

2011 SENATE APPROPRIATIONS

SB 2355

2011 SENATE STANDING COMMITTEE MINUTES

Senate Appropriations Committee Harvest Room, State Capitol

SB 2355
February 2, 2011
13845

Conference Committee

Committee Clerk Signature

Rose Loring

Explanation or reason for introduction of bill/resolution:

A bill to provide an appropriation establishing a grant program for recovery of flared gas and tax exemption for captured gas.

Minutes:

See attached testimony # 1-4.

Chairman Holmberg called the committee hearing to order on SB 2355.

Senator Jerry Klein, State Senator, District 14

Bill Sponsor

The purpose of this bill is to help find a solution for the wasted natural gas in western ND. According to ND Department of Mineral Resources, we've flared 23% of the gas produced in ND. It is sad to throw 23% of a good resource out the door. SB 2355 is the start towards finding some sort of solution. This may not be the correct solution and we certainly need more discussion but it is time to try and implement something to stop wasting this resource. If we find the right answer, several things should happen. We would solve some of the environmental issues that are creating problems, we would add more energy to America's energy resource and we would add more dollars to the mineral owner's pockets, and we would make the Bakken formation more economic because we could add 10-20% to the margins. We would disperse the drilling activity, making areas that are marginal today more attractive by getting more value for the gas from this effort. He said that he would answer questions or defer them to someone who could.

Senator Connie Triplett, District 18, Grand Forks

Bill Sponsor

I love the concept of SB 2355 that ND needs to get a grip on flared gas. It will become more of a problem in the future. I signed onto this bill but I told Mr. Harms that I really didn't like the bill in its present form but I liked the concept. It is past time ND does something to correct the flared gas. I understand it is not marketable or valuable enough for the oil companies to do something. We have lax regulations in ND that allow oil companies to continue producing oil for up to a year and longer with an exemption from the division of mineral recourses while flaring gas. They do have to take care of it eventually but our regulations do not push them very hard to take care of it early on. This is an incentive to get this process moving. I don't approve, as a matter of governmental policy of just handing out state money to someone who says they can solve the problem. This should

be a competitive process or it could be a state loan program or possibly a state ownership of distribution systems. We need to deal with the flared gas issue. This bill is a starting point to do this.

Senator Grindberg asked Senator Triplett to expand on the amendment and why she suggested that this be administered by the Department of Commerce.

Senator Triplett replied that those weren't her amendments. She hasn't had an opportunity to see the amendments but she knew they were in process. She doesn't care where it goes, but a state agency should have control over it.

Robert W. Harms, represents Bakken Express, LLC testified in support of SB 2355.
Written testimony # 1
Proposed amendment #2

The problem in ND is that we flare about 23% of the gas that ND produces. About one third of that comes out of Bowman County. They've tried to put a value on the gas that we should be able to capture. If we flare 15% of the natural gas and it's valued at \$3.97 MCF, ND is essentially burning over one hundred million dollars worth of natural gas each year. There is additional value when it comes to the liquids that are included in that flared gas. If we're a royalty owner, and we have a one-sixth royalty on that gas, we should be sending about twenty million dollars to mineral owners each year in ND.

The ND Land Dept. estimates that about 31% of the gas that ND citizens own is being flared. In 2009, they estimate that value at approximately \$750,000 in royalties that should be going to the public for the State Land Department or the public owned gas. In 2010, that value is approx. \$1.3 Million in royalties that we should be getting.

This is happening because the drilling activity in western ND is so rampant that essentially, the infrastructure doesn't keep up with the drilling activity. Eventually, the gathering lines get built to where the well is located and the flaring will typically come to a halt. The other reason is that unconventional solutions are failing to attract private capital to solve this problem. We have continued flaring and the resource is being wasted.

What SB 2355 does is:

- Establishes a one-time grant program of up to \$6.6 million.
- Must demonstrate solution will minimize flaring in ND as per DMR.
- Provides a 24 month tax exemption for the producer/royalty.

Mr. Harms explained the amendments.

Chairman Holmberg asked OMB and Legislative Council if this bill would be on the list for one time funding.

Roxanne Woeste commented that stand alone bills are hard to determine legislative intent for the program to be ongoing or one time. She said that if it would be the wishes of this committee that it would be one time funding it can be that.

Mr. Harms said that it is their intent that this would be one-time funding. Fix the problem and be done.

Senator Grindberg asked why we allow a one year window for flared gas and what if we allowed three months.

Mr. Harms said that's an old policy that evolved from the mid 1980s. He said that at that time, 99% of wells were being drilled vertically. Policy has not kept pace. If we changed it to 90 days, it would warrant careful consideration. The oil rigs would go down and revenue would go down.

Senator Bowman – If you capture flared gas, transport it and discharge it, what's the different in what you're doing and what two big companies are doing by Williston? What is this going to do that they aren't going to do.

Mr. Harms – We are serving as a stop gap measure. The economics would never justify building a 10 mile discharge line. What we are trying to do is build facilities within close enough distance where we can compress the gas at the well site and take it to a discharge station until the development occurs, until the gathering system finds its way to the well.

Senator Kilzer – The quoted percentage was 23 percent, is the problem getting worse as years go by. What was it five or ten years ago?

Mr. Harms -The problem fluctuates. A few years ago we were down to 11% and at one point we were up as high as 33 percent. Ten years ago, before the Bakken we were in the single digits.

Senator Triplett - It's not just the percentage anymore. The volume is so much larger and is expected to get larger in the future. Even if the percentage stayed the same this will continue to develop into a much bigger problem.

Tim Maloney, Bakken Express, LLC testified in support of SB 2355. Written testimony #3

Senator O'Connell asked what they have to do to make gas useable.

Mr. Maloney answered that water and oil have to be separated and they each have to be handled separate. The water and oil are usually trucked from the well site. If there's a pipeline, the gas goes to the gas plants. The gas plants are where they break the products apart. They take the propane and butanes away for the methane and ethane, Hess will sell the ethane to Canada. Methane is for residential and industrial purposes.

Mr. Maloney explains on page four of his testimony what they are purposing to solve the flared gas problem.

Senator Grindberg is curious of frequency of the trucks. How long does it take to fill a truck?

Mr. Maloney – answered about 10 times a day. He said that is one downside of this, it doesn't help the traffic situation.

Senator Warner asked if the grants that we're talking about are only for discharge stations.

Mr. Maloney said that is correct. He stated that discharge stations would be a way to jumpstart the process. He said that the money in this bill for discharge stations could enable the company to make the other investments.

Senator Bowman summarized what he thought he understood.

Mr. Maloney said the idea is that you have a pool of equipment that is being moved over the next 10 years from well to well. The discharge stations complement the pipelines because they capture the gas until the pipelines get there.

Senator Krebsbach asked if this system of collecting and storing gas is a new concept.

Mr. Maloney said that it has been done. There is a project in OK were they are doing this. It has been done in the Appalachians. There has been a lot of improvement in the compressor technology and the tube transports. It is more economical today than in the past.

Chairman Holmberg asked if he could review the state involvement in the Oklahoma situation. Was there state investment or private industry?

Mr. Maloney replied that Oklahoma did not allow them to produce the oil until they did something about the flared gas.

Chairman Holmberg but it was the industry that did that?

Mr. Maloney replied yes.

Senator Warner asked Roxanne Woeste to put together the kinds of financing that was used in the state

Jean Schafer, Executive Director, Water Coalition, presented neutral testimony on SB 2355. They are not opposed to the concept of the project. She pointed out the Water Coalition funding priorities and stressed the catastrophic needs in Devils Lake and need for flood water control in the Fargo area and the other projects prioritized in the handout.

Lynn Helms, Department of Natural Resources, presented neutral information for the committee. He presented information on flaring, extensions and penalties.

Chairman Holmberg asked him to comment on his thoughts of moving the responsibility over the Department of Commerce.

Mr. Helms said that the Industrial Commission handles several things like this but they are always in the research area. He gave examples. This has now reached the commercial development phase. Their thinking is that it would seem a more appropriate role for a Commerce Department type grant.

Senator Grindberg asked if this committee moves forward on this onetime deal, could you find policies to put forth in 11-13 biennium.

Mr. Helms replies, yes.

Discussion on flat tax rates and royalties.

There was no opposing testimony to SB 2355.

Chairman Holmberg closed the hearing on SB 2355.

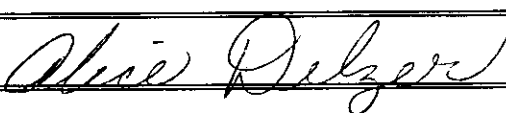
2011 SENATE STANDING COMMITTEE MINUTES

Senate Appropriations Committee
Harvest Room, State Capitol

SB 2355
02-14-2011
Job # 14533

Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

Industrial Commission – Recovery of flared gas and captured gas exemption

Minutes:

You may make reference to "attached testimony."

Chairman Holmberg opened the discussion on SB 2355. The actual hearing was on SB 2178. Joe Morrissette, OMB and Brady Larson, Legislative Council were also present.

Chairman Holmberg announced the subcommittee for SB 2355 will be Chairman Bowman, Senator Wanzek and Senator Warner.

The discussion regarding SB 2355 was closed.

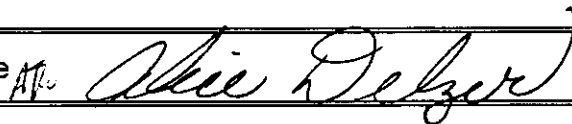
2011 SENATE STANDING COMMITTEE MINUTES

Senate Appropriations Committee Harvest Room, State Capitol

SB 2355
02-21-2011
Job # 14770

Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

A SUBCOMMITTEE HEARING relating to a legislative management study of reduction of the flaring of natural gas.

Minutes:

See attached proposed amendments.

Vice Chair Bowman called the subcommittee hearing for **SB 2355** together. Senator Warner and Senator Wanzek were present. Tammy R. Dolan, OMB and John Walstad, Legislative Council.

V. Chair Bowman states that we have a considerable amount of amendments for this bill. The one that we all agreed with, that we will not consider, is 11.8251.02003, which is a study but it is not a mandatory study. If we are going to study this, we want the one you drafted for me, to be considered, which is a mandatory study. Should we vote on the amendment first and then get it off the table. It could be presented on the floor but I think, when you see a mandatory study, I don't think people would accept this.

Vice Chair Bowman states that "unless someone moves it, it just dies". It is on the record that it was presented to the committee but nobody moved it so we can probably just move on.

Senator Wanzek states that we will want to move amendment .02003 and ignore the others.

Vice Chair Bowman asks John Walstad if he could give the committee a brief legislative history on "flared gas" and why there was an exemption granted in the first place, of such long duration.

John Walstad Legislative Council states he doesn't know the history and has the same question, "Why a year?"

Senator Warner states we are taking a private property, by granting an exemption to the payment of royalties, for a year.

John Walstad states he agrees.

Senator Warner states we are interfering with transfer of private property.

John Walstad states he should look into the history. My guess is, that the one year period, was when wells were being located here and there and there was no way to get them connected to anything. I am thinking that situation has improved now.

Senator Warner states to paraphrase, "That was a wildcat experience?"

John Walstad states that as an oilfield develops, I think connections become easier to accomplish, although there are more wells, the infrastructure grows along with the field.

Vice Chairman Bowman states he knows it has something to do with the pressure too. When they first drill these wells that is why they have to "flare them". They can also give them an extension for that one year. Under certain circumstances it makes it almost impossible for them to capture that gas. I am not an expert in this but I believe Lyn Helms told us that. He said, that sometimes and in some cases, they could actually extend that.

John Walstad states that it is covered in this section of law that we are looking at, about the flaring limitation. There is a possibility of an extension, beyond the one year, that the statute allows now. It does not specify circumstances. I suspect it is left for the producer, to present a case, to the oil and gas division.

Vice Chair Bowman states we need to get to the two issues we have. The "study resolution" that you drafted for me, we included the tax dept. in that. The question I have is about Senator Warner's amendment. Could you explain that amendment to us?

Senator Warner states, for the record, we would start acknowledging the current situation cannot be turned around too fast. We would stall on any action until December 2012. Every six months, thereafter, we would shorten the period, only on new wells, not on wells which are existing, by the triggered dates. Just on wells that are subsequent to that. We would "step down" the period of allowed flaring" from 12 months to 9 months and 6 months later we would go from 9 months to 6 months and six months later we would go from 6 months to 3 months. That would be the end point. The goal would be that we would allow this unlimited flaring for no longer than 3 months. This being for the purpose of taxation and royalties. We are not making an environmental determination here. That would be a separate policy and made at a separate time. Certainly, we would want to have public hearings on that portion.

Vice Chair Bowman asks, "If we accept this the way it is presented, aren't we also changing policy, by what has been presented to us?" You are now saying that on new wells, this is what is going to happen. To me, I was hoping that would all be inclusive into the study. So when the study looks at that amendment, they can say, this is exactly what we need, to take care of this problem. I would rather see it come out of that study, than come out of our committee, when we haven't had any hearings on this.

Senator Warner states that he thinks his amendment more sense if it is done in conjunction with the 2001 amendment, which would create the energy PACE fund. The pairing of those two amendments, than does the mandated study, plus the tax issue, is weighing pretty deeply into policy.

John Walstad states that Senator Warner's amendment, reducing the time for allowable flaring, still has that statutory provision that the producer, can go to the oil and gas division and ask for an extension, over whatever limitation applies, to that particular well. So it is not a "lock out" of six months. If there are circumstances, that the oil and gas division would find appropriate, they could extend that.

Vice Chair Bowman states he doesn't disagree with that.

John Walstad states, "Whether this is policy or not, I will let the committee decide".

Vice Chair Bowman states that is my problem. That is a complete policy adjustment, that I don't think we legally have the authority to do. That is up to someone else telling me, whether we can do that legally, or not. We have had no hearing on that and we are changing the law, by that amendment.

Senator Warner states that it would be by legislative rule, which is a lesser degree than law. It would be with the majority party to accept. If your leadership would be amenable to the idea, our leadership certainly would be. We could forward it coming out of the Senate and I would recommend, internally, they would have a policy hearing on the House side and we would readdress the issue <during conference committee, as to a policy change.

Vice Chair Bowman states that Senator Warner is going to oppose the amendment that he drafted.

Senator Warner states he is not opposing anything, at this point. My amendment, makes more sense, if we advance the policy initiative of the PACE fund, than if we do it with a "mandated study".

Vice Chair Bowman asks, "Do we all agree that the Triplett amendment, to do a "study" not a "mandatory study", should be defeated?"

Senator Warner asks if he is referring to the .02004 amendment?

Vice Chair Bowman states it is the .02003 amendment that says, "during the interim "shall consider" studying".

Senator Warner states that he does agree that amendment doesn't go far enough.

Vice Chair Bowman states, "For the record, that our subcommittee, "Do I need a motion to not accept that?"

Senator Warner states that complete silence would constitute rejection he thinks.

Senator Wanzek states, "That we considered it and we did not agree to move it forward"

Vice Chair Bowman reiterates, "We agreed, not to move it forward". So the .02003 amendment is off the record.

Senator Wanzek states that there are some things in this other amendment, the PACE program, I like. There is no subsidy. There is an investment by private industry, to take out a loan and try to do a project. I do understand the nature and reasoning of the Warner amendments but I do not feel comfortable enough at this time or knowledgeable enough or comfortable enough to support that yet. It comes back to the study or a hearing. I would want to hear from a lot of different people, as to what their thoughts are on this and how it would impact this situation. I am inclined to go into "mandatory study". I want to be certain that it gives us enough opportunity or latitude to get this problem solved. If this problem becomes magnified, over the next two years, we are going to be able to address it, in a timely enough manner. That is my only concern about waiting and studying it.

Senator Warner asks if he would be open to the idea of asking Legislative Management to expedite the study, and in such a way, that it could be considered during the special session in November?

Senator Wanzek states that the very thought crossed his mind. If we could we expedite this and see that there is somewhat of urgency and doing something, so we would be able to position ourselves to do it. I would be willing and open to that.

Senator Warner states are that he knows that there are some other considerations on FTE's on various departments for federal healthcare reform.

John Walstad states that there will be other issues. Not everyone is a member of the reapportionment committee. So there will be people around here.

Senator Warner asks, "How long will that session be?" It has to be a minimum of 3 days.

John Walstad states that it has to be two. You can do it in two but the work isn't going to happen in two and it is going to take more time.

Senator Warner asks if it will take less than 5?

John Walstad states yes. A week at the most. I was trying to figure out, the committee working on the issue, how many times they will be able to meet?

Senator Warner asks if it would be appropriate to hold joint house and senate hearings? Then have the committees vote on it separately?

John Walstad states that might be the way to get it done if the legislation needs to be enacted.

Senator Warner states it would probably be the interim committee, anyway, that would be doing it, which already has joint, House and Senate membership.

John Walstad states no, I think it will be standing committees. Whichever one leadership decides is appropriating each chamber. There is not any reason they cannot meet jointly, have a hearing, and let everyone "air their views".

Senator Warner asks, "Why don't we put in language that mandates the study but asks legislative management to consider allowing it, "to be considered?" Also, results being reported before and acted upon during the special session.

Vice Chair Bowman states, "We are assuming that there is going to be a major problem. We don't have a major problem yet but we have a concern. I think we all agree that there is definitely a concern about "flaring gas" that we are not capturing right now. I think we also have a concern that with the amount of oil wells that are going to be drilled, that could even magnify this concern. A 'mandatory study' gives us some flexibility, I think, in addressing this. It is going to be studied, if we see something that is going to trigger the EPA. Even our state coming forward and saying "wait a minute". Our air quality is dropping fast. Address it right now or we are going to shut you down. I don't know if that can be done or not but I would assume that they would have influence on that. The EPA would come in and say you are shut down. Not any of us want that but because we have a "mandatory study", now, we can take action through that study and it saying that we better call a special session or we better do something that address that. Hopefully, there would be 2 or 3 meetings that they can talk about the tax issues, dealing with this, oil companies expanding and flared gas, or maybe the final conclusion is that this original bill, that we haven't had a chance to study because we don't deal with policy, is the correct action. That can't be done by our subcommittee right now. All that can be done is that we accept the "mandatory study".

Senator Wanzek asks, if we are going to make that effort as well and we need to take that amendment or your amendment and have additional language drafted to it? The intention being, that we are making it clear that it is our hope, that this would be expedited, with the effort of finally presenting something at the special session.

Senator Warner states that we could instruct Mr. Walstad to have that final amendment redrafted. We don't have to wait until the final amendment is here to act on it as a subcommittee.

John Walstad describes the needed language. What we have is "that legislative management will make its report to the 63rd legislative assembly" and maybe that will be ultimately what will be happening, but I would suggest some language in there, that the "interim committee", charged with the study, with the approval of the chairman of the legislative management, can recommend legislation for consideration in the "reconvened session". The reason I suggest the chairman of the legislative management is because I don't think legislative management will necessarily be meeting in the right time frame for the interim committee to make a recommendation.

Senator Warner states that the chairman has quite a bit of power normally anyway.

Vice Chair Bowman states that if the problem becomes serious enough, where we have to act instead of study, legislative management or the chairman could, move this on a fast-paced track to get something done, when we meet for "re-districting" that we could address this.

Discussion continues and asks if any legislator prohibited from forwarding something?

Senator Warner states that this would have to go through "delayed bills" committee to be approved.

John Walstad states that the "delayed bills committee" has to approve anything going in.

Vice Chair Bowman states that the ultimate question is because we are studying this and trying to find a solution to this problem, would the Dept. of Health and the EPA and if they say, okay, but that you better have a bill brought forward, that is going to clean up this mess. If it gets to that point, in the next legislative assembly, or we are going to shut you down. We have given a fairly strong signal out there that we are concerned about this, by this "mandatory study". So that the Dept. of Health can't say that you are not doing anything about it. We are doing something. No one is expert enough, to make good decisions, as to what the right action is. The study will give us the right action and hopefully the right bill form in the next legislative session, to make sure that when we do address it, we are addressing it with all the players that have had a chance to be a part of it. The taxation part of it, if that is the trigger that makes this work, then I would like to see, that presented in the study, as an alternate to correcting this problem.

Senator Warner states that another way to address this is, to make part of the official record, even though they are not being moved or seconded or voted on, just because we are delaying consideration of these, without prejudice. We haven't made a decision that these are good or bad ideas. We are just going to advance to the regular committee, the interim committee. That these are things that we looked at and have some merit but we did not have enough information to make it policy.

Vice Chair Bowman states he does not have any objection to that.

Discussion continues that we will have more information, more awareness or knowledge, of exactly what the situation is. Maybe by this fall, when we meet in special session, we will have another summers worth of information or data, as to what trend or direction this is going. It is stated that if this mandatory spending makes it through the House, I guarantee the oil companies, gas companies and all the others, will be aware of that we have addressed the issue and we are serious because we have made it "mandatory study" and that is a lot different than just a "study". It should trigger them to say okay, we better start getting something done to address this because they are serious about it.

Senator Warner states that one thing we haven't addressed is, that the 2001 amendment transfers money, from the earnings of the Bank of ND, sounds like an appropriations situation. He asks if we are going to be getting a policy committee, working during the interim, appropriations authority. Do we need to address that?

John Walstad states that that is not necessary. They can make any kind of recommendation they determine to be appropriate.

Vice Chair Bowman makes a motion to accept a "mandatory study" amendment, 11.0028.01003 and the amendment will also include the language that we discussed that deals with other issues that are important to this bill so that when it is studied, everything is on the table and Mr. Walstad will have the actual language to the amendment, when it is finalized.

Senator Warner has seconded the motion.

The Subcommittee hearing on SB 2355 is closed.

2011 SENATE STANDING COMMITTEE MINUTES

Senate Appropriations Committee
Harvest Room, State Capitol

SB 2355
02-21-2011
Job # 14779

Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

A Roll call vote on the Industrial Commission – Recovery of flared gas & captured gas exemption. .

Minutes:

You may make reference to "attached testimony."

Chairman Holmberg called the committee back to order at 3:35 in reference to SB 2355. Roxanne Woeste, Legislative Council and Lori Laschkewitsch, OMB were present. You all have a letter from Merle Paaverud about it is 12 million net is what they have to raise regarding the Heritage Center. It is not gross, it is net. If you see him thank him for correcting the record. One other piece of information that I didn't have right at the moment but when I carried that bill earlier today about the native language thing, to bring you up to date, not a penny of that money that was appropriated has ever been asked for. It's still sitting there; the \$18,000. Is there a bill we can get through rapidly? Let's look at SB 2355.

V. Chair Bowman: The amendments on SB 2355 after a lengthy discussion on what we heard in testimony deal with the study, it shall be studied. When we are dealing with flared gas and the amount of wells that are coming on, the concern is that we have about potential problems with that down the road if we don't get a handle on this. What the amendment does is it brings all of the players into an interim meeting and discuss this with everyone. The reason we did that is because there's a lot of ramifications, your tax department, oil and gas, Department of health, all of these different entities play a part of this and we don't want to exclude anybody. It could be a serious matter with health issues if we don't. It isn't right now but there is a possibility down the road that the EPA could get involved in this and I don't think none of this room want that to happen so we are better off right now to include them. When dealing with flared gas, all the players were brought in to talk about this issue. There were a couple of amendments that were brought in to our committee, one dealt with some tax issues and one with another approach to this. The study will include that also. The reason we did that is because this is an issue that we don't want to leave anybody out on. Everybody in the state that has any kind of interest at all in this flared gas issue should come to the table in this interim study. and that will be addressed in the study also. Anyone in the state who has an interest in this should come to the table to the interim study. It was agreed by the subcommittee that there should be a mandatory study.

V. Chair Bowman moved the amendment # 11.8251.02006. Seconded by Senator Wanzek.

Chairman Holmberg I do know that this subcommittee met and talked a number of times and talked about the issue with the folks that had an interest in it and it's a very complicated issue.

V. Chair Bowman: One other issue that we were confronted with, a lot of what is in that bill is policy issues, it is not our directive to study policy and change policy. That is why we went to a study rather than try to come up with policy issues, which we are not suppose to do anyway.

Senator Warner I'd like to endorse V. Chair Bowman comments. Just highlighting one more, there is some urgency to this, not only from the environmental standpoint but from the standpoint the state in many ways is enabling the illegal takings of mineral wealth which rightfully belongs to the mineral owners and by allowing flaring for such an extended period of time without paying either tax or royalty we are diminishing the wealth of a good many people in ND, and if we chose as a matter of policy to tax exemptions, that's one thing, but we are enabling illegal takings if we don't address this issue of royalties being wasted. Also speaking to that issue of urgency we have asked the interim committee to try to expedite this process and although the study is a mandated study, we have asked that legislative management to consider, not mandate, but to consider that if this legislation is ready by the November session it will be put on the agenda for the November session as well.

A Roll Call vote was taken on the amendment. 2006. Yea: 13; Nay: 0; Absent 0.

V. Chair Bowman Moved Do Pass as Amended. Second by Senator Warner.

A Roll Call vote was taken on SB 2355. Yea: 13 Nay: 0; Absent 0.

Senator Warner will carry the Bill. The hearing was closed on SB 2355.

PROPOSED AMENDMENTS TO SENATE BILL NO. 2355

Page 1, line 4, after the first semicolon insert "to provide for a legislative management study;"

Page 2, after line 16, insert:

"SECTION 4. LEGISLATIVE MANAGEMENT STUDY - FLARED GAS EXEMPTION. During the 2011-12 interim, the legislative management shall consider studying the exemption of gas produced with crude oil from an oil well from statutory restrictions on flaring with the goal of encouraging beneficial use of gas and preventing waste. The legislative management shall report its findings and recommendations, together with any legislation required to implement the recommendations, to the sixty-third legislative assembly."

Renumber accordingly

Date: 2-21-11
Roll Call Vote # _____

2011 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 8355

Senate _____ Committee Subcommittee

Check here for Conference Committee

Legislative Council Amendment Number 11.8251.02003 (Triplet)

Action Taken: Do Pass Do Not Pass Amended Adopt Amendment
 Rerefer to Appropriations Reconsider

Motion Made By _____ Seconded By _____

Senators	Yes	No	Senators	Yes	No
Chairman Holmberg			Senator Warner		
Senator Bowman			Senator O'Connell		
Senator Grindberg			Senator Robinson		
Senator Christmann					
Senator Wardner					
Senator Kilzer					
Senator Fischer					
Senator Krebsbach					
Senator Erbele					
Senator Wanzek					

Handwritten notes in the table:
Bowman
Warner
Wanzek
(Large signature/initials)

Total (Yes) _____ No _____

Absent _____

Floor Assignment _____

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

PROPOSED AMENDMENTS TO SENATE BILL NO. 2355

Page 1, line 2, after "enact" insert "chapter 17-03.1 and"

Page 1, line 3, after "to" insert "a flared gas partnership in assisting community expansion fund and program and"

Page 1, line 4, after the first semicolon insert "to provide a continuing appropriation;"

Page 1, line 7, insert:

"SECTION 1. Chapter 17-03.1 of the North Dakota Century Code is created and enacted as follows:

17-03.1-01. Definitions.

In this chapter, unless the context otherwise requires:

1. "Business" means a person involved in capturing by any means natural gas that would otherwise be flared in the production of oil.
2. "Community" means the city or county in which an eligible business is located or in which the business has an oil and gas facility, or a local development corporation, community organization, or any other group whose interest is in the economic growth of the area.
3. "Partnership in assisting community expansion fund" or "fund" means a fund established to buy down the interest rate on loans to business under this chapter.

17-03.1-02. Fund - Continuing appropriation - Administration.

A partnership in assisting community expansion fund is established from a transfer of earnings from the Bank of North Dakota. This is a revolving fund, and all moneys transferred into the fund, interest on fund moneys, and payments to the fund are appropriated on a continuing basis for the purposes of this chapter. This fund is not subject to section 54-44.1-11. The Bank of North Dakota shall administer the fund.

17-03.1-03. Fund - Purpose - Interest rate buydown.

Moneys in the fund must be used for the purpose of buying down the interest rate on loans made by a lead financial institution in participation with the Bank of North Dakota. The Bank of North Dakota's participation may not exceed eighty percent nor be less than fifty percent of the total loans.

17-03.1-04. Fund moneys - Eligible uses.

1. The fund moneys may be used to participate in an interest rate buydown on a loan to an oil and gas facility for the purchase of real property and for the purchase or installation of equipment. The funds must be used for capture of gas that would otherwise be flared. The loan funds may not be used to refinance any existing debt.

2. The maximum amount from the fund in the interest rate buydown for an oil and gas facility may not exceed five hundred thousand dollars.
3. The fund participation is limited to the amount required to buy down the interest to five hundred basis points below the national prime interest rate.
4. The Bank of North Dakota shall adopt rules to implement this chapter."

Page 1, line 21, after "state" insert "and shall consult with the Bank of North Dakota"

Page 1, remove lines 22 and 23

Page 2, replace lines 1 and 2 with:

- "3. The industrial commission shall open for application the grant under section 1 of this Act within ninety days of the effective date of this Act and shall publicize the available grant, shall award the grant on a competitive basis, and may not restrict application to any person or groups of persons.
4. Grants may be made in any increments of funds appropriated in this Act. The commission shall award the grants in a manner that will most likely meet the purpose of this Act in capturing gas that otherwise would be flared. The commission shall consider the following criteria in making the award:
 - a. Experience of the applicants.
 - b. Timeliness of implementation of proposed project.
 - c. Scope of proposal in relation to total gas being flared in the state.
 - d. Demonstration of additional capital committed to the project.
 - e. Financial viability of the project.
 - f. Likelihood of successfully capturing flared gas in the state."

Page 2, line 17, replace "2" with "3"

Page 2, line 18, replace "Section" with "Sections"

Page 2, line 18, after "1" insert "and 2"

Page 2, line 18, replace "is" with "are"

Page 2, line 19, replace "is" with "are"

Renumber accordingly

Date: 2.21-11
Roll Call Vote # _____

2011 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2355

Subcommittee

Senate Appropriations Committee

Check here for Conference Committee

Legislative Council Amendment Number 11.8251.0200 / Trip (itt)

Action Taken: Do Pass Do Not Pass Amended Adopt Amendment
 Rerefer to Appropriations Reconsider

Motion Made By _____ Seconded By _____

Senators	Yes	No	Senators	Yes	No
Chairman Holmberg			Senator Warner		
Senator Bowman			Senator O'Connell		
Senator Grindberg			Senator Robinson		
Senator Christmann					
Senator Wardner					
Senator Kilzer					
Senator Fischer			<i>Bowman</i>		
Senator Krebsbach			<i>Warner</i>		
Senator Erbele			<i>Wanzek</i>		
Senator Wanzek					

Total (Yes) _____ No _____

Absent _____

Floor Assignment _____

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

never voted on

February 18, 2011

PROPOSED AMENDMENTS TO SENATE BILL NO. 2355

Page 1, line 1, after "A BILL" replace the remainder of the bill with "for an Act to provide for a legislative management study of reduction of the flaring of natural gas.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

SECTION 1. LEGISLATIVE MANAGEMENT STUDY - REDUCTION OF FLARING OF NATURAL GAS. During the 2011-12 interim, the legislative management shall study methods to encourage reduction or restrict allowance of flaring of natural gas. The legislative management shall obtain opinions from the tax department, oil and gas division of the industrial commission, state department of health, petroleum industry representatives, and interested members of the public and representatives of political subdivisions to identify and implement the optimum method of reducing flaring of natural gas, including improved methods for capturing or using the natural gas. The legislative management shall report its findings and recommendations, together with any legislation required to implement the recommendations, to the sixty-third legislative assembly."

Renumber accordingly

Date: 2-21-11
Roll Call Vote # _____

2011 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2355

Subcommittee

Senate _____ Committee _____

Check here for Conference Committee

Legislative Council Amendment Number 11. 8251. 02005 (Bowman)

Action Taken: Do Pass Do Not Pass Amended Adopt Amendment
 Rerefer to Appropriations Reconsider

Motion Made By _____ Seconded By _____

Senators	Yes	No	Senators	Yes	No
Chairman Holmberg			Senator Warner		
Senator Bowman			Senator O'Connell		
Senator Grindberg			Senator Robinson		
Senator Christmann					
Senator Wardner					
Senator Kilzer					
Senator Fischer			<i>Bowman</i>		
Senator Krebsbach			<i>Warner</i>		
Senator Erbele			<i>Wanzek</i>		
Senator Wanzek					

Total (Yes) _____ No _____

Absent _____

Floor Assignment _____

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

never voted on

February 17, 2011

PROPOSED AMENDMENTS TO SENATE BILL NO. 2355

Page 1, line 4, after the first semicolon insert "to amend and reenact section 38-08-06.4 of the North Dakota Century Code, relating to the flaring of gas;"

Page 1, after line 6, insert:

"SECTION 1. AMENDMENT. Section 38-08-06.4 of the North Dakota Century Code is amended and reenacted as follows:

38-08-06.4. Flaring of gas restricted - Imposition of tax - Payment of royalties - Industrial commission authority.

As permitted under rules of the industrial commission, gas produced with crude oil from an oil well may be flared during a one-year period from the date of first production from the well for wells with a date of first production before January 1, 2012. The allowable period for flaring of gas is nine months from the date of first production for wells with a date of first production from January 1, 2012, through June 30, 2012; six months from the date of first production for wells with a date of first production from July 1, 2012, through December 31, 2012; and three months from the date of first production for wells with a date of first production after December 31, 2012. Thereafter, flaring of gas from the well must cease and the well must be capped, connected to a gas gathering line or other approved gas gathering and transportation device, or equipped with an electrical generator that consumes at least seventy-five percent of the gas from the well. An electrical generator and its attachment units to produce electricity from gas must be considered to be personal property for all purposes. For a well operated in violation of this section, the producer shall pay royalties to royalty owners upon the value of the flared gas and shall also pay gross production tax on the flared gas at the rate imposed under section 57-51-02.2. The industrial commission may enforce this section and, for each well operator found to be in violation of this section, may determine the value of flared gas for purposes of payment of royalties under this section and its determination is final. A producer may obtain an exemption from this section from the industrial commission upon application and a showing that connection of the well to a natural gas gathering line is economically infeasible at the time of the application or in the foreseeable future or that a market for the gas is not available and that equipping the well with an electrical generator to produce electricity from gas is economically infeasible."

Renumber accordingly.

Sub.

Date: 2-21-11
Roll Call Vote # _____

2011 SENATE STANDING COMMITTEE ROLL CALL VOTES *Subcommittee*
BILL/RESOLUTION NO. 2355

Senate _____ Committee _____

Check here for Conference Committee

Legislative Council Amendment Number 11.8251-02004 *Warner*

Action Taken: Do Pass Do Not Pass Amended Adopt Amendment
 Rerefer to Appropriations Reconsider

Motion Made By _____ Seconded By _____

Senators	Yes	No	Senators	Yes	No
Chairman Holmberg			Senator Warner		
Senator Bowman			Senator O'Connell		
Senator Grindberg			Senator Robinson		
Senator Christmann					
Senator Wardner					
Senator Kilzer					
Senator Fischer			<i>Bowman</i>		
Senator Krebsbach			<i>Warner</i>		
Senator Erbele			<i>Wanzek</i>		
Senator Wanzek					

Total (Yes) _____ No _____

Absent _____

Floor Assignment _____

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

never voted R.

Date: 2-21-11

Roll Call Vote # _____
Subcommittee

2011 SENATE STANDING COMMITTEE ROLL CALL VOTES

BILL/RESOLUTION NO. 2355

Senate _____ APPROPRIATIONS _____ Committee

Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken: Do Pass Do Not Pass Amended Adopt Amendment
 Rerefer to Appropriations Reconsider

Motion Made By Boomer Seconded By Warner

Senators	Yes	No	Senators	Yes	No
Chairman Holmberg			Senator Warner		
Senator Bowman			Senator O'Connell		
Senator Grindberg			Senator Robinson		
Senator Christmann					
Senator Wardner					
Senator Kilzer					
Senator Fischer					
Senator Krebsbach					
Senator Erbele					
Senator Wanzek					

Total (Yes) _____ No _____

Absent _____

Floor Assignment _____

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

*no vote held.
new amendment to be drafted re: a mandatory
steady & other language discussed in the
hearing.*

PROPOSED AMENDMENTS TO SENATE BILL NO. 2355

Page 1, line 1, after "A BILL" replace the remainder of the bill with "for an Act to provide for a legislative management study of reduction of the flaring of natural gas.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

SECTION 1. LEGISLATIVE MANAGEMENT STUDY - REDUCTION OF FLARING OF NATURAL GAS. During the 2011-12 interim, the legislative management shall study methods to encourage reduction or restrict allowance of flaring of natural gas. The legislative management shall obtain opinions from the tax department, oil and gas division of the industrial commission, state department of health, petroleum industry representatives, and interested members of the public and representatives of political subdivisions to identify and implement the optimum method of reducing flaring of natural gas, including improved methods for capturing or using the natural gas. The interim committee to which this study is assigned shall meet as often as necessary before November 2011 to determine if it is feasible and desirable to seek introduction of legislation to implement any preliminary recommendation of the interim committee during the November 2011 special legislative session. The interim committee shall include in its deliberations an examination of each legislative proposal to reduce flaring of natural gas considered by the sixty-second legislative assembly. The legislative management shall report its findings and recommendations, together with any legislation required to implement the recommendations, to the sixty-third legislative assembly."

Renumber accordingly

Date: 2.21.11
Roll Call Vote # 1

2011 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2355

full committee

Senate Appropriations Committee

Check here for Conference Committee

Legislative Council Amendment Number 11.8251.02006

Action Taken: Do Pass Do Not Pass Amended Adopt Amendment
 Rerefer to Appropriations Reconsider

Motion Made By Bowman Seconded By Wanzek

Senators	Yes	No	Senators	Yes	No
Chairman Holmberg	✓		Senator Warner	✓	
Senator Bowman	✓		Senator O'Connell	✓	
Senator Grindberg	✓		Senator Robinson	✓	
Senator Christmann	✓				
Senator Wardner	✓				
Senator Kilzer	✓				
Senator Fischer	✓				
Senator Krebsbach	✓				
Senator Erbele	✓				
Senator Wanzek	✓				

Total (Yes) 13 No 0

Absent 0

Floor Assignment _____

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

Date: 2-21-11
Roll Call Vote # 2

2011 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2355

full committee

Senate Appropriations Committee

Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken: Do Pass Do Not Pass Amended Adopt Amendment
 Rerefer to Appropriations Reconsider

Motion Made By Bowman Seconded By Warner

Senators	Yes	No	Senators	Yes	No
Chairman Holmberg	✓		Senator Warner	✓	
Senator Bowman	✓		Senator O'Connell	✓	
Senator Grindberg	✓		Senator Robinson	✓	
Senator Christmann	✓				
Senator Wardner	✓				
Senator Kilzer	✓				
Senator Fischer	✓				
Senator Krebsbach	✓				
Senator Erbele	✓				
Senator Wanzek	✓				

Total (Yes) 13 No 0

Absent 0

Floor Assignment Warner

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

REPORT OF STANDING COMMITTEE

SB 2355: Appropriations Committee (Sen. Holmberg, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (13 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). SB 2355 was placed on the Sixth order on the calendar.

Page 1, line 1, after "A BILL" replace the remainder of the bill with "for an Act to provide for a legislative management study of reduction of the flaring of natural gas."

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

SECTION 1. LEGISLATIVE MANAGEMENT STUDY - REDUCTION OF FLARING OF NATURAL GAS. During the 2011-12 interim, the legislative management shall study methods to encourage reduction or restrict allowance of flaring of natural gas. The legislative management shall obtain opinions from the tax department, oil and gas division of the industrial commission, state department of health, petroleum industry representatives, and interested members of the public and representatives of political subdivisions to identify and implement the optimum method of reducing flaring of natural gas, including improved methods for capturing or using the natural gas. The interim committee to which this study is assigned shall meet as often as necessary before November 2011 to determine if it is feasible and desirable to seek introduction of legislation to implement any preliminary recommendation of the interim committee during the November 2011 special legislative session. The interim committee shall include in its deliberations an examination of each legislative proposal to reduce flaring of natural gas considered by the sixty-second legislative assembly. The legislative management shall report its findings and recommendations, together with any legislation required to implement the recommendations, to the sixty-third legislative assembly."

Renumber accordingly

2011 HOUSE ENERGY AND NATURAL RESOURCES

SB 2355

2011 HOUSE STANDING COMMITTEE MINUTES

House Energy and Natural Resources Committee
Pioneer Room, State Capitol

SB 2355
3/10/2011
15227

Conference Committee

Committee Clerk Signature

Minutes:

1 "attached testimony."

Rep. Porter: We will open SB 2355 we have testimony about pipelines in North Dakota.

Justin Kringstad: We put together a forecast that we use with the crude oil and natural gas transportation industry. My forecast is a little bit different as far as timing on some of these things. If you break down the forecast you will see North Dakota is going to make up the large majority of the production. (See attachment 1) challenge one is to get crude oil out of the Williston basin. Until 2013 we are going to continue to be constrained on our pipeline infrastructure. Without rail we would be in a much dryer situation than we are in now. Rail has been consuming a lot of my time because we have a lot of rail activity with rail projects coming on line, anywhere from additional large facilities like in Stanley where they have a mile or two track where they can bring in unit trains where they can load crude oil from a tanker truck and place right into a tank. The rail industry is very important to us as far as transportation to us.

The natural gas presentation that I put together this morning is the most in depth natural gas presentation I have put together to date. Natural gas production is the gas produced with the oil, and the trend is following the crude oil production. The challenge of natural gas is different than crude oil. Our natural gas transmissions pipelines that are shown on this map are sized to handle the level of production. Getting these wells connected to the gas plant itself is where the struggles have been. We have the process ability for the most part, we have the transmission lines, it is getting the crews to catch up with the rigs. The number 2.3 – 2.7 billion dollars will be invested in the next 1-3 years from the natural gas gathers and processors. To put this number in prospective, the previous 3 years we had seen less than 500 million invested in the natural gas processing. Raw natural gas is produced by the well site is brought by pipeline to the processing plant at which point is almost like a natural gas refinery. They separate out what we consideration consumer quality natural gas and they separate out the natural gas liquids and are then sold by market. They are shipped out by rail car and we do a couple of pipelines projects coming up to move those markets. We have some additional wells flaring with the Bakken beginning in 2006, 2007 so we have higher than normal activity and success in getting these wells and trying to keep up as best as we can. There is a lot of activity in McKenzie

County; there are 3 new gas plants that are going to be on in 2011. The largest one is Oneok Garden Creek Plant. Hiland and Saddle butte were not as quick at getting wells connected so Oneok is going to be filling up their gas plants. This coming summer we are going to see lots of great things happen to address this issue. Haas, North Dakota's largest plant will be more than double in 2012. In Stark County the Whiting plant is having great success; they are building their own plant which should be in service in 2011. They will be the first company that will use natural gas trucking. That is a new venture for Williston Basin. The Bakken is the carrier for that.

Rep. Kasper: Could you provide for us one page per slide?

Justin Kringstad: Yes I would be able to do that.(See attachment 2)

Rep. Hofstad: Will we drill wells for the production of natural gas?

Justin Kringstad: The operators that are targeting the Bakken, and the Three Forks, they are after the crude oil and natural gas is produced along with it. There have been wells in the past that targeted strictly natural gas but at this time and in the for seeable future, all of the permits that are coming in have been targeting oil.

Rep. Hofstad: In the future do you see us drilling just for the natural gas?

Justin Kringstad: I am not aware of any new formations that are strictly natural gas in North Dakota.

Rep. Nathe: Do you know how much that will decrease truck traffic on the road?

Justin Kringstad: Take the Fourbears line for example 60,000 barrels a day is the capacity on that pipeline that takes 300 truck loads a day off of the roads and so we do have a large amount of smaller intrastate lines in place. If we didn't have those intrastate pipelines available we wouldn't be able to keep up with the production.

Rep. Kelsh: What is the reason for the premium in the North Dakota oil crude pricing in 2007 and 2008?

Justin Kringstad: What we compared it to was the WTI pricing and so there are certain events within pad 2 which is the Mid Continent, Great Lakes refining area where there are certain events the prices with vary different then the WTI prices.

Rep. Porter: Is it fair to say that the industry is keeping up with the demands of the production of the natural gas as we go forward?

Justin Kringstad: They are working as quickly as possible. With these new gas plants coming on in 2011, the investments that they have made and the new well connections, they are going to take a sizeable reduction from the amount of flaring that we are seeing.

Rep. Porter: Over the years we have taken a pro active approach from a legislative stand point into the ability to build that infrastructure. We have allowed them to work with the

local land owners with a quick take type fashion to put those feeder lines in to interconnect those wells. Do you see any barriers that are in place from the state law stand point that is impeding the process or is it a matter of letting the industry catch up with a little bit of a boom and then they will be O.K.?

Justin Kringstad: There are no road blocks that I am aware of. They are happy with what North Dakota has brought as far as incentives.

Rep. Porter: They look at the flare as being a temporary issue, they want it hooked up to something that makes them money as soon as possible and if they aren't seeing any problems with that, then they are working with the approach of gathering is working the way that we intended to be.

Justin Kringstad: I agree.

Rep. Keiser: Wyoming has taken a hit these last few years because of the expansion in the natural gas activity in North Dakota and other areas. Have you have a projection on pricing of the natural gas for the next five years?

Justin Kringstad: I have not put together a forecast of pricing; I have seen certain large industry group's forecast they are going to stay low for the next five to ten years.

Rep. Nathe: You mention the trucking of natural gas. Is that something that is new? Will that be more prevalent in the patch?

Justin Kringstad: This will be the first time we will see natural gas trucking in North Dakota.

Rep. Nelson: Could you give us a small overview about the pipelines and feeder lines? The feeder lines are not that large, what would be a typical feeder lines installation?

Justin Kringstad: It will vary, typically it is a 2-4 inch line they have some larger like a 6-8 inch line. It could be steel or poly HDP so it is either trenched into the ground or plowed into the ground. Yes is a variety of techniques and installations.

Rep Nelson: what is the projected life span of the pipes?

Justin Kringstad: That is up to the pipeline operator to maintain those lines.

Rep. Porter: Our production numbers are up and it is exciting to see some our laws that were passed have allowed the industry to expand and keep going and that we haven't been a barrier in the eyes of the industry of North Dakota. We will close this hearing.

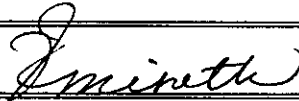
2011 HOUSE STANDING COMMITTEE MINUTES

House Energy and Natural Resources Committee
Pioneer Room, State Capitol

SB2355
03/11/2011
15309

Conference Committee

Committee Clerk Signature



Minutes:

7 "attached testimony."

Rep. Porter: We will open the hearing on SB 2355.

Senator Klein: I represent district 14. This bill before you has changed a bit from when we introduced it to the appropriations committee in the Senate. The bill is an attempt to solve an environmental problem that is rising in Western North Dakota. We are flaring off a tremendous amount of gas. We need to see what we can do to stop some of the flaring of gas and turn it into a profitable resource.

Senator Bowman: I represent district 39. The bill that became before us in the Senate had a lot of policy issues in it and we don't address the policy issues. We did meet with the some of the players that have a lot to do with this. We met with the Tax Department because there were tax implications in the bill. We met with the Health Department because there are health implications in the bill but we didn't have the major oil companies there nor the major gas companies to look at this inclusively to what is going to happen in the next few years because the size of this oil field has grown so fast and so big that we decided to make a mandatory study out of this with the advice of lots of people. We didn't want to leave anybody out that could give us some input as to how to make a good policy out of something that I don't believe any of us are experts in. It is important that industries work. It is almost impossible to capture all of the gas in one year because of running the pipelines. From the tax point of view they have one year where don't pay the taxes on this. The EPA monitors this, we are one of the cleanest states in the U.S. and we want to keep it that way. Next summer when we have another 300-400 new oil wells drilled and start getting complaints about all of the flaring we can tell them we are doing something about it. If you read the complete study we are going to give the legislative management the ability to have as many studies as they need before next November when we come back in for redistricting so that if we need to have legislation we have a chance to have that prepared. If we do this right this shouldn't be an issue again because it is going to address a concern that some people have and we want to keep this industry going and make sure we will do it in the right way.

Rep. Hanson: Do you give any thought to include South Dakota and Montana being the oil fields go into those states too?

Senator Bowman: We didn't talk about that but I would imagine if the oil companies come in and talk across the line legislative management could act on that.

Senator Triplett: I represent district 18. I was one of the sponsors on the original bill and concur with what Senator Bowman and Senator Klein said in terms of the history, this bill was assigned to the Appropriations Committee rather than the Tax Policy committee or the Natural Resource Committee. The Appropriations Committee felt they didn't have enough time, rather than referring it back to the Policy Committee they dropped it to a study and passed it out to you. The Appropriation Committee made it mandatory it be done before November so that the full body can deal the situations in the November special session.

There are two separate issues here, the original bill dealt with an appropriation to put some money aside to start dealing with the problem of flared gas at locations at which there are no pipelines. The study is more to deal with whether there should be more regulations on the oil industry in terms of shortening up the time limits. They are supposed to get a new well connected to infrastructure like a pipeline within a year and they have an exemption in which they are allowed to flare gas for that full year. They can ask for additional time from the Division of Mineral Resources and even beyond that if they don't get it connected to a pipeline they can simply choose to keep flaring while paying the royalties as though they were preserving it. They need to engage the oil companies on the topic of whether we should change the rules to restrict the flaring to a shorter period of time and I agree that they should be engaged in that discussion and so from that stand point the study is the right way to go. As to the original bill I don't know that we need to engage the oil industry because that will happen when the industrial considers providing grants to people. There are some ideas of how to do this right now on a temporary basis which could follow the industry around as new wells are developed and compress the gas and truck it centralized depot and then put it into a system. Please don't put the bill back to its original version because it was brought to my attention at the last minute and it was focused on giving a particular company money to do this and I don't agree with it. We do have some amendments that we can offer. (See attachment 1)

Rep. Nelson: What type of things are the companies looking at doing to reduce this flare problem?

Senator Triplett: Because the price of natural gas is so very low it is not economic for them to do it. That is the real issue if they could make a buck off it they would do it. Other states require for the infrastructure to capture the natural gas to be connected before they can produce the oil.

Rep. Nelson: When the gas if flaring the royalties owners don't get paid for that gas is that right?

Senator Triplett: They don't get paid until the first year is up. When the exemption time period runs out then they are required to pay as though they are capturing it.

Rep. Nelson: Do you have any numbers as far as what it is costing the state in lost taxes and what the gross value is?

Senator Triplett: I do not have those numbers.

Rep. Kasper: Burning of the natural gas is almost pure do you have any data that shows what type of environmental impact the flaring is causing?

Senator Triplett: I don't and I see Terry from the Department of Health Air Quality Division is here he might be able to provide you with more detail. I am not sure that this is a serious issue at the moment. I am more concerned that as we get more wells that may become an issue then.

Rep. Kasper: At this time with the gas prices as they are it is not economically feasible for the oil companies to do what this bill would like them to do.

Senator Triplett: Correct.

Rep. Kasper: If we would force them to do something legislatively we are going to force them to take a loss because we want them to do it.

Senator Triplett: Taking a loss is a bit of exaggeration Rep. Kasper It would be an added expense them but they could still operate at a profit.

Rep. Kasper: I want to see what the outcome is then.

Senator Triplett: Certainly and as I said the piece regarding changing the rules regarding the oil companies is perfectly appropriate to defer that to a study. The only part that I would ask you to consider doing now is to getting some dollars in place which would require a referral back to your appropriations committee if you think it is good policy.

Robert Harms: I represent Bakken Express. You will hear from Bakken Express, they are one of the companies that are attempting to solve the problems that you have been hearing about. Each time we go back to our home in Williston we drive by flared wells the one Northwest of New Town has been there about one year as you drive by it sounds like an airport with the roaring gas flaring about 15-20 feet high.

You have in front of you two things a set of amendments that takes the bill back to where we were on the senate side and then my testimony. What we are attempting to accomplish is to solve a problem that we have here in North Dakota which is the flaring of gas in concert with the development of the Bakken. (See attachment 2) As a state we have three choices one, we can do nothing status quo let things go as they are. In 6-8 years the gathering systems will catch up with the wells or we will find some other solution to problem solve. Second choice we can do something with regard to public policy whether it is probation of flaring entirely, which I don't advocate or doing something as a regulatory response. I don't think we are ready to do that. The third choice is to provide some type of public policy incentive to accelerate an industry response to solve this problem. Those are the three pathways we see being available to the state of North Dakota. The amendments do 2 or 3 things, it takes the bill back to the original form but in a tighter concept, it provides a competitive one time grant that would be administered by the research council. It appropriates 6 million dollars in there sources trust fund. In 1981 a measure 6 was passed

where the people included the resources trust fund. Constitutionally the resources trust fund is authorized to provide programs for energy conservation. That fund has never spent on dime towards energy conservation. The bill as it stands right now doesn't support a study we ask you to adopt the amendments that are before you and other then that we would just as soon kill the bill, we don't think a study is necessary.

Rep. Kasper: I came up with the fourth solution for the problem you indicted. The fourth solution would be for the industry to go ahead and do the things it has to do to get the gas hauled so they make the money that you are talking about all of us making without the states involvement with the grant. What would the company have to do to stop the flaring and haul the gas?

Robert Harms: What they have to do is built a small gathering line from this well to the next gas line whether it is one hundred yards away or more likely up to 5 miles away. The solution that you suggest is a false solution because it won't occur. That solution has been available for us since the Bakken began and it is not getting implemented for the very reason that I just described.

Rep. Kasper: How would it cost to lay a pipeline one mile from that flared gas?

Robert Harms: I don't and some of those lines will never get built because there isn't any economics that will justify it.

Rep. Kasper: So you have no idea what it would cost to built one mile of pipe?

Robert Harms: I would be guessing.

Rep. Kasper: Is it one million dollars?

Robert Harms: I would think it is closer to one hundred thousand then one million dollars.

Rep. Kasper: We are behind now; the industry doesn't want to put the capital in because there are better places to make money. We are drilling 200-400 wells per year when are we going to catch up?

Robert Harms That is what we are trying to sort through. That is why I have come to the three paths that we have.

Rep. Kasper: What happens when we run out of money? Do we come back for more money?

Robert Harms: I think the utilization of those funds will be different than what you just described. The two companies that will follow me will give you some examples of how they would employ those funds.

Rep. Nelson: Could the Oil and Gas Research Council provide a grant? Or do we have to have an appropriation like this in order for them to do it?

Robert Harms: I would say no for two reasons. Number one the appropriation doesn't exist within the Oil and Gas Research Council today and secondly it is a little outside the Oil and Gas Council's mission. The mission of the council by statute is what the names suggests "research."

Rep. Anderson: How long does it take the easement process in the environmental study to get a pipeline across somebody's land?

Robert Harms: It is on a case by case basis? If I am a mineral owner and my gas is being flared up I am going to be a little easier to deal with. If I am a surface owner and the minerals are owned by you, the time will take a little longer.

Rep. Kreun: Are you indicating that this year there is the capability of putting this into usage? Why would we want to?

Robert Harms: What you described is the very problem. We think there are enough technologies and experiences now that are coming into the Bakken where they could be deployed when the research is completed. But they are not being deployed for the reasons that we have discussed.

Rep. Kreun: We were looking at the larger thing first and then there is the secondary return because it is a lot less profitable. After the leases are all used will that slow down the oil development because of the cost of implementing this secondary investment?

Robert Harms: That would be one of the policy choices that we have, which is not the policy choice that we are recommending.

Rep. Kreun: If we are not sure how that is going to be to recreate public policy then should we get the players together and create one good piece of public policy with the study?

Robert Harms: No, the industry doesn't support the study.

Rep. Porter: Out in the area of concentration where we see all kinds of wells who owns the gas now?

Robert Harms: I can't answer that question. I would say tens of thousands of people the state of North Dakota and three affiliated tribes.

Rep. Porter: If we have all of these individual owners that are out there to unitize the gathering of the gas into one system into one compressor site into one pipeline. Those processes are a separate process of gathering the mineral owners and the ownerships of those and bring them to one collection system and going one way. How would this model work to allow one company then the competitive edge over five-eight existing companies working out there doing this very thing? How would we be fair in allowing one then the opportunity to grab this money and run with it?

Robert Harms: The amendments that are in front of you do not provide one company anything other than the same opportunity as any other company to compete for all or part of the funding that we are saying should go to the Oil and Gas Research Council. If all of us have a great idea for solving this problem we all could apply for all of the funds or part of the funds and so then all of our grant applications would go into the Oil and Gas Research Council on a competitive basis and they would elevate them.

Rep. Porter: In that serial there would be winners and losers in that process?

Robert Harms: Absolutely. The second part of the question is what is going on in the industry is there are 2-3 groups of players there are the producers, the people who are drilling the oil wells whose gas is being flared and the pipeline companies who will build the gathering system to those wells and they are a completely different group and then there is a third group of people you should hear from and let me sit down.

Rep. Porter: In this model that you just described two of those three groups are direct competitors?

Robert Harms: I would say the pipeline companies may very well apply for this grant. They may see a new opportunity that allows them to catch up with the drilling that is under way.

Rep. Kelsh: If you had to put a number on it, what would say are the odds that the revenue picture that you represented in the testimony will be realized? What if gas prices drop, and would you be opposed to any drawbacks in the bill?

Robert Harms: We believe that the economics that we presented are sound, that the return to the public treasury is solid.

Bruce Hicks I am the assistant Director of the Oil and Gas Division. We are here to provide some information for you. We think a study would be a great idea or to provide funding to halt the flaring. Statute 380806.4 does allow 1 year for flaring without paying any taxes or royalties but if you fall below 100 barrels of oil a day, then you don't need the exemptions. I have table and gas graphs showing the amount of gas produced, sold and flared in five counties. (See attachment 3)

Rep. Keiser: We had a presentation from the pipeline authority; they talked about the new gas productions facilities that are coming on line. Share with us your agencies perspective on how much they will be able to accommodate of the surplus and how that interfaces?

Bruce Hicks: we believe that we will continue on this trend there are a lot of companies now that are drilling out acreage where they are drilling one well per spacing unit. They are moving into areas where the infrastructure is not present. I think we are going to continue on this area. We will no doubt get additional gas plants to capture this gas but it seems like once the gas plants come online it takes a few months and it is full again. The other thing is we will get additional wells as long as the price of crude stays up there we will get additional infill wells drilled and it is going to further sustain the ability to keep these gas plants out there. The companies are not going to put in infrastructure and gas plants in

areas that are questionable and right now we some areas in the Northern part of the state that it is questionable as whether or not it is economic to install a large plant.

Rep. Keiser: I agree but the specific plans that are on the drawing board on the production. What of this capacity are they going to pull off?

Bruce Hicks: We are looking at approximately sixty million cubic feet of gas a day that is being flared. There are two plants in the Watford areas one is one hundred million cubic feet of gas plant of Oneok, and Saddle Butte has another that is about fifty million a day. One would think all of this gas would come then, but in reality some of these wells are being slightly restricted, some of the companies restrict their own until they can get connected by the time that those gas plants are online we will have another one hundred wells or so online. It is a continual addition to the flared gas as we drill those wells.

Rep. Kasper: How do you see Mr. Harm's proposed amendment helping to solve the problem that is going to be addressed here?

Bruce Hicks: I have not seen the amendment so I don't know how it is going to help. I think it would be nice to have some kind of incentive to get everybody together because some of these companies are not aware of what is going on out there. If you had a study to show what the alternatives are out there that would be helpful.

Rep. Hanson: Mr. Harms mentioned that it is going from 13 to 23 percent of the wells are being flared I suppose that is because of the one year grace period but of that 23 percent how many are wells that the gas is not useable?

Bruce Hicks: I would say most of the gas is useable in some way. If I had to take a guess I would say twenty-five percent is not useable and will never get connected.

Rep. Hanson: You can't do anything to those wells besides flaring?

Bruce Hicks: I think that you could possibility strip the liquids off of them. The liquids are worth a lot of money and if you can get a process down that is feasible to connect to some of these wells I think the companies will try to use it.

Tim Maloney: I am founder of the Bakken Express what I am going to present to you is kind of the year of effect with the help of the Oil and Gas Research Council. I didn't want to defend the oil companies, the challenge that the oil companies have is the compressor stations and the gathering lines getting full the gas plants and to the sales. Because this is such a rich gas there is a lot of liquid in the lines. (See attachment 4) We have our business started we are saying if you want to accelerate this, the discharge stations are the critical length and should get this rolling. The cost of those is small in the scheme of those well site compressors that move around between the wells and the tube transports.

Rep. Keiser: I assume you are speaking in support of the amendment that would return the bill to the form.

Tim Maloney: Yes.

Rep. Keiser: Why a grant? If this is going to be such successful thing why should we give you six million and have you make hundreds of millions?

Tim Maloney: To me it is not about us getting the six million it is going to go for manufacturing the equipment.

Rep. Keiser: If it remains a grant and you are required to repay it if successful?

Tim Maloney: Sure our role in this would be to solicit producers and we would borrow money against more certainty that there is a target that producers would be willing to invest in. We are very much open to saying this is a way to accelerate.

Bruce Hicks: when I spoke earlier about statute 380806.4 I said after they get down to 100 barrels of oil a day they no longer have to pay taxes or royalties. Our rules don't require them to restrict any further once they get to that point. They have one year not to pay taxes or royalties and they have to get the exemption or pay the taxes.

Mark Wald I am with Blaze Energy. What Blaze Energy does is we divert the flare out of the treater shack we generate electricity from that gas and then we deliver that electricity back into the grid. We are an example of a company where support from the state has brought an alternative to the field that is being deployed. We are reducing flaring now, we are deploying units, and we have a hand full of units that we are deploying to the field. In terms of electricity putting a number around it, we have calculated from an electricity perspective. In the month of November there was enough gas produced flared in North Dakota to produce about 325 mega watts of power. That is about three hundred thousand homes that is more than half the homes in North Dakota. We are on the verge of using energy differently. I think natural gas is one of those. North Dakota is emerging as a leader in energy. I think the state should be encouraging new technologies. I think the pipeline isn't the only option, the way we position our company is we are not trying to compete with the pipeline because we can't in terms of the benefits that we can offer the operator. It is the nature of America that a lot of new ideas come from small companies.

Rep. Porter: Can you go into detail about who the grants were from and how much they were?

Mark Wald: We got 2 grants. We got a \$325,000 grant from the Oil and Gas Research Council. And a Federal grant administered by the Department of Commerce and part of ARRA towards the efficiency program, which was a two million dollar grant. There was always a fifty percent match, so we had to put up fifty percent in order to get the other funds and then we had to show contracts of the exact sites where they would be deployed and submit the paper work and the budgets to show how much money is going where and where our fifty percent is coming from.

Rep. Porter: Is there any more support for SB 2355? Is there any opposition in support of SB 2355?

Todd Kranda: Attorney with Kelsh Law Firm. I appear before you today as a lobbyist for the North Dakota Petroleum Council. We oppose engrossed SB 2355 which requires an

immediate study for recovery of flared gas which is to be completed before November 2011 for interdiction of legislation for the 2011 special legislation session. (See attachment 5) I urge a Do Not Pass for SB 2355 however I concur with Mr. Harms, if the amendments that were offered were put on it we would support it.

Rep. Kasper: I heard through the course of this session a lot about getting money to help the development of various faces about in the oil fields. Yet we see the tremendous amount of dollars that are being made as well. Is it not possible for the industry to do these things on their own as opposed to coming to the state and asking us to participate?

Todd Kranda: We are not here indicating that any of our companies are. I think the information from the pipeline authority is that we are trying to deal with this. We are trying to catch up; we are investing up to three billion dollars. I am not aware of any company that is asking us to support this because they want to be involved in it.

Rep. Keiser: Could I ask the Director of the Pipeline Authority come up and answer a question?

Justin Kringstad: Director of the Pipeline Authority.

Rep. Keiser: Yesterday you presented information and you talked about Oneok and it has one hundred MMCFD capacity Hiland Partners has fifty MMCFD and Butte pipeline has forty-five. That is one hundred and ninety-five. Then we had testimony this morning that the amount being flared currently is ninety-eight thousand seven hundred and forty. There is MCFPD what is the difference between MCFPD and MMCFD?

Justin Kringstad: If there is 2 M's then we are referring to a million cubic feet, if it is 1 M then it is 1000 cubic feet per day.

Rep. Keiser: So if our flaring is ninety eight thousand seven hundred thousand-forty MCFPD is that one tenth the capacity of Oneok?

Justin Kringstad: No our flaring right now is about one hundred million cubic feet per day.

Rep. Keiser: We have three other plants coming on line this year?

Justin Kringstad: Correct our gas process ability; we don't expect that to be exceeded by our gas production, let along our flaring. We will be able to keep up on the processing side, the challenge is getting those connected those processing facilities.

Rep. Keiser: Why is anybody building something that will have this capacity if they don't have a plan to get it connected?

Justin Kringstad: They do have the plants that is their business. They are planning to feed these facilities. Some of the smaller ones such as Saddle Butte and Hiland they have not been as aggressive as Oneok in getting the wells connected so when those come on they will have to build up to their ultimate capacity.

Rep. Keiser: They are not going to take ten years to hook up. They need capacity when they open.

Justin Kringstad: That is correct they want to fill it as quickly as possibility so they can recoup those investment costs.

Rep. Porter: That thirty thousand on each of those figures in their estimations from the Oil and Gas Division is unusable so that figure drops to about seventy- five. The Bowman gas numbers are attributed to the injection that they are doing down there and that gas is not usable under any current process today.

Terry OClair: From the Health Department Air Quality Division. North Dakota is in a very good position. With the oil and gas activity that is going on we hope to retain that status. EPA is looking over our shoulder. Wyoming is in a position now with all the oil and gas activity that is going on they have many concerns about not attainment. We are working very closely with the oil companies going forward to make sure that they are placing all the controls necessary.

Rep. Kasper: On the air quality that we are suppose to be meeting, does the EPA set an air quality standard that we are suppose to meet in North Dakota?

Terry OClair: EPA develops national air quality standards that are for the entire nation. We are within those standards.

Rep. Nelson: there are some air quality standards with the flaring. Could you give us an overview of what the effects of the flaring are?

Terry OClair: North Dakota has developed a plan called a regional haze plan. Every other state has to do that as well. We have submitted that plan as well to EPA. They have some concerns with it because of some of the power plants it is also the oil and gas industry, all the sources in the state have to comply with the plan that we put forward.

Rep. Porter: At this time we will close the hearing on SB 2355.

2011 HOUSE STANDING COMMITTEE MINUTES

House Energy and Natural Resources Committee
Pioneer Room, State Capitol

SB 2355
3/17/2011
15569

Conference Committee

Committee Clerk Signature

Emmett

Minutes:

No attached testimony."

Rep. Porter: We will open SB 2355. Is there any discussion?

Rep. DeKrey I move a DO NOT PASS

Rep. Anderson: Second.

Rep. Porter: Is there any discussion? Motion Carries.

Yes 9 NO 4 ABSENT: 2 Carrier: Rep. Kasper

FISCAL NOTE

Requested by Legislative Council
01/26/2011

Bill/Resolution No.: SB 2355

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.*

	2009-2011 Biennium		2011-2013 Biennium		2013-2015 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures						
Appropriations				\$6,600,000		

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

2009-2011 Biennium			2011-2013 Biennium			2013-2015 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

2A. Bill and fiscal impact summary: *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

SB 2355 establishes a grant program for recovery of flared gas and exempts captured gas from the oil and gas gross production tax.

B. Fiscal impact sections: *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

Section 2 provides a 24 month exemption from the gross production tax for gas that is captured. Since this gas would otherwise be flared and not taxed, there is no fiscal impact to this provision.

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, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*

Section 3 contains an appropriation of \$6.6 million from the resources trust fund to the industrial commission.

Name:	Kathryn L. Strombeck	Agency:	Office of Tax Commissioner
Phone Number:	328-3402	Date Prepared:	02/01/2011

Date: 3-17-11
 Roll Call Vote #: 1

2011 HOUSE STANDING COMMITTEE ROLL CALL VOTES
 BILL/RESOLUTION NO. 2355

House House Energy and Natural Resources Committee

Legislative Council Amendment Number _____

Action Taken: Do Pass Do Not Pass Amended Adopt Amendment
 Rerefer to Appropriations Reconsider

Motion Made By Rep DeKrey Seconded By Rep Anderson

Representatives	Yes	No	Representatives	Yes	No
Chairman Porter	✓		Rep. Hanson	✓	
Vice Chairman Damschen	✓		Rep. Hunsakor		✓
Rep. Brabandt		✓	Rep. Kelsh		✓
Rep. Clark	✓		Rep. Nelson		✓
Rep. DeKrey	✓				
Rep. Hofstad		AB			
Rep. Kasper	✓				
Rep. Keiser		WB			
Rep. Kreun	✓				
Rep. Nathe	✓				
Rep. Anderson	✓				

Total (Yes) 9 No 4

Absent 2

Floor Assignment Rep Kasper

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

REPORT OF STANDING COMMITTEE

SB 2355, as engrossed: Energy and Natural Resources Committee (Rep. Porter, Chairman) recommends DO NOT PASS (9 YEAS, 4 NAYS, 2 ABSENT AND NOT VOTING). Engrossed SB 2355 was placed on the Fourteenth order on the calendar.

2011 TESTIMONY

SB 2355

February 2, 2011
Senate Appropriations Committee
North Dakota Legislative Assembly
Robert W. Harms

SB 2355
DO PASS

THE PROBLEM: Flared Gas in North Dakota (flare approximately 23%)
10,651,145 MCF gas produced in November, 2010
Estimate value at 15% flaring: \$118 million annually @ \$3.97 MCF
Loss to mineral owners at 1/6 royalty...\$20 million
ND Land Department: 31% flared; \$750,000 in 2009; \$1.3 million in 2010
20% of Bakken gas (est.) is produced in 1st year

WHY is this happening?

1. Drilling exceeding infrastructure
2. Unconventional solutions failing to attract private capital

THE BILL:

- Establish a one-time grant program of up to \$6.6 million
- Must demonstrate solution will minimize flaring in ND as per DMR
- 24 month tax exemption (approx 16 cents MCF today).for the producer/royalty

BENEFITS OF A SOLUTION:

1. Royalty paid on publicly owned mineral
2. Increase State revenues:
 - a. Taxes on gas will be paid
 - b. Individuals will pay income tax
3. Reduce surface owner discontent (flares are an issue among landowners)
4. Increase revenue to mineral owners
5. Increase revenue to producers
6. Extend geographics and economics of Bakken marginal areas; add 10-20% in revenue
7. Resolve an environmental/public relations problem
8. More robust/competitive market
9. More American energy for America!

SOME WILL SAY: "WE SHOULDN'T SOLVE THIS PROBLEM"

Resources Trust (inviolable)

Voters approved for "funding of programs for energy conservation". (Art X Sect. 22).
\$230MM (1994-2010) 10 x e.g. 05-07 (\$25MM)
\$282MM for 2011-13 FY alone

Why Public Funds? (Return in 18-24 months)

- Wasting public/private resource
- Private capital markets not responsive in timely manner

Doing nothing will not resolve the problem. We urge a DO PASS on SB 2355

Senate Appropriations Committee

Amendments SB 2355

February 2, 2011

Page 1, line 1 remove "industrial commission", and insert Department of Commerce

Page 1, line 2, remove "54-17" and insert "54-60"

Page 1, line 7, remove "54-17" and insert "54-60"

Page 1, line 10, remove "industrial commission" and insert "the department", and remove "provide a grant" and insert "establish a grant round"

Page 1, line 12, remove "industrial commission" and insert "the department"

Page 1, line 16 insert after "system", "or any other technology, application or other infrastructure to meet the purpose of the grant round described in this section"

Page 1, line 16 before "Once completed" insert "The grant application must demonstrate, that"

Page 1, line 19 remove "industrial commission" and insert "the department"

Page 1, line 22 remove "industrial commission" and insert "the department"

Page 1, line 23 remove "industrial commission" and insert "the department"

Page 2, line 2 remove "industrial commission" and insert "the department"

Page 2, line 8 remove "54-17" and insert "54-60"

Page 2, line 14 remove "industrial commission" and insert "the department"

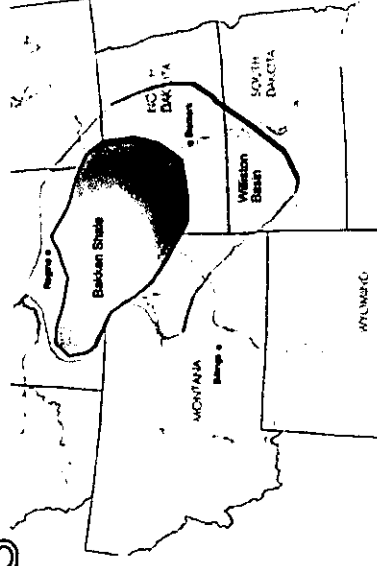
Add: "This Act is declared to be an emergency".

Robert W. Harms
The Harms Group
471-0959



Bakken
EXPRESS

Bakken Express, LLC



FLARE REDUCTION & ENERGY CONSERVATION INFRASTRUCTURE BILL

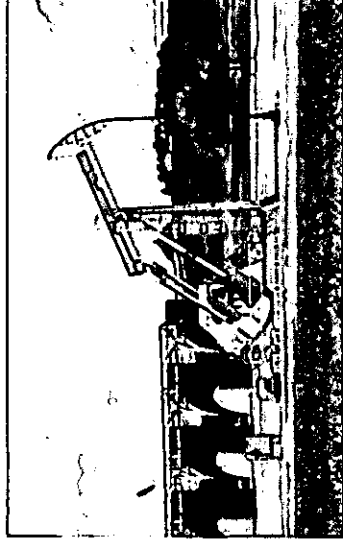
Feb 2, 2011

Overview Presentation

Goal of Legislation

2

- Jump start the field-wide reduction of the wasted natural gas that is currently being flared in conjunction with the Bakken oil development.



Problem & Solution Overview

8

- Problem: Flared gas is a wasted resource that should be captured, but instead 23% is flared.
- Reason: Drilling activity way ahead of gas & infrastructure construction, because:
 - Drilling locations prioritized on highest oil rates and lease terms.
 - Pipelines, the traditional method to capture gas, are built out systematically from gas plants and booster stations.
 - Non-conventional capture methods haven't attracted investment.
- Solutions: Two alternatives have been evaluated:
 - Use gas on-site for other purposes.
 - Capture & transport gas by truck to pipeline systems.

Feb 2, 2011

In a nutshell...

4

- Gas Capture & Transport is an economic, though non-conventional, solution to the Bakken flare problem.
- Lack of discharge stations is an obstacle for producers to invest in compressors and tube transport service (the “chicken and egg” problem).
- Ready access to discharge stations will accelerate field-wide gas capture/transport capability.
- Discharge stations require approximately \$6.6 million to stimulate approximately \$100+ million in compressor and tube container investments by industry.

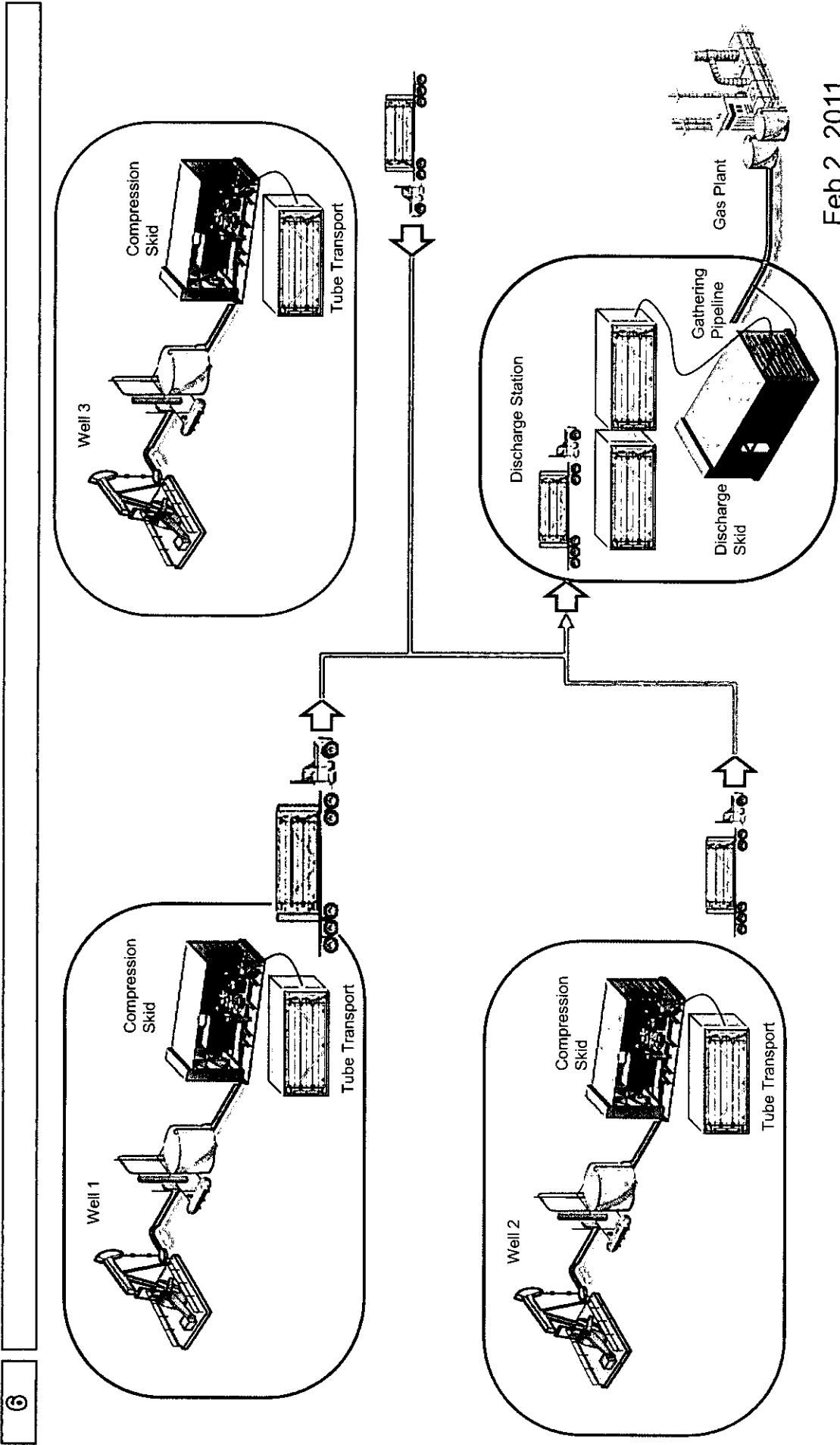
Benefits To Stakeholders

5

- **Reduce flaring & conserve energy**
 - During the rapid oil development over next 10+ years
- **Monetize wasted gas and liquids**
 - Revenue for State, Mineral Owners & Producers
 - Gas & NGL represents 20% of total value
 - Add bookable reserves (20% uplift to oil alone)
- **Improve Bakken well economics**
 - Improve well economics for wells in areas distant from existing pipelines and gas plants
 - Optimize timing of infrastructure investment (size pipes and plants better based on better well performance data)

Feb 2, 2011

Overall Process

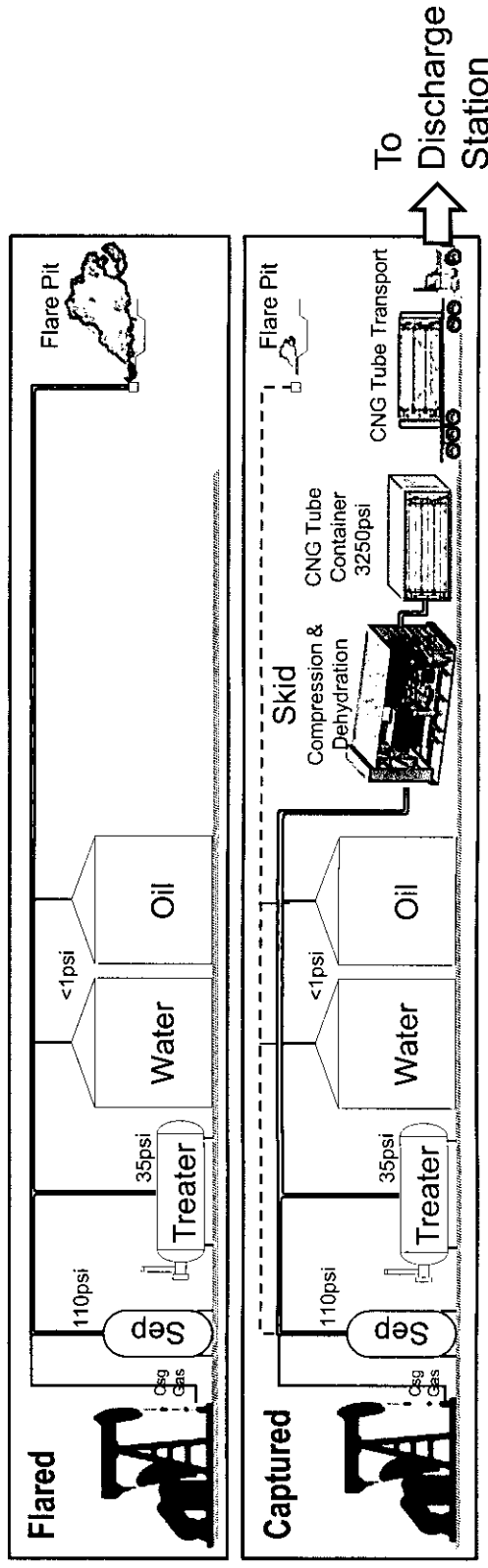


Feb 2, 2011

Wellsite Gas Capture

7

- Compression Fill Station
- Compression/dehydration units compress 300-700 mcfpd from 25 psig to 3500 psig.
- CNG Tube Transport
- CNG tube trailers operate at 3250 psig and have capacities of 125 mcf.

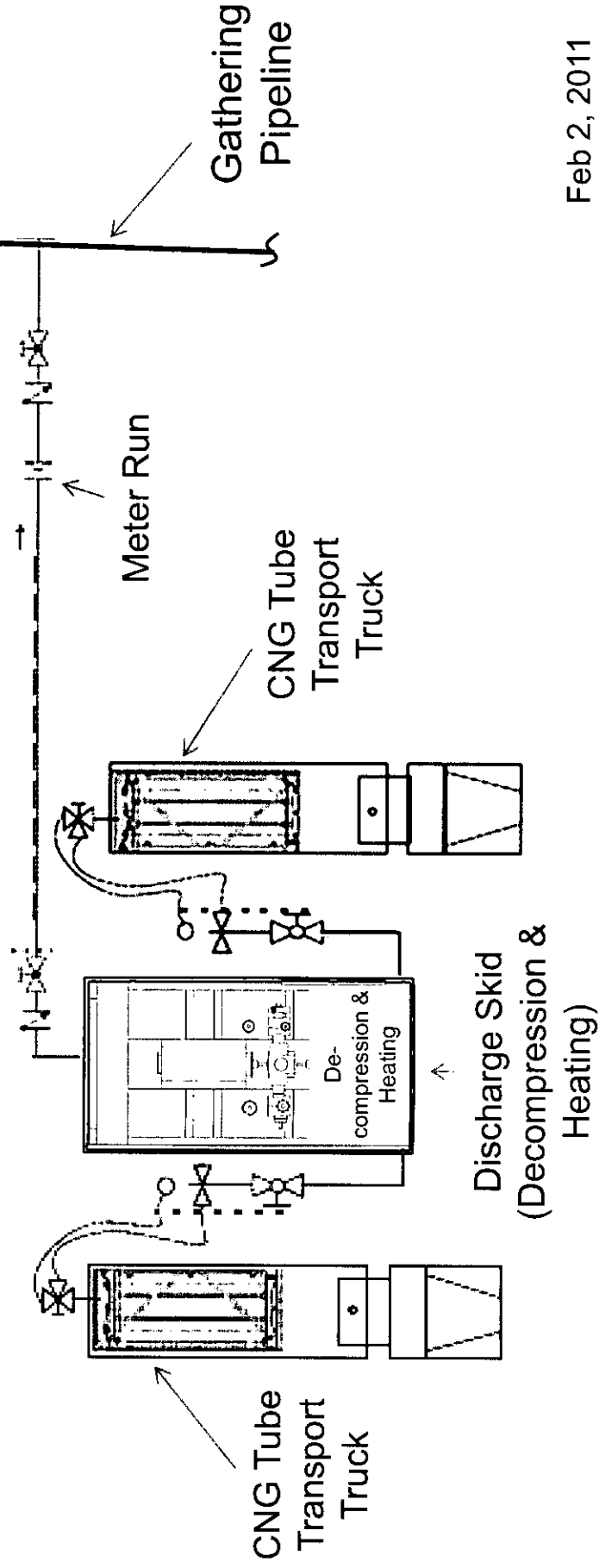


Feb 2, 2011

Discharge Station

8

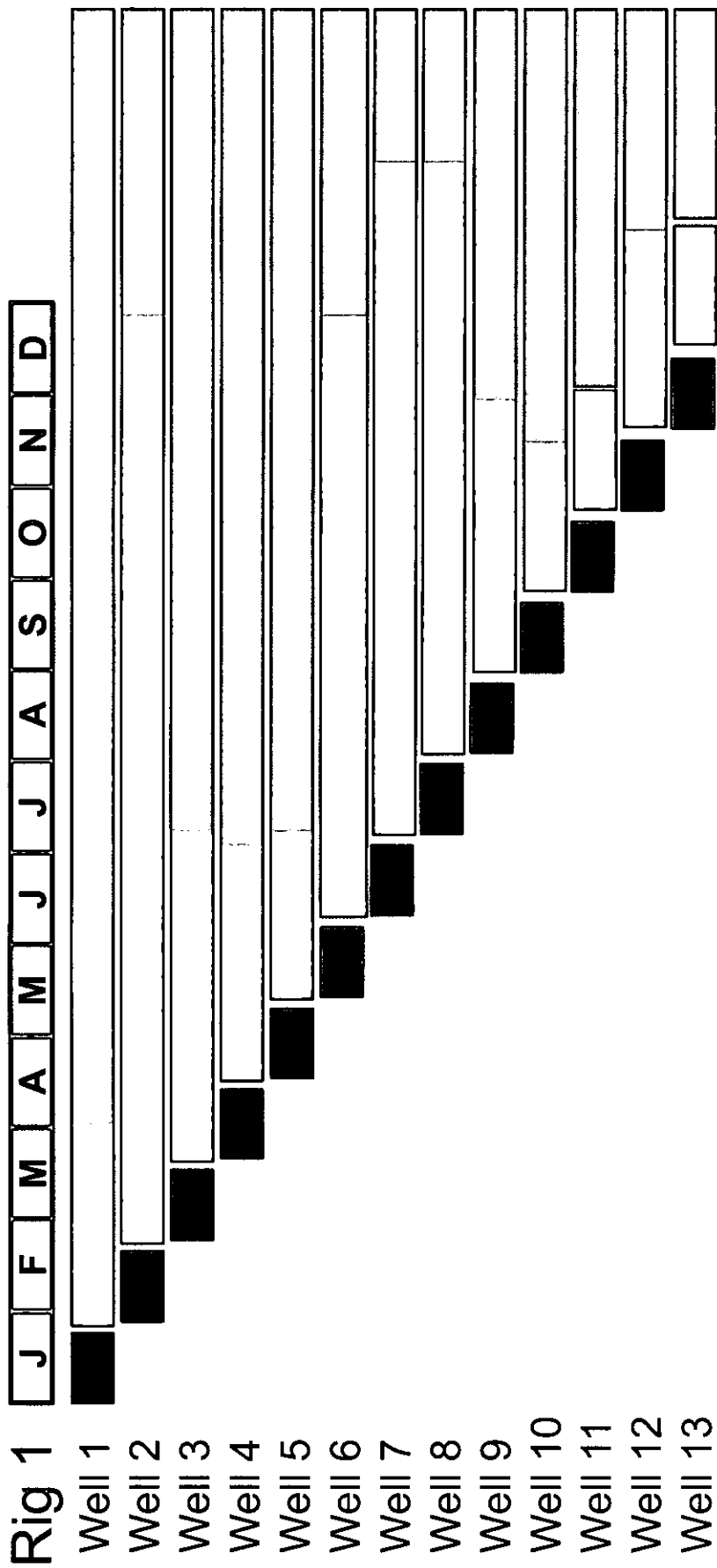
- Discharge Station at Gathering Pipeline
 - Discharges one tube at a time, in about 45 minutes
 - Maintains a minimum gas temperature of 50 F



Feb 2, 2011

Well Equipment Moves Well-To-Well*



Drilling
 Gas Transport
 Gas Gathering

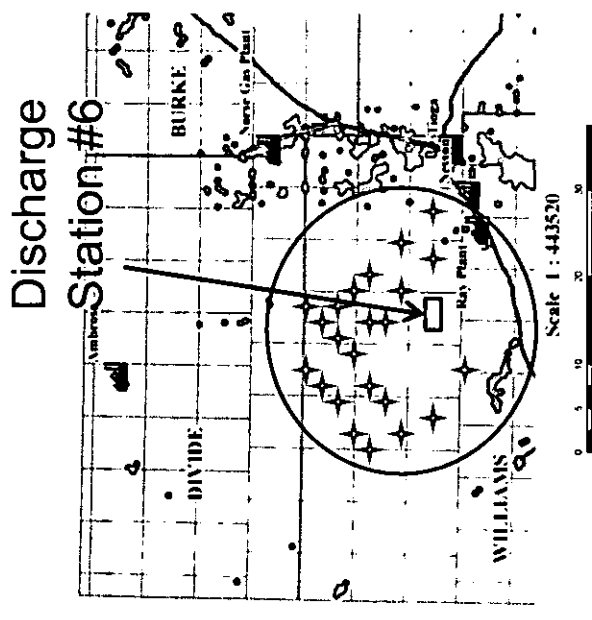


* Wellsite equipment is moved well-to-well to capture the early gas production...until pipeline infrastructure is available.

Example Discharge Station Hub

10

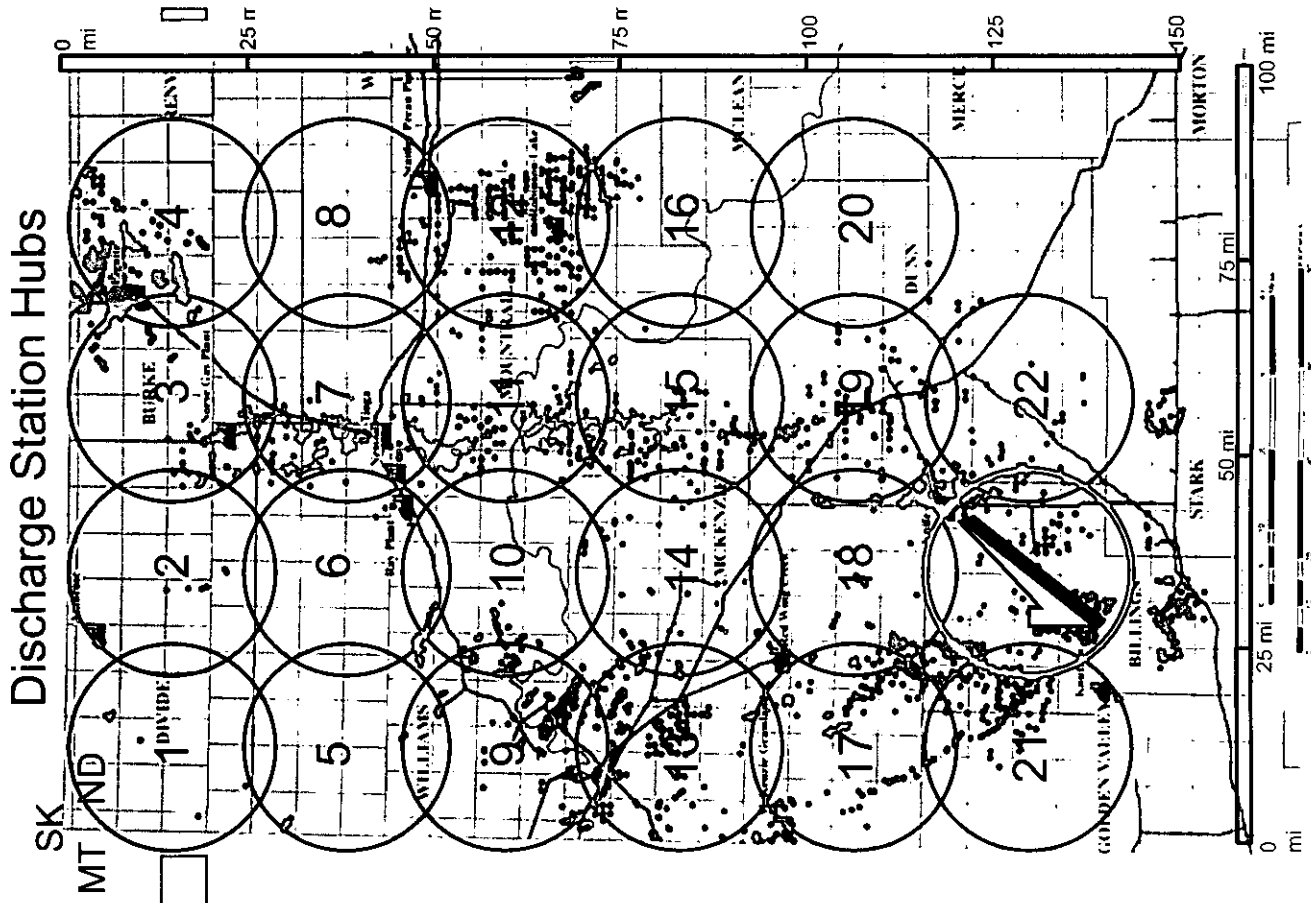
- **Producer A** 
 - 20,000 net acres, 2 drilling rigs
 - 3 wellsite skids at any given time
 - 2,100 mcfpd
- **Producer B** 
 - 10,000 net acres, 1 drilling rig
 - 2 wellsite skids at any given time
 - 1,400 mcfpd
- **Discharge Station Throughput**
 - 3.5 mmcfpd



Discharge Hubs

10

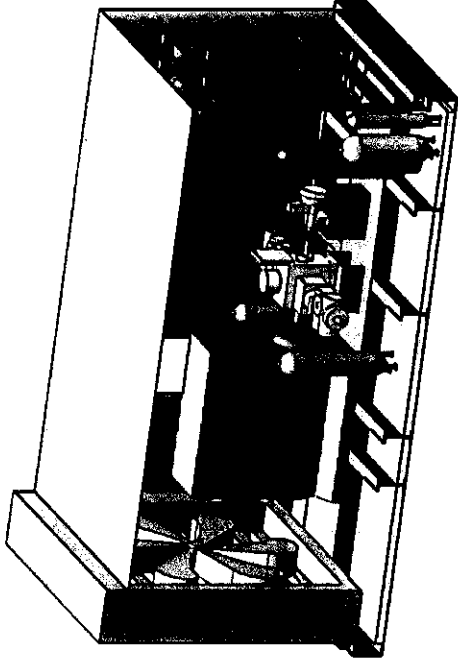
- Criteria for Discharge Stations:
 - Span ND Bakken play
 - Well-to-discharge distance under 25 miles
 - Access to low pressure gathering pipeline
- Requires 23 stations
 - One station already being built



Key Technologies

12

- CNG Compressors
 - Leveraged standardized CNG fill stations, but toughened them up for remote oil field sites.



- Desiccant Dryers
 - Remove water as low as 0.5 lb/mmcf for tube transport.



Feb 2, 2011

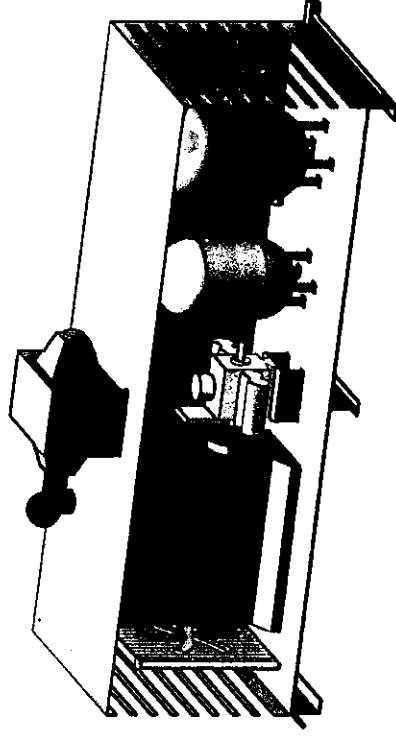
Key Technologies

13

- CNG Tube Transport
 - Extensive testing before DOT approval.
 - Long history in CNG industry.



- De-Compression
 - Manage extreme cooling (-150 F) during rapid discharge.
 - Enable capture of natural gas liquids for dry gas pipelines.



Feb 2, 2011

Safety & Regulations

14

- Overall Operation
 - Vendor Safety Program.
 - Comply with State & Federal regulations.
- Wellsite Operation
 - Bypass and “go to flare” during upsets.
 - Standard high pressure tube connect/disconnect.
- Transport Operation
 - CNG Type 1 & 2 tube trailers follow DOT Special Permits.

Field Wide Capital Requirement

16

- Field Wide Build Out Requires \$100 million
 - 22 discharge hubs
 - 154 wellsite fill stations
 - 90 CNG tube transport containers
- Gas Capture Capacity: 90 mmscfpd
- Key Enabler: 22 discharge skids for \$6.6 million

Grantee Roles

16

- **Procurement of 22 Discharge Stations**
 - Grantee oversee procurement, manufacturing and installation.
 - Pass-through costs of manufacturing and external consultant fees, i.e., Grantee earns no profit on procurement.
 - Grantee owns skids.
- **Installation & Operation of 22 Discharge Stations**
 - Pipeline owner responsible for site work, meter run and pipe connections.
 - Grantee responsible for operation, maintenance and expansion (additional skids) of discharge stations.
 - Grantee charges operating fee to producers who deliver CNG. Fee based on direct costs and reasonable overhead/profit margin.

Feb 2, 2011

Summary

- Gas Capture & Transport is an economic, though non-conventional, solution to the Bakken flare problem.
- Lack of discharge stations is an obstacle for producers to invest in compressors and tube transport service (the “chicken and egg” problem).
- Ready access to discharge stations will accelerate field-wide gas capture capability.
- Discharge stations require approximately \$6.6 million to stimulate approximately \$100+ million in compressor and tube container investments by industry.



Bakken Express LLC

18



Role

- Overall Management
 - Innovation in monetizing stranded gas capture and transportation
 - Project management
 - Supervision of transport and filling/discharging stations
 - EHS oversight from design through installation, startup and ongoing operation

Experience / Contact

- Extensive experience in oil & gas production, transportation and processing
- Expertise in safety, asset & project management, operations and maintenance
- Experience drawn from careers with Chevron, Hess, ConocoPhillips, and Coastal Corp
- Company principals:
 - Tim Maloney – 701-347-1602
 - Jim Paul – 832-429-4522
 - David Dimond – 701-347-1604

Draft
Water Coalition Funding Priorities Outline

Regional Infrastructure Development Projects:

	2011-13	2013-15	2015-17	2017-19	Total
Devils Lake					
Flood Control/Outlet	\$100 million	-----	-----	-----	\$100 million
Water Treatment	\$20 million	\$20 million	-----	-----	\$40 million
Flood Control - Fargo	\$45*/\$30 million	\$75 million	\$75 million	\$75 million	\$300 million
RRVWSP	\$20 million	\$40 million	\$80 million	\$80 million	\$220 million
SWPP/NAWS	\$25/\$12 million	\$23/\$50 million	\$19/\$20million	---/\$10 million	\$159 million
Western Area Water Supply	\$25 million	\$5 million	-----	-----	\$30 million
Total	\$232 million	\$213 million	\$194 million	\$165 million	\$849 million

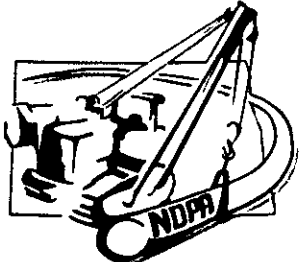
Local Infrastructure Development Projects:

	2011-13	2013-15	2015-17	2017-19	Total
General Water Management	\$30 million				
Irrigation	\$6 million	\$6 million	\$3.5 million	\$3.5 million	\$19 million
Missouri River	\$1 million	\$1 million	\$1 million	\$1 million	\$4 million
MR&I					
Municipal	\$25 million				
Rural	\$46 million	\$55 million	\$35 million	\$15 million	\$151 million
Weather Modification	\$1 million	\$1 million	\$1 million	\$1 million	\$4 million
Total	\$109 million				

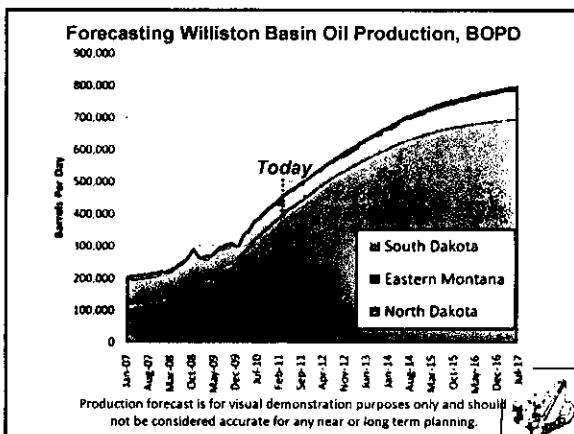
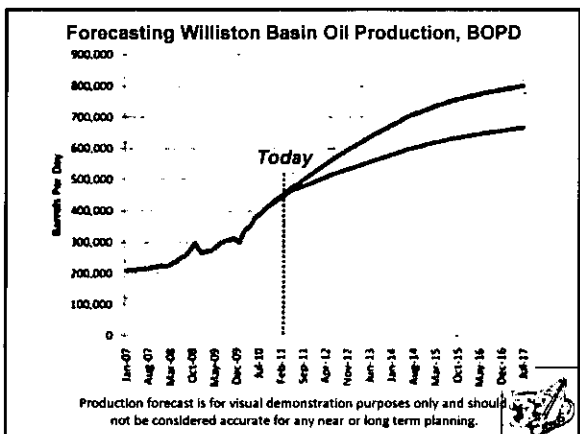
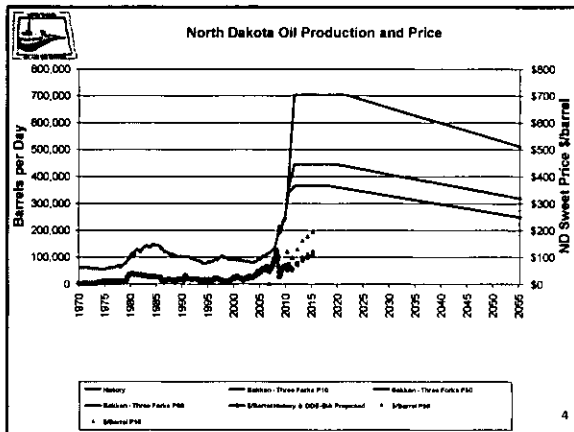
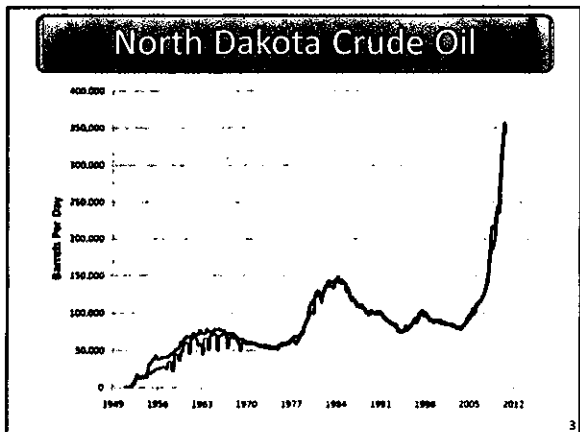
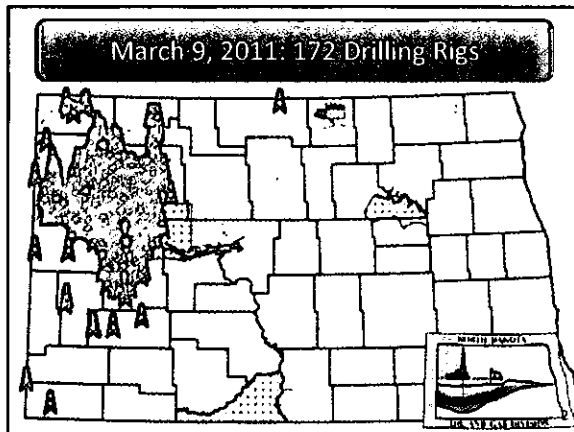
* This was allocated by the 2009 Legislative Session

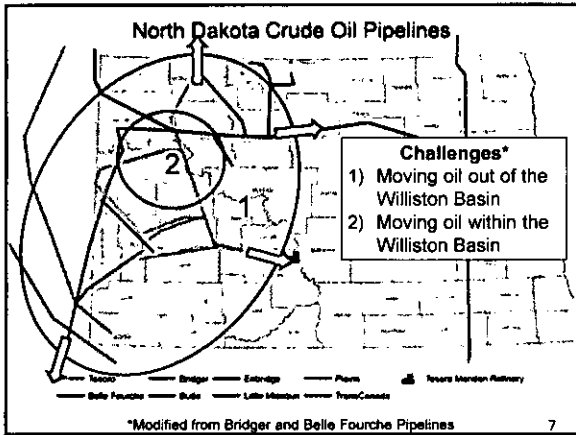
Jean Schafer
2-2-11

attachment 1



North Dakota Pipeline Authority
Justin J. Kringstad
March 10, 2011
House Energy and Natural Resources

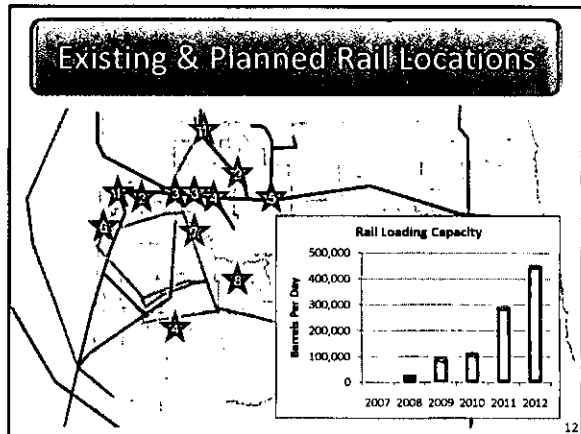
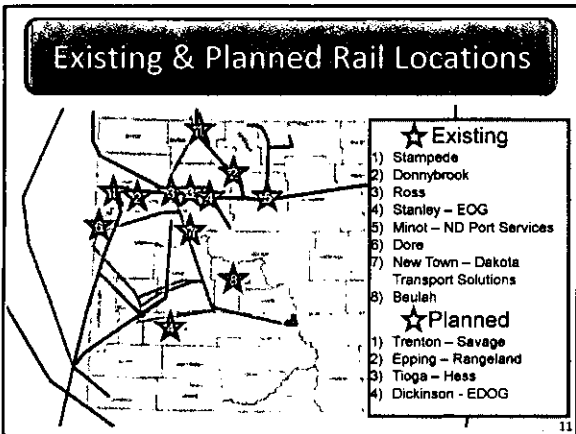
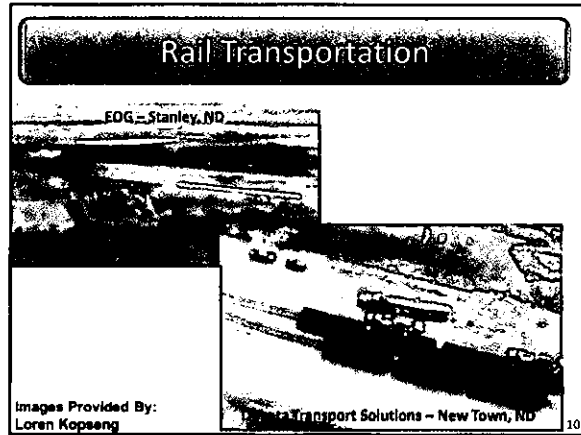
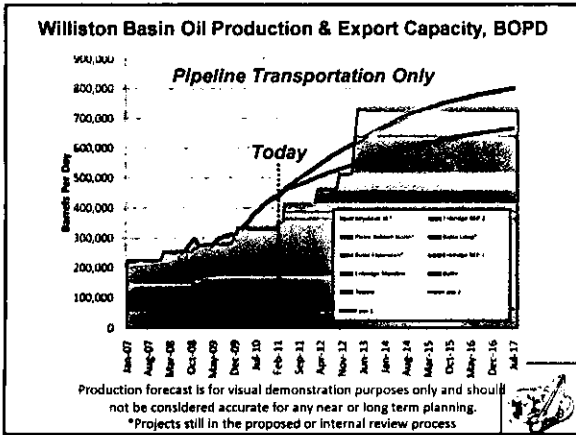


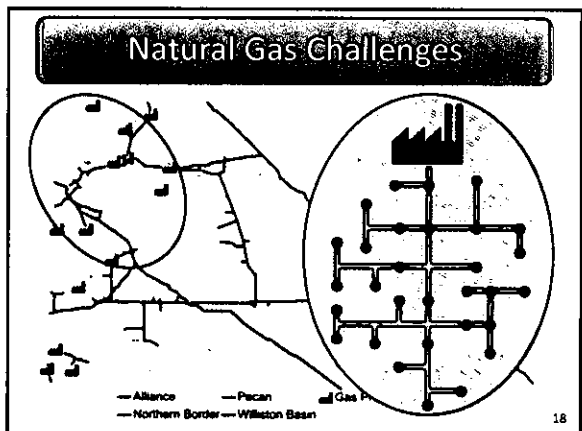
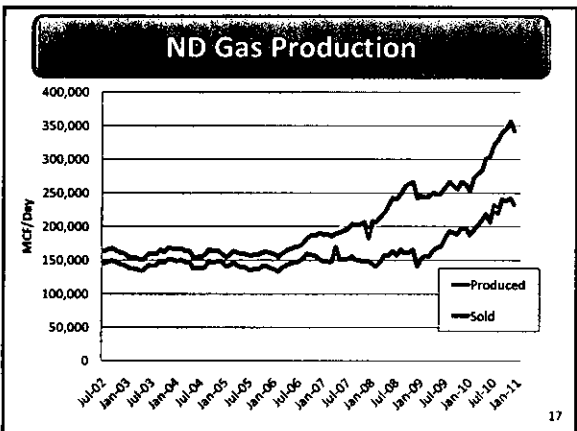
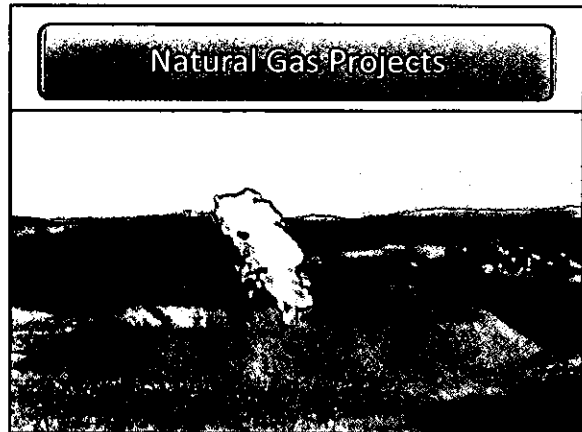
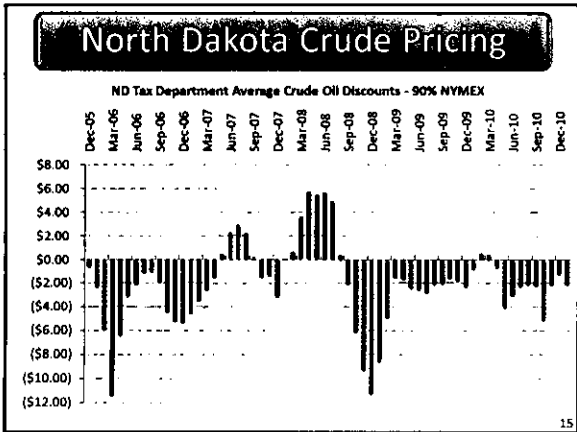
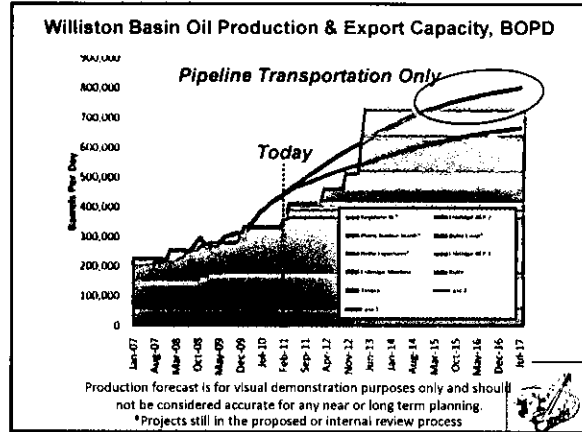
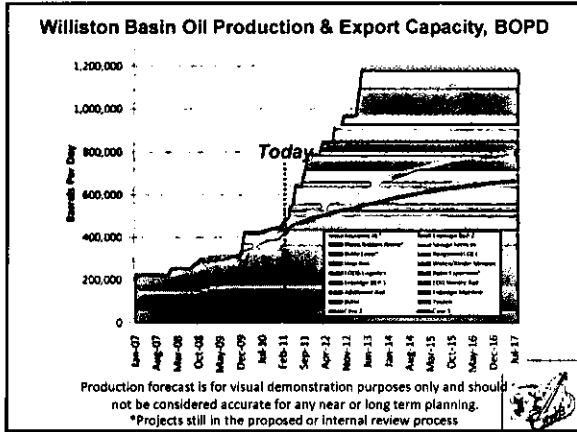


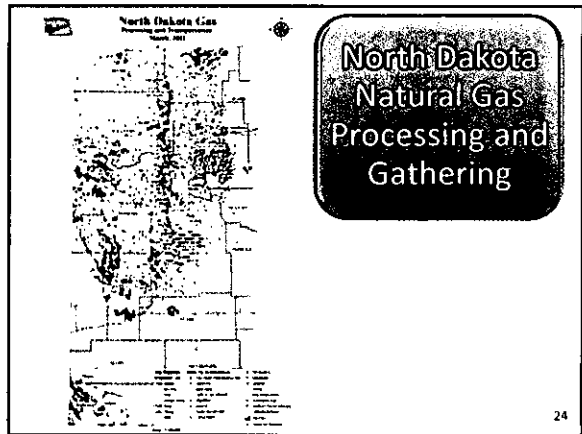
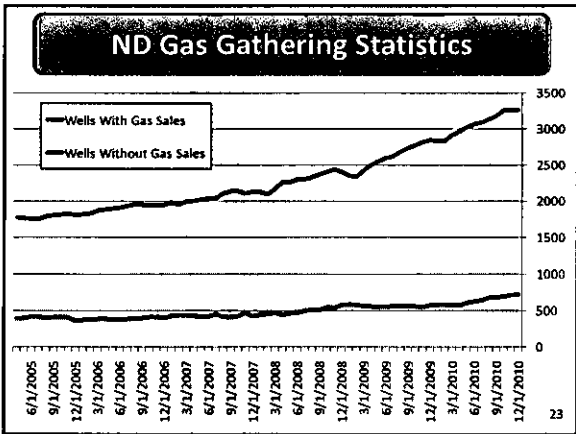
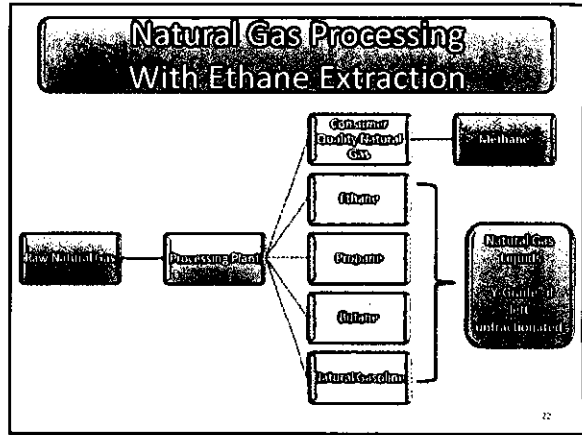
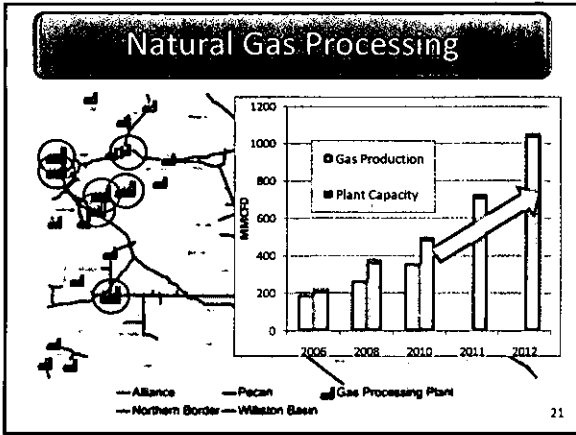
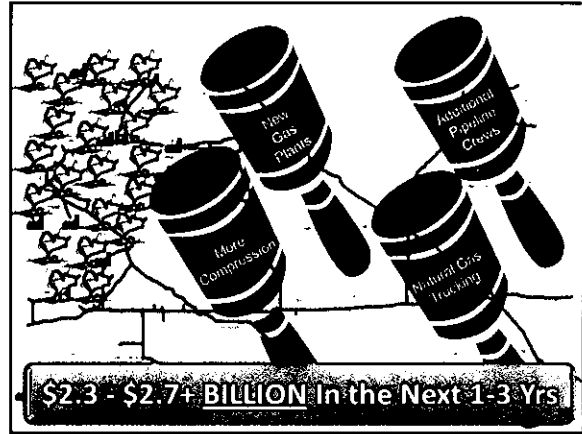
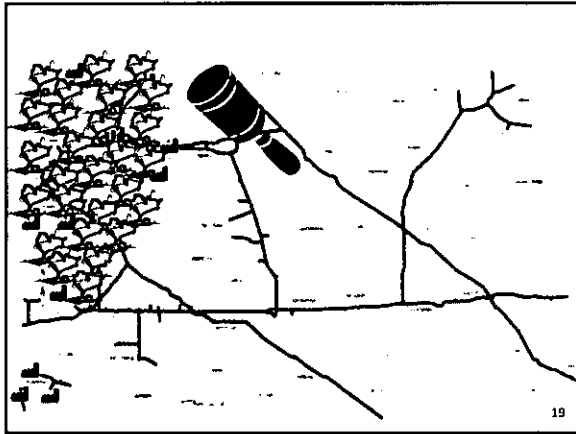
Several Exciting Developments For Post 2010 Crude Oil Transport

- Enbridge Bakken Expansion Program
- Keystone XL Marketlink
- True Co.'s Baker 300
- Plains Bakken North
- Unit Train Development

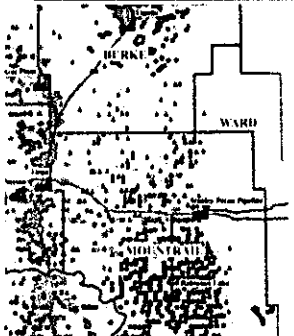
8







Mountrail/Burke Counties

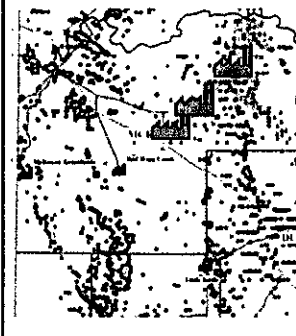


Bear Tracker Energy
150+ Well Connections in
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Tie into Pecan's Stanley
Facility

25

McKenzie County



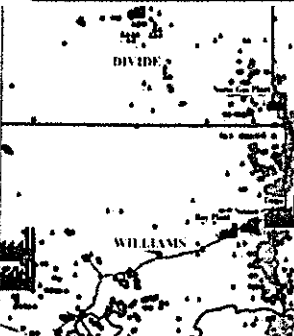
ONEOK Garden Creek
Plant
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City Plant
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Saddle Butte Pipeline
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26

Williams County



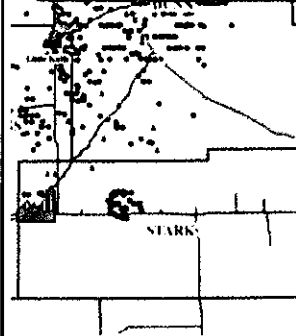
ONEOK Stateline I Plant
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27

Stark County



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Bakken Express
Natural Gas Trucking
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28



Thank You!

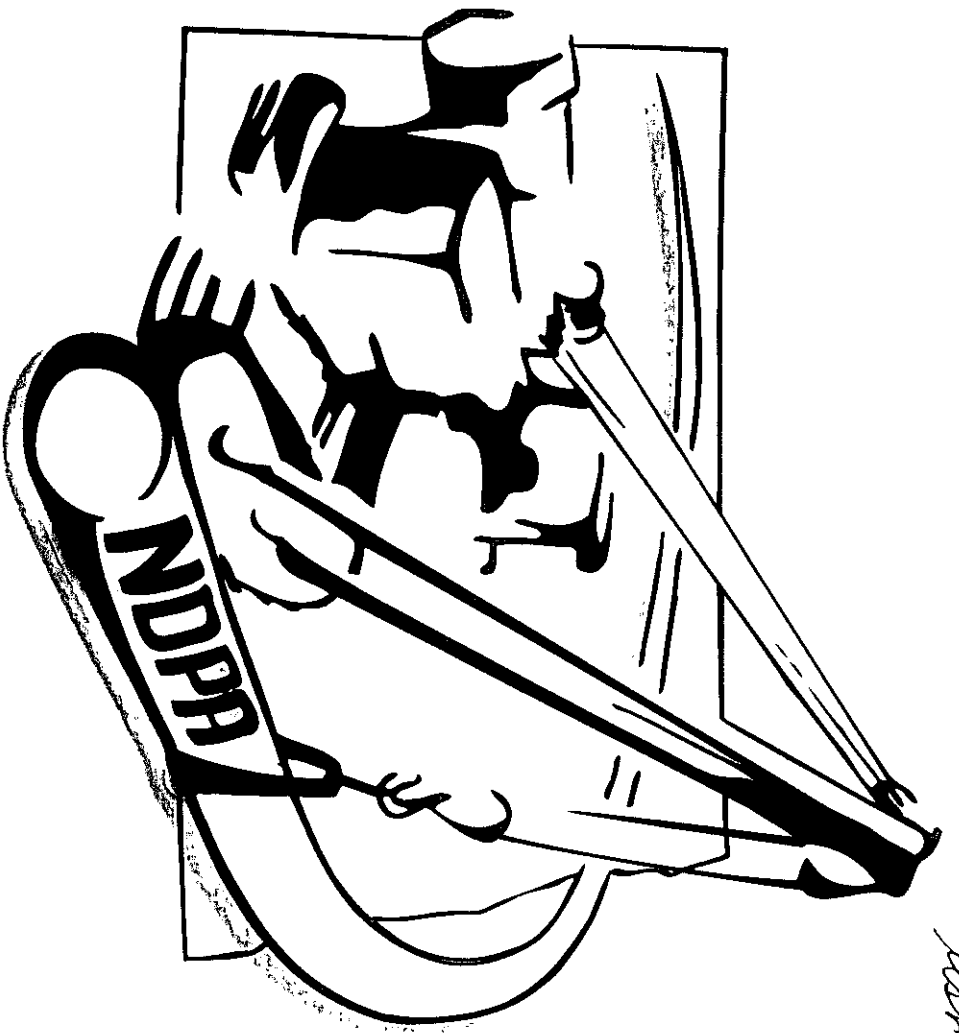
North Dakota Pipeline Authority

600 E. Boulevard Ave. Dept. 405
Bismarck, ND 58505-0840

Phone: (701)220-6227
Fax: (701)328-2820
E-mail: jjkringstad@ndpipelines.com

Website:
www.pipeline.nd.gov



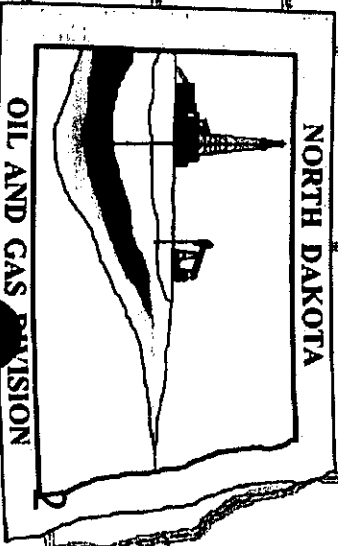
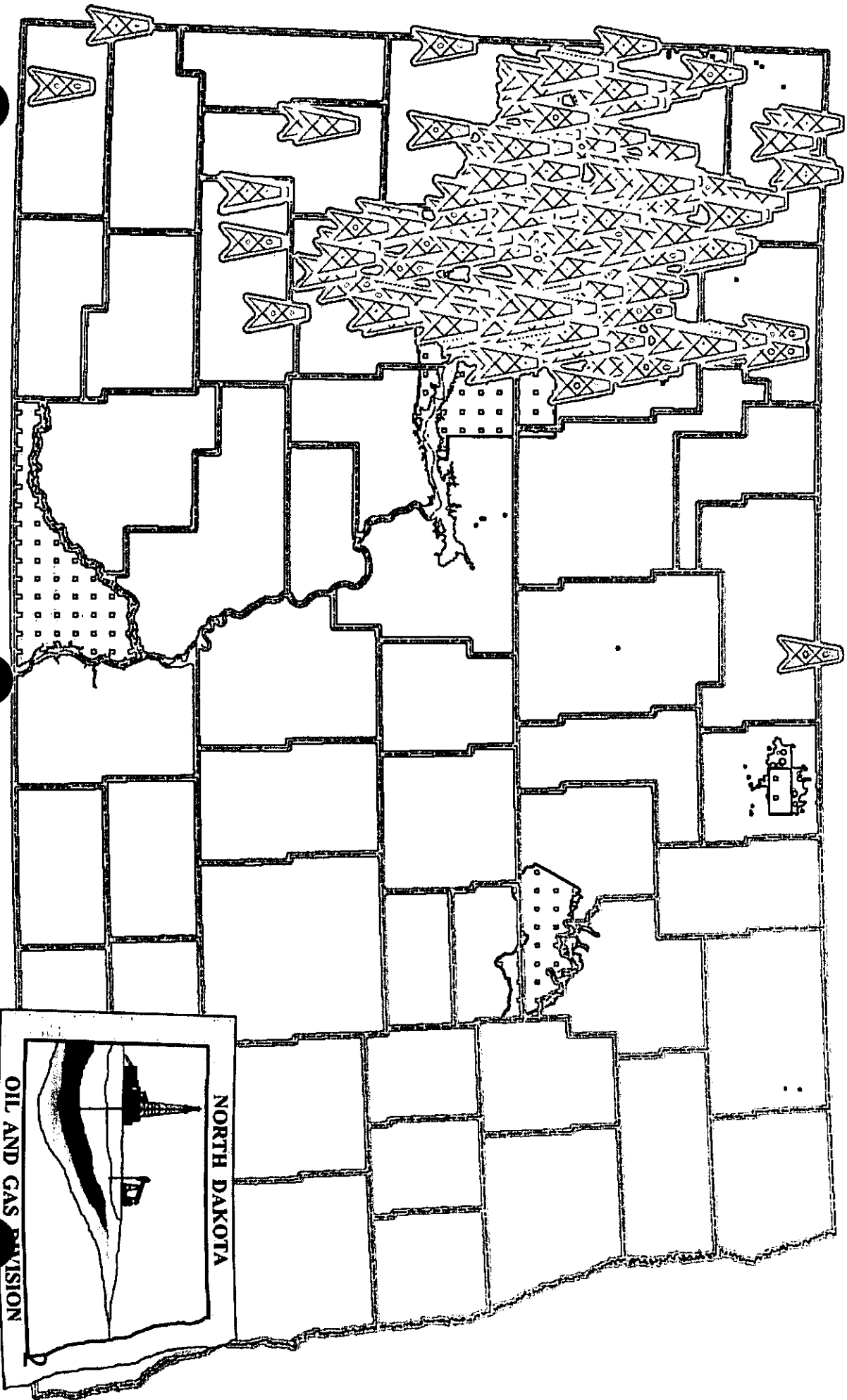
North Dakota Pipeline Authority

Justin J. Kringstad

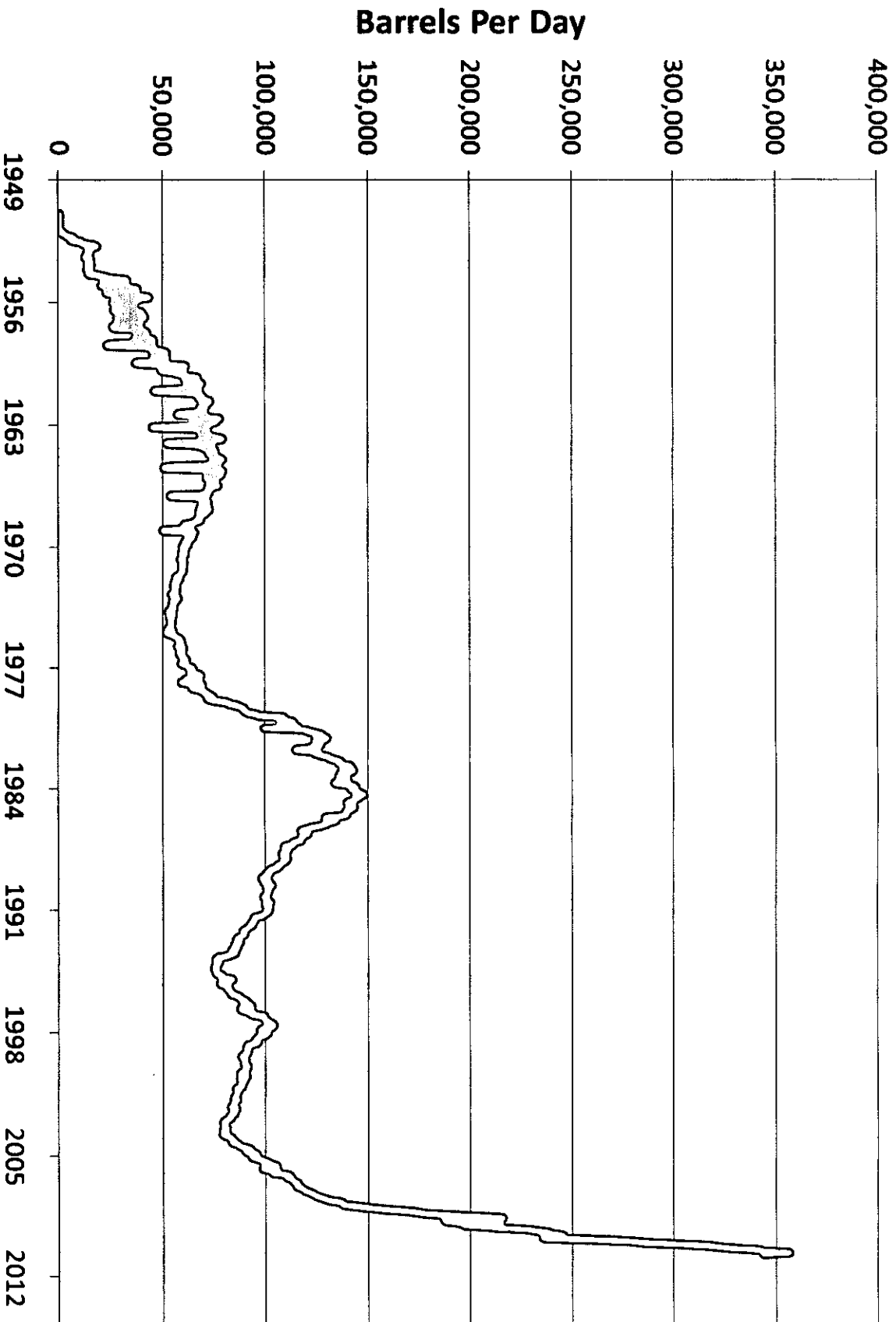
March 10, 2011

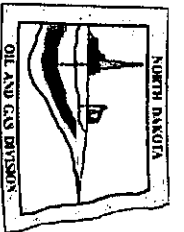
House Energy and Natural Resources

March 9, 2011: 172 Drilling Rigs

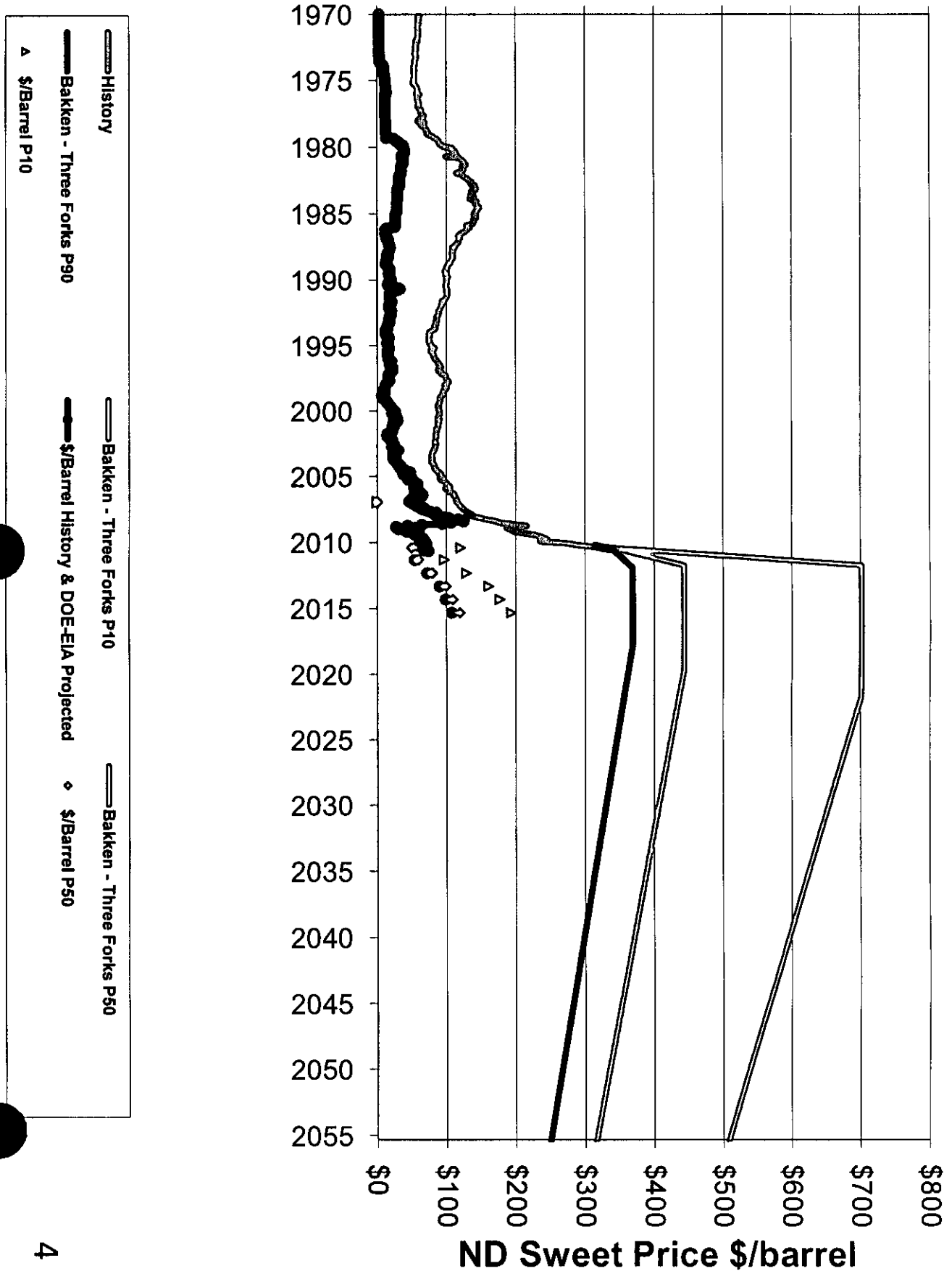


North Dakota Crude Oil

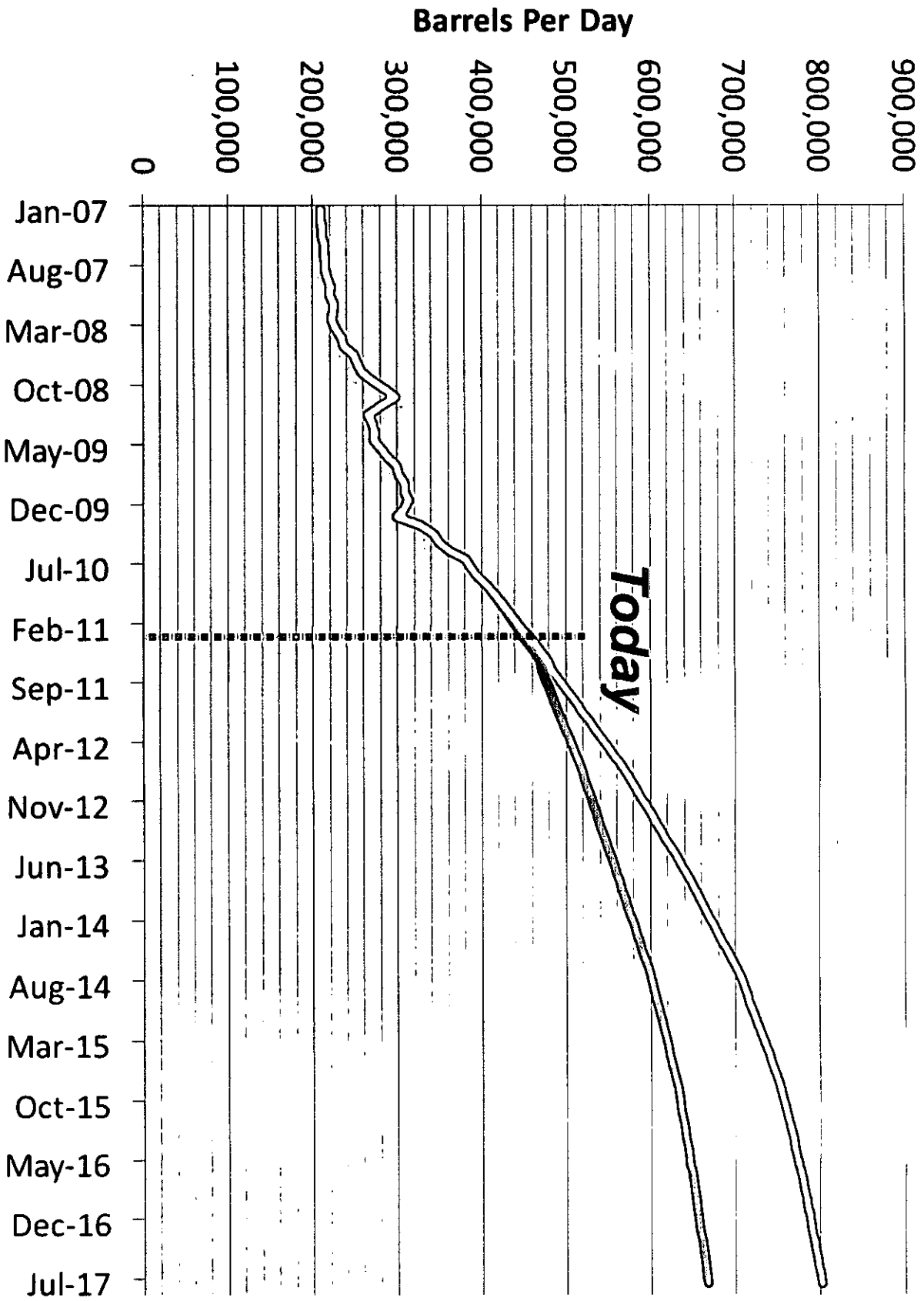




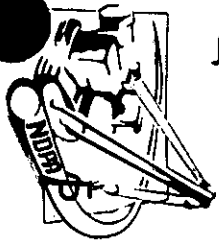
North Dakota Oil Production and Price



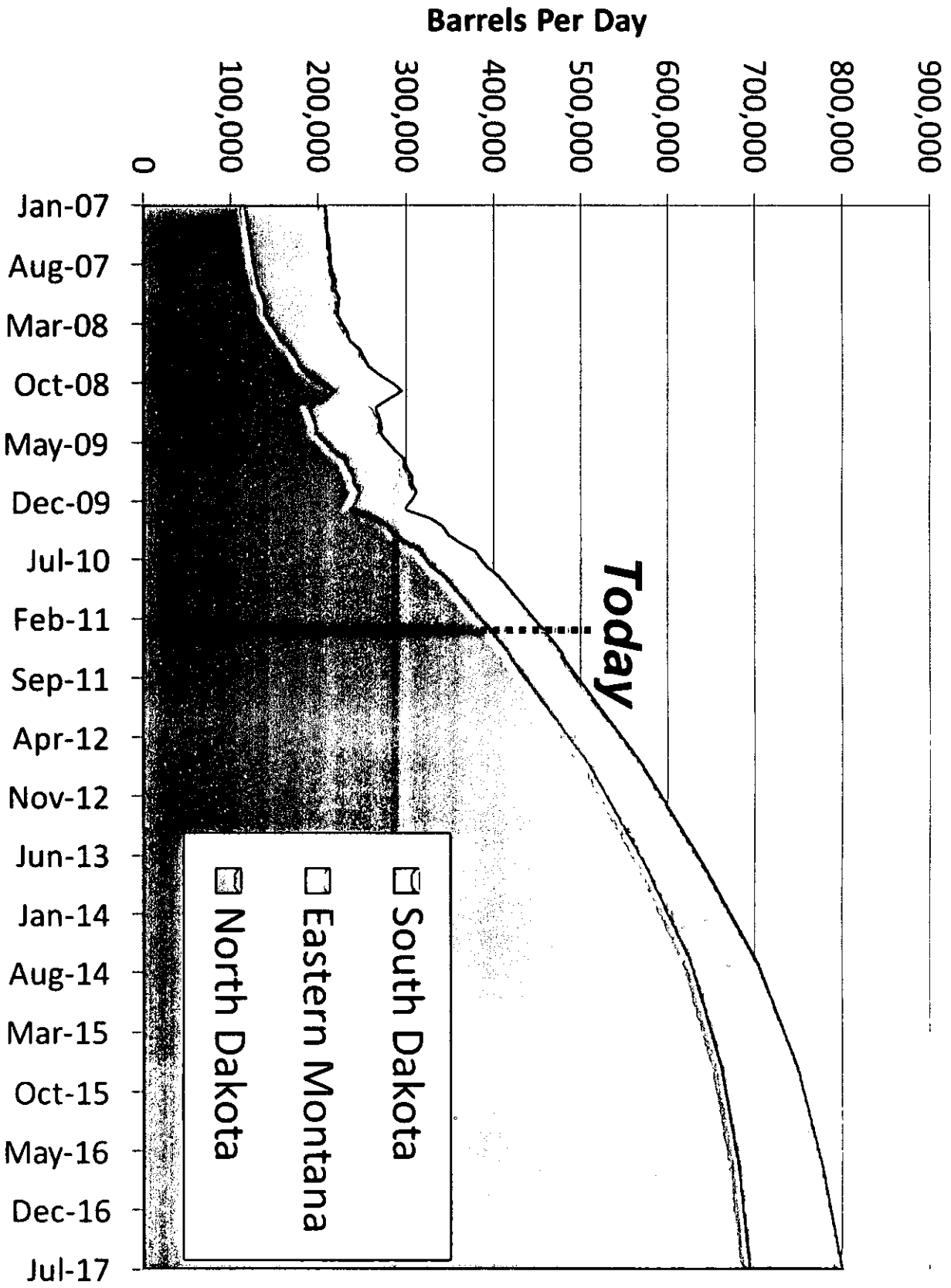
Forecasting Williston Basin Oil Production, BOPD



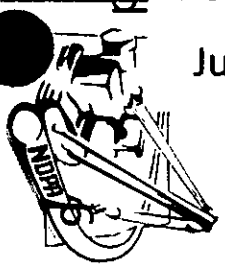
Production forecast is for visual demonstration purposes only and should not be considered accurate for any near or long term planning.



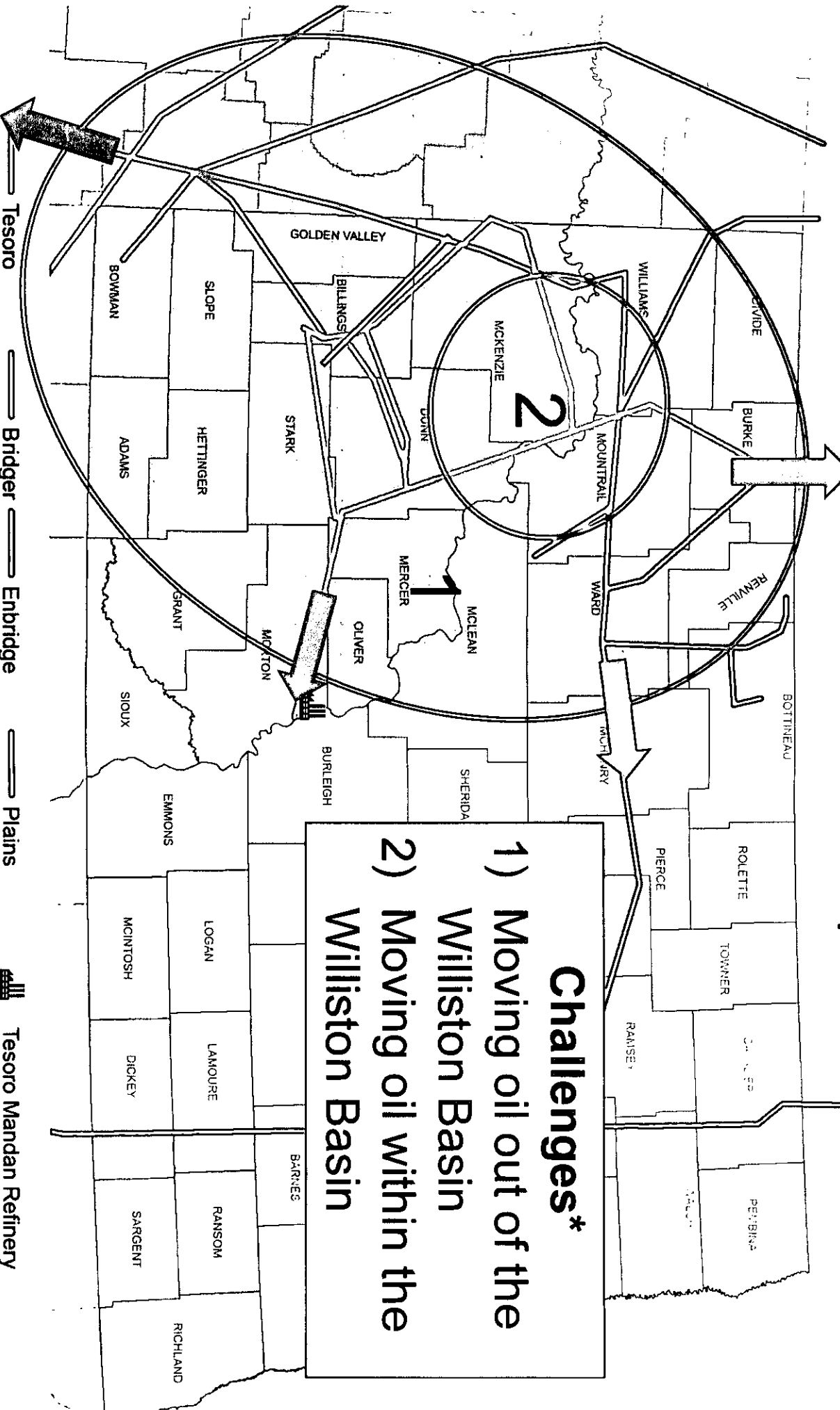
Forecasting Williston Basin Oil Production, BOPD



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North Dakota Crude Oil Pipelines



Challenges*

- 1) Moving oil out of the Williston Basin
- 2) Moving oil within the Williston Basin

- Tesoro
- Belle Fourche
- Bridger
- Enbridge
- Butte
- Little Missouri
- Plains
- TransCanada
- ▬ Tesoro Mandan Refinery

*Modified from Bridger and Belle Fourche Pipelines

Several Exciting Developments For Post 2010 Crude Oil Transport

Enbridge Bakken Expansion Program

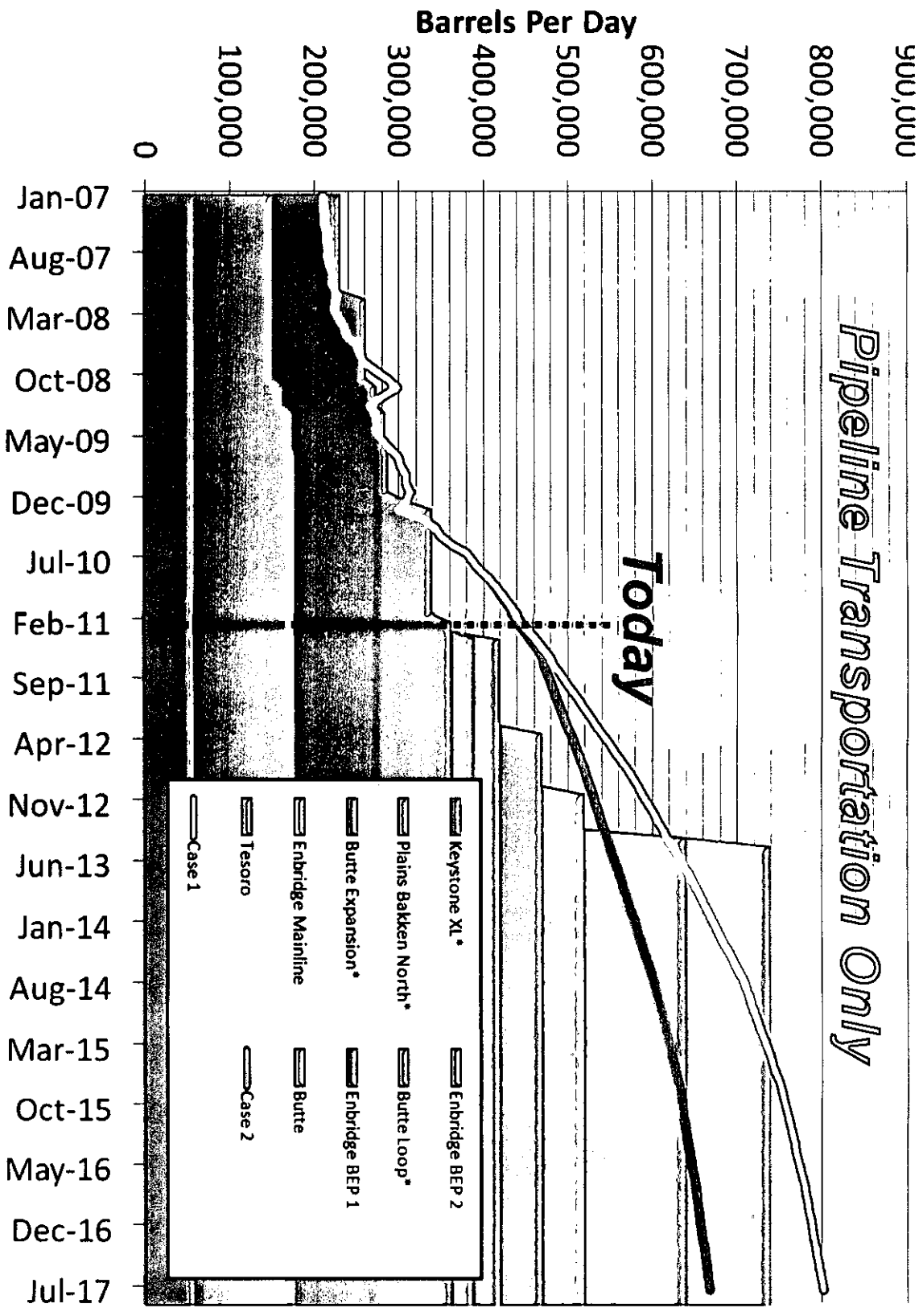
Keystone XL Marketlink

True Co.'s Baker 300

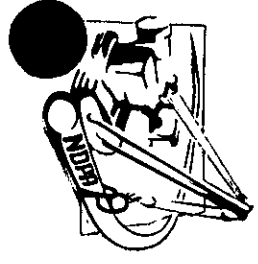
Plains Bakken North

Unit Train Development

Williston Basin Oil Production & Export Capacity, BOPD



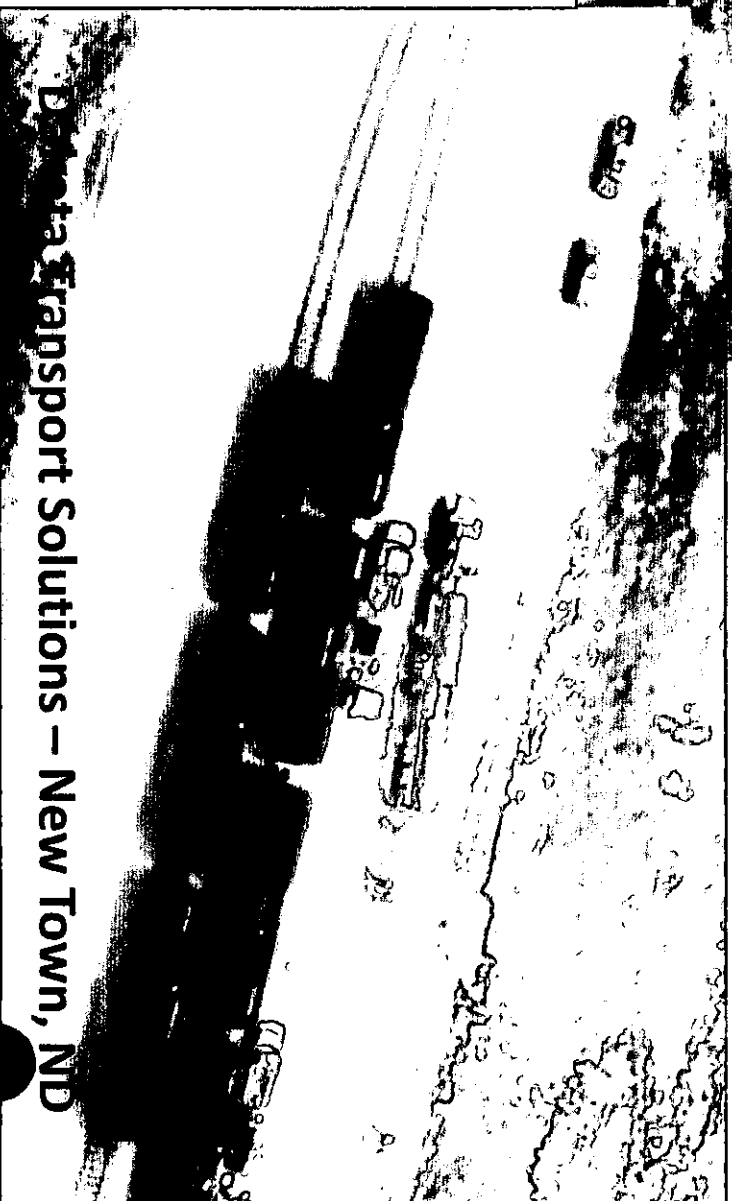
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 *Projects still in the proposed or internal review process



Rail Transportation



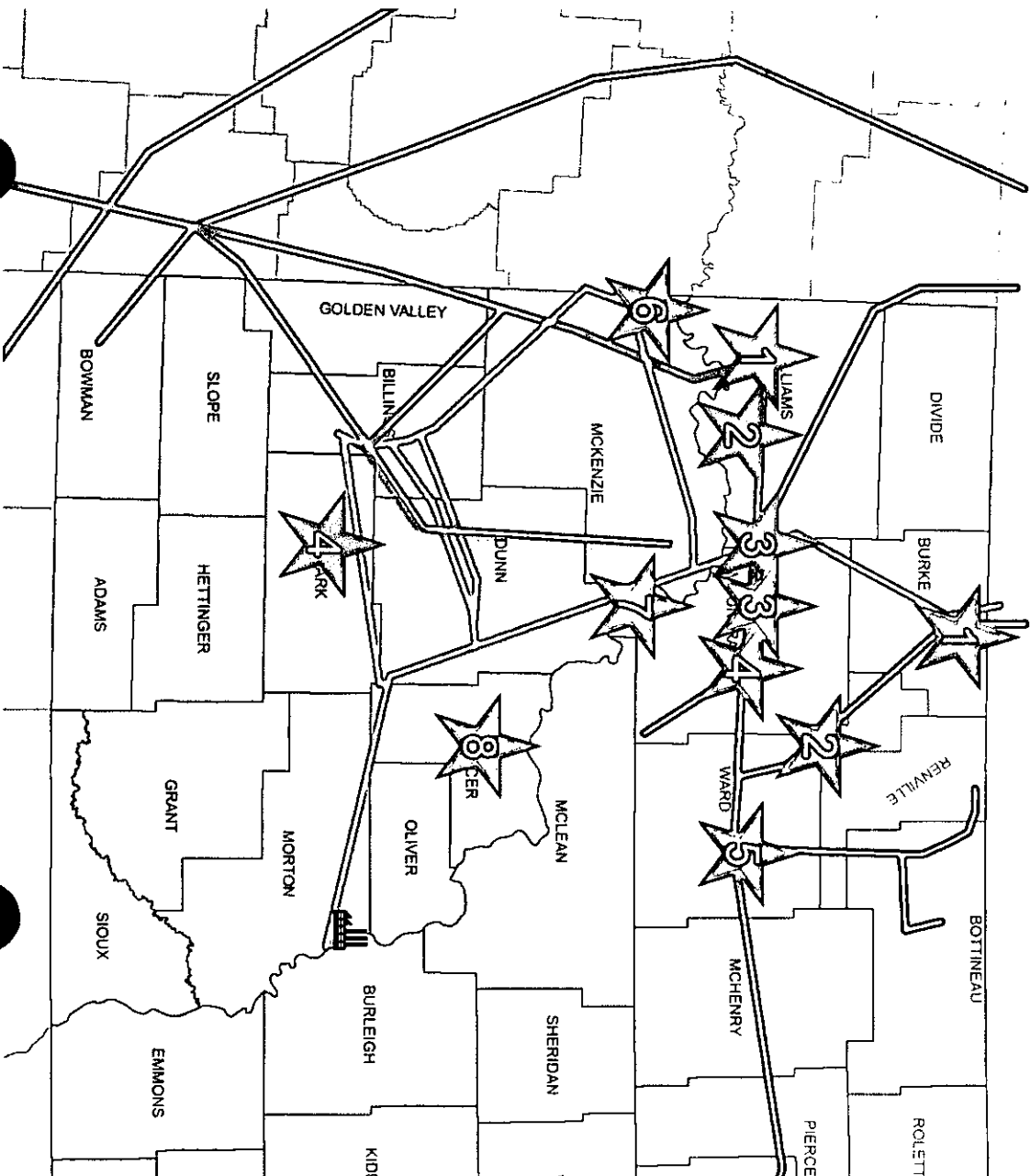
EOG – Stanley, ND



Dakota Transport Solutions – New Town, ND

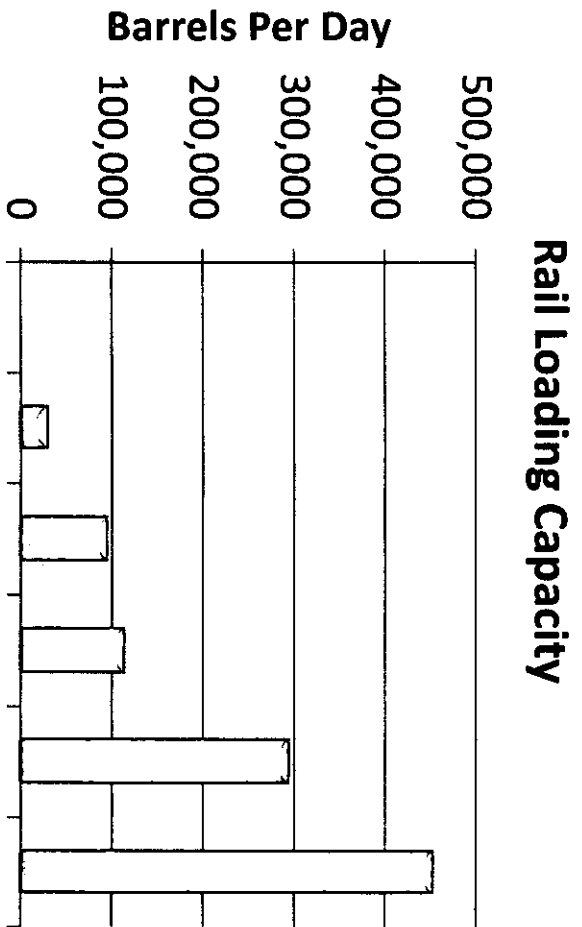
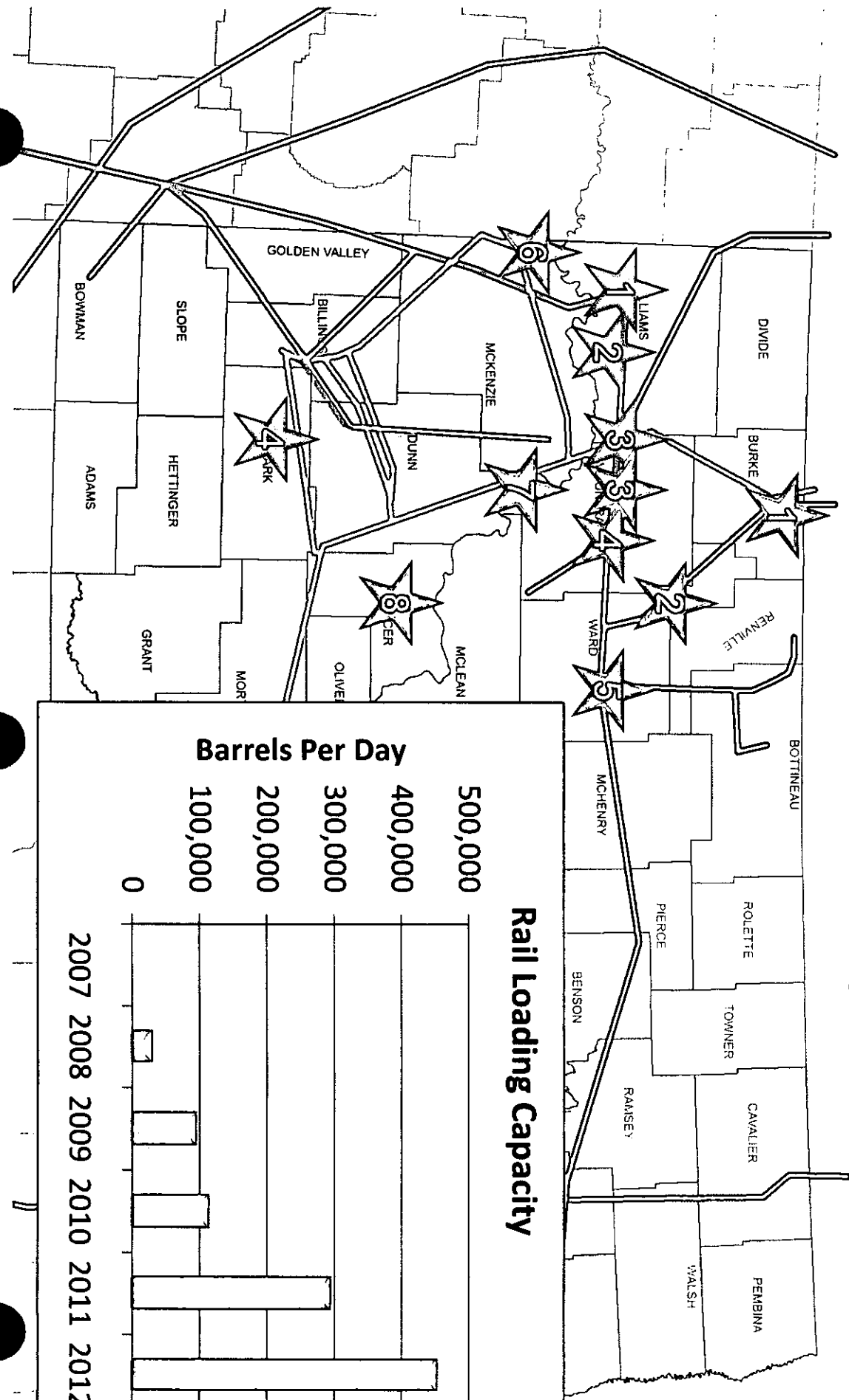
Images Provided By:
Loren Kopseng

Existing & Planned Rail Locations

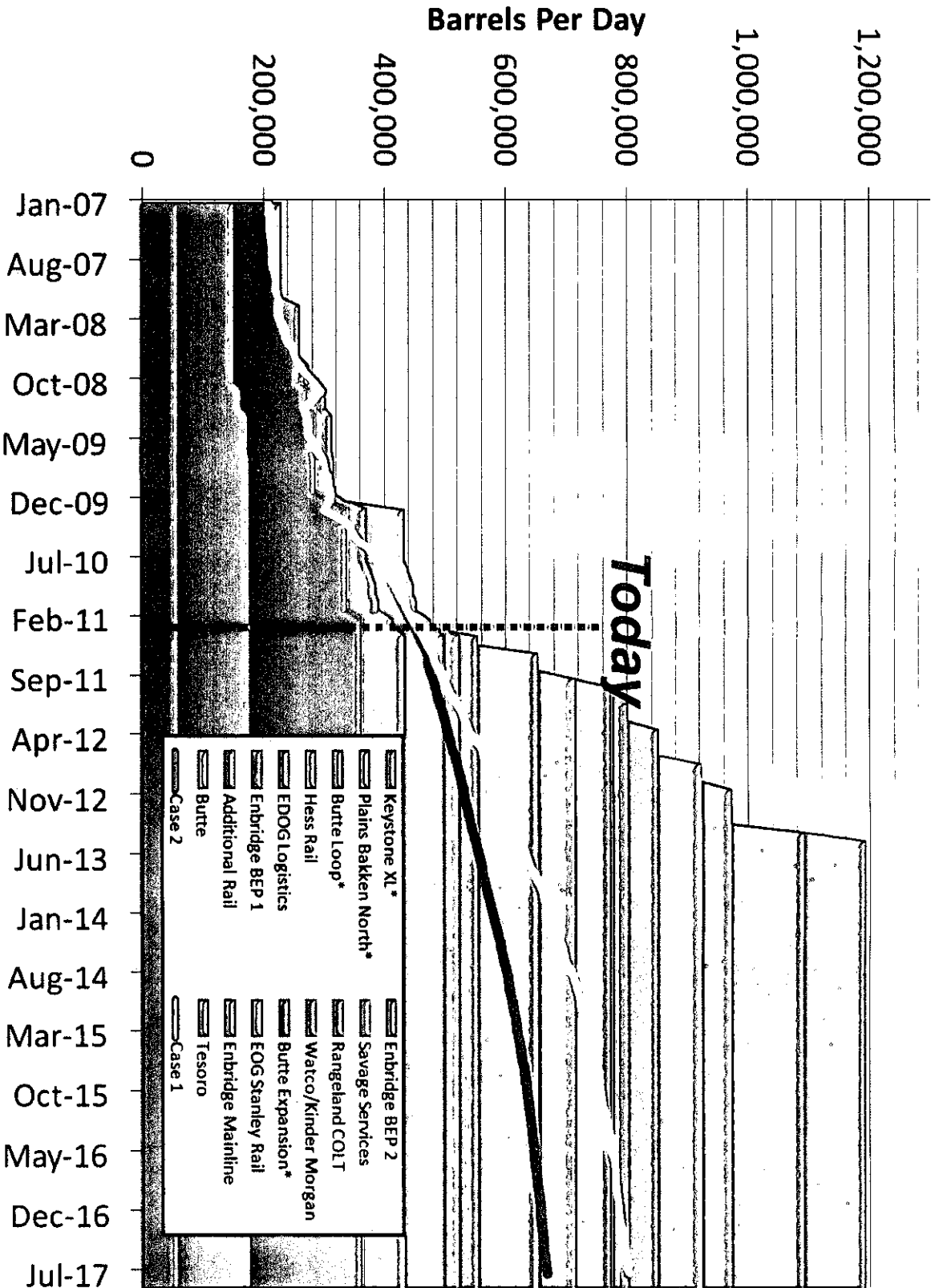


- | | |
|---|--|
| <p>Existing</p> <ul style="list-style-type: none"> 1) Stampede 2) Donnybrook 3) Ross 4) Stanley – EOG 5) Minot – ND Port Services 6) Dore 7) New Town – Dakota Transport Solutions 8) Beulah | <p>Planned</p> <ul style="list-style-type: none"> 1) Trenton – Savage 2) Epping – Rangeland 3) Tioga – Hess 4) Dickinson - EDOG |
|---|--|

Existing & Planned Rail Locations

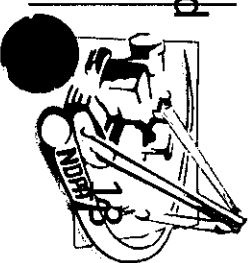


Williston Basin Oil Production & Export Capacity, BOPD

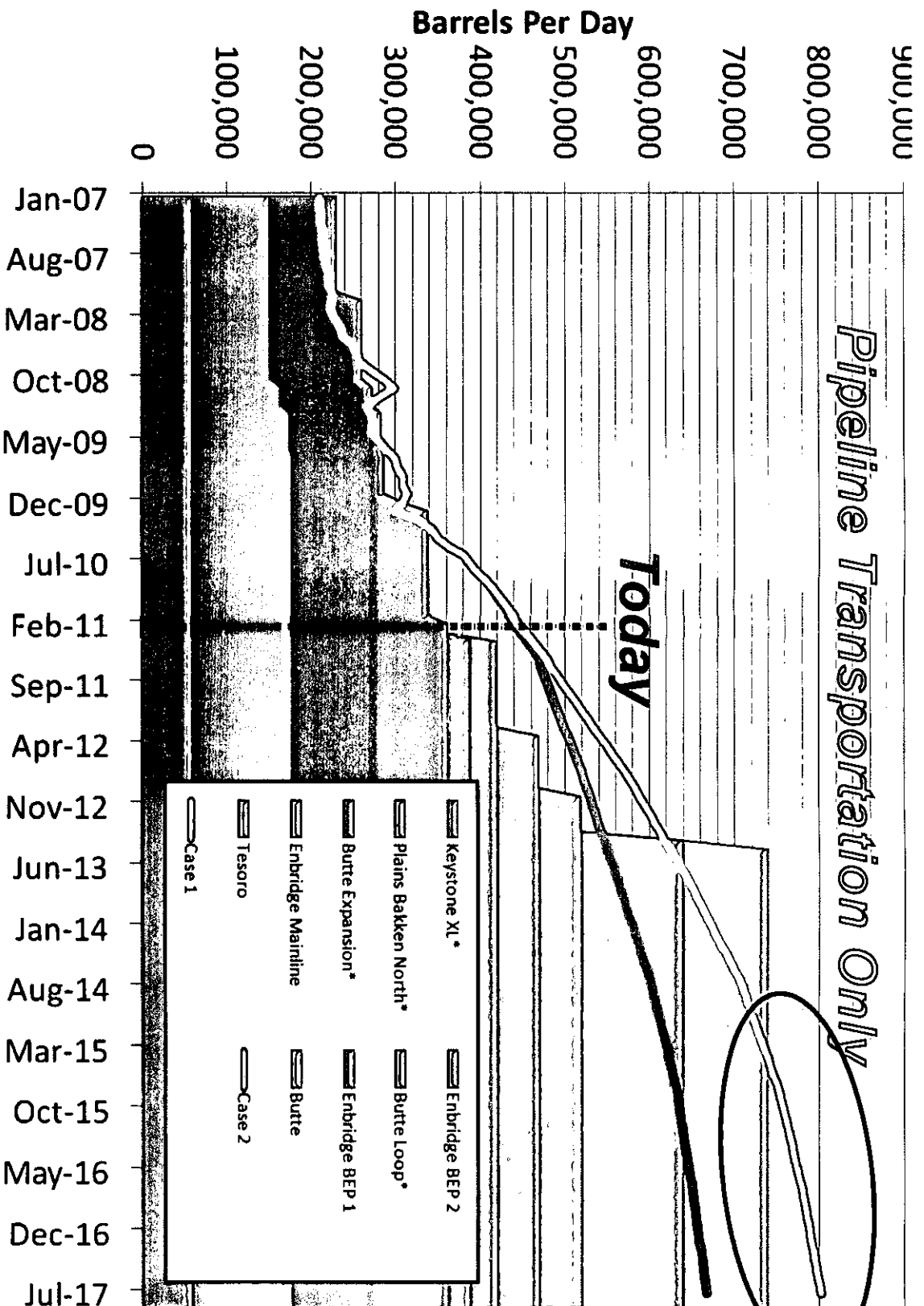


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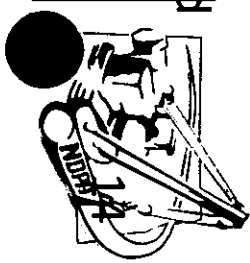


Williston Basin Oil Production & Export Capacity, BOPD



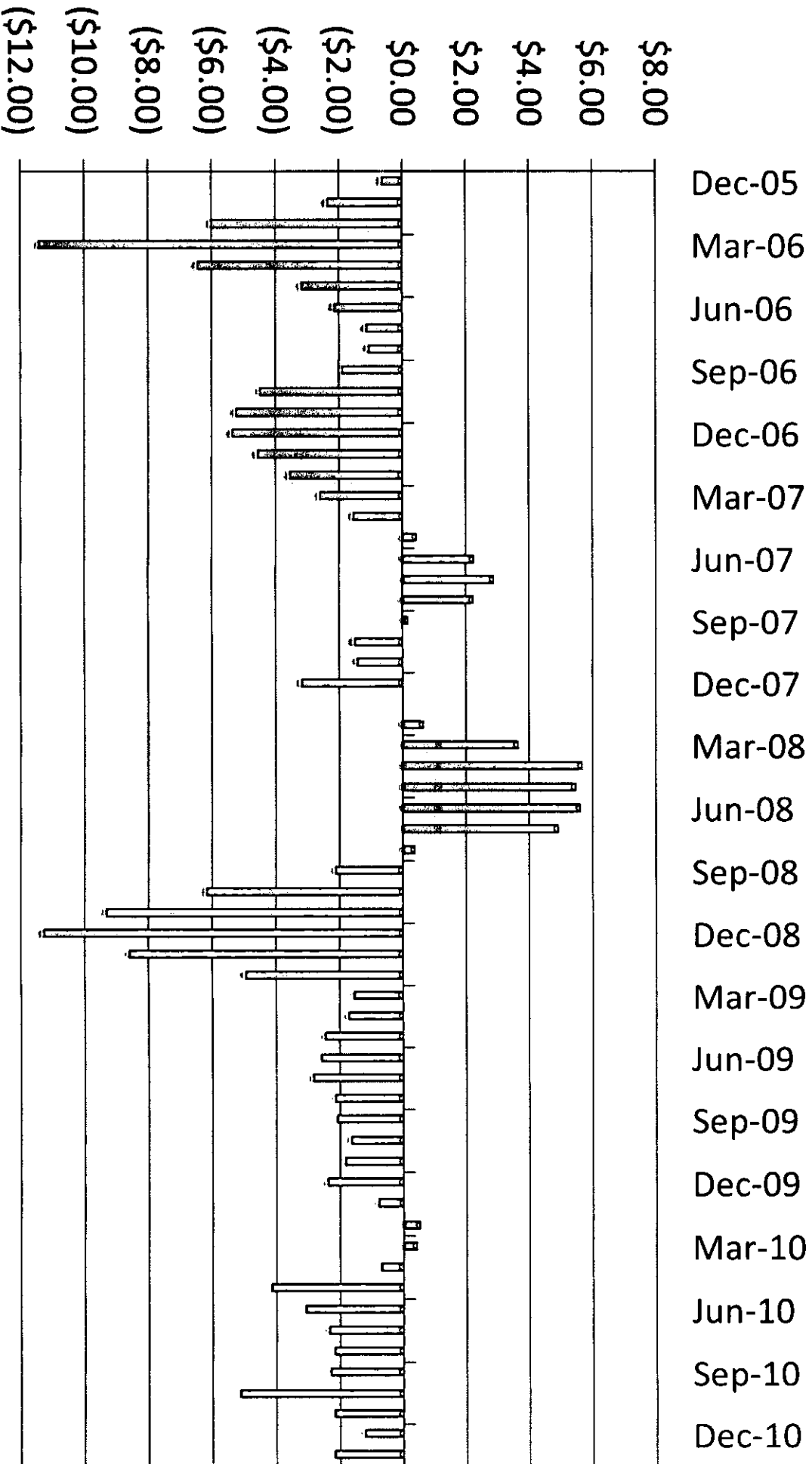
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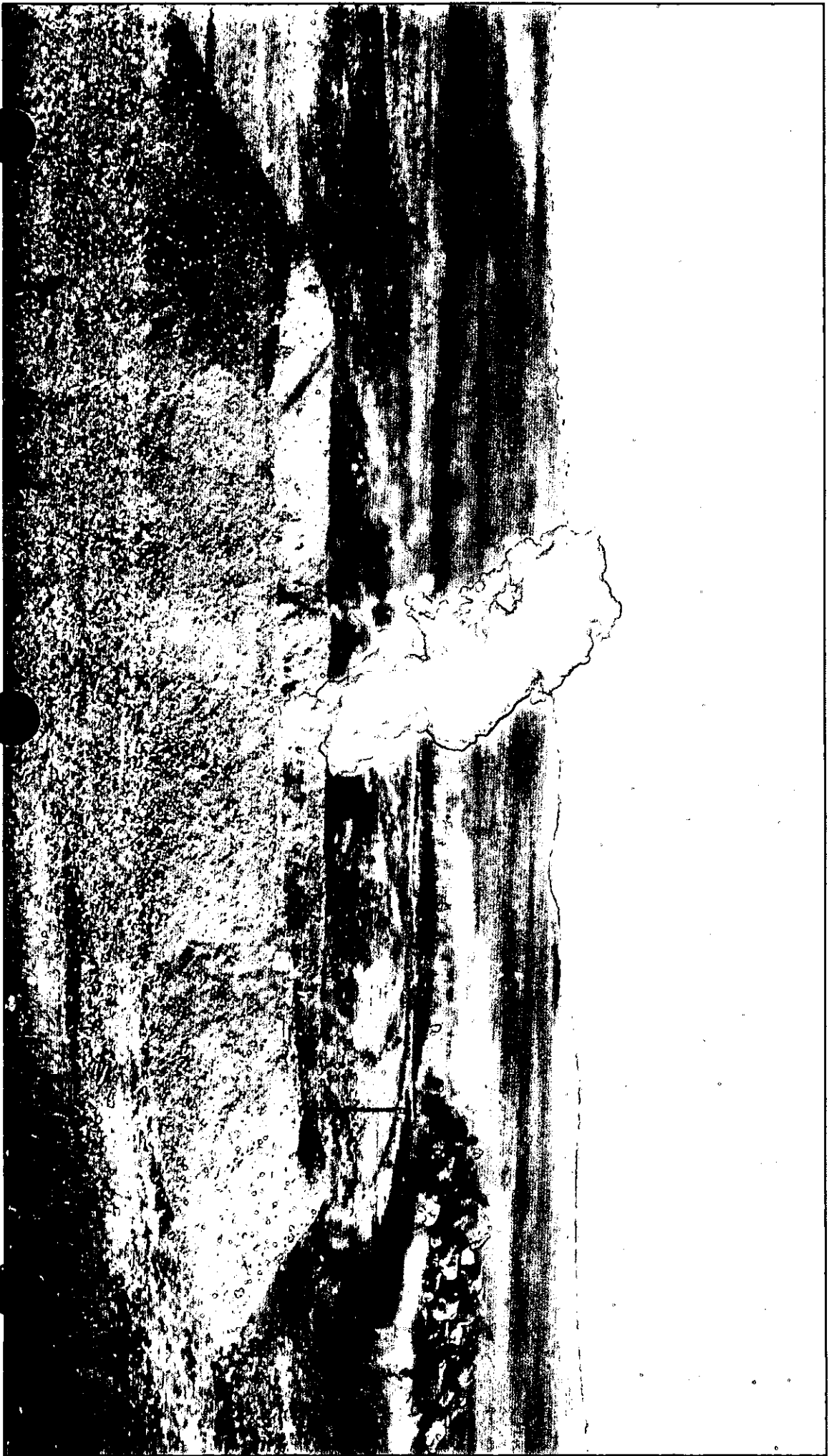


North Dakota Crude Pricing

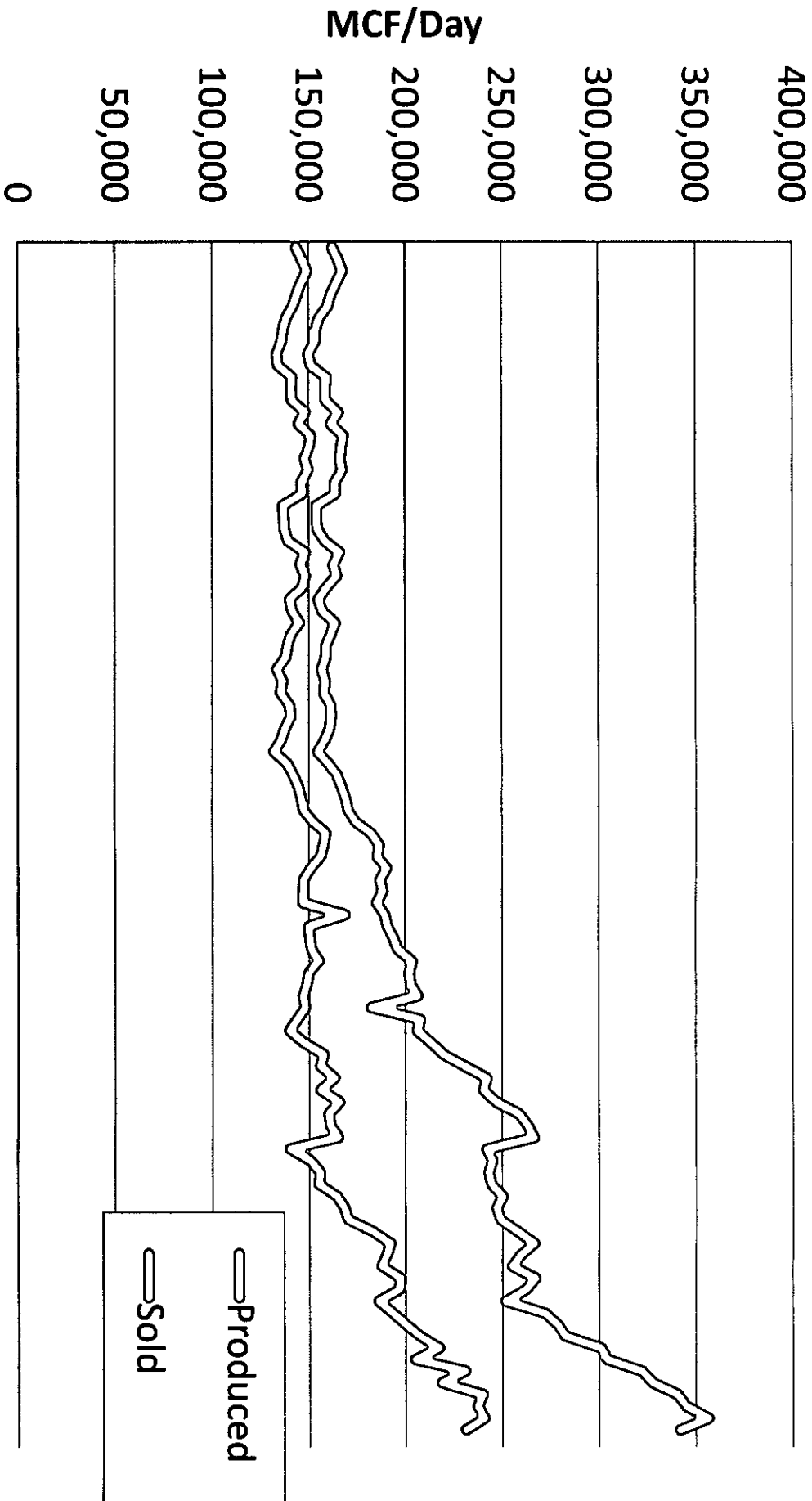
ND Tax Department Average Crude Oil Discounts - 90% NYMEX



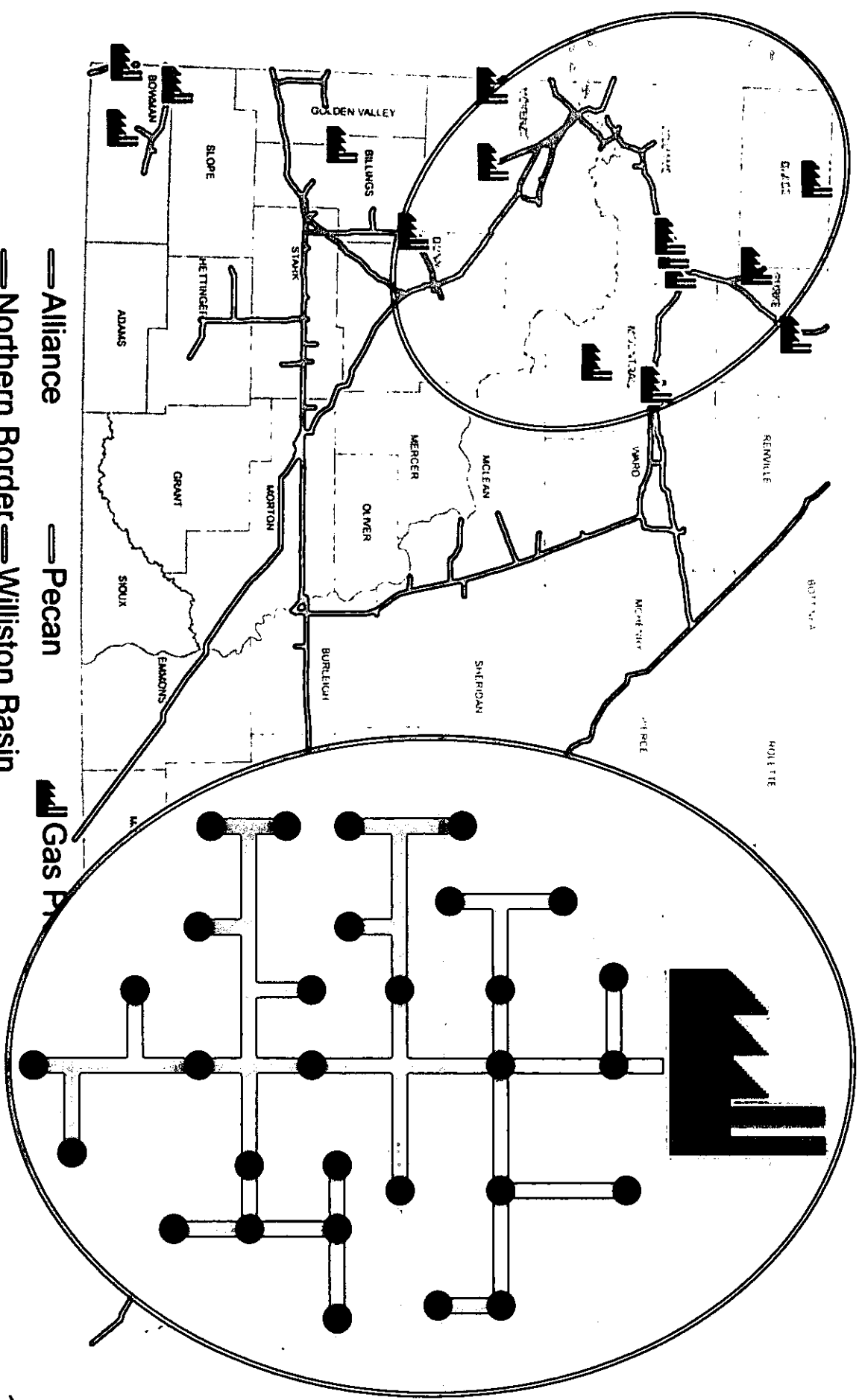
Natural Gas Projects

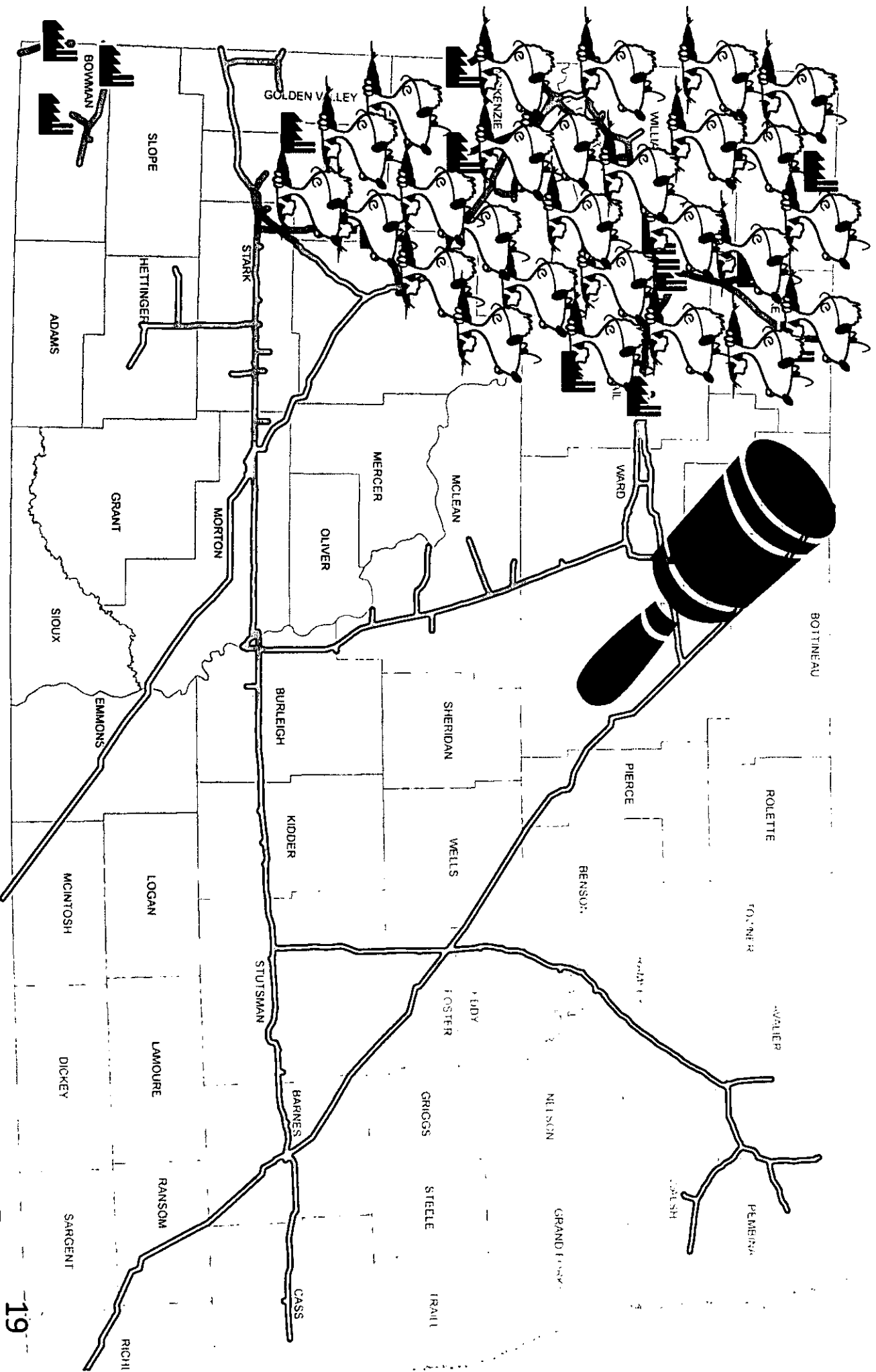


ND Gas Production

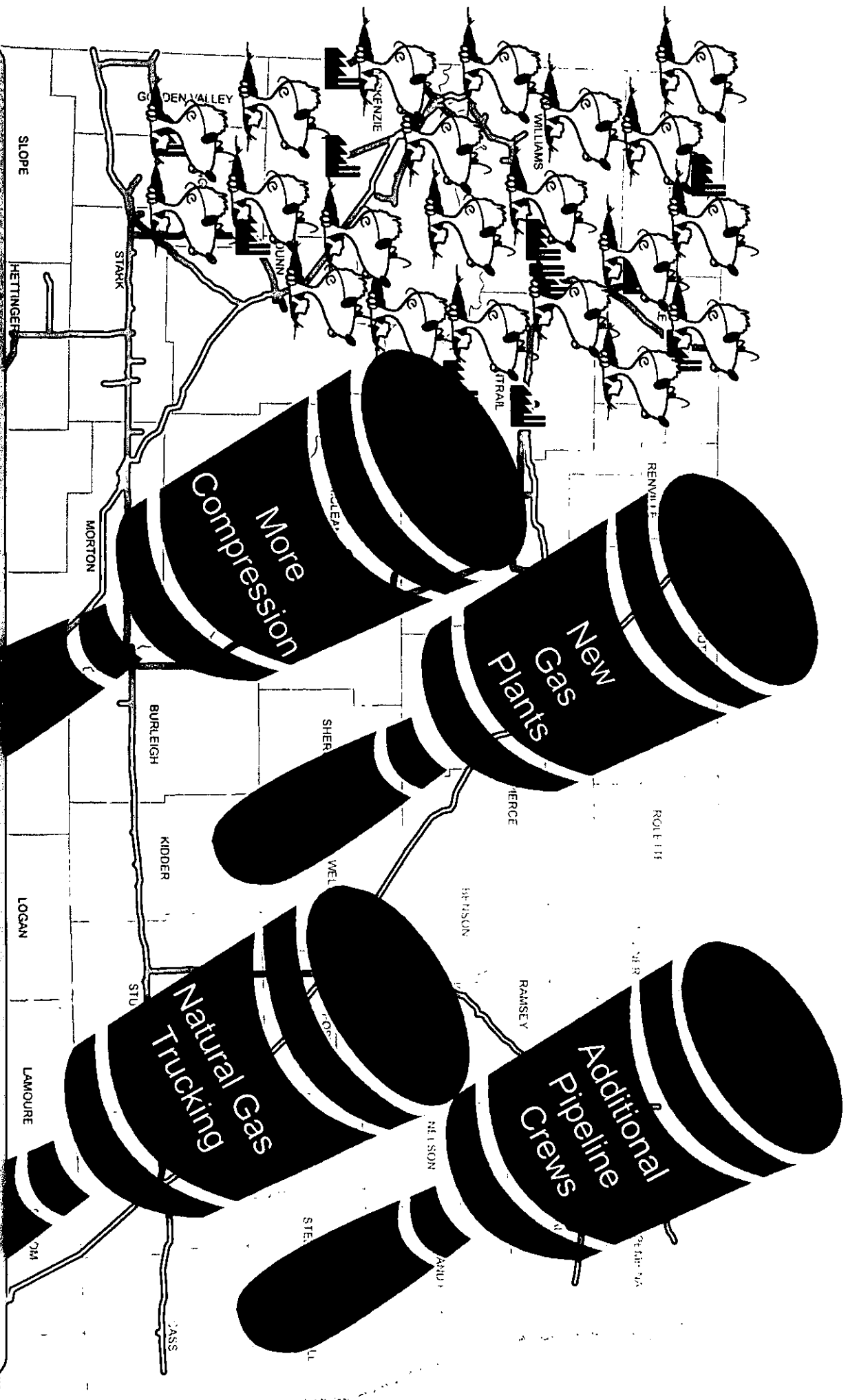


Natural Gas Challenges

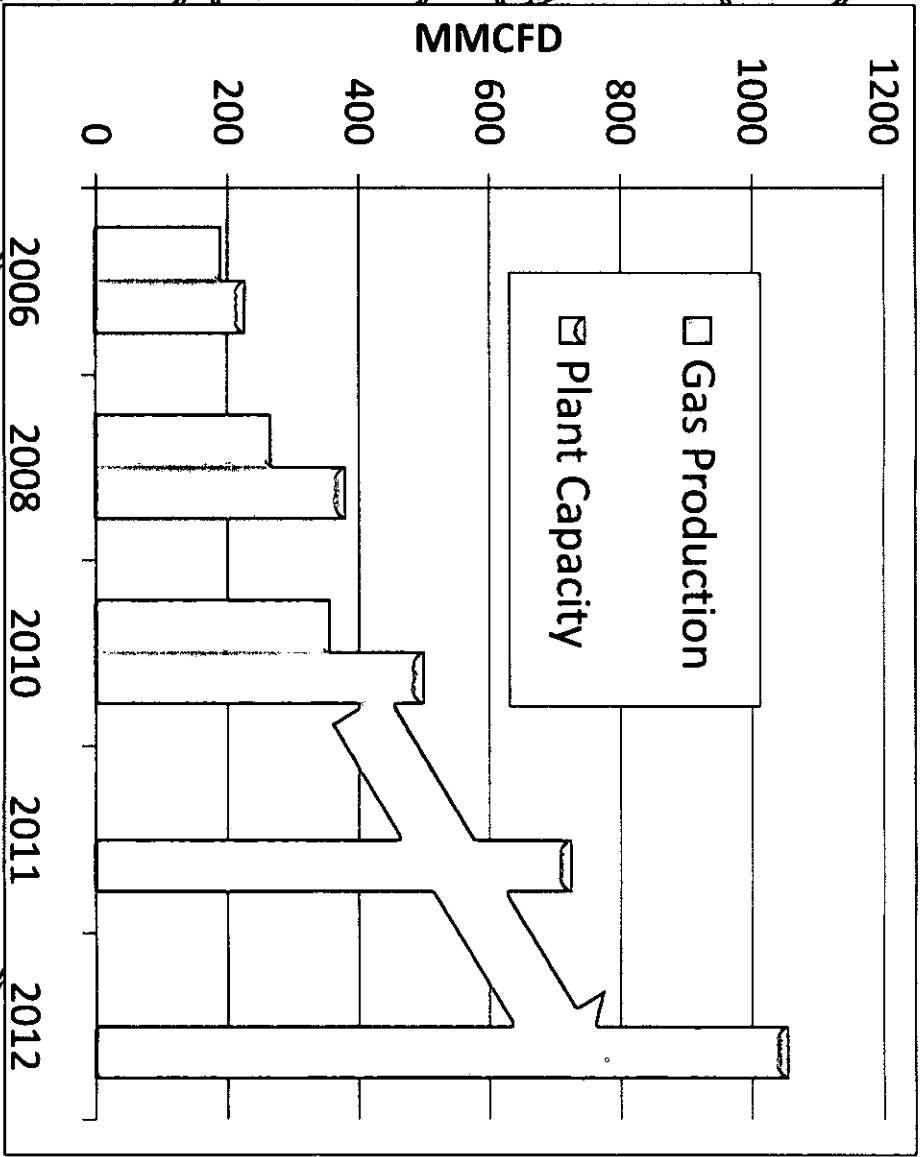
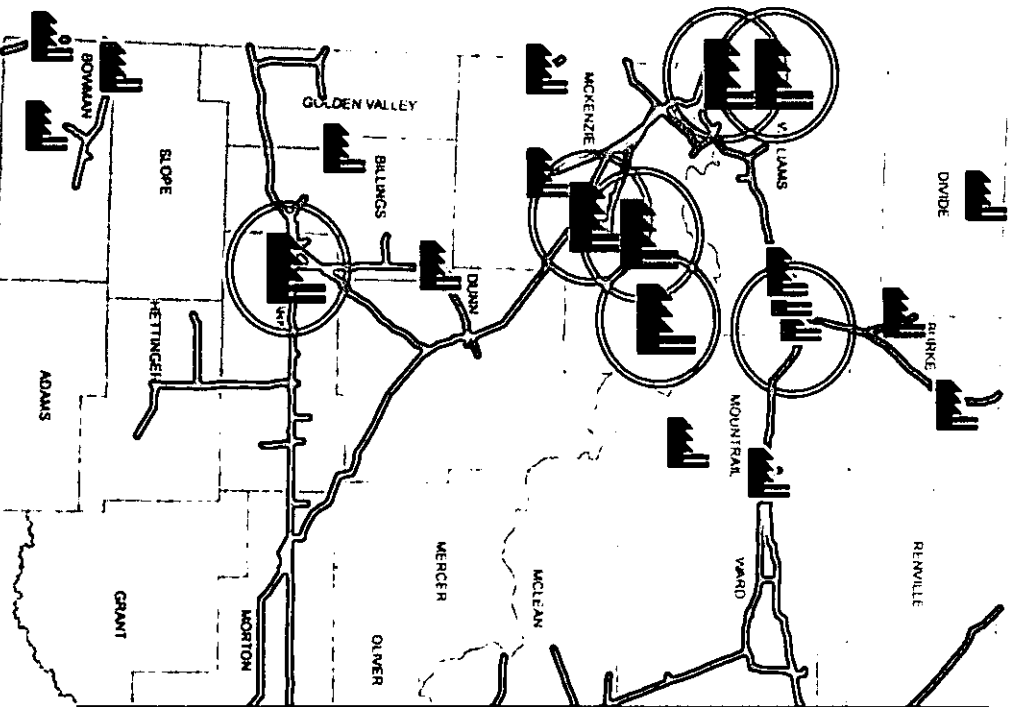




\$2.3 - \$2.7+ BILLION in the Next 1-3 Yrs

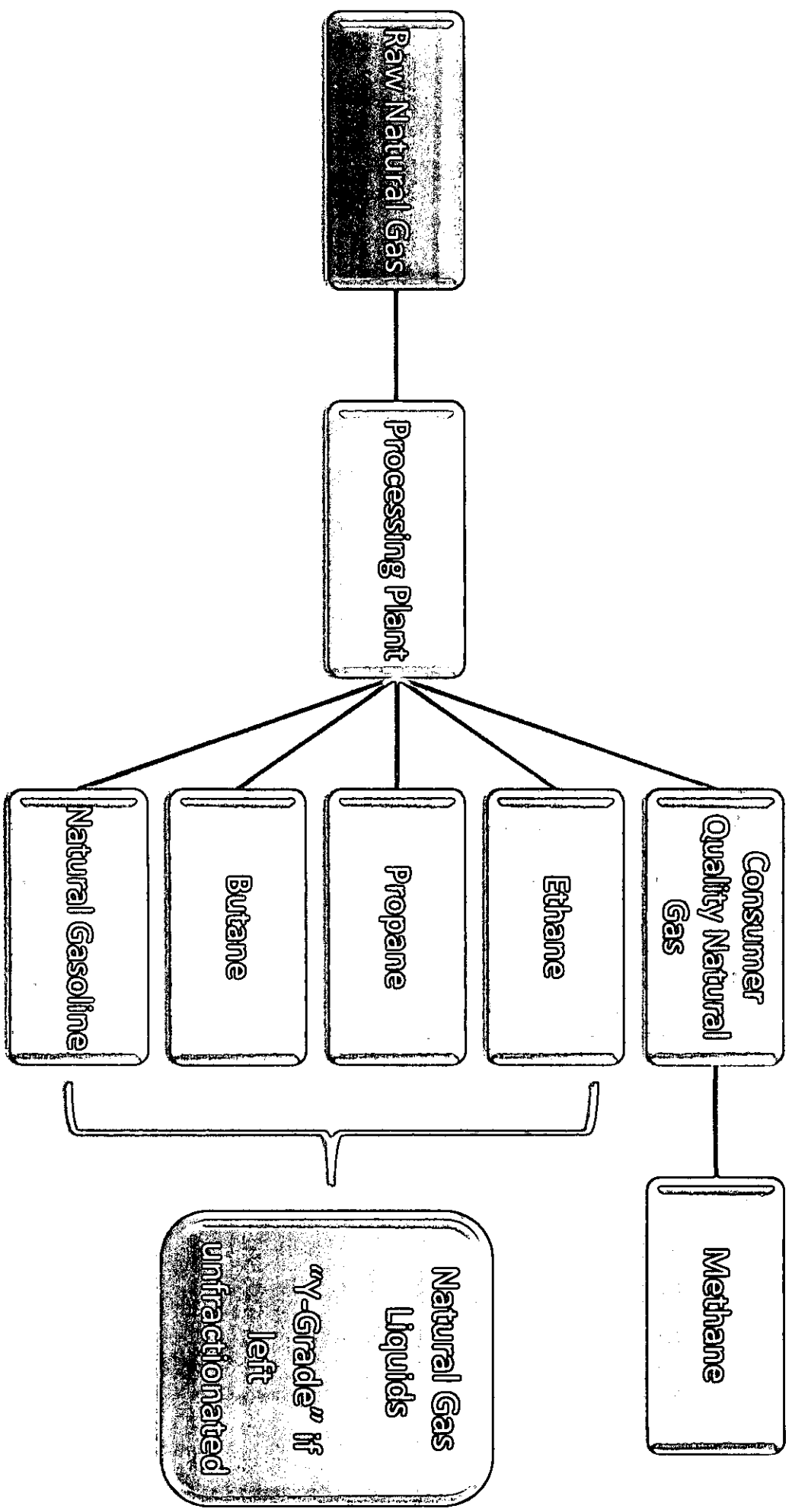


Natural Gas Processing

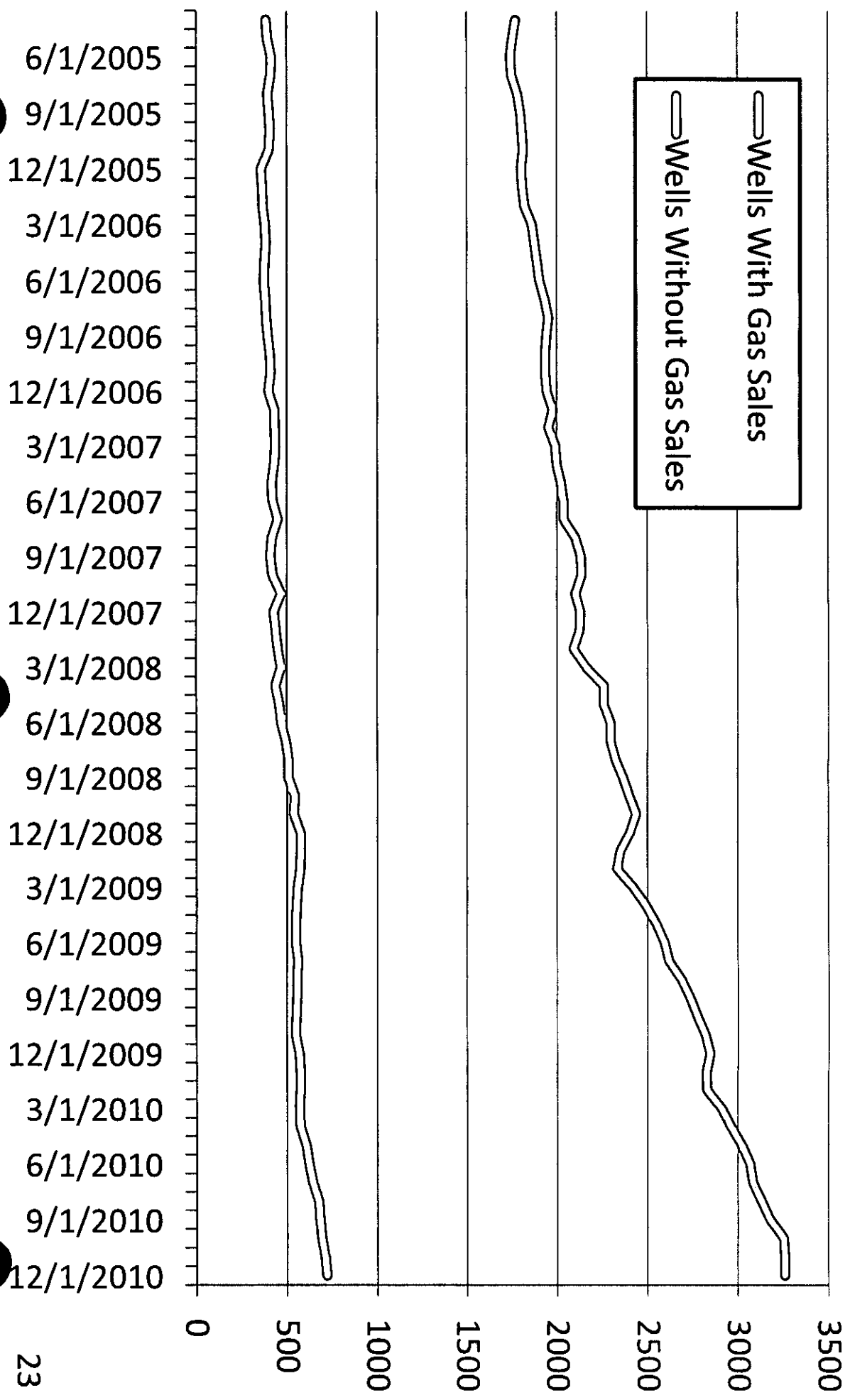


- Alliance
- Pecan
- Northern Border
- Williston Basin
- Gas Processing Plant

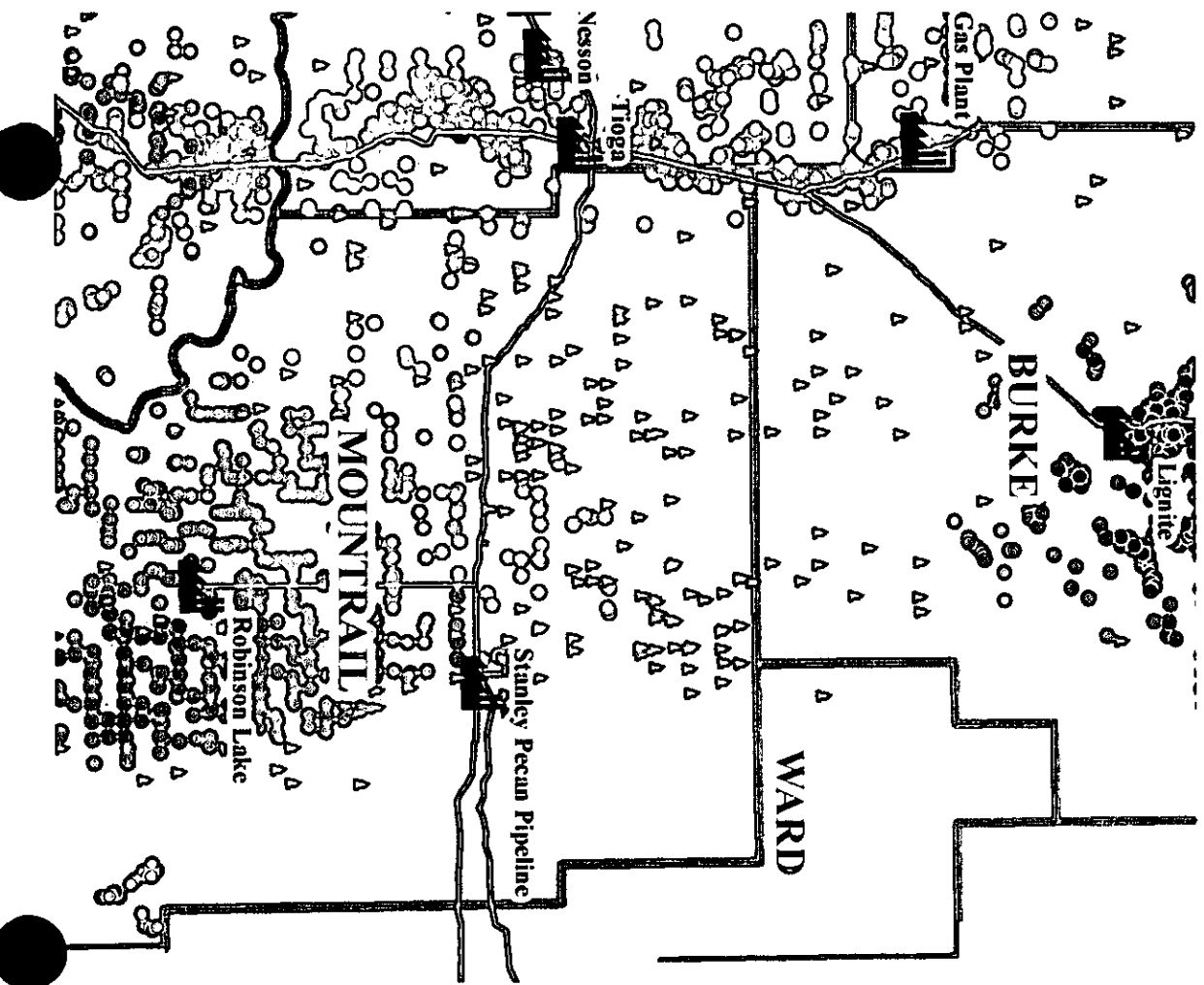
Natural Gas Processing With Ethane Extraction



ND Gas Gathering Statistics

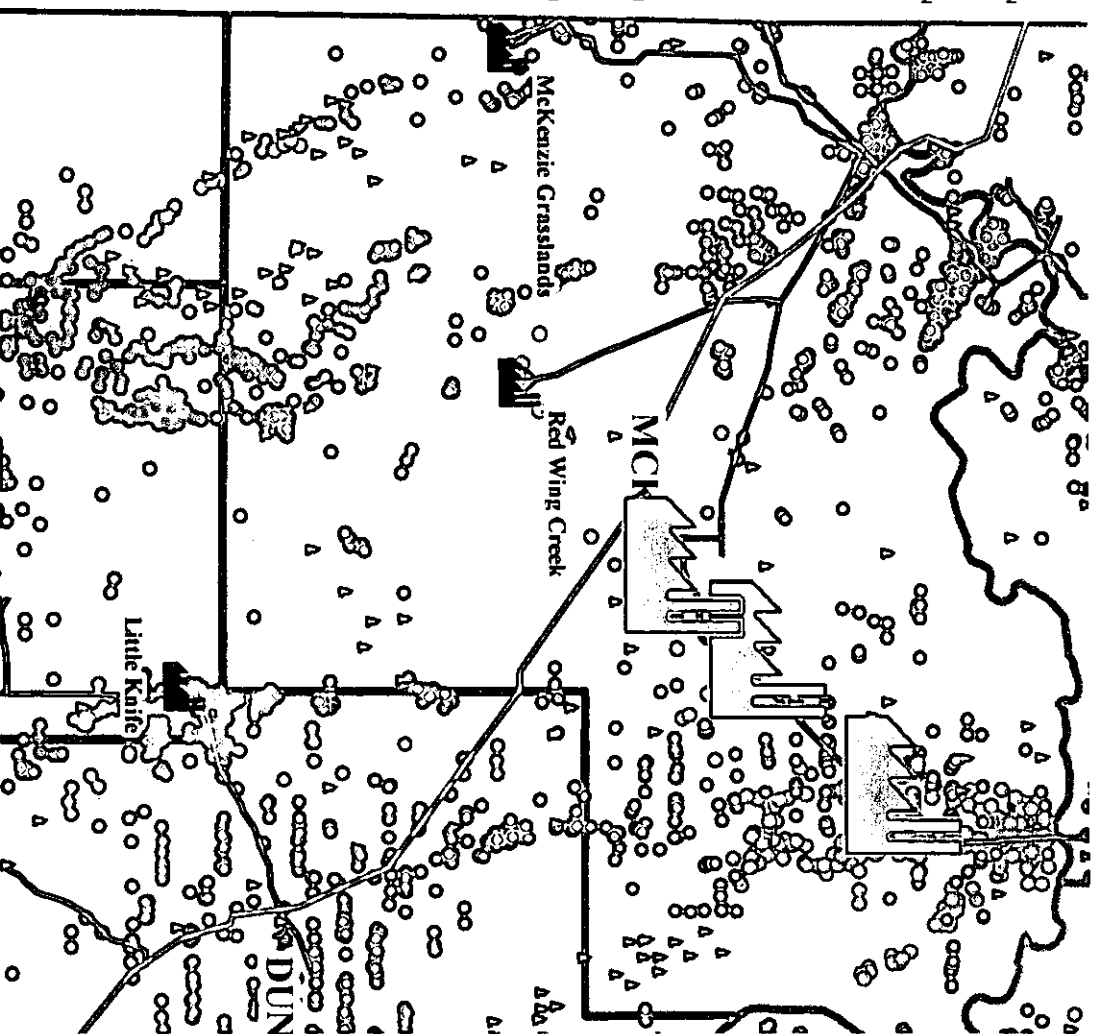


Mounttrail/Burke Counties



**Bear Tracker Energy
150+ Well Connections in
2011
Tie into Pecan's Stanley
Facility**

Mckenzie County

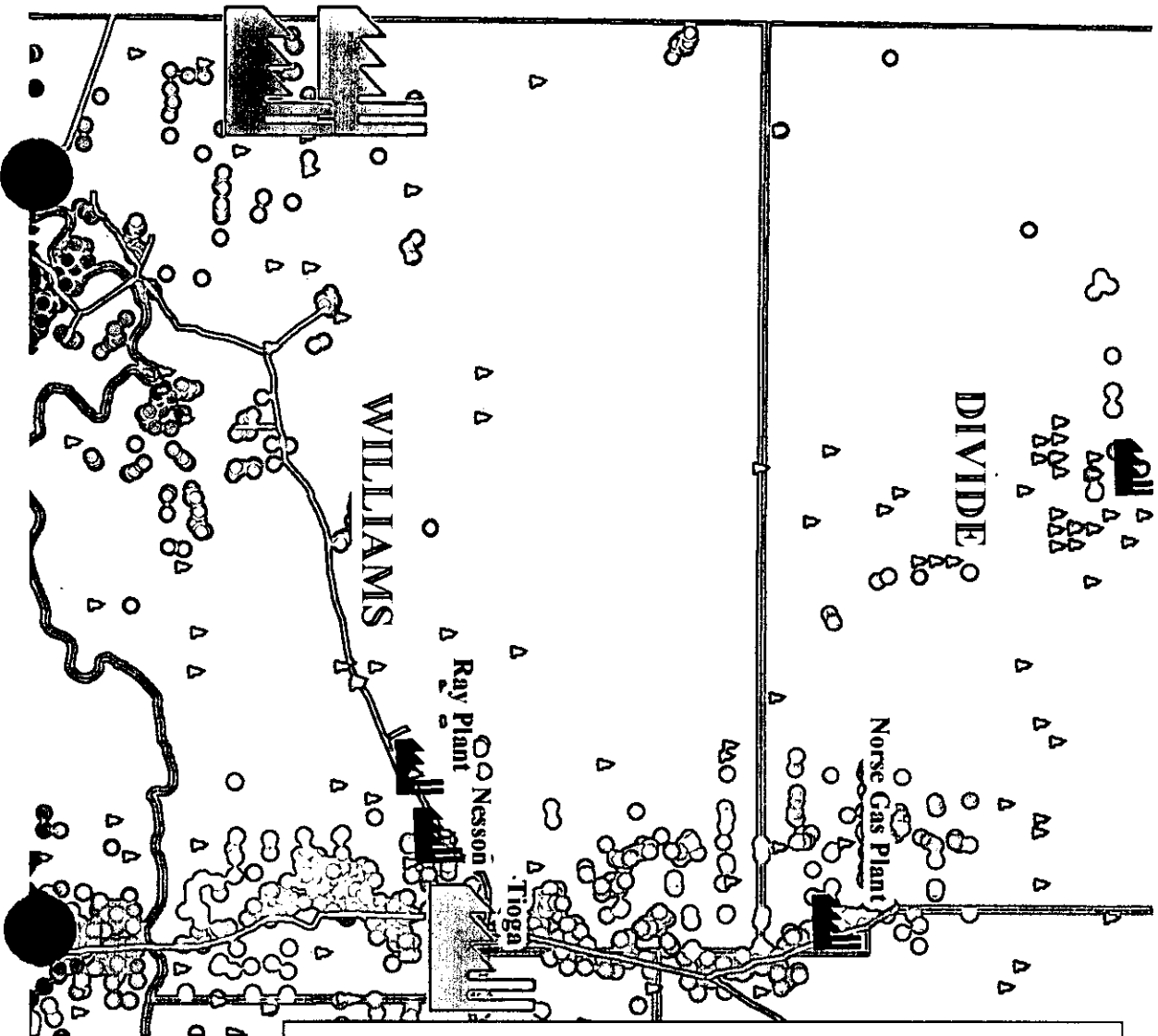


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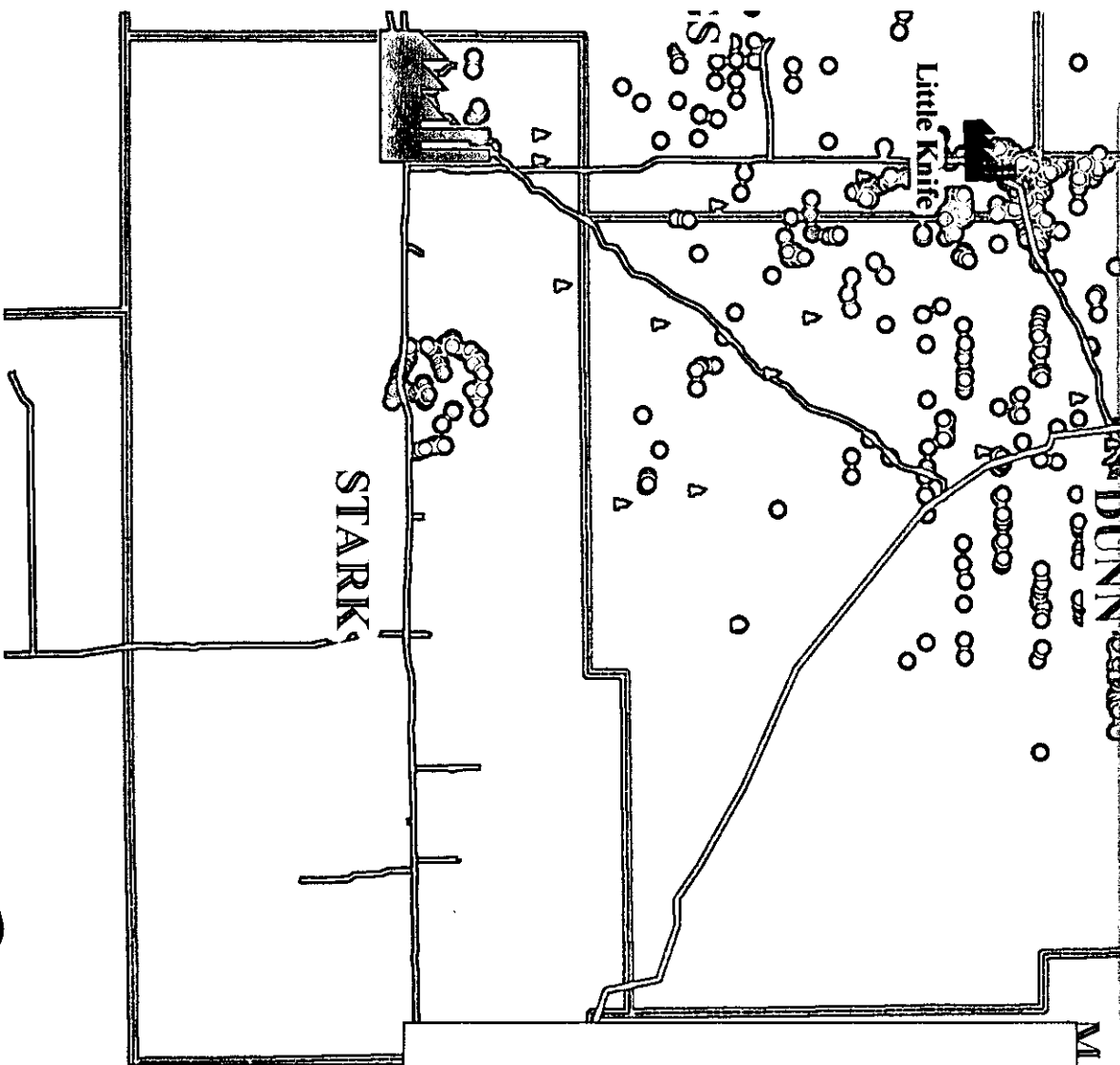


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Stark County



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Petro Hunt
Little Knife Plant

Thank You!

North Dakota Pipeline Authority

600 E. Boulevard Ave. Dept. 405
Bismarck, ND 58505-0840

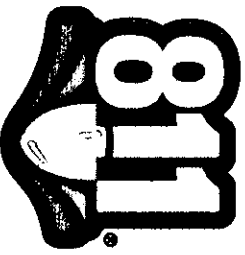
Phone: (701)220-6227

Fax: (701)328-2820

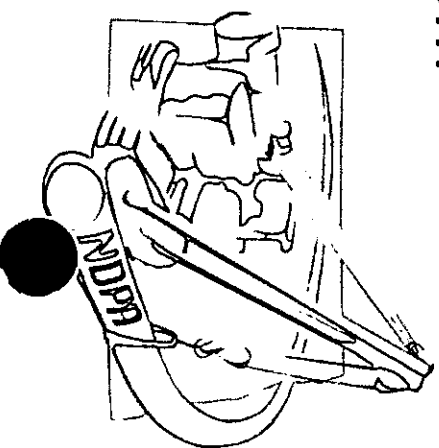
E-mail: jjkringstad@ndpipelines.com

Website:

www.pipeline.nd.gov



Know what's below.
Call before you dig.



11.8251.03000

3/11/2011
Proposed Amendment

Sixty-second
Legislative Assembly
of North Dakota
Introduced by
Senators Klein, Nodland, Wardner, Triplett
Representatives Skarphol, Sukut

p.1 remove lines 1 through 18 and insert the following:

A BILL for an Act to provide an appropriation for defraying the expenses of the oil and gas research council to create and enact a new section to chapter 54-17.6 and a new section to chapter 57-51 of the North Dakota Century Code, relating to establishing a grant program for recovery of flared gas and tax exemption for captured gas; to provide an effective date; and to provide an expiration date.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

SECTION 1. A new section to chapter 54-17.6 of the North Dakota Century Code is created and enacted as follows:

Flared gas reduction and energy conservation infrastructure grant.

1. The council shall establish a grant round for the purpose of facilitating and encouraging the commercialization of solutions to minimize Bakken flare gas volumes in the state. The council shall use up to six million dollars of the funding appropriated in section 3 of this Act for the grant program to support any technology, application or other infrastructure or solutions that meet the purpose of the grant round described in this section. The grant application must demonstrate that once completed, the system must conserve energy and minimize waste from gas that would otherwise be flared in association with oil development in the state.

2. In making a grant award from the program established by this section, the council shall obtain an evaluation by the department of health of the grant application with regard to the positive impact to air quality, and shall secure a technical review from the department of mineral resources that the application is technically viable to reduce flared gas in the state.

3. The council shall require as a condition of the award that the recipient provide a report of the outcome of the project to the council.

4. The grant round provided in section 1 shall be awarded within ninety days of the effective date of this Act, and

- a. shall be duly publicized by the council
- b. shall be awarded on a competitive basis

5. Grants may be made in any increments of funds appropriated in this Act. Awards shall be made that will most likely meet the purpose of this Act in capturing, or otherwise utilizing gas that otherwise would be flared. The council shall consider the following criteria in making the award:

- a. experience of the applicants
- b. timeliness of implementation of proposed project
- c. scope of proposal in relation to total gas being flared in the state
- d. demonstration of additional capital committed to the project
- e. financial viability of the project
- f. likelihood of successfully capturing flared gas in the state

SECTION 2. APPROPRIATION. There is appropriated out of any moneys in the resources trust fund in the state treasury, not otherwise appropriated, the sum of \$6,000,000, or so much of the sum as may be necessary, to the department for the purpose of a flared gas reduction and energy conservation grant program, for the biennium beginning July 1, 2011, and ending June 30, 2013.

SECTION 3. EFFECTIVE DATE - EXPIRATION DATE. Section 2 of this Act is effective for taxable events occurring after June 30, 2011. Section 1 of this Act is effective through June 30, 2013, and is thereafter ineffective.

SECTION 4. This Act is declared to be an emergency

2

**THE
HARMS GROUP**

March 11, 2011
Energy and Natural Resources Committee

SB 2355

Mr. Chairman, members of the Energy and Natural Resources Committee, my name is Robert W. Harms. I represent Bakken Express—we are in support of SB 2355. The problem we want to discuss with you this morning is flared gas in North Dakota, which is produced in conjunction with the Bakken development.

THE PROBLEM: We flare 23% of the gas produced in North Dakota today, at a rate of 80,000 MCF @ day. We've gone from 13% to 23% in a year. Even with all of the billions of new investment you heard about yesterday, this problem will not dissipate. We will continue to drill more wells that the infrastructure won't keep up with and will continue to waste the resource and the money that goes with it. (Percentage of flared gas may drop, but volumes will remain the same). Why should we care?

-waste 23% of any resource. (Bakken well produces 20% gas in first year of production).

-Economic loss:

10,651,145 MCF November gas production

15% flaring: \$118 million lost value annually@ \$3.97 MCF

1/6 royalty...\$20 million SHOULD be going to mineral owners

-ND Land Department loss: 31% flared; \$750,000 loss in 2009; estimate \$1.3 million in 2010.

-No Tax

-No Royalty

-No income tax

-Loss of valuable energy source (American energy for Americans)

-Environmental impact

-Exposes ND to greater risk of environmental regulation from EPA. (Wyoming is now in non-attainment; EPA rejected ND plan regarding regional haze rules last fall).

WHY IS THIS HAPPENING?

Drilling exceeding infrastructure; companies dedicating capital to drill and secure leases

ND is in a unique position; few jurisdictions have been challenged with the size and magnitude of the Bakken; the infrastructure can't keep up with the production (as per oil pipelines/ discounts recently).

Public policy allows flared gas up to a year, and beyond with approval. No royalty is paid to the mineral owner, nor taxes to the state during the year of flaring, and in some cases beyond the year.

Public Policy Choices: Nothing? Prohibit flaring? Incentivize new solutions?

THE BILL:

- Competitive one-time grant program of \$6.0 million to accelerate new solutions
- Must demonstrate that the proposed solution(s) will minimize flaring
- Utilizes oil and gas research council, and technical reviewers to evaluate grants
- Appropriates one-time expenditure of \$6.0 million from the Resources Trust Fund
Voters passed Resources Trust fund for "Funding of programs for energy conservation".
(ND Constitution: Article X Section 22).
 \$230MM in past 16 years (1994-2010) 10 x e.g. 05-07 (\$25MM)
 \$282MM for 2011-13 FY alone

BENEFITS OF A SOLUTION:

1. State owned minerals/gas.....royalties paid rather than "burned"
2. State revenues will go up
 - a. Taxes on gas will be paid
 - b. Individuals will pay income tax
3. Reduce surface owner discontent (flares are an issue among landowners)
4. Revenue to mineral owners
5. Revenue to producers (and shareholders---including ND residents)
6. Extend geographic play of the Bakken (marginal areas)----
 - a. Add 10-20% to revenue stream
 - b. (REDUCE TAX (cost) by 2%---ADD 10-20% to SALES price/revenue)
7. Improve Marginal areas (wells making 30-40 BOPD).....
8. Solve an environmental/public relations problem
9. More robust/competitive market in the field. (negotiate vs. "price takers")
10. MORE American energy for America!

Economics of a solution:

Value of gas as per NDIC website: 10,651,145 MCF November, 2010 @ \$3.97 MCF recent price at Watford City. Assume we capture/save less than 1/2 (e.g. 10%)

10% = 1,651,145 MCF x \$3.97= \$6.5 million x 12 months= \$78.7 million @ year x 2 years = \$157 million gross revenue @ biennium.

State's share:

\$3,600,000 in gross receipts tax (1.6 million MCF x 24 months x \$.09 tax)

\$ 750,000 income tax (estimated on \$26.1 million in royalty x 3% ND income tax rate)

\$ xxx,xxx (royalty on state owned gas (unknown—estimated loss in 2010 was \$1.3 million)

\$3,900,000 (Estimate that liquids, not burned in the gas =50-100% of value of gas; taxed at 5%)

\$8,250,000 estimated return to state; if 10% of gas is captured in 2 years of biennium.

WHY wouldn't we want to solve this problem?

We urge you to adopt our proposed amendments, and recommend a DO PASS to the House.

Thank you.

Robert W. Harms
The Harms Group
815 Mandan Street
Bismarck, ND 58501

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Oil and Gas Division

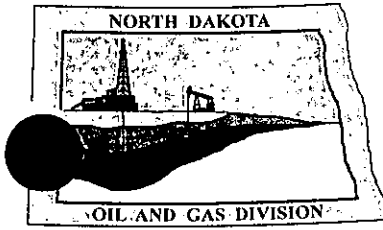
Lynn D. Helms - Director Bruce E. Hicks - Assistant Director

Department of Mineral Resources

Lynn D. Helms - Director

North Dakota Industrial Commission

www.oilgas.nd.gov



Senate Bill No. 2355

House Energy and Natural Resources Committee
Pioneer Room
March 11, 2011

Testimony by
Bruce E. Hicks
Assistant Director
Oil and Gas Division
Department of Mineral Resources
North Dakota Industrial Commission

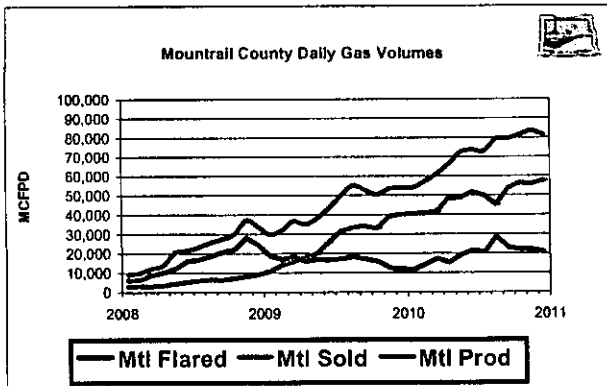
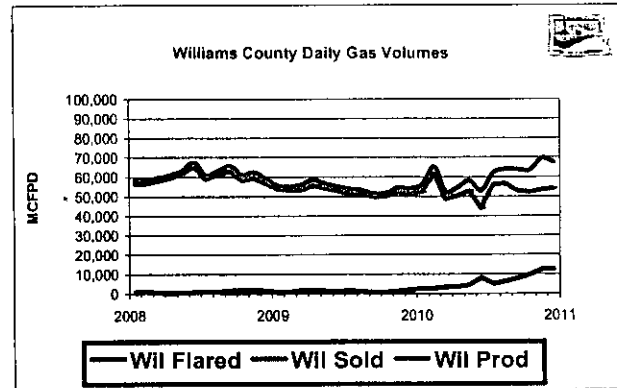
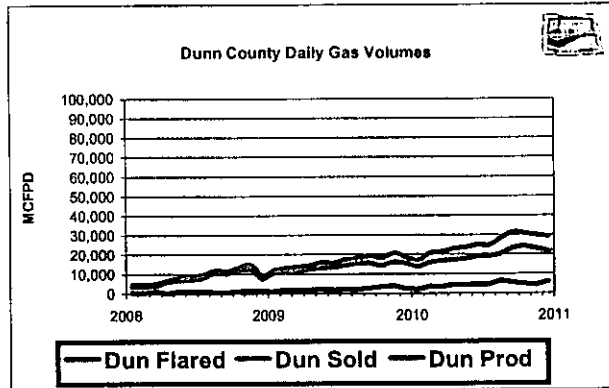
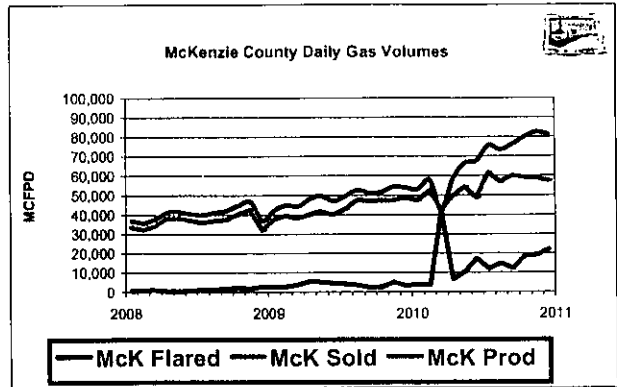
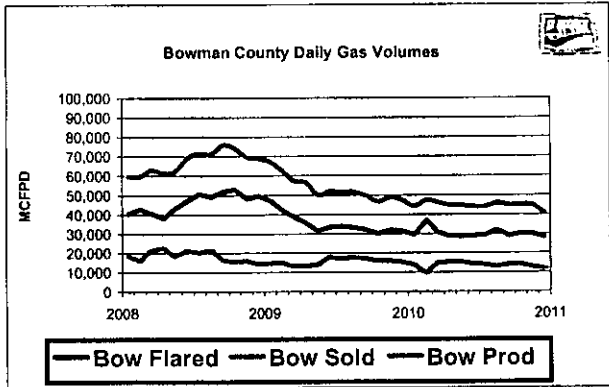
Chairman Porter and members of the House Energy and Natural Resources Committee, my name is Bruce Hicks. I am the Assistant Director of the Oil and Gas Division of the North Dakota Industrial Commission.

SB2355 is a study to reduce the flaring of natural gas in North Dakota. The Industrial Commission is here to supply information concerning the volume and location of gas currently being flared and we offer the following:

Find attached a table and gas graphs depicting the amount of gas produced, sold, and flared for the Bowman, Dunn, McKenzie, Mountrail, and Williams Counties. Note gas flared in Bowman County is mainly flue gas produced in the Cedar Hills North-Red River "B" Unit and has no economic value. Gas flared in Dunn, McKenzie, Mountrail, and Williams Counties is predominantly Bakken-Three Forks wells that should eventually will be connected to a gas gathering and processing facility.

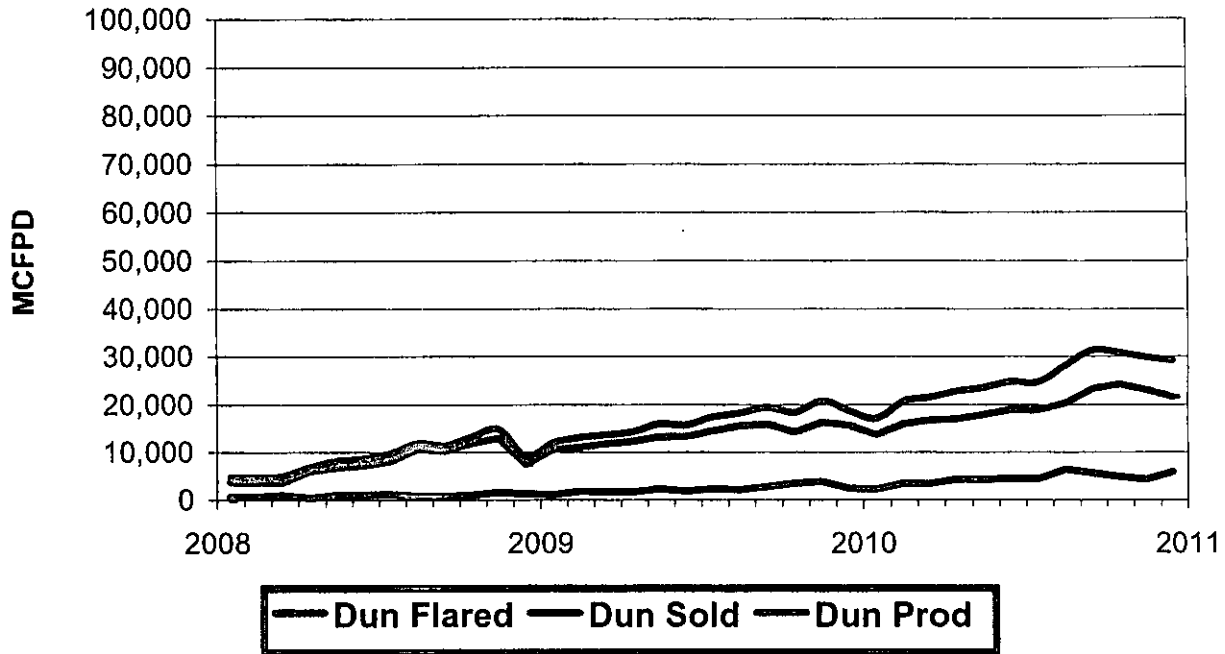
The Bakken-Three Forks contains an excellent gas and is high in liquid content and BTU value. I have attached a representative gas analysis at the end of my testimony.

The Industrial Commission would be happy to provide any additional information needed to assist the study.

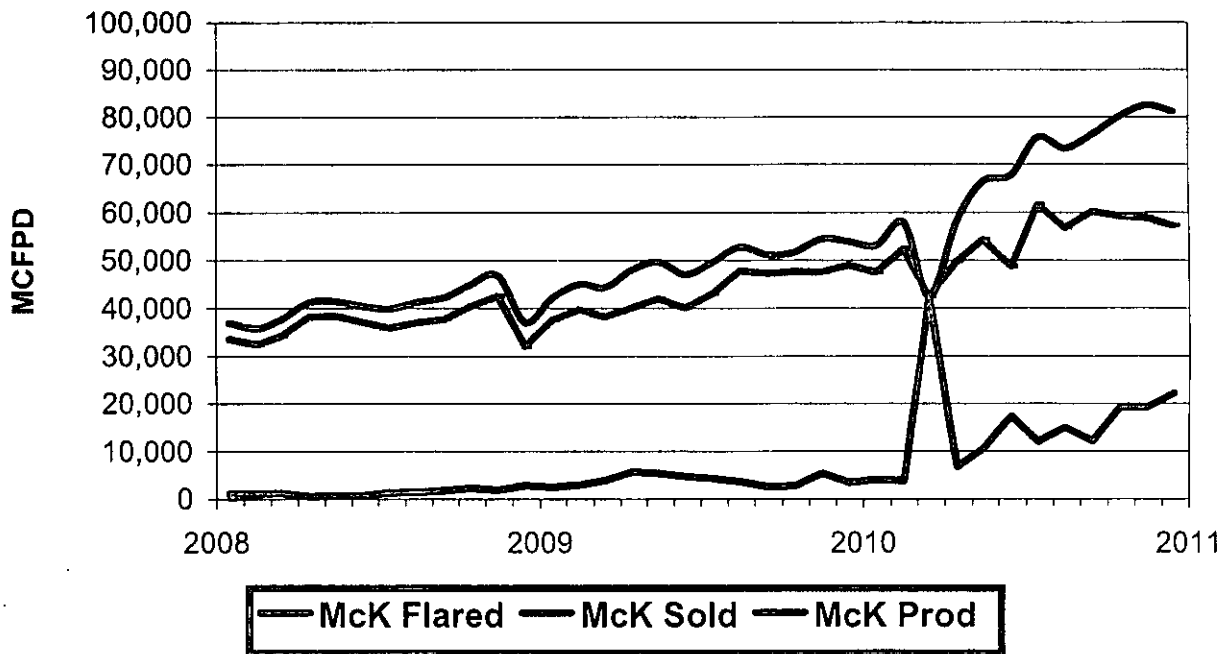




Dunn County Daily Gas Volumes

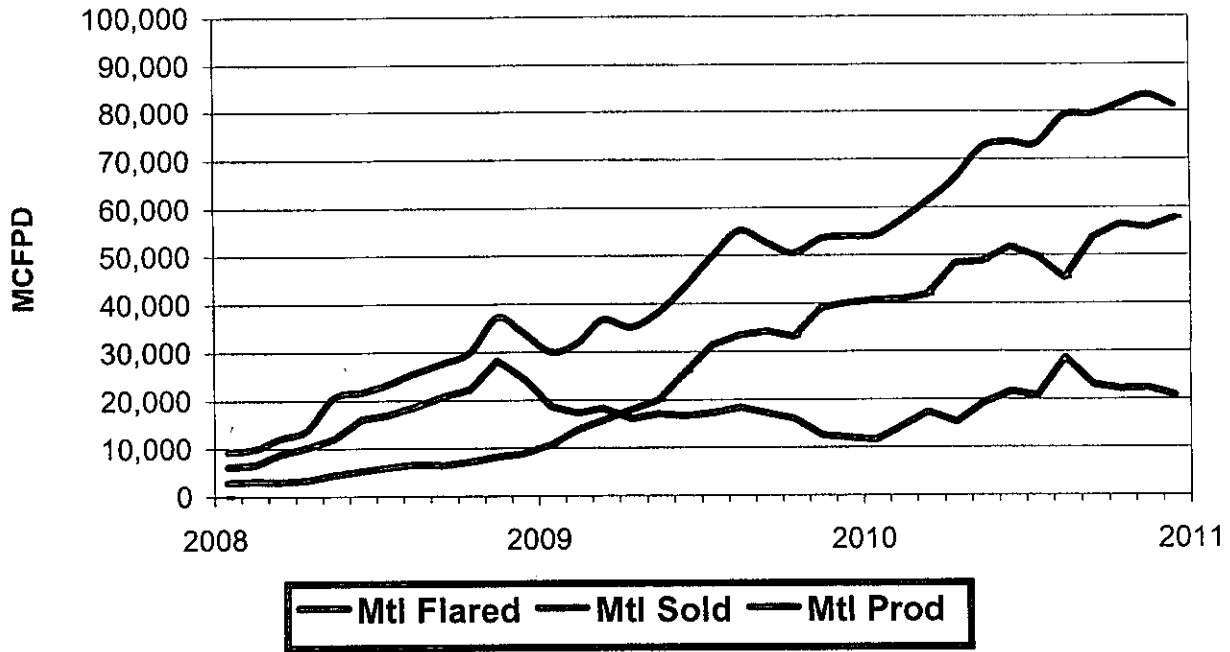


McKenzie County Daily Gas Volumes

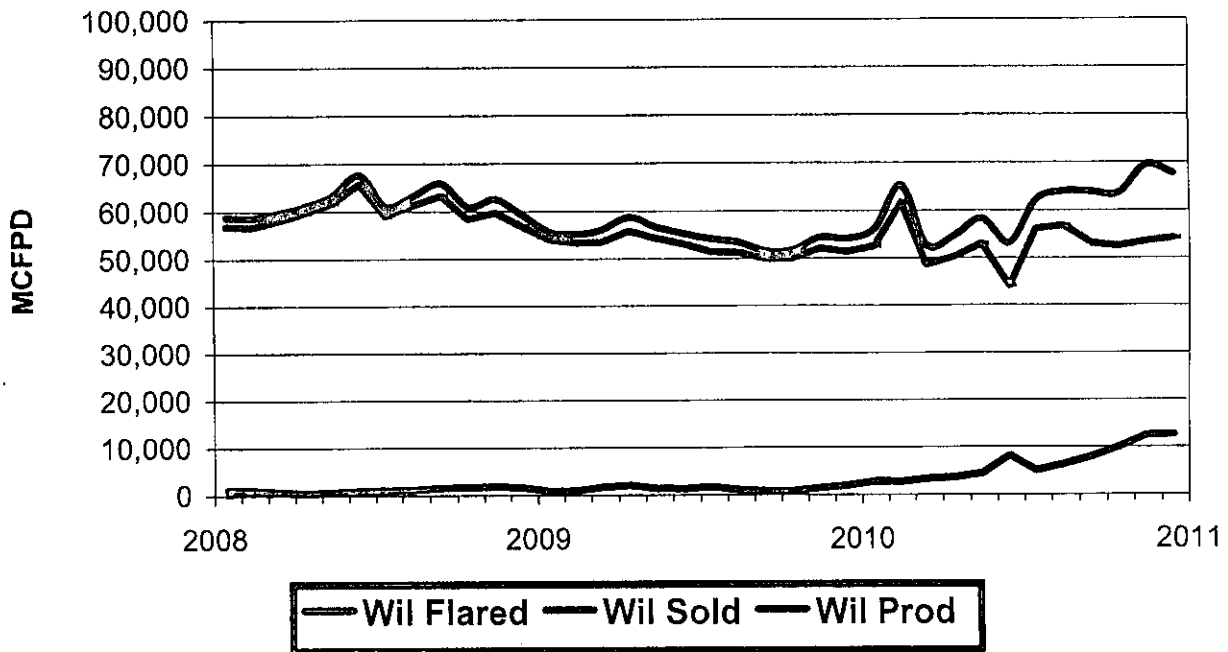




Mountrail County Daily Gas Volumes



Williams County Daily Gas Volumes



ASTRO-CHEM LAB, INC.

4102 2nd Ave. West

Williston, North Dakota 58802-0972
P.O. Box 972

Phone: (701) 572-7355

NATURAL GAS ANALYSIS

COMPANY Petro-Hunt, LLC. DATE OF ANALYSIS 10-1-10
LEASE Forseth 157-100-25B-36-1H
DATE SAMPLED 9-30-10 TEMPERATURE 134 °F
SAMPLE SOURCE Treater PRESSURE 33 PSI
SAMPLE NUMBER G-10-3651 SAMPLED BY BK
TYPE OF ANALYSIS GAS ANALYSIS BY BK
FORMATION INTERVAL
LOCATION SECTION TOWNSHIP RANGE
DISTRIBUTION Doug Hansen

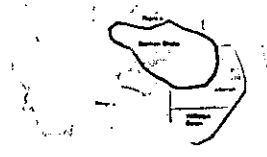
COMPONENT	MOLE %	GPM
Nitrogen	2.62	0.000
Methane	46.79	0.000
Carbon Dioxide	0.59	0.000
Ethane	21.61	5.770
H ₂ S	0.00	0.000
Propane	15.56	4.267
i-Butane	1.76	0.574
n-Butane	5.97	1.874
i-Pentane	1.13	0.411
n-Pentane	1.70	0.612
Hexanes+	2.27	0.994
Oxygen/Argon	0.00	0.000
Total	100.00	14.501

CALCULATED SPECIFIC GRAVITY 1.0558 (Air = 1.0000)

CALCULATED GROSS BTU/ft³ 1707 (Saturated) 1737 (Dry) at 14.73 psi and 60°F

REMARKS On-Site H₂S = 0 by B. Kyllö, ACL.

Petro-Hunt, L.L.C.
Case No. 13389
October 20, 2010
Exhibit No. 7



FLARE REDUCTION & ENERGY CONSERVATION INFRASTRUCTURE BILL

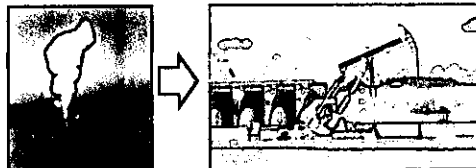
Mar 11, 2011

Gas Capture & Transport Solution

Goal of Legislation

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- To incentivize deployment of new technologies and infrastructure to reduce the wasted gas currently being flared with the Bakken oil development.



Mar 11, 2011

Problem & Solution Overview

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- **Problem:** Flared gas is a wasted resource that should be captured, but instead 23% is flared.
- **Reason:** Drilling activity way ahead of gas & infrastructure construction, because:
 - Drilling locations prioritized on highest oil rates and lease terms.
 - Pipelines, the traditional method to capture gas, are built out systematically from gas plants and booster stations.
 - Non-conventional capture methods haven't attracted investment.
- **Solutions considered by NDOG Research Council:**
 - Use gas on-site for other purposes.
 - Capture & transport gas by truck to pipeline systems.

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In a nutshell...

4

- Gas Capture & Transport is an economic solution to the Bakken flare problem.
- Lack of discharge stations is an obstacle for producers to invest in compressors and tube transport service (the "chicken and egg" problem).
- Ready access to discharge stations will accelerate field-wide gas capture capability.
- Discharge stations require approximately \$6.6 million to stimulate approximately \$100+ million in compressor and tube container investments by industry.

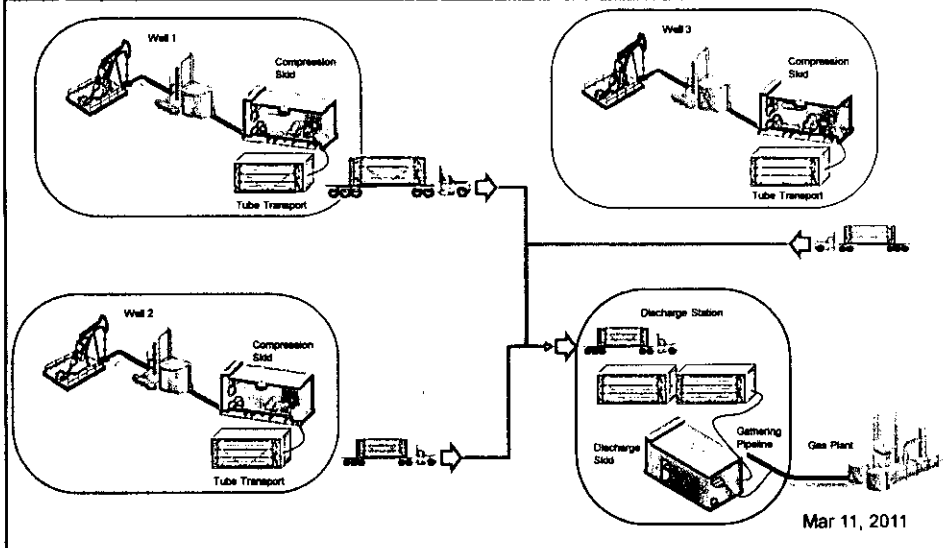
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Benefits To Stakeholders

- Reduce flaring & conserve energy
 - During the rapid oil development over next 10+ years
- Monetize wasted gas and liquids
 - Revenue for State, Mineral Owners & Producers
 - Gas & NGL represents 20% of total value
 - Add bookable reserves (20% uplift to oil alone)
- Improve Bakken well economics
 - Improve well economics for wells in areas distant from existing pipelines and gas plants
 - Optimize timing of infrastructure investment (size pipes and plants better based on better well performance data)

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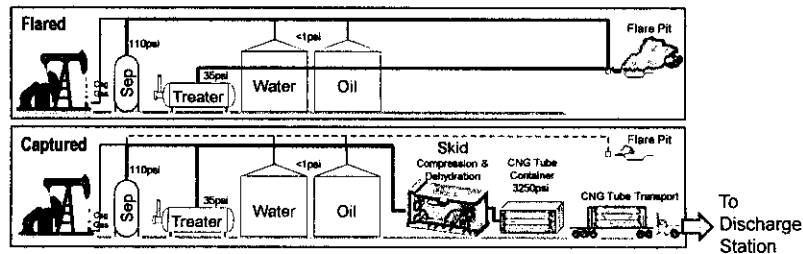
Overall Process



Wellsite Gas Capture

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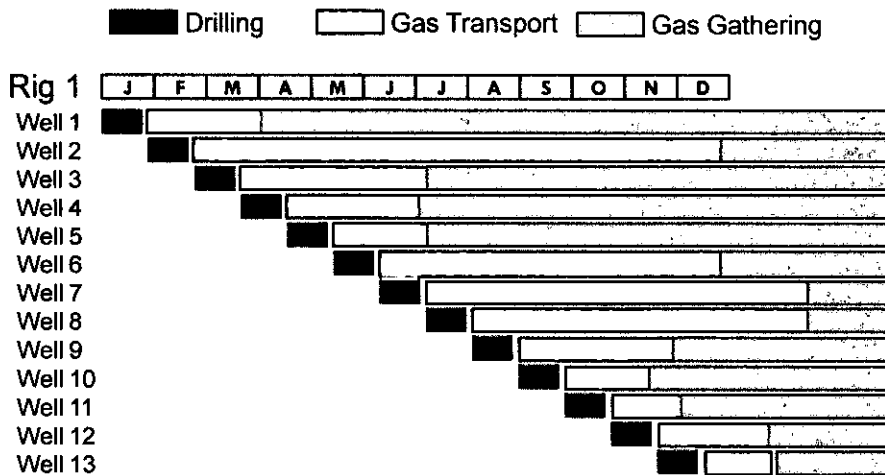
- Compression Fill Station
 - Compression/dehydration units compress 300-700 mcfpd from 25 psig to 3500 psig.
- CNG Tube Transport
 - CNG tube trailers operate at 3250 psig and have capacities of 125 mcf.



Mar 11, 2011

Gas Capture Skids Move Well-To-Well*



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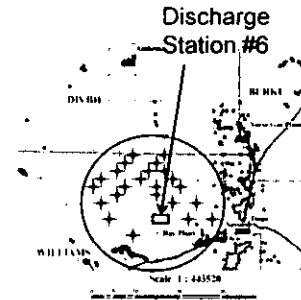


* Wellsite equipment is moved well-to-well to capture the early gas production...until pipeline infrastructure is available.

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Example Discharge Station Hub

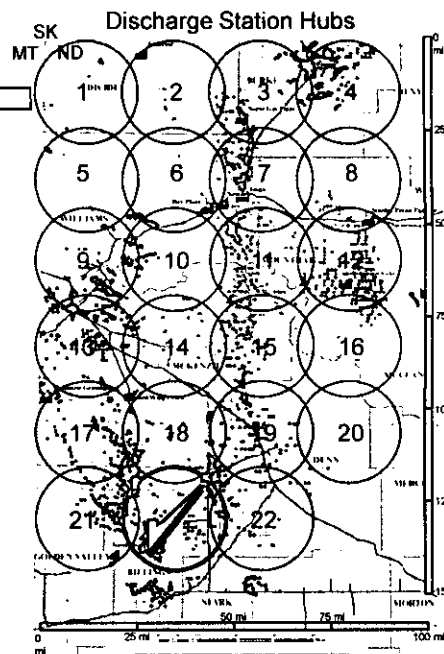
- **Producer A** 
 - 20,000 net acres, 2 drilling rigs
 - 3 wellsite skids at any given time
 - 2,100 mcfpd
- **Producer B** 
 - 10,000 net acres, 1 drilling rig
 - 2 wellsite skids at any given time
 - 1,400 mcfpd
- **Discharge Station Throughput**
 - 3.5 mmcfpd



Mar 11, 2011

Discharge Hubs

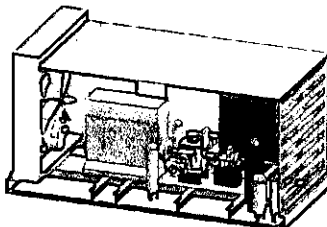
- **Criteria for Discharge Stations:**
 - Span ND Bakken play
 - Well-to-discharge distance under 25 miles
 - Access to low pressure gathering pipeline
- **Requires 23 stations**
 - One station already being built



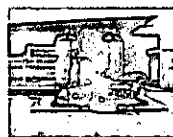
Key Technologies

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- CNG Compressors
 - Leveraged standardized CNG fill stations, but toughened them up for remote oil field sites.



- Desiccant Dryers
 - Remove water as low as 0.5 lb/mmcf for tube transport.



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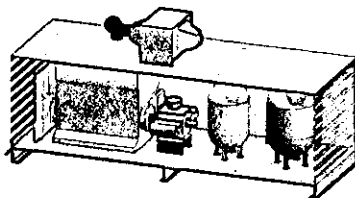
Key Technologies

12

- CNG Tube Transport
 - Extensive testing before DOT approval.
 - Long history in CNG industry.



- De-Compression
 - Manage extreme cooling (-150 F) during rapid discharge.
 - Enable capture of natural gas liquids for dry gas pipelines.



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Grantee Roles

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- **Procurement of Discharge Stations**
 - Grantee oversee procurement, manufacturing and installation.
 - Pass-through costs of manufacturing and external consultant fees, i.e., Grantee earns no profit on procurement.
 - Grantee owns skids.
- **Installation & Operation of 22 Discharge Stations**
 - Pipeline owner responsible for site work, meter run and pipe connections.
 - Grantee responsible for operation, maintenance and expansion (additional skids) of discharge stations.
 - Grantee charges operating fee to producers who deliver CNG. Fee based on direct costs and reasonable overhead/profit margin.

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Summary

19

- Gas Capture & Transport is an economic solution to the Bakken flare problem.
- Lack of discharge stations is an obstacle for producers to invest in compressors and tube transport service (the “chicken and egg” problem).
- Ready access to discharge stations will accelerate field-wide gas capture capability.
- Discharge stations require approximately \$6.6 million to stimulate approximately \$100+ million in compressor and tube container investments by industry.

Mar 11, 2011

5

**Testimony in Opposition to
ENGROSSED SENATE BILL NO. 2355
House Energy and Natural Resources Committee
March 11, 2011**

Chairman Porter, House Energy and Natural Resources Committee members, for the record my name is Todd D. Kranda. I am an attorney with the Kelsch Law Firm in Mandan and I appear before you today as a lobbyist on behalf of the North Dakota Petroleum Council to oppose Engrossed Senate Bill 2355 which requires an immediate study for recovery of flared of gas which study is to be completed before November 2011 for introduction of legislation during the November 2011 special legislative session.

As you may know, the North Dakota Petroleum Council represents more than 260 companies involved in all aspects of the oil and gas industry and has been representing the industry since 1952. The North Dakota Petroleum Council membership produced 98% of North Dakota's 113 million barrels of oil in 2010. Additionally, 47 of the top 50 oil producers in North Dakota are members of our association.

With regard to SB 2355, the North Dakota Petroleum Council was not opposed to the bill in its original form as introduced which involved a grant program for recovery of flared gas. However, the bill was amended into the version that appears before you and the North Dakota Petroleum Council is opposed to the bill as amended by the Senate.

There already exists adequate laws contained in Chapter 38-08 of the North Dakota Century Code for the control of gas and oil resources. This includes restrictions on the flaring of gas which are provided for in Section 38-08-06.4 NDCC. Also, there are

additional provisions established by the North Dakota Industrial Commission which are contained in the North Dakota Administrative Code, namely Chapter 43-02-03.

Additionally, the industry is working as quickly as possible to capture and process flared gas. There are a number of projects being developed to assist with the capture and processing of flared gas. In fact, I am personally aware of a recent gathering line system that was built by EOG known as the Pecan Pipeline, which system gathers and transfers gas to market through the Alliance Pipeline with the interconnection near Bantry, ND. Similar projects are being developed for the gathering of gas as well as the construction of several new gas processing plants. There are processing plants being built by ONEOK (Garden Creek, Stateline I and Stateline II), Hiland Partners Watford City Plant, Saddle Butte Pipeline, Whiting Belfield Plant and an expansion of the Hess Tioga Plant to meet the needs for capturing and processing of flared gas. It has been estimated that industry is putting an unprecedented \$3B toward this issue in the next few years.

Accordingly, this bill for a study is simply not necessary nor appropriate to address the issue of flared gas which is being dealt with by the industry and is already regulated by existing laws.

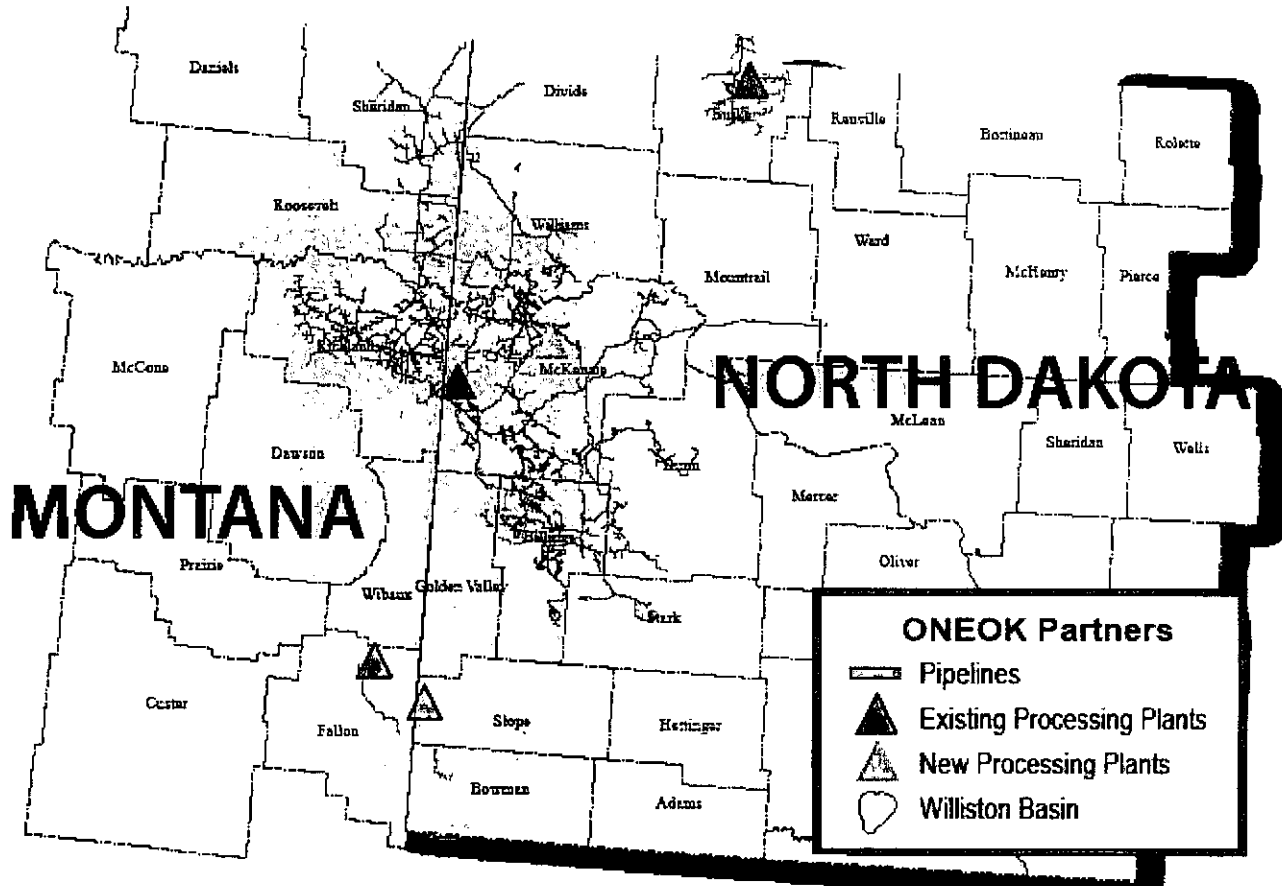
In conclusion, I would urge a **DO NOT PASS** recommendation for **Engrossed SB 2355**. I would be happy to try to answer any questions.



North Dakota Operations

7

www.oneokpartners.com



About ONEOK Partners

ONEOK Partners, L.P. (NYSE: OKS) is one of the largest publicly traded master limited partnerships, and is a leader in the gathering, processing, storage and transportation of natural gas in the U.S. and owns one of the nation's premier natural gas liquids (NGL) systems, connecting NGL supply in the Mid-Continent and Rocky Mountain regions with key market centers.

Its sole general partner is a subsidiary of ONEOK, an energy company founded in 1906 that's involved in natural gas distribution and energy services. ONEOK owns 42.8 percent of the partnership.

ONEOK Partners' strategic assets are connected to prolific supply basins with access to key markets and provides non-discretionary services to natural gas producers and various customers.

ONEOK Partners is comprised of three business segments, natural gas gathering and processing, natural gas pipelines and natural gas liquids.



North Dakota Operations

www.oneokpartners.com

Overview

Tulsa-based ONEOK Partners is currently the largest independent gatherer and processor of natural gas in the Williston Basin, with a gathering system of more than 3,500 miles.

Economic Impact

ONEOK Partners' total 2010 payroll was more than \$3 million (federal taxable wages) for its 52 North Dakota employees. The partnership also paid nearly \$670,000 in North Dakota property taxes in 2010.

Growth in North Dakota

ONEOK Partners has announced plans to invest approximately \$1 billion between now and the end of 2014 for projects in its natural gas gathering and processing segment. This investment includes the construction of three new natural gas processing plants and upgrades to infrastructure and numerous well connections - all within a three-county area of the Bakken Shale play in western North Dakota.

Garden Creek Plant

The new, 100 million cubic feet per day (MMcf/d) Garden Creek natural gas processing plant will be located in eastern McKenzie County, N.D., and is expected to go into service by the end of this year.

Cost estimate: \$150 million to \$210 million.

Stateline I Plant

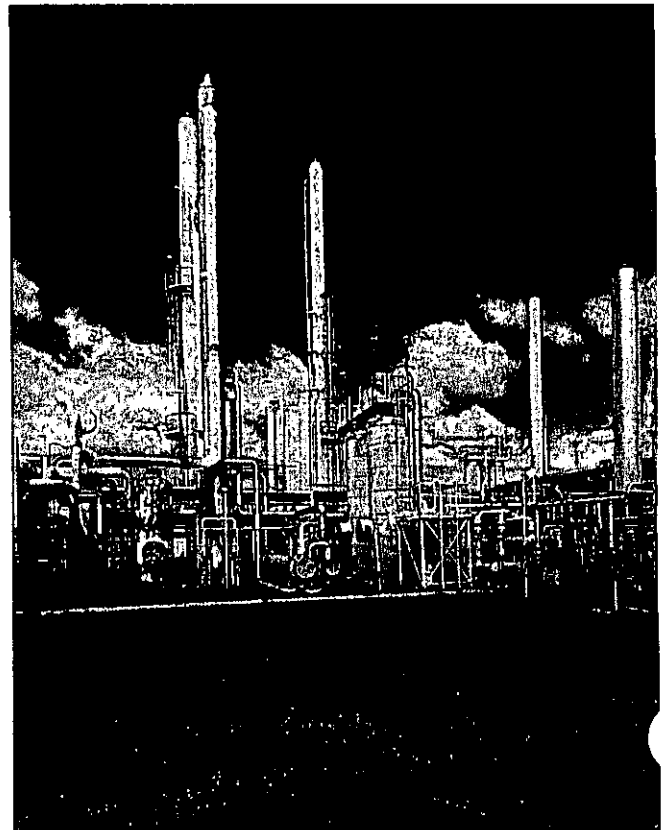
Construction of the 100 MMcf/d Stateline I natural gas processing plant, to be located in western Williams County, N.D., is scheduled for completion by mid-2012.

Cost estimate: \$150 million to \$210 million.

Stateline II Plant

Construction of the 100 MMcf/d Stateline II natural gas processing plant, also to be located in western Williams County, N.D., is scheduled for completion in early 2013.

Cost estimate: \$135 million to \$150 million.



Other Gathering and Processing Infrastructure

Well connections, upgrades and expansions to ONEOK Partners' existing Bakken Shale infrastructure comprise the rest of this approximately \$1 billion growth program. The partnership expects to connect to nearly 400 new wells in the Bakken Shale alone in 2011, matching the number completed in all of ONEOK Partners' basins in 2010.

Natural Gas Processing Capacity

When completed, the combined natural gas processing capacity of the Stateline II plant, the Garden Creek plant, the Stateline I plant and the existing Grasslands natural gas processing facility will be approximately 400 MMcf/d, nearly quadrupling the partnership's current processing capacity in the Williston Basin.