

2009 HOUSE INDUSTRY, BUSINESS AND LABOR

HB 1383

## 2009 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. 1383

House Industry, Business and Labor Committee

☐ Check here for Conference Committee

Hearing Date: January 19, 2009

Recorder Job Number: 7252

Committee Clerk Signature

*Glen Hetting*

**Chairman Keiser:** Opened the hearing on HB 1383 relating the authorization for North Dakota Pipeline Authority to participate in & provide funding of pipeline interconnection facilities; to authorize North Dakota Pipeline Authority to issue & sell evidences of indebtedness for capital projects & provide an appropriation.

Kenton Onstad~Representative for District 4, Parshall. See testimony attachment 1

**Representative N Johnson:** You said that this let them start on March 2008, how does section 3 does that.

Onstad: It should have been 2009.

**Representative N Johnson:** What it is saying that you wanted it to have an emergency clause but you are not calling it an emergency clause, so it wouldn't take the 2/3 vote.

Onstad: I never thought of it that way.

**Representative N Johnson:** I guess my concern like on line three.

Onstad: I will make some kind of correction.

**Chairman Keiser:** We've created a pipeline authority, it's in place, but when we created it we established for pipelines. Interconnects of those pipelines were not addressed. This is an attempt to put it under the authority the interconnects between pipeline A and pipeline B, that

the state could participate in the initial funding with the payback build in through the corporation.

Onstad: It's unclear if it falls under the division guidelines or not.

Shirley Meyer~Representative from District 36. Mr Chairman, you hit the nail on the head. I support what Representative Onstad said.

Representative Sukut: Are we going ahead with the RFP based on the fact that we are going to get this included in the code before the bill is passed.

Meyer: This RFP is going forward. The finding will be done on March 31. We are assuming that it will turn out favorably and this language will be there.

Anyone here to testify in opposition, neutral?

Justin Kringstad~Director of the North Dakota Pipeline Authority. See testimony attachment 2.

Representative N Johnson: You are saying you have the authority?

Kringstad: Correct.

Vice Chairman Kasper: Asks questions to Kringstad.

Chairman Keiser: Sums it up, this doesn't seem too difficult, we got 800 million authority to bond, Industrial Commission tomorrow, could technically go to the market will 800 million in bonding, but they don't have to. What the last clause does, if this is a good thing to do, the Industrial Commission is taken out of the loop, the bonds will be sold for two million and the project will go over.

Kringstad: Correct.

Carleen Fine~Executive Director and Secretary for the Industrial Commission. I will speak on section three some conflicting language in it. First of all, in the second line says "shall issue & sell" and in the tenth line "may be issued". Secondly, you have to funding source to back those bonds before you can sell them. We do not have that.

Representative N Johnson: Industrial Commission is meeting this week, would it be wise to sit on this bill?

Chairman Keiser: It is certainly up to you. Do you want to hold this? We would be glad to.

Closes the hearing on HB 1383

## 2009 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. 1383

### House Industry, Business and Labor Committee

☐ Check here for Conference Committee

**Hearing Date:** January 21, 2009

**Recorder Job Number:** 7380

Committee Clerk Signature
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**Chairman Keiser:** Opened the committee work session on HB 1383. The section 3, I was quizzing them on the 2 million. When the report comes back, it's open to the public, companies who want to look at whether it's feasible to add that interconnection.

Representative N Johnson: I move to amend to delete all of section three, lines 1-12, which is all of page two of HB 1383.

Vice Chairman Kasper: Second.

Representative Ruby: Didn't we hear that they believed that interconnect was already included?

Chairman Keiser: That was their interpretation.

Representative N Johnson: They said that it would be fine to put interconnect in and that would make it clear for everyone.

Chairman Keiser: It was not clear and I like it in there.

Representative Ruby: What's the difference?

Chairman Keiser: Explains the difference.

Representative N Johnson:

What are the wishes of the committee?

**Representative Ruby: Moves a Do Pass as Amended.**

Page 2

House Industry, Business and Labor Committee

Bill/Resolution No. 1383

Hearing Date: January 21, 2009

**Representative N Johnson: Second.**

**Voting roll call was taken on HB 1383 with 13 yea's, 0 nay's, 0 absent and**

**Representative N Johnson is the carrier.**

January 21, 2009

VR  
1/21/09

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1383

Page 1, line 4, replace "; to authorize the North Dakota pipeline authority to issue and sell evidences of" with a period

Page 1, remove line 5

Page 2, remove lines 1 through 12

Renumber accordingly

Date: Jan 21-2009  
Roll Call Vote # 1

2009 HOUSE STANDING COMMITTEE ROLL CALL VOTES  
BILL/RESOLUTION NO. 1383

House House, Business & Labor Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number \_\_\_\_\_

Action Taken ☒ Do Pass ☐ Do Not Pass ☒ As Amended

Motion Made By Ruby Seconded By N Johnson

Representatives	Yes	No	Representatives	Yes	No
Chairman Keiser	✓		Representative Amerman	✓	
Vice Chairman <u>Kasper</u>	✓		Representative Boe	✓	
Representative Clark	✓		Representative Gruchalla	✓	
Representative N Johnson	✓		Representative Schneider	✓	
Representative Nottestad	✓		Representative Thorpe	✓	
Representative Ruby	✓				
Representative Sukut	✓				
Representative Vigasaa	✓				

Total (Yes) 13 No 0

Absent 0

Floor Assignment N Johnson

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



**REPORT OF STANDING COMMITTEE**

**HB 1383: Industry, Business and Labor Committee (Rep. Keiser, Chairman)**  
recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends  
**DO PASS** (13 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). HB 1383 was placed  
on the Sixth order on the calendar.

Page 1, line 4, replace "; to authorize the North Dakota pipeline authority to issue and sell  
evidences of" with a period

Page 1, remove line 5

Page 2, remove lines 1 through 12

Renumber accordingly

2009 SENATE NATURAL RESOURCES

HB 1383

## 2009 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. 1383

Senate Natural Resources Committee

☐ Check here for Conference Committee

Hearing Date: March 12, 2009

Recorder Job Number: 10789

Committee Clerk Signature



Minutes:

**Senator Lyson** opens the hearing on HB 1383, relating to authorization for the North Dakota pipeline authority to participate in and provide for funding of pipeline interconnection facilities.

**Representative Onstad** introduces the bill and presents an amendment (see attachment #1).

**Mark Luther**, Kadrmas Lee & Jackson, spoke in favor of the bill (see attachment #2).

**Ron Ness**, President of the North Dakota Petroleum Council, I stand here in support of the original bill. I think it clarifies any ambiguity if they existed. Everyone understands that we need a new pipe. Whether it is a refined product pipe or a crude oil pipe to transport the products to a market. The difficulty is the market. The difficulty on the crude oil end of a pipeline making a commitment is the commitment from the producers of the oil to fill that pipe to get their long term return. The amendment is somewhat specific to the feasibility studies etc.

**Justin Kringstad**, Director of the North Dakota Pipeline Authority, spoke in a neutral position to the bill (see attached testimony #3).

**Senator Hogue** Are there any preliminary findings?

**Justin Kringstad** KL & J has sent us three proposed results. They started out trying to find out where production was the highest so they know where the pipe should originate and the best

proposed route on where this Bakken development is going to move to in the years. I do have some preliminary routes.

**Senator Hogue** Is that something you can share with the committee?

**Justin Kringstad** essentially one route is going to head straight up from Mountrail county originating from the Parshall/ Stanley area and head to the east. The second option to the east would be following essentially the Enbridge corridor straight east to the Keystone pipeline. The third possible option would originate in the Stanley area moving southwest interconnecting near Fallon, MT with the Keystone pipeline.

**Vice chair Hogue** closed the hearing on HB 1383.

# 2009 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. 1383

Senate Natural Resources Committee

☐ Check here for Conference Committee

Hearing Date: March 12, 2009

Recorder Job Number: 10853

Committee Clerk Signature

*Kat*

Minutes:

**Senator Lyson** opens the discussion on HB 1383.

Senator Triplett asks for a brief summary of the hearing.

Senator Hogue explains what went on.

**Senator Lyson** It is my understanding of the industrial commission that they already have the money and funds to do things like this.

**Senator Erbele** Do we even need the bill? It says here the interconnect is already happening.

**Lynn Helms** these funds are unsolicited. We didn't ask for the funds to be put into the oil and gas research council or the pipeline authority to do this project. We funded the preliminary study out of the oil and gas research funds. We are not sure how we are supposed to spend this 2million dollars. Our feeling is if the \$90,000 study results in a viable project that makes economic sense Justin is going to be able to sell that to a private pipeline company to survey it out and build it. If they are looking for assistance in doing that we have the bonding authority and we will also have about 6 million dollars in the oil and gas research council that the commission could decide to spend on that. For the state to step in and survey the pipeline route or plan out the route that may not be the ideal route that the private company who made the big investment would choose.

**Senator Triplett** I am wondering if the Industrial Commission thinks that the bill is necessary or if the definition of pipeline facilities that is already in the law would include interconnections of pipelines.

**Lynn Helms** when we originally drafted the pipeline authority language we thought it already anticipated the interconnection facility. We didn't see any harm in adding that to the language. Because this is such a competitive industry and you have multiple pipelines serving the state and multiple shippers it is possible, if the pipeline authority steps in to assist one company in building an interconnection facility that one of the competitors would sue over the language. We saw some small advantage to making it explicit in the legislation.

**Senator Triplett** so your suggestion would be for us to pass the bill but not the amendment?

**Lynn Helms** correct.

**Senator Pomeroy** moves a do pass on HB 1383.

**Senator Schneider** seconds the motion.

Roll call was taken and the bill received a do pass on a vote of 7 to 0.

Date: 3/12/2009

Roll Call Vote #: 1383

## 2009 SENATE STANDING COMMITTEE ROLL CALL VOTES

Senate Natural Resources Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number \_\_\_\_\_

Action Taken ☒ Do Pass ☐ Do Not Pass ☐ Amended ☐ Amendment

Motion Made By Senator Pomeroy Seconded By Senator Schneider

Senators	Yes	No	Senators	Yes	No
Senator Stanley W. Lyson, Chairman	/		Senator Jim Pomeroy	/	
Senator David Hogue, Vice Chairman	/		Senator Mac Schneider	/	
Senator Robert S. Erbele	/		Senator Constance Triplett	/	
Senator Layton W. Freborg	/				

Total (Yes) 7 No 0

Absent \_\_\_\_\_

Floor Assignment Senator Schneider

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

**REPORT OF STANDING COMMITTEE (410)**  
March 12, 2009 4:35 p.m.

**Module No: SR-45-4753**  
**Carrier: Schneider**  
**Insert LC: . Title: .**

**REPORT OF STANDING COMMITTEE**

**HB 1383, as engrossed: Natural Resources Committee (Sen. Lyson, Chairman)**  
recommends **DO PASS** (7 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING).  
Engrossed HB 1383 was placed on the Fourteenth order on the calendar.



2009 TESTIMONY

HB 1383

Mr. Chairman and Members of the House Industry, Business and Labor Committee

Representative Kenton Onstad, District 4, Parshall

Thank you for this opportunity to introduce HB 1383

HB 1383 relates to the North Dakota Pipeline Authority, interconnects and approved funding to jumpstart the project.

HB 1383 might appear to be putting the cart before the Horse, but it has merit to do so as I will try to illustrate.

The North Dakota Pipeline Authority has asked for a feasibility study to asking for proposals to look at interconnects and if it is found practical North Dakota could move forward to approve. I am delighted to hear of the proposal and am quite sure it will deem feasible to pursue. Which I am sure it will as many others closer to this than I am agree.

Interconnects basically allows North Dakota Crude oil to move from one pipeline to another. These are Different Pipeline companies when there is allowed space from time to time. It would require storage capacity at a certain location, maybe 100,000 barrels of oil and the capability to inject this oil into a pipeline when available. Time restraints are necessary and has to have the capability to inject in maybe 5-8 hours. Other States have these systems and hopefully we will consider one in North Dakota.

I have attached to my testimony the RFP from the Pipeline Authority asking for cost proposals for North Dakota crude oil accessing TransCanada's Keystone or Keystone XL pipelines. It gives a very good description of the project and supporting material. After working with the discussion of oil refineries and delivering our crude to a market, pipelines is a major obstacle for North Dakota Crude as well as a loss of income for North Dakota royalty owners, including the Great State of North Dakota.

Currently today, our total capacity to deliver North Dakota crude is approximately 189,000 BOPD. As of November our current production is over 200,000 BOPD and

it is even larger as we speak. We have added rail yard loading facilities but is nowhere near helping our total production.

As of Friday, January 16 oil was priced at \$43.00 on NYMEX. North Dakota was receiving \$19.18 after discounts. For Every \$1 oil is discounted. It has an initial impact of \$1 million/ biennium. Those estimates are built in the current Governor's Budget.

The 3<sup>rd</sup> Section of HB 1383 really allows Pipeline Authority to get started after March 31, 2008 and would not have to wait until the next legislative session. The urgency is now and hope you would agree.

Mr. Chairman and members of the IBL committee, I hope you can agree and show your support. I am open for any questions.

## REQUEST FOR PROPOSALS

### Connection to the Keystone and Keystone XL Pipelines

*Same  
handover given  
to Senate.*

#### Purpose

The North Dakota Pipeline Authority would like to study the feasibility of North Dakota Crude oil accessing TransCanada's Keystone or Keystone XL pipelines. The Keystone pipelines are being constructed primarily to move Alberta's oil sands product to markets in the central and southern states. Running through Eastern North Dakota, the Keystone pipeline is currently under construction and is scheduled to begin operation in 2010. The Keystone XL pipeline is scheduled to be operational in 2012 and will run through Eastern Montana. The designed operating rates of the Keystone and Keystone XL are 590,000 barrels of oil per day (BOPD) and 500,000 BOPD respectively.

#### Background

The United States portion of the Williston Basin is currently producing more than 267,000 BOPD. Of that, North Dakota is producing over 188,000 BOPD. Eastern Montana is producing approximately 75,000 BOPD and approximately 4,800 BOPD is being produced in South Dakota.

Williston Basin crude oil produced in the United States currently has four transportation options out of the basin. One transportation route is via the True Co. pipeline system to the Guernsey, WY hub and on to various Rocky Mountain refiners. True Co.'s Butte Pipeline was recently expanded from 92,000 BOPD to 104,000 BOPD in September 2008, by implementing a drag reducing agent into the system. The second transportation route includes the shipment of oil to Clearbrook, MN in the Enbridge North Dakota Pipeline system. The Enbridge North Dakota system has a current capacity of 110,000 BOPD. Enbridge North Dakota has a 51,600 BOPD expansion planned for early 2010. The third pipeline option is transportation of oil to the Tesoro Mandan Refinery. The Mandan refinery has a capacity of 58,000 BOPD and no announced plans for future expansion. Beginning in August 2008, North Dakota crude oil began moving to market by means of rail tank cars. Tank car loading facilities have been established in several North Dakota towns including Dore, Stampede, Ryder, and Minot. It is estimated that by the end of 2008, roughly 55,000 BOPD could be transported out of ND using the tank car loading facilities.

Future production forecasts by the North Dakota Oil & Gas Division and industry discussions indicate the 2010 Enbridge expansion may not add adequate capacity to meet all of the Williston Basin production post-2010. The North Dakota Pipeline Authority actively supports or encourages a variety of expansion options, including:

1. expanding existing pipeline infrastructure;
2. construction of new pipeline systems;
3. expansion of existing refinery capacity and construction of new refining facilities;
4. alternate transportation methods such as rail tank cars.

### **Objective**

The North Dakota Pipeline Authority is seeking a study/assessment of whether the construction of a pipeline connecting to the TransCanada Keystone pipelines is feasible and economic. **The study/assessment must be completed by March 31, 2009.** The study/assessment should include at least three proposed pipeline routes and the associated economic analysis of each route. One proposed route should include a connection point on the Keystone pipeline north of the North Dakota-Canada border. A second proposed route should include a connection point west of the North Dakota-Montana border on Keystone XL. The final proposed route should include a connection to the Keystone pipeline in Eastern North Dakota. In order to transport crude oil in equivalent quantities as the planned rail facilities, the pipeline system should be designed to transport 55,000 BOPD and have the option for future capacity expansion. The study/assessment should include at a minimum:

- 1) a review of the crude oil quality/contamination issues associated with transporting Williston Basin crude oil in the same pipeline as Canadian oil sands crude;
- 2) a timeline for the permitting, construction, and commission of the new pipeline system;
- 3) an economic analysis to determine total construction cost, operating cost, maintenance cost, payback period, and return on investment;
- 4) an economic analysis to determine if the proposed pipeline can continue operation in a competitive marketplace with other local pipeline operators;
- 5) the economic analysis of the proposed pipeline routes must include any necessary tank storage and pump infrastructure for injection into the Keystone pipelines, as well as standard operating and maintenance costs;
- 6) the proposed design must include at least three unloading stations and any necessary storage and/or equipment;
- 7) the proposed design must meet or exceed any requirements set forth by TransCanada for accessing the Keystone pipelines;
- 8) a review of the pipeline's expandability should future production warrant further expansion;
- 9) a review of the positive and negative aspects of each proposed pipeline route.

### **Proposal Requirements**

1. identification of the individuals that would work on the study and information on the qualifications of those individuals;
2. a listing of comparable projects that the individuals identified above have completed in the past three years and access to samples of comparable studies;
3. names and telephone numbers of at least two individuals for which the firm has provided comparable services during the past three years;
4. total costs to conduct the study;
5. a separate total cost for each presentation conducted in North Dakota, with a minimum of one presentation to the North Dakota Oil and Gas Research Council in Bismarck, ND;
6. final analysis and executive summary to be presented in electronic form and two hardcopies;
7. a PowerPoint presentation of study results for use by the State of North Dakota.

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## New CO Hub Moves 2.5 Bcf/d

The White River Hub in Rio Blanco County, CO, which connects four interstate natural gas pipelines, went into operation this month and is moving more than 2.5 billion cubic feet of gas per day.

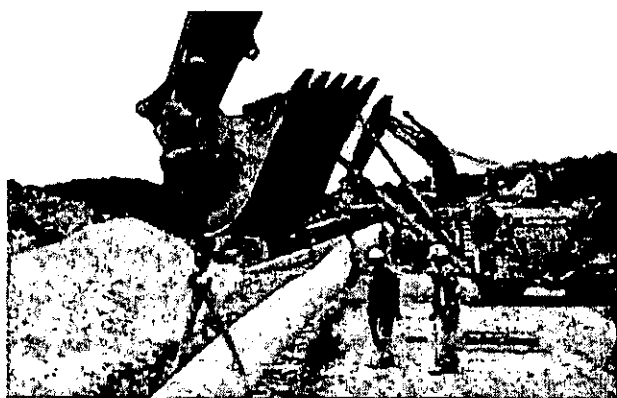
Most of the gas coming through the system comes from the Piceance Basin.

The White River Hub connects with the natural gas processing plant at Meeker operated by Enterprise Products Operating LLC and the four pipelines: Rockies Express Pipeline LLC, Questar Pipeline, Northwest Pipeline GP and TransColorado Gas Transmission Co. Two additional pipelines, Wyoming Interstate Co and Colorado Interstate Gas will also be connected to the hub in the first quarter, 2009.

The new hub was a joint venture between Questar and Enterprise and consists of four miles of 36-inch pipe and seven miles of 30-inch pipe as well as the tie-in and metering facilities.

"White River Hub provides Rockies producers with greater access to markets served by pipelines in the Piceance and Uinta Basins, said Questar President and CEO Allan Bradley. "We hope to further enhance market liquidity by working with the appropriate parties to establish a new, published regional pricing point designed White River Hub."

Michael A. Creel, president and CEO for Enterprise, said the White River Hub will be followed its Meeker II project late in December and "further enhance our capabilities to provide shippers with midstream services they need to access the most attractive markets".



Pipeline crews in Colorado install the seven miles of 30-inch pipeline as part of the new White River Hub. Installation of all the pipelines and metering facilities at the Hub near Meeker, CO took less than three months.

## BREAKING NEWS

### Barclays Predicts \$76 Oil

Crude oil prices could reach as high as \$76 a barrel this year, according to Barclays Capital but the consensus of most analysts is that it will only go as high \$58.48. "We'll stick to our \$76 per barrel for the moment on the basis that demand will look better over time than is embedded in current perceptions, and that supply-side dynamics will look dramatically worse," said Barclay's analyst Paul Horsnell. "Consensus is way, way wrong in terms of supply, demand and price." The US Energy Information Administration sees the price averaging near \$60 a barrel this year and rising as the global economy rebounds and global demand increases. However, the EIA predicts that there will be "virtually no growth in US oil consumption" this year. The agency predicts that liquid fuel demand will only grow by 1 million barrels per day in the US between now and 2030. "The so-called forward curve of futures contracts traded on the New York Mercantile Exchange suggests oil



### Latest Prices

#### CRUDE OIL: \$34.56

(NYMEX futures price)

Colorado SE: \$26.50

CO Western: \$16.58

N.D. Sweet: \$18.08

WY Sweet: \$18.33

SW WY Sweet: \$1658

CO, ND and WY prices updated  
January 16

#### NATURAL GAS: \$5.08

(Henry Hub spot price)

Chicago CG: \$5.83

Malin, OR: \$4.83

Opal Hub: \$3.64

Ventura, IA: \$5.66

Regional hub prices updated  
January 16

#### U.S. Rig Count

1568as of 1/16/09

-21 from 1/9/09

-164 from 1/18/08

(Courtesy Baker Hughes)

## Hess Seeks Flaring on Four Wells

Hess Corporation this month asked approval to allow flaring from four new Mountrail County oil wells.

At a hearing earlier this month before the ND Industrial Commission Oil & Gas Division in Bismarck, Hess for an exemption approval of flaring the Nelson Farms #11-19H well in Sec. 19, T156N-R91W; the RS-Vedaa 156-91 #0336H-1 well in Sec. 3, T156N-R91W; the RS-State A 156-90 #1609H-1 well in Sec. 16, T156N-R94; and the EN-Hegland 156-94 #3229H-1 well in Sec. 32, T156N-R94W.

In addition, Hess sought expansion of the Robinson Lake Field in Mountrail County with 1280-acre spacing to include sections 15 and 22, T154N-R93W.

Hess also wants approval to expand the Big Butte Field in Mountrail County to include sections 5, 8, 13 and 24, T156N-R94W based on 1280-acre spacing. Hess asked the commission to approve including sections 9 and 16, T155N-R93W in Mountrail County within Zone 11 of the Alger-Bakken Pool.

At the hearing, the company sought orders for forced pooling in Mountrail County in Sections 26 and 35, T156N-R92W; in Sec. 1, T156N-R92W and the E/2 of Sec. 32 and W/2 of Sec. 33, T157N-R91W; and sections 27 and 34, T156N-R91W; and sections 13 and 24, T156N-R91W.

will rise 28% to \$60.10 a barrel by December," according to Bloomberg. Some traders believe that oil prices will accelerate when the US economy and those of other countries such as China show signs of recovery. "Once these economies kick in again with the money supply pouring into these economies, everybody is going to be caught short with no inventory of these commodities and then commodity prices will move up again," said Mark Mobius, executive chairman of Templeton Asset Management Ltd.

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## **INDUSTRY, BUSINESS AND LABOR COMMITTEE**

**HB 1383**

**Monday, January 19, 2009**

**Bismarck, North Dakota**

**Justin J. Kringstad, Director  
North Dakota Pipeline Authority**

### **General**

- North Dakota Industrial Commission has not taken a position on this bill.
- The Industrial Commission acting as the Pipeline Authority was created in 2007 "for the purpose of diversifying and expanding the North Dakota economy by facilitating development of pipeline facilities to support the production, transportation, and utilization of North Dakota energy-related commodities..." N.D.C.C. § 54-17.7-03

### **Sections 1 and 2. Proposed Amendment of Subsection 6 of Section 54-17.7-02 and**

#### **Subsection 3 of Section 54-17.7-04**

- North America's pipeline network operates through interconnecting pipelines.
- A barrel of oil produced in North Dakota may be handled by several pipeline operators during its shipment to a refinery.
- Existing pipeline statute includes pipelines that interconnect with other operators.

### **Section 3. Evidences of Indebtedness Issuance Authorization – Purposes –**

#### **Appropriation**

- TransCanada interconnect feasibility study will be before the Industrial Commission on January 21, 2009 for funding approval.
- Pipeline Authority statute grants the ability to issues bonds for pipeline projects that are feasible and economically sound.



Mr. Chairman and Members of the Senate Natural Resources Committee  
Representative Kenton Onstad, District 4, Parshall

Thank you for this opportunity to introduce HB 1383

HB 1383 relates to the North Dakota Pipeline Authority. HB 1383 adds the words interconnects to its current statute and additional amendments for approved funding to jumpstart the project if the feasibility study asked for by the Pipeline Authority on this issues proves viable.

HB 1383 might appear to be putting the cart before the Horse, but it has merit to do so as I will try to illustrate.

The North Dakota Pipeline Authority has asked for a feasibility study to asking for proposals to look at interconnects and if it is found practical North Dakota could move forward for the project rather than wait till the next legislative session.

Interconnects as defined basically allows North Dakota Crude oil to move from one pipeline to another that are owned by different companies. This would creates a connection with different pipeline companies when there is allowed space from time to time. It would require storage capacity at a certain location, maybe 100,000 barrels of oil and the capability to inject this oil into a pipeline when available. Time restraints are necessary and has to have the capability to inject in maybe 5-8 hours. Many States have these systems and hopefully we will consider one in North Dakota.

I have attached to my testimony the RFP from the Pipeline Authority asking for cost proposals for North Dakota crude oil accessing TransCanada's Keystone or Keystone XL pipelines. It gives a very good description of the project and supporting material.

The amendments, I would like moved forward, simply allows Pipeline Authority to get started after March 31, 2008 and would not have to wait until the next legislative session.

What would the \$2,000,000 be used for? A project of this magnitude would need initially an environmental review, help with citing and permitting along with access to right of way. If the State of North Dakota would do this, we can do it quicker and much easier than a private company ( pipeline company).

Once completed, The State of North Dakota can own it and participate with a pipeline company or sell this part of the project. In many cases like this, we could see a 2-1 return on our initial investment.

To summarize HB 1383, the additional of the term interconnects allows the Pipeline Authority to have this authority to assist in an interconnect. The amendments allows the Industrial Commission and Pipeline Authority to move ahead quicker with the project if they deem feasible.

Mr. Chairman and members of the committee, I hope you can agree and show your support. I am open for any questions.

PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1383

Page 1, line 4, after "facilities" insert "; and to provide an appropriation"

Page 1, after line 23, insert:

**"SECTION 3. APPROPRIATION.** There is appropriated out of any moneys in the general fund in the state treasury, not otherwise appropriated, the sum of \$2,000,000, or so much of the sum as may be necessary, to the industrial commission for the purpose of implementation of the North Dakota pipeline authority's recommended action based on the authority's study of whether construction of a pipeline connecting to existing pipelines is feasible and economically sound, for the biennium beginning July 1, 2009, and ending June 30, 2011."

Renumber accordingly

## House Bill 1383

The North Dakota Pipeline Authority has hired a consultant to determine the feasibility of constructing a pipeline that would allow additional crude oil to be shipped economically out of North Dakota. This study is being completed today, and at least three independent solutions are being reviewed. The study will determine the overall feasibility of a pipeline solution, will suggest the best preliminary route for the pipeline, and will identify other necessary infrastructure. A final recommendation is expected by June of 2009.

After the study is completed much additional work is required before construction can occur. The State of North Dakota has authorized that up to \$800 million in bonds can be utilized for construction. In order to determine the exact size of the bonding issue, actual construction costs must be determined. In order to determine actual construction costs: A final route must be selected; Environmental work must be completed; FERC siting applications and permitting is required; Rights of ways must be negotiated; and final design of the pipeline and other associated infrastructure must be completed. Only then can construction bids be received and the real cost of the project determined.

Pipeline companies all are required to follow the same processes in order to permit a project and obtain rights of way. This up front work is the most risky and requires the most time. Much of this work involves the coordination of federal and state agency reviews. These portions of the project can be utilized by any entity to then construct the pipeline. This process will usually take 12 to 18 months and therefore requires substantial up-front costs.

House Bill 1383 would secure state general fund money to be utilized to fund the planning and development stages of a pipeline project if the feasibility study determined that this pipeline will allow for efficient movement of North Dakota crude oil. The funds would be utilized to hire a consultant that would then select a final route, complete all required environmental work, prepare FERC siting applications and obtain other permits, obtain rights of ways and if possible complete final design. The North Dakota Pipeline Authority could select a qualified consultant and coordinate this work. State agencies would be asked to provide assistance wherever possible by providing information and services, thus reducing these up-front costs.

At the conclusion of this process two alternatives will exist:

1. The State can sell the project to pipeline companies and reimburse the general fund. This work when completed will be more valuable than the funds committed.
2. The State can decide to move forward with construction and build the pipeline with the intention of leasing the facility to reputable management companies.

There is significant value that can be added to this project utilizing this process. The Pipeline Authority has access to bond funds; however they have not been utilized because the up-front work necessary to clear a project requires significant capital and time. The State should utilize general fund money to finance these steps and accelerate the construction of a pipeline. The resulting plans will be well worth the short term commitment.

# **NATURAL RESOURCES COMMITTEE**

**HB 1383**

**Thursday, March 12, 2009**

**Bismarck, North Dakota**

**Justin J. Kringstad, Director  
North Dakota Pipeline Authority**

## **General**

The Industrial Commission acting as the Pipeline Authority was created in 2007 “for the purpose of diversifying and expanding the North Dakota economy by facilitating development of pipeline facilities to support the production, transportation, and utilization of North Dakota energy-related commodities...” N.D.C.C. § 54-17.7-03

## **Sections 1 and 2. Proposed Amendment of Subsection 6 of Section 54-17.7-02 and Subsection 3 of Section 54-17.7-04**

- The North Dakota Industrial Commission has taken a neutral position on sections 1 and 2 of this bill.
- North America’s pipelines operate through a network of interconnecting pipelines.
- A barrel of oil produced in North Dakota may be handled by several pipeline operators during its shipment to a refinery.

## **Proposed - Section 3. Appropriation**

- The North Dakota Industrial Commission has not taken a position on this proposed amendment.
- A Keystone interconnect is one of several potential solutions to North Dakota’s crude oil bottleneck supported by the Pipeline Authority.
- The primary goals of the Keystone interconnect study are:

- to determine whether an interconnecting pipeline can be economically built by a third party company;
  - address quality concerns of transporting Bakken crude in the same pipeline as oil sands crude;
  - propose route options and corresponding economics;
  - establish a project timeline.
- The results of the interconnect study, due out in mid-April 2009, will be immediately released to industry and the public. If shown to be feasible, the goal is to have private industry move forward with construction.

# EXPANDING OIL PIPELINES

