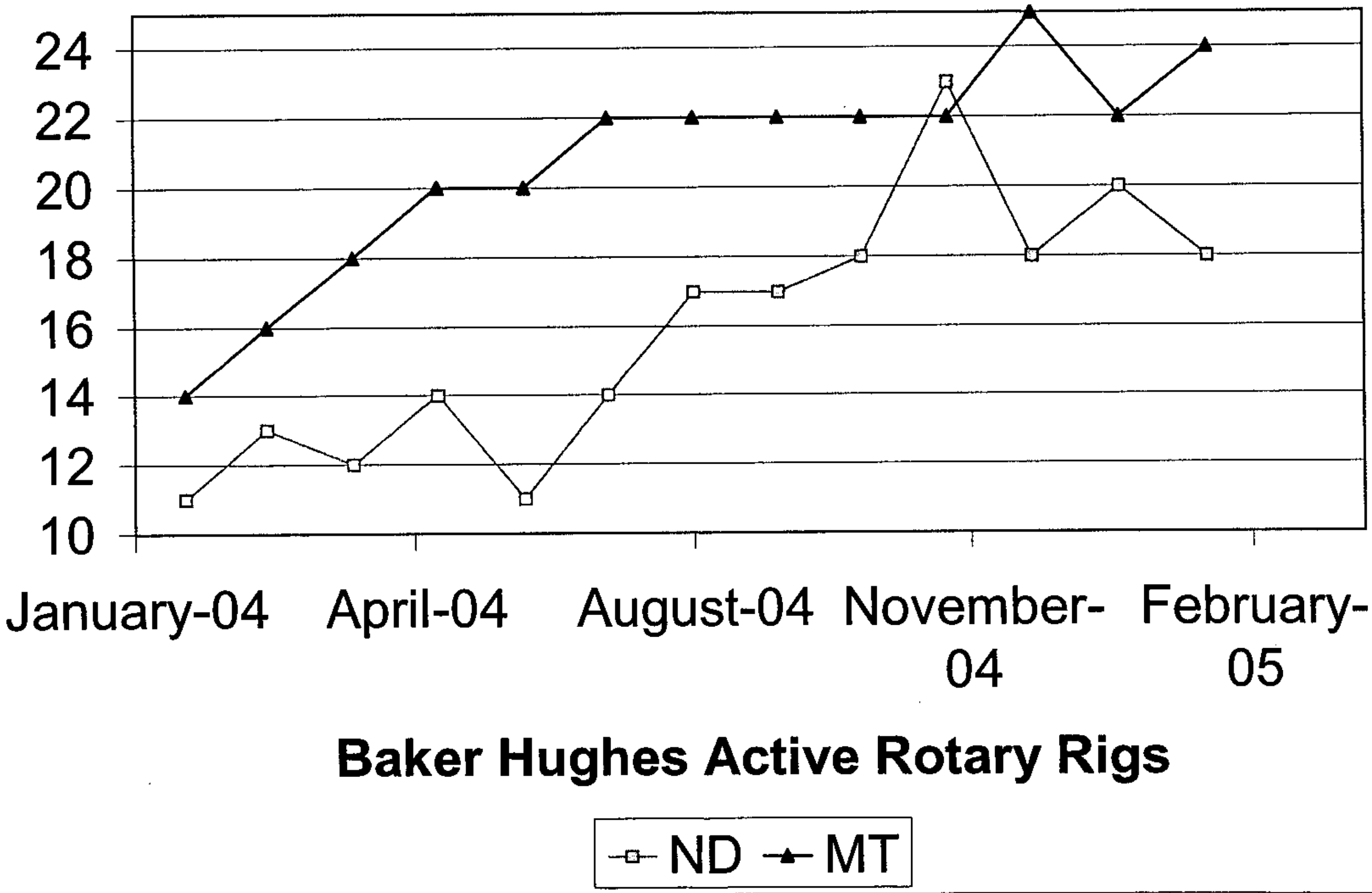
— Positive

These impacts are the revenue losses (and gains) relative to the existing forecast base.
If the tax holiday increases production 10% more than the existing forecast by the close of the 2007-09 biennium, there would be an additional positive impact from the collection of 5% GPT estimated at $4.5 million.

North Dakota Daily Oil Produced and Price



North Dakota - Montana Rig Count



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9	Kansas	8.00%	6.18%	24 months exempt from 4.33% severance tax
10	Montana	9.00%	5.59%	18 months exempt except 0.5% resource indemnity tax
	Average	8.97%	6.97%	

BAKER HUGHES ROTARY RIGS BY STATE

	APR 1	APR 8	APR 15	APR 22	APR 29	APR AVG
ALABAMA-LAND	2					2
ALABAMA-INL WATER	0					0
ALABAMA-OFFSHORE	1					1
TOTAL ALABAMA	3					3
ALASKA-LAND	11					11
ALASKA-OFFSHORE	0					0
TOTAL ALASKA	11					11
ARIZONA	0					0
ARKANSAS	6					6
CALIFORNIA-LAND	21					21
CALIFORNIA-OFFSHORE	4					4
TOTAL CALIFORNIA	25					25
COLORADO	72					72
FLORIDA-LAND	0					0
FLORIDA-INL WATER	0					0
FLORIDA-OFFSHORE	0					0
TOTAL FLORIDA	0					0
GEORGIA	0					0
HAWAII	0					0
IDAHO	0					0
ILLINOIS	0					0
INDIANA	0					0
KANSAS	6					6
KENTUCKY	4					4
N LOUISIANA-LAND	46					46
S LOUISIANA-INL WATER	28					28
S LOUISIANA-LAND	33					33
S LOUISIANA-OFFSHORE	75					75
TOTAL LOUISIANA	182					182
MICHIGAN	3					3
MISSISSIPPI	10					10
MONTANA	24					24
NEBRASKA	0					0
NEVADA	1					1
NEW MEXICO	79					79
NEW YORK	6					6
N DAKOTA	15					15
OHIO	9					9
OKLAHOMA	155					155
OREGON	0					0
PENNSYLVANIA	9					9
S DAKOTA	2					2
TENNESSEE	0					0
TEXAS-OFFSHORE	14					14
TEXAS-INL WATER	1					1
DISTRICT 1	18					18
DISTRICT 2	31					31
DISTRICT 3	70					70
DISTRICT 4	81					81
DISTRICT 5	72					72
DISTRICT 6	88					88
DISTRICT 7B	12					12
DISTRICT 7C	43					43
DISTRICT 8	54					54
DISTRICT 8A	14					14
DISTRICT 9	34					34
DISTRICT 10	56					56
TOTAL TEXAS	588					588
UTAH	28					28
VIRGINIA	3					3
WASHINGTON	0					0
W VIRGINIA	10					10
WYOMING	78					78
TOTAL UNITED STATES	1329					1329
CANADA-LAND	227					227
CANADA-OFFSHORE	3					3
TOTAL CANADA	230					230
GRAND TOTAL	1559					1559

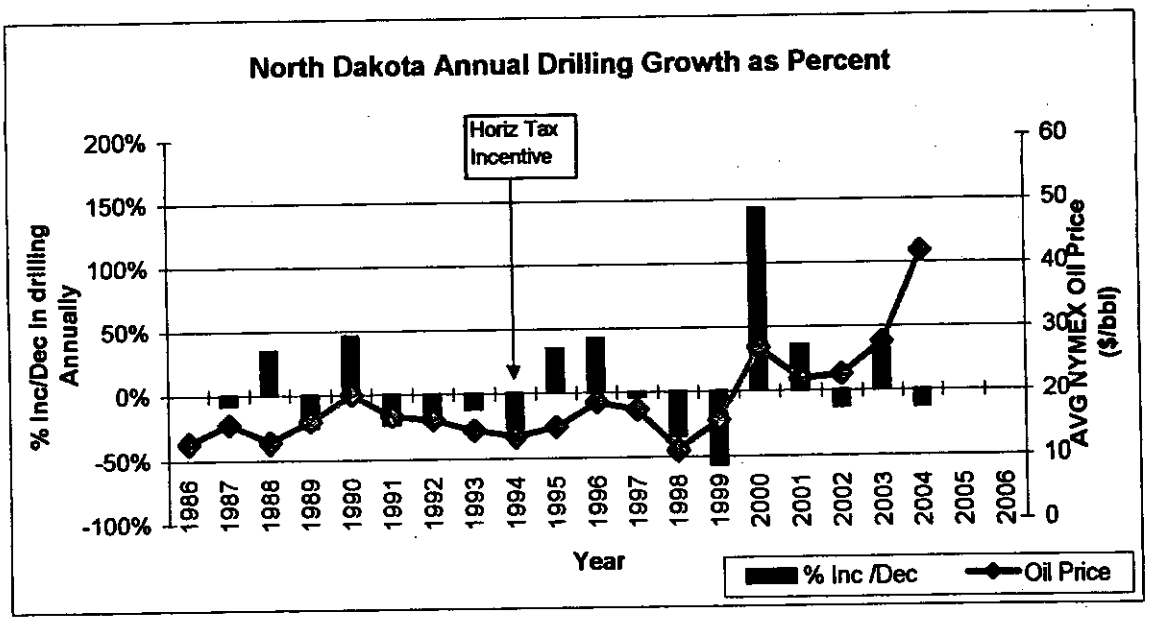
NOTE: MONTHLY AVERAGES MAY NOT TOTAL DUE TO ROUNDING.

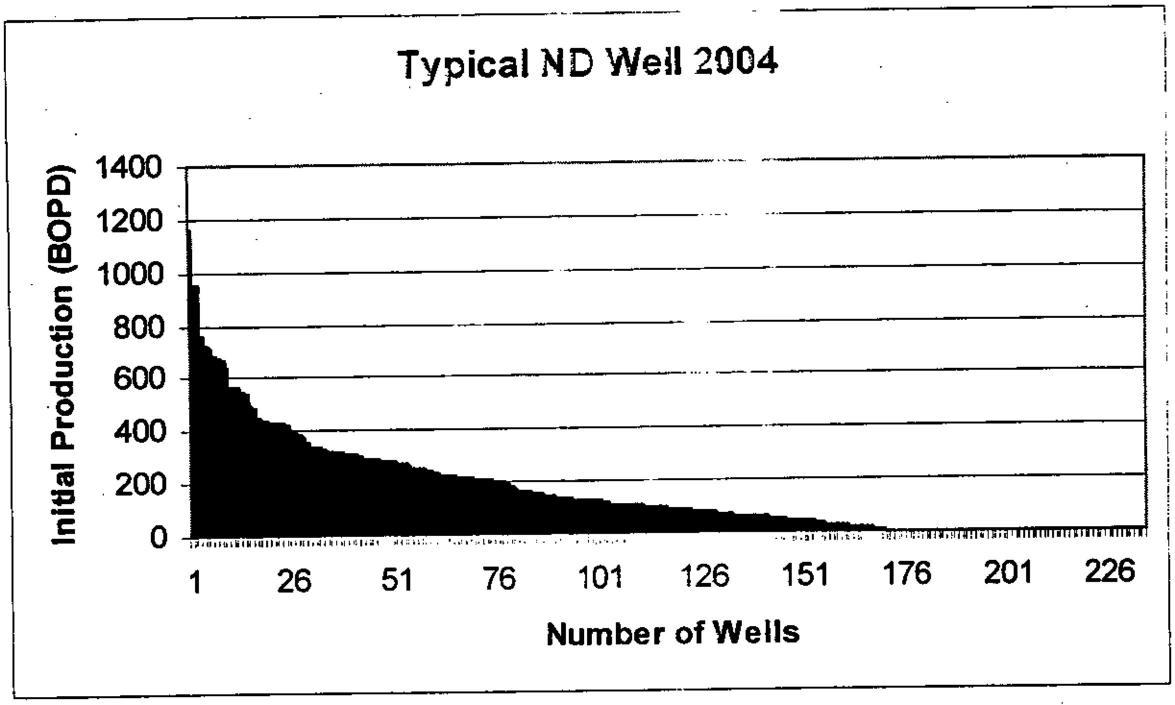
NORTH DAKOTA DRILLING STATISTICS

2/1/2005

Source NDIC Mark Bohr and Bruce Hicks

YEAR	HORIZONTAL WELLS	VERTICAL WELLS	Tot Wells	INC/DEC%	% HORIZ	AVG OIL PRICE
1986	0	207	207		0.00%	$12.51
1987	1	189	190	-8.21%	0.53%	$15.40
1988	9	246	255	34.21%	3.53%	$12.58
1989	32	156	188	-26.27%	17.02%	$15.86
1990	77	197	274	45.74%	28.10%	$20.03
1991	49	159	207	-24.45%	23.67%	$16.54
1992	34	141	175	-15.46%	19.43%	$15.99
1993	28	116	154	-12.00%	18.18%	$14.25
1994	27	88	111	-27.92%	24.32%	$13.19
1995	**58**	**87**	149	**34.23%**	38.93%	$14.62
1996	**107**	**88**	212	**42.28%**	50.47%	$18.46
1997	113	90	203	-4.25%	55.67%	$17.23
1998	83	48	131	-35.47%	63.36%	$10.87
1999	18	38	56	-57.25%	32.14%	$15.56
2000	74	62	136	142.86%	54.41%	$26.72
2001	116	68	184	35.29%	63.04%	$21.84
2002	123	37	160	-13.04%	76.88%	$22.51
2003	162	49	211	31.88%	76.78%	$27.56
2004	120	63	183	-13.27%	65.57%	$41.78
2005						
2006						





220 BOPD – 80 MBO 12 months - 120 MBO 24 months – 240 MBO 10 years

20% > 275 BOPD – 100 MBO 12 months – 321 MBO 10 years

31% > 100 MBO in 24 months

1% > 900 BOPD

6% > 500 BOPD

10% > 400 BOPD

16% > 300 BOPD

1 well 1166 BOPD

60% < 115 BOPD – don't reach 100 MBO in 10 years

33% are dry holes

OIL TAX CLASSIFICATIONS

Current Description of Oil Groups	Gross Production Tax	Extract Tax	Total Oil Tax	$39 $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

$37

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

Well Depth	**Barrels Per Day**
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

North Dakota Petroleum Council
A Division of the American Petroleum Institute
and the
North Dakota Oil and Gas Association

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Executive Director
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House Bill 1530

Senate Finance and Taxation Committee

April 7, 2005

Mr. Chairman, and members of the Committee, my name is Ron Ness, President of the North Dakota Petroleum Council. The North Dakota Petroleum Council represents more than 100 companies involved in all aspects of the oil and gas industry including oil and gas production, refining, pipeline, mineral leasing, consulting, legal work, and oil field service activities in North Dakota, South Dakota, and the Rocky Mountain region. Our membership produced 24 million of the 32 million barrels of oil produced in North Dakota in 2004. We represent 18 of the top 25 North Dakota oil producers. I appear before you today in support of HB 1530 as amended by the House.

Although, the current high oil prices provide plenty of incentive to explore for oil, the issue is "what is a fair and reasonable tax rate"? We believe the 11.5% tax on oil is too high - it is unhealthy rate of taxation for any industry and it is not competitive with other states in the region, like Montana. Since 1981, when Measure No. 6 was first approved, and the 11.5% tax on oil production was instituted, the North Dakota Petroleum Council and its members have firmly believed that an 11.5% tax on oil is excessive, and our position remains the same today. We have worked with the legislature during virtually every session since 1987 to minimize the effects of that tax rate and we have received reasonable and fair treatment from the Legislature in minimizing the impacts of a high tax rate.

Why should the legislature pass this bill?

- 11.5% tax is too high for any industry - 11.5% on new wells is the 2nd highest tax rate in the nation.
- 9% for new wells is still plenty high but more reasonable.
- Industry has paid nearly $200 million this biennium in production taxes - this bill will not change that - it only impacts new wells.
- Much of the state's surplus revenue is from oil taxes – what other industry can provide this type of return on investment if more activity is generated as a result of lower taxes?
- It's a tax shift - new wells get a lower tax rate up front (9%) but have delay or maximum barrel limit at the 5% tax rate if the triggers are back in place in July 2006.
- There is no greater economic development for western ND.
- Mineral and royalty interests are also paying the high tax or their share.

North Dakota's oil and gas industry will contribute over $200 million just in oil and gas production taxes this biennium:

$71 million to general fund
$44.3 million to Permanent Oil Tax Trust Fund
$43.2 million to counties/cities/schools
$16 million to Resources Trust Fund
$ 5 million to Oil Impact Grant Fund
$ 7.5 million mineral leasing to state
$ 7.5 million mineral leasing to counties

The industry is also responsible for very significant amounts of corporate income tax, individual income tax, sales tax, and property tax, both directly by members of the industry and from recipients of royalty and other production payments and holders of jobs created by the industry.

NDPC supports lowering the top tax rate to 9% as done by HB 1530. Regardless of the success of this bill, we do intend to be back before you next session with a comprehensive, broad-based proposal for reform of North Dakota's oil tax structure. A simplified and competitive rate that companies can rely on when making investments is critical for a healthy business environment for our industry.

Thank you, I would be happy to answer any questions.

Texas Energy Planning Council

An Update of the Economic Impact of Oil and Gas Incentives for the State of Texas

By

Mark A. Baxter, P.E.

Director of the Maguire Energy Institute

Cox School of Business / Southern Methodist University

Tuesday, April 27, 2004

Employees Retirement System Building

Austin, Texas

Tom Lutrell

Council Members- - Mr. Chairman - - Good Afternoon. My name is Mark Baxter – and I am the director of the Maguire Energy Institute at the Cox School of Business at Southern Methodist University. I've been asked to come and present before you today the contents of a study that was commissioned by the Interstate Oil and Gas Compact Commission – with the research completed over a year ago by our Institute.

I will not dwell today into the voluminous amount of data compiled – but instead just highlight the fact that the State of Texas does have incentives for the energy industry to invest in the state - and capture its natural resources - - and show some overall numbers that will highlight the impact of these incentives. State and Federal Government incentives are created to encourage economic benefits and job developments. They are an important part of every state's economic development tool kit. Incentives can be created by either establishing a lower boundary on prices to initiate the incentive - or by providing a stimulus to invest. Even if the "price trigger" - or the lower number - of an incentive is not actuated - the fact that it is in place provides a certain degree of stability - and therefore lowers the risk for the investor - which paves the way for investors to move forward on projects for oil and gas development.

Let me just say that although I am reflecting today on the tax incentives as they apply to oil and gas here in the State of Texas - - we should also keep in mind that the concepts I am about to mention can apply equally well with other forms of energy development and/or operations.

The sizable investments from oil and gas drilling and exploration will "ripple" through a state economy - creating jobs - buying homes and so on. If the project is successful - and more hydrocarbon production results - additional economic benefits also will flow.

Significant benefits will occur from oil and natural gas development production. Investors will not make sizable investments in oil and gas unless they can expect to generate enough revenues to recoup their cost - plus enough profit to compensate them for the risk.

When weighing the costs and benefits to government of adopting tax incentives - most decision makers are presented with visible costs to be compared to less easily identifiable benefits. While wells continue to produce - economic benefits accrue - not only to the owners of the well - but also to the tax revenue streams.

Another example. Large diesel engines are used to drill wells. The fuel they consume has paid state and federal motor fuel taxes. This might seem insignificant. It has been estimated that part of the expenditures on a deep well includes about $9,000 on state motor fuel taxes while drilling. These wells also add $42,000 to sales tax collections from the purchase of goods and materials while it is being drilled. In general - these tax contributions have been overlooked by legislative decision makers. As a result - incentive benefits are underestimated.

Other situations that either increase the benefits or reduce the costs to government are overlooked in any fiscal analysis. A well might be temporarily exempt from severance tax payments as part of an incentive package - but produce for a substantially longer period than the exemption - so that the production tax loss actually turns into a gain that is postponed until the future.

It must not be overlooked that the wealth created by additional drilling and production pays salaries and benefits and provides a technically well trained workforce. As these wages purchase goods and services - other jobs are created. These jobs and the additional goods and services purchased from earnings produce the indirect benefits to the overall economy. The salaries and jobs create tax payments in the forms of federal and state income taxes - as well as sales and other taxes.

To estimate the indirect benefits – we use Regional Input-Output Modeling System economic multipliers - developed by the Bureau of Economic Analysis - within the Department of Commerce.

An example might be the best way to represent the uses to which these multipliers can be applied in economic calculations. Let's say Texas passes an incentive to encourage inactive wells to return to production - and as a result - an operator spends $77,000 reworking one well. The "final demand multipliers" allow us to take output from an economic sector (oil and gas drilling and production is one sector - pipeline transportation is another) and determine the effects of one sector on all others. This is the so-called "ripple effect."

In this example - the $77,000 Texas investment will add $177,000 to the economy or the GSP of Texas. This is the result of multiplying the results of the sector output times the output multiplier. Similarly - we also can determine that this $77,000 investment will create $28,000 in earnings - or wages in Texas by using the state earnings multiplier.

Another parameter used represents the number of jobs created per million dollars of sector output. In this case - the single well responding to the Texas survey creates .78 jobs (man years) across all sectors.

These multipliers and this methodology were used throughout the report to develop the indirect estimates of the effects of various state incentive programs.

To put things in real perspective - the report looks at the effects of some historically price collapses. I know this may be somewhat difficult to accept in light of the recent oil and natural gas prices our nation has been experiencing – however - - investors need the "price trigger" incentives - to a certain degree - before they proceed with expending vast amounts of capital on energy development projects - here in the U.S. and Texas. There is a certain threshold on time required where sustainability of prices is accepted – and this time duration has yet to reach the mentalities of investors – nor in my opinion – will it until a few more months have elapsed. Therefore - it is well worth the effort to repeat the economic benefits of tax incentives and what effects the 1997-1999 "price fall" had on the economy of Texas.

If United States production had fallen at its annual average rate of decline during the price collapse - there would have been a production decrease of approximately 226,000 barrels per day. Instead - domestic production fell by 628,000 barrels of oil per day - leaving an approximate production decline directly attributable to the effects of the price collapse of 402,000 barrels per day.
The summary of the effects of falling prices on the Texas oil and gas industry during this period was about $20 billion – or a per capita loss of $996 – more than the cost today's economist are saying the recent increase in gasoline prices will have on the American consumer's disposable income. The reason what I have just mentioned is so important is because investors – oil and gas producers – remember the bust – and are going to be cautious.

During this period - 15,000 jobs were lost in Texas alone – all attributed to the price collapse. These lost jobs represented good compensation - as they typically paid a salary that ranged from 50 percent to more than 100 percent higher than the average job.

If the Texans who lost these oil and gas jobs were able to secure employment at the average salary - then these 15,000 families lost a total of $446 million in wages during the conversion from one job to another. The typical family losing an oil and gas job had its family income reduced by $26,221.

In the year 2002 – Texas oil and gas activities represented about 15% of the states gross product – one of the highest in the nation – and just like I mentioned – Texas has one of the highest number of incentives – which partially attributes to this large percentage.

Basically - state incentives fall into two categories: those providing some type of tax benefit (monetary) – of which Texas has 11 - and those that are beneficial while providing no direct state monetary relief – again of which Texas has 11. The state incentives involving tax benefits have been further classified according to the target of each incentive - its purpose - and the method used by the incentive to achieve its goal. In other words - programs that require an investment action and those that provide tax relief without a specific investment by the operator. There are 156 oil and gas incentives involving tax or royalty reductions across 25 states - with Kansas and Louisiana offering the most with 15 each - closely followed by Alaska at 13.

It is not possible to isolate the incremental effects of the incentives. The volume of projects before and after the incentive cannot be necessarily attributed totally to an incentive - although in some scenarios - the increment could be considered the "incentive effect." One reason this is not necessarily precise are other factors such as commodity prices also influence decisions. But - this study shows the tremendous amount of benefits that the oil and gas sector contributes to the oil and gas producing states - and the Federal government. The magnitude of the benefits far outweigh the cost of incentives - and therefore the question remains: "How much is being left on the table by the states giving incentives?" With all economic benefits that have been presented in the study - along with the individual benefits - it appears to this author that incentives are accomplishing what they are meant to accomplish - plus more. On the one hand - without incentives - marginal wells will shut in before their time - new investments will be delayed at best or cancelled at worst - and the industry will move more swiftly to other parts of the world. On the other hand - with incentives - domestic oil and gas production will help retard the growth of dependency on foreign sources - jobs will be maintained or created - and the U.S. as a whole benefits.

Non-monetary incentive programs range from reductions in regulations to providing information available for use by the oil and gas industry to the creation of government support groups. Incentives that require no investment action generally are limited to the most marginally producing oil wells - providing a tax reduction simply for staying in business. Since these wells may be producing 10 barrels per day or less - the economic effects of keeping them in business are somewhat limited. Nevertheless - this category of incentive produces $7.6 billion in economic effects in the adopting states.

Four states have incentives to encourage new technology. Horizontal drilling - while reflecting a relatively new technology - has been in existence long enough to fall into a different category of new drilling. These technology incentives reward - through tax breaks - any efforts to develop new oil and gas extraction techniques and methods or to use the newest developments such as 3-D seismic. New technology brings economic benefits - both today and for the future.

Several states have set up programs that sponsor research for oil and gas at universities or other government entities. States increasingly are adopting incentives that offer the oil and gas industry better information with easier access to data. States are increasing the use of the Internet to make more information available to users. Seventeen incentives offered by eight states are aimed at providing better information or research.

Now that I've explained the methodology of calculating the economic benefits of incentives – what does it all mean? It means the cumulative effect of incentives for each state is $157 billion - which is the combined value of investments - - and the value of subsequent hydrocarbon production. The combined effect of these values yields a net $358 billion in economic effects. States invested $5.5 billion to help generate these economic effects through tax reductions. For our great state – the cumulative effect of incentives is $77 billion. The combined effect of these values yields a net $ 187 billion in economic effects to Texas. Texas invested $3.5 billion to help generate these economic effects through tax reductions. This affirmatively confirms the maximum probable benefits assisted by incentives: $3.5 billion helped ensure more than 22 times that much for the Texas economy.

Like I said before - while it remains impossible to calculate how much of these economic effects are caused by the incentive programs - they appear to remain "profitable" for the legislatures investing the money. In a larger sense - the tax revenue stream pales in comparison to the beneficial effects on the economy. On the U.S. scale - the $358 billion in economic effects creates $56 billion in salaries - which in turn yields 1,333,000 jobs (meaning years of employment). For Texas – this equates into 617,000 jobs (again meaning years of employment). About one-third of these jobs would be direct jobs in the oil and gas industry - while two-thirds would represent years of employment in other sectors of the state economy.

Let me conclude with a couple more examples:

Using a previous report's average prices for oil well drilling costing $350,000 - and gas well drilling ($700,000) - it was calculated that the approximate loss to the Texas economy from the drilling decline during 1997-99 was $1.9 billion. The drilling decline did not coincide with the decline in prices but lagged by four to five months.

In Texas alone - more than 11,000 active wells ceased to produce during the decline - as the funds to repair wells were no longer present. Nationwide it was estimated at least 40,000 to 50,000 wells became inactive during this 19-month downturn. Not only are operators short of funds to repair wells that they need - they also are short of funds to plug wells that need abandoning. According to the Railroad Commission of Texas statistics - 848 wells were plugged in October 1997. After 19 months - the wells plugged fell to 583 even though more than 10,000 wells had ceased to produce during the same time.
What's changed from the past? In an earlier time - United States' production was exported to other countries - and our nation determined the world price of oil. During this period - the severance tax functioned without broad ramifications for the future of the industry. Economically - as price-setters - taxes like this were passed along to the consumer. Not long before the first Arab oil embargo in 1973-74 - the United States role as the global "swing producer" ended.

Surplus production in the United States had been used - and the role of swing producer shifted to the collective nations in the Middle East - which now determine the global price of oil. As the Saudi Minister of Oil – Ali Al-Naimi said last week in Dallas – and I'm taking some authorship prerogatives here – "Saudi is and in the future will be the "swing producer".

At this point - domestic producers became "price-takers" rather than "price-setters."

From the perspective of severance taxes - this meant that the global competition in oil had intensified to the point that local taxes could no longer be passed along. Customers could buy from a cheaper source like the Middle East. Since domestic producers had to match the global price or have their production replaced by Middle East oil - the severance taxes began to come out of the producers' pockets.

The effect of these global economic shifts - combined with the declining nature of domestic production - creates a generally deleterious situation for the oil and gas industry. As wells decline - they make less money per barrel - but the state taxes - typified by severance taxes - do not decline unless the price falls. For a new production well making 100 barrels per day - the payment of $100 per day in severance tax is not much of a problem - as the operator might be making $500 per day in profit. (The typical new Texas oil well averages about 30 barrels per day). But 30 years later - the operator may be making 50 cents per day in profit while still paying a dollar per day in severance tax. It is possible the state might make the only profit realized on a given marginal well.

In closing – let's remember Daniel Webster interpretation of incentives - - something that incites or has a tendency to incite to determination or action.

THANK YOU

Engrossed HB 1530
Senate Finance and Tax Committee
State Capitol
Bismarck, North Dakota

April 7, 2005

Mr. Chairman, and members of the Committee, my name is Robert W. Harms and I am president of the Northern Alliance of Independent Producers. We are in support of Engrossed HB 1530. The bill is a necessary and incremental step in order to continue our development of new and unconventional oil reserves (like the Bakken formation) and to make our tax structure more competitive, so we can continue to attract new investment in an industry that is vital to our state.

The Northern Alliance of Independent Producers is an oil and gas trade association of independent producers, operating in North Dakota, South Dakota and Montana. We have approximately 30 members who are some of the most aggressive oil and gas producers operating in the Williston Basin.

Together these companies represent significant new investment in North Dakota employing hundreds of professional engineers and geologists, land men, roughnecks, and others in the oil and gas industry (good jobs in an ever increasing sophisticated, high tech industry that offers significant opportunity and substantial careers for North Dakota people.)

NAIP members drilled 54% of the new horizontal wells in ND in 2003 and 40% of the new horizontal wells in 2004. At an average cost of $2.5 million per well, this represents $180 million of new investment in the last two years <u>just</u> to drill the wells.

The industry has been investing in North Dakota resources for 50 years, bringing our state to the 9th largest producer in the country, producing millions of dollars in revenue to state and local treasuries. In the current biennium (2003-2005) gross production and extraction taxes alone, will produce $194 million in revenue, and are projected to generate $199.6 million (based upon the March 2005 forecast) for the coming biennium (and $240 million if triggers stay off.)

We are here this morning in support of HB 1530. Some of our members will explain further, why the bill is necessary, and why it makes good sense for the state and the industry. They include Tom Luttrell, of Continental Resources, our Chairman, and Clark Crawford of Northern Energy. Other members may also testify if time permits.

<u>The bill does essentially two things:</u>

1. It lowers the extraction tax (6.5%) eventually to 5% and then 4% next year for NEW production only. This does NOT change the tax rates for old production, which will continue to be taxed at the old rate of 11.5%, subject to triggers of the current law. .

2. It also provides either a 100,000 barrel exemption for new discoveries (or wildcat wells) which is a new incentive. This feature is designed to encourage producers to take the extra risk and seek out new discoveries in North Dakota.

There are 3 primary reasons for passing the bill:

-to make North Dakota more competitive with other oil and gas producing states

-to encourage exploration of new, unconventional reservoirs (like the Bakken)

- and to encourage new domestic production in the US.

The following is an overview of why we think the bill should be passed:

- It signals the industry--- ND is a good place to do business and wants continued investment for new wells, higher royalties, lease payments, and the good jobs that go with new investment.
- We are in the midst of the "Bakken" play, which is a new and unconventional formation from which we hope to extract a new oil development in North Dakota and potentially one of the largest in the US. But, it's difficult and requires the application of new innovative technology, new methods, is high risk and particularly expensive. An incentive for horizontal drilling will keep the companies drilling in the "Bakken" play, which has the potential of developing 4.6 million acres (7200 square miles) across 9 western counties in North Dakota.
- HB1530 makes ND more competitive. Tax rates DO matter. (We are competing against other states.)

  Montana tax rate: .5% then to 9% (taxes are on gross revenues)

  North Dakota tax rate: 11.5% (11% higher than Montana)
- Perhaps as important as anything is that it will help in a small way to lead towards more energy security and independence for our country. High oil prices are in part, a reflection that America imports 60% of its oil, much of it from unstable regions of the world (e.g. the Middle East). Eventually, the US will have to increase domestic production if we hope to get a handle on high oil and gasoline prices. Maybe we can't solve high oil prices, or gasoline

prices alone. But we should be about solutions and changing what we can change. HB 1530 is a step in the right direction.

- One more reason for an incentive in face of high oil prices: Incentives work and they matter. That was our experience in North Dakota in 1995, that has been Montana's experience in 1999 and the IOGCC has studied incentives for years and concludes that a state gets $2 back for every $1 of investment (and which has a net economic benefit of 28 times the investment.)

Mr. Chairman, members of the Committee, the oil and gas industry is a solid partner, with whom the state has had a long and rewarding partnership. We should continue to embrace the industry and set policies favorable to foster that partnership. HB 1530 is such a policy. It will help us continue to employ North Dakotans in an industry that has proven time and time again that it can deliver for North Dakota. We urge a DO PASS on Engrossed HB 1530.

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TESTIMONY: HB 1530
Senate Finance and Taxation Committee
April 7, 2005

Chairman Urlacher and members of the Finance and Taxation Committee,

My name is Cindy Klein, and I am here today representing Dakota Resource Council, a grassroots, member-based organization with over 600 members in North Dakota. We respectfully submit this testimony in opposition to HB 1530.

This 59th Legislative Assembly has been very kind to the fossil fuel industries. They have received every tax exemption, funding measure, and restriction from competition that they've asked for, with little modification or exception. Coal, oil, and gas have also seen everything, to which they are opposed, be killed - even issues that didn't affect them directly, in any way.

It is irresponsible, at this time of record high oil prices, to offer such a windfall to a thriving industry. On April 5, sweet crude was priced at $56.04/barrel. This would seem like plenty of incentive for oil exploration. When this bill was introduced in March, even the North Dakota Petroleum Council expressed that they did not support this bill.

There have been about 250 drilling permits issued since January of 2004. Of those, about 43 were classified as "wildcat" wells. Of the seven wells that I got information on there has been over 170,000 barrels of oil produced, in just a matter of months. One well alone has produced almost 90,000 barrels of oil in ten months.

With today's petroleum prices, which are probably in the lowest range we will ever again see, the oil and gas industry doesn't need incentives from the state of North Dakota to do exploration. The price trend will continue to go higher and, in the future, may be measured in multiples of the current oil extraction tax trigger.

Regardless of whether or not tax exemptions are given to oil and gas developers, the eventual end result will be the same: extraction of every resource possible; use of many production enhancement techniques; damage to our air, land, water, crops, livestock and infrastructure; and then they will be gone, leaving a significant footprint behind.

It is only fair that the oil and gas industry pay for a share of the reparations that will be needed, and costs that will be incurred by the state, its residents and businesses, as a result of this "one time harvest" of a commodity that will continue to rise in value.

This "windfall" for the oil industry is strictly at the expense of North Dakota taxpayers. We must remember that most of those that will benefit from this tax exemption are not North Dakota companies. They are out of state corporations. They are some of the wealthiest companies in the world.

Unlike the oil industry, many in North Dakota whose service is invaluable for our quality of life are not seeing their bottom line go up. North Dakota is near the bottom in teachers pay and that makes it difficult to attract and retain good teachers. This legislature is finding it hard to give our state employees a fair cost of living raise, but now you are being asked to consider a new huge tax break to an industry that has no need for it at this time.

Generally, the rationale for an oil and gas tax exemption is that it should be an avenue to enhance production at a time when production and prices are low. Not when prices are at record highs. If we are going to give tax exemptions when prices are at record highs, why do we tax at all? This extraction tax is not ongoing indefinite income for the state but is, instead, revenue from the one-time sale of an asset. We can't sell and tax the same oil twice. When there is every incentive in the world for oil extraction, why should we bend over backwards to give away potential state revenues from an asset we are consuming in the process, even as there is every indication that that asset will continue to gain in value? This is not a sound business practice, and individuals who managed their assets in this way would be justly ridiculed for poor business sense.

Recent increases in activity in Montana, that appear to be outpacing North Dakota, can be possibly attributed to the fact that Montana leases are expiring North Dakota leases have five to ten years remaining—not the fact that we tax higher. Also, the field is well defined in Montana and is still being established in North Dakota. Supporters argue that North Dakota has the highest oil extraction tax in the region, but---Montana has introduced SB 522, which increases the oil extraction tax to 12.8% for working interests and 14.8% for non-working interests. Wyoming is at 14.8%, and they have the unique opportunity to work with a record budget surplus.

This is, plain and simple, bad legislation. How can the majority party in the legislature justify giving a tax break to a handful of oil companies when everyone in the state is paying up to $2.35 a gallon at the pump. If $55 a barrel isn't enough incentive to get the oil companies drilling, then no incentive is ever going to do it.

Some legislators are also proposing a gasoline tax increase, and a vehicle registration fee increase. Why make over 400,000 North Dakotans pay MORE in taxes, and even MORE at the gas pump, while giving this handful of oil companies a tax break when they are already making enormous profits? Nobody's talking about a tax increase on oil extraction—we're just saying leave the tax as it is right now, especially when oil prices are high.

It is not reasonable to pass a bill that gives a tax break to fossil fuels when we have a hard time agreeing on the funding of pay increases for our state workers and teachers, have provided virtually no funding for renewable energy, failed to fund legislation that would give a child care tax credit for families and failed to support an authorization to provide a corporate and individual income tax credit for employers for contributions or support for child care programs.

A few years ago, the oil companies made a deal with the State of North Dakota. They were given a tax holiday new wells, when oil prices were low. When oil prices are high, as they are now, the tax incentives were to go away, since price is the primary driver of development. That was the deal. Now the oil companies are back, trying to break the deal they agreed to, asking for a tax break when they need it least. If oil stays at only $50/barrel, it will cost the state and our taxpayers millions of dollars.

We respectfully ask this committee for a Do Not Pass recommendation.

"Deborah Reichman" <deborah@montana.net>

04/12/2005 01:17 AM

To: <dcook@state.nd.us>, <dbercier@state.nd.us>, <btollefson@state.nd.us>, <rwardner@state.nd.us>, <mevery@state.nd.us>, <sfin@state.nd.us>

cc:

Subject: Powerful special interests win a big one in Bismarck

Senators, this sums up HB 1530. Please kill this bill. It is BAD for the people and resources of North Dakota.

Deb Reichman
McKenzie County, ND
(701) 565-2377

The Fargo Forum
Other views: Powerful special interests win a big one in Bismarck
By Rep. Pam Gulleson
The Forum - 04/08/2005

This is the tale of two energy bills and their journey in the North Dakota Legislature.

On Jan. 17, SB 2229 was introduced into the North Dakota Senate. The bill was a comprehensive renewable energy bill that was introduced with bipartisan sponsorship. The language in the bill had been worked on for months prior to the beginning of the session by a committee made up of representatives from commodity groups, farm groups, electric utilities, and universities. The bill had a hearing in the Senate Finance and Tax Committee to a full house.

Supporters of the bill talked about the importance of incentives to stimulate this new industry in North Dakota. "Incentives work," said the promoters of the renewable energy bill. "A state gets $2 for every $1 of incentives it provides. Incentives return the investment 28 times in net economic development benefits."

They showed the committee the tremendous potential that North Dakota has to develop biodiesel, ethanol, wind energy and hydrogen fuel. They talked about this country's ever-increasing hunger for energy and how far behind North Dakota is in the development of renewable energy.

"Too much money," cried the Senate majority leader. "We cannot support mandates in this state!"

"Government should not interfere in business. We must let the free market drive the energy industry in North Dakota," cried the petroleum and oil industry lobbyist, as he scoffed at the use of incentives to stimulate an industry.

All the while, gas and fuel prices continued to soar, oil companies were reaping record profits, and with each passing day, our nation was becoming more and more reliant on foreign oil to meet its ever growing hunger for energy. So it was that SB 2229 was killed in the Senate, less than a month after it had been introduced.

Two months went by and the date to introduce new bills had long ago passed. "Never mind deadlines," said the House majority leader as he introduced HB 1530 on March 16. "This is an emergency. We must provide oil companies with additional incentives or they will leave North Dakota."

"Incentives work," said the oil and petroleum industry lobbyist. "A state gets $2 for every $1 of incentives it provides. Incentives return the investment 28 times in net economic benefit."

Minority party members cried foul. "Why in the world do we need an incentive package worth nearly $10 million for the oil companies at a time when oil is worth over $58 a barrel and they are reaping record profits?" asked the assistant house minority leader.

With just a few short weeks left in the session, HB 1530 was sent to the House Finance and Tax committee, packed full of tax exemptions and lowered extraction taxes for the oil companies. "Who will pay for the costs of schools, roads, prisons, and human services" asked committee members.

"Not I," said the out-of-state oil company.

"Not I," said the oil company lobbyist.

And so it was that HB 1530 passed the House of Representatives only days after it was introduced as an emergency bill.

The moral of this story? A different set of rules apply for the powerful and well-funded.

Gulleson, D-Rutland, N.D., has served District 26 since 1993. She is on the Education & Environment Division of the Appropriations Committee.

Estimated Fiscal Impact of Proposed Amendments To HB 1530

	Estimated Biennial Fiscal Impact Relative to Current Forecast
Rate reduced to 10% for new wells drilled after July 1, 2005 (5% gross production, 5% oil extraction)	$ (2,552,000)
Current-law Holiday cannot "re-trigger" for wells when total production reaches 110,000 barrels; production from these large producing wells will be subject to 9% for duration	1,021,000
Current-law Holiday will "re-trigger" one quarter later for new wells that have been drilled after July 1, 2005. For that quarter delay, production subject to 9%	2,522,000
100,000 barrel exemption for wildcat wells (5% GPT, 0% OET)	(284,000)
Total Impact of Proposed Amendments	$ 707,000