



INDUSTRIAL COMMISSION OF NORTH DAKOTA

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House Appropriations Testimony of Reice Haase, Deputy Executive Director North Dakota Industrial Commission January 12, 2023

Good morning Chairman Monson and members of the Committee, for the record, my name is Reice Haase, and I am the Deputy Director of the North Dakota Industrial Commission. The purpose of my testimony is to provide an overview of the Industrial Commission and its various functions. I have also attached a slide deck to this testimony for your reference.

I understand that later in your agenda today you will hear from several of the Commission's agencies. I hope this presentation will provide you with helpful context for understanding how all the Commission's agencies and entities work together.

Title Slide

I'd like to start with a brief comment about the title slide on the attached presentation. When most people hear "Industrial Commission", the first thing that typically comes to mind is "oil and gas". While regulation of oil and gas is one of its largest tasks, the Commission covers a wide variety of services for our State.

Slide 2

The Commission is made up of three elected officials: the Governor, who acts a Chairman, the Attorney General, and the Agriculture Commissioner. The Commission is tasked by Century Code for managing industries and state-owned enterprises on behalf of the State. The Commission meets at least once per month to conduct their business and provide direction to the Commission's entities.

Slide 3

On slide 3 is timeline detailing how the Commission's role has grown since its creation. To summarize, the Commission was originally created in 1919, along with the Bank of North Dakota, the Mill and Elevator, and the Home Builders Association. At the time, the Commission was also tasked with bonding authority for generating revenue for state buildings.

The Commission did not have authority over oil and gas until 1941, when its first rules were created. That of course pre-dated North Dakota's first discovery of oil and gas by ten years. Over time, the role of the Commission continued to grow, with the Public Finance Agency and Housing Finance Agency creations in the late 1970s and early 1980s. In 1981, with the growing oil and gas industry, the Oil and Gas Division was created. This was also when the Office of the

Industrial Commission was created; prior to that time the Commission was staffed by the Governor's Office.

Continuing into the 1980s, the Commission had its first grant program added, the Lignite Research Program. Into the early 2000s, the Oil and Gas and Renewable grant programs were added, as well as the Pipeline and Transmission Authorities. In 2013, the Outdoor Heritage Fund was added to the Commission.

One of the Commission's greatest successes was achieving Class VI primacy in 2018. The Class VI program regulates carbon sequestration, and North Dakota was the first state to achieve primacy from the federal government. This is thanks to the efforts of Lynn Helms, Kevin Connors, and many others on the DMR and EERC teams.

After the last legislative session, the Clean Sustainable Energy Authority was created and added to the Commission's portfolio.

On slide 3 you will see a photo in the upper right corner. This is a photo of a satellite that was launched in June of 2021 in part to study pipeline leaks as part of the iPipe research project, which is one of the Commission's funded projects.

Key takeaways from this slide are that the Commission's service to the State continues to grow over the years, and this is accomplished with a very small staff. Karlene Fine also deserves many thanks for her 48 years of service as Director of the Industrial Commission; she retired late last year.

Slide 4

Slide 4 includes an Organization Chart showing all of the agencies and roles that the Commission serves in. This chart is color-coded, showing agency roles in blue, grant programs in green, and the Commission's two state-owned enterprises in yellow. Also included is the Western Area Water Supply Project (WAWS), which was placed under the Commission when it was created in 2011. There is an asterisk next to it because Senate Bill 2196 introduced this session would transfer oversight of WAWS from the Industrial Commission to the Water Commission.

The Commission provides direction to each of these agencies and entities. The Commission has a staff of 4 FTEs within the Office of the Industrial Commission who are responsible for implementing the Commission's directives. The Commission has delegated responsibility for day-to-day operations to this staff.

Slide 5

Slide 5 includes a summary of the role the Office of the Industrial Commission serves. The Office has 4 FTEs and one part-time employee: Al Anderson who administers the Clean Sustainable Energy Program. The Office also oversees 5 contract employees for the Pipeline and Transmission Authorities and the Lignite and Oil and Gas grant programs.

In addition to serving as a resource for the Commission and their various entities, the Office also manages all of the grant programs on behalf of the Commission. Over 102 separate grant recipients currently have active projects with the Commission. The Office is also responsible for

coordinating the work of the various advisory boards and technical committees for these programs, as well as coordinating the monthly meetings of the Commission.

Slide 6

Slide 6 provides an overview of the work that the Office does and how the legislature funds that work. To summarize, the Office currently manages over 157 active grant projects with a total grant value approaching \$200 million. All of the Commission's grant programs require private matching funds. Most of these projects report to the Office on a quarterly basis, and all of the programs operate on a reimbursement basis. Project sponsors are required to submit reports and receipts to the Office, and staff review and confirm that expenses are eligible prior to dispersing any grant funds. To put that in perspective, this leads to at least 628 reports per year, and with an average of 260 working days in a year, requires the approval of at least 3 reports every day just to keep up with current workload.

It is also important to note that the Commission's programs are primarily funded by oil and gas tax revenue, with the Clean Sustainable Energy Authority being the only program that was funded by the General Fund.

Slide 7

Slide 7 provides a big picture view of the Commission's active grant programs and their respective appropriations for the current biennium. Two asterisks are noted: the Natural Gas Pipeline grant program was funded from ARPA dollars during the 2021 special session, and Justin Kringstad will provide you with more detail during his presentation.

The IIJA Grid Resilience program is expecting federal funding from the Infrastructure Investment and Jobs Act toward the end of the biennium, but is contingent on a state match being appropriated this session.

Slide 8

Slide 8 provides an overview of the Lignite Research Program. The program is funded by coal severance taxes as well as oil production and extraction taxes. The program has cumulatively funded 250 projects totaling \$123.4 million, which has generated a total project value of \$2.3 billion.

Key projects funded have included carbon capture, value-added uses of lignite and its byproducts, and rare-earth and critical minerals. One highlight includes the potential for graphene dot manufacture from North Dakota lignite, which EERC has been researching. A strand the size of a human hair would be strong enough to lift a grand piano.

Slide 9

Slide 9 provides the current status of the Lignite Research Fund, as of November 2022 when our most recent grant round was approved. The program has 29 active projects, with outstanding commitments totaling \$24 million. Deducting that balance from the fund's cash balance of \$29 million, a current uncommitted cash balance of \$5.7 million is calculated. The program will hold one more grant round this biennium.

Slide 10

Slide 10 provides an overview of the Oil and Gas Research Program. The program is funded by oil production and extraction taxes. The program has cumulatively funded 116 projects totaling \$77.5 million, which has generated a total project value of \$491 million.

Photos of two key projects are included on the slide. The top picture shown is from EERC's iPipe project, which develops new and emerging technologies for detecting and preventing pipeline leaks. This photo shows a new method for analyzing satellite imagery which was tested in western North Dakota, and they could detect hydrocarbons down to a size of several gallons. They were also able to detect leaks under snow.

The bottom photo shows funded work by EERC to study using CO₂ for enhanced oil recovery. This can lead to a carbon-negative barrel of oil, and could yield 5-7 billion additional barrels of production for our State.

Slide 11

Slide 11 provides the current status of the Oil and Gas Research Fund, as of December 2022 when our most recent grant round was approved. The program has 22 active projects, with outstanding commitments totaling \$29 million. Deducting that balance from the fund's cash balance of \$32 million, a current uncommitted cash balance of \$2.8 million is calculated. The program will hold one more grant round this biennium.

Slide 12

Slide 12 provides an overview of the Outdoor Heritage Fund. The program is funded by oil production taxes. The program has cumulatively funded 213 projects totaling \$76 million, which has generated a total project value of \$196.3 million.

The program funds projects which fit within four directives: Directive A which enhances sportsmen access, Directive B which enhances environmental stewardship and agricultural practices, Directive C which enhances wildlife habitat, and Directive D which enhances outdoor recreation.

Slide 13

Slide 13 provides the current status of the Outdoor Heritage Fund, as of October 2022 when our most recent grant round was approved. The program has 79 active projects, with outstanding commitments totaling \$40 million. Deducting that balance from the fund's cash balance of \$42 million, a current uncommitted cash balance of \$1.6 million is calculated. The program will hold one more grant round this biennium.

Slide 14

Slide 14 provides an overview of the Renewable Energy Program. The program is funded by oil extraction taxes. The program has cumulatively funded 68 projects totaling \$23.1 million in value, which has generated a total project value of \$154 million.

The top photo on the slide was provided by BWR Innovations, one of the program's project sponsors. They are developing a new hydrogen fuel cell. The bottom photo was provided by UND, which developed a new membrane for manufacturing ammonia. The project sponsor noted that they were able to reduce the cost of ammonia manufacture to roughly half of the current spot price of ammonia.

Slide 15

Slide 15 provides the current status of the Renewable Energy Fund, as of December 2022 when our most recent grant round was approved. The program has 18 active projects, with outstanding commitments totaling \$5.4 million. Deducting that balance from the fund's cash balance of \$6.5 million, a current uncommitted cash balance of \$1.1 million is calculated. The program will hold one more grant round this biennium.

Slide 16

Slide 16 provides an overview of the Clean Sustainable Energy Program. This program is the Commission's newest and has conducted 3 grant rounds to date. The program was funded by a \$25 million one-time general fund appropriation, \$20 million from ARPA for hydrogen-specific grants, and a \$250 million BND line-of-credit for granting long-term low-interest loans. To date, 11 projects have been funded totaling \$44.2 million in grants, which has generated a total project value of \$4.7 billion.

Key projects funded include the Great Plains hydrogen hub, two carbon capture units, including the largest carbon capture project in the world, produced water recycling, and the manufacture of carbon-negative, biodegradable plastics using natural gas as a feedstock. These projects would represent an amount of carbon capture that exceeds 1/3 of our state's annual production.

Slide 17

Slide 17 provides the current status of the Clean Sustainable Energy Fund, as of October 2022 when our latest grant round was approved. The program has 11 active projects, with outstanding grant commitments totaling \$38.6 million. Deducting that balance from the fund's cash balance of \$39.3 million, a current uncommitted cash balance of \$670,630.52 is calculated. The program has also committed its entire \$250 million line-of-credit for loans to projects. No additional grant rounds are planned for the current biennium.

Slide 18

For your reference, slide 18 provides the entire list of projects that have been approved by the Clean Sustainable Energy Authority.

Mr. Chairman, this concludes my testimony, and I'd be happy to stand for any questions.