

Minutes of a Meeting of the Industrial Commission of North Dakota
Held on April 21, 2014 beginning at 2:00 p.m.
Governor's Conference Room, State Capitol, Bismarck, ND

Present: Governor Jack Dalrymple, Chairman
Attorney General Wayne Stenehjem
Agriculture Commissioner Doug Goehring

Also

Present: Eric Hardmeyer, Bank of North Dakota
Tom Ternes, Bank of North Dakota
Shirley Glass, Bank of North Dakota
Janel Schmitz, Bank of North Dakota
Chad Hatzenbuehler, Bank of North Dakota
Senator Tim Flakoll
Katie Moch, Eide Bailly
Jaret Wirtz, WAWSA
Cory Chorne, WAWSA
Mark Owan, WAWSA
Jerod Tuft, Governor's Office
Members of the Press

Governor Dalrymple called the Industrial Commission meeting to order at 2:02 p.m. and the Commission took up Bank of North Dakota business.

Mr. Eric Hardmeyer, Bank of North Dakota President, presented the 2013 Bank of North Dakota Annual Report. (A copy of the 2013 Annual Report is available in the Commission files.) He said the theme is "Stronger Together" which emphasizes the Bank's relationships with all of the Bank's partners--financial institutions, legislators, state agencies, economic developers and everyone the Bank does business with. It was a great year for BND -- financially, the tenth year of consecutive record profits. Last year, the Bank made \$94 million which is a 15 percent increase from the year before at \$82 million. Assets grew to \$6.8 billion which is an 11.7 percent increase over the year before and the Bank's equity also grew by 19 percent. He reviewed the ten year financial summary and noted the various programs/loans highlighted in the report. He recognized BND employees for doing a great job. The Commission commended the Bank staff for another great year!

Ms. Katie Moch, Eide Bailly, presented the Independent Auditor's Report and Financial Statement on the Bank of North Dakota for the year 2013 (FASB). (A copy of the audit and financial statement is available in the Commission's files.) She said as of December 31, 2013 and 2012 -- their firm had issued an unmodified or a clean opinion on the financial statements. They had identified one internal control deficiency during the audit and that related to one user ID being used by five different individuals and it is the same internal control deficiency that was addressed during the Beginning Farmer Revolving Loan Fund and the Community Water Facility Loan Fund audits. Other than that, Eide Bailly did not have any adjustments that they identified; there were no changes in any of the standards or the presentation of financial statements. It is a very clean audit.

In response to a question regarding capital, Mr. Hardmeyer stated the Bank's capital is growing and is in good shape. It depends on how much the Bank grows but for now, it is in good shape. The Bank met their 8 percent goal and looks to end the year at about 8.8 percent.

Mr. Hardmeyer discussed the DEAL One Loan Consolidation Program as follows:

DEAL One Loan

Bank of North Dakota (BND) announces **DEAL One Loan**, all your student loans in one place for North Dakota residents.

- Combine all student loans into one DEAL Consolidation Loan. Includes federal student loans, DEAL, DEAL Consolidation and other student loans.*
- Choose a fixed or variable interest rate
- No loan fees
- You do not need a current student loan with BND to take advantage of this program

Mr. Hardmeyer stated Bank management and staff are very excited about offering this new option for student loan borrowers. He noted that the Commission and the Bank management have been discussing this program for several months. He said it is a new program to BND and was supported by the Legislature. He believes it is the first of its kind in the nation. It is the first student loan program that allows a North Dakota resident to consolidate all of their debt into one loan – not only the borrower's private student loan debt but now their federal student loan debt. He stated that in the Bank's pilot project the average loan was approximately \$30,000. The Commission and Mr. Hardmeyer discussed how the Bank would be marketing the program. Mr. Hardmeyer stated the Bank had been testing their IT systems to make sure the Bank could support the rollout of this new program.

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Mr. Hardmeyer presented the First Quarter 2014 Performance Highlights. (A copy of the 2014 Performance Highlights is available in the Commission files.) He pointed out that on page eight there is a new report regarding the Bank's mortgage originations. He said the Allowance for Loan Loss is at \$51 to \$52 million which is in good shape. He also commented on the growth in the College SAVE program.

Mr. Hardmeyer provided copies of the Bank of North Dakota Advisory Board February 20, 2014 non-confidential meeting minutes.

Being no further Bank of North Dakota business, Governor Dalrymple adjourned this portion of the meeting at 2:30 p.m. and the Commission took up Western Area Water Supply Authority (WAWSA) business.

Governor Dalrymple reconvened the Bank of North Dakota non-confidential portion of the meeting at 4:31 p.m. following completion of Lignite Research, Development and Marketing Program business.

During Executive Session, it had been moved and seconded that the Bank of North Dakota be authorized to participate in five loan requests identified as Attachments 12 - 16. In non-confidential session, on a roll call vote, Governor Dalrymple, Attorney General Stenehjem and Commissioner Goehring voted aye. The motion carried unanimously.

Being no further Bank of North Dakota business, Governor Dalrymple adjourned this portion of the meeting at 4:32 p.m. and the Commission took up Department of Mineral Resources business.

INDUSTRIAL COMMISSION OF NORTH DAKOTA



Karlene Fine, Executive Director and Secretary

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Held on April 21, 2014 beginning at 2:00 p.m.
Governor's Conference Room, State Capitol, Bismarck, ND

Present: Governor Jack Dalrymple, Chairman
Attorney General Wayne Stenehjem
Agriculture Commissioner Doug Goehring

Also

Present: Jaret Wirtz, WAWSA
Cory Chorne, WAWSA
Mark Owan, WAWSA
Eric Hardmeyer, Bank of North Dakota
Brad Thompson, Bank of North Dakota
Jerod Tufte, Governor's Office

Governor Dalrymple called the Western Area Water Supply Authority (WAWSA) portion of the Industrial Commission meeting to order at 2:30 p.m. following completion of Bank of North Dakota non-confidential business.

Ms. Karlene Fine, Industrial Commission Executive Director, discussed the WAWSA monthly reports and Debt Reduction Report as follows: (A more detailed report is available in the Commission's files.)

RE: Western Area Water Supply Authority - Industrial Sales - March, 2014 and Debt Repayment Report

Attached for your information are Western Area Water Supply Authority (WAWSA) Industrial Sales documents for the month of March and for the three months ending March 31, 2014.

The first page is the document prepared by the Bank of North Dakota reflecting debt service payments. Two payments were made in April:

- an interest payment of \$175,908 on April 3, 2014 which was applied to four of the WAWSA loans
- a debt service payment of \$1,291,075 applied to the debt service payments due later this year (actually two P&I payments). This payment was applied to the debt service owed on BND Loan #1 (Original loan was \$50,000,000).

The next 3 pages (pages 2, 3 & 4) I prepared based on the information provided by WAWSA staff reflecting revenues and expenses and showing net income. Net income for the month of March was \$833,590.68. Revenues were up -- \$3,520,381. Expenses were up because they reflect the debt payments that are being accelerated. I have not included the information on the sales from each depot. I do have them in my office if you want to see them. Page 5 is the balance sheet prepared by WAWSA staff as of March 31, 2014 for the first three months of 2014. As we have discussed previously Accounts Receivables are at \$5,367,572. An accounts receivable aging summary is being provided to the Bank of North Dakota each month.

If you have questions, Bank of North Dakota staff will be available to discuss the debt reduction form and I will be available to review the numbers. Jaret Wirtz and Mark Owan, WAWSA Board Chairman, will also be at the meeting to respond to questions and to comment on the operations during the month of March.

Mr. Jaret Wirtz, Western Area Water Supply Authority Executive Director, said sales were at an all-time high of \$3.5 million for the month which is a little deceiving because some of that was actually sold in February. There was a dip in February which is a result of the way the invoicing works. Some of the temporary jobs are not invoiced until the jobs are completed and even though the job started in February the job wasn't completed until March and were invoiced at that time. This was a good month – a good first quarter and the Authority is ahead of schedule on what it needs for loan payments. The Authority has prepaid their debt payments through December of this year and will continue to do that as money is available in the account.

The Commission commended Mr. Wirtz for the good sales in March.

In response to a question regarding the outlook, Mr. Wirtz stated it looks good. He should have the final numbers for April sales later this week. There was a little slow down as a result of road restrictions so they will see how that impacts the numbers. Overall there has been a great deal of demand for the month of May.

In response to a question, Mr. Wirtz stated that he did not think it was necessary to change the pricing on the water. He stated their rate is one of the higher rates but because the water is treated and is reliable they think the rate can stay the same. If they see a decline in their sales because of price they will bring it to the Commission right away.

Ms. Fine indicated that Mr. Wirtz had contacted her late last month asking for time on the agenda to discuss the purchase of signs. She asked that Mr. Wirtz first provide more information on what WAWSA anticipates as their capital improvement needs for the year. Based on conversations with Mr. Wirtz and Mr. Owan she had prepared the following memorandum outlining their capital improvement requests for CY2014:

RE: WAWSA Capital Projects

The Western Area Water Supply Authority Board is requesting approval for the following capital projects to be paid with industrial water sales income:

Signage - Total Cost would not exceed **\$109,750** - Signs will be located at the Alexander, Three Mile and Watford City depots. These would be lighted signs. The Authority has indicated this will increase the visibility of the depots and provide a public awareness of the Authority. They anticipate that it will increase sales. They are ready to proceed on this project as soon as the Commission gives approval. Anticipate it could be done in 60 days. A copy of what the signs would look like is attached as Exhibit A.

Fill Station Improvements including an updated Billing System - Total Cost would not exceed **\$1,008,755** (see Exhibit B) - The fill station improvements at 7 depots include the construction of enclosed buildings at each of the spouts on the 6 lane stations (Alexander, 13 Mile, Watford City, north Williston. These enclosed buildings will be heated and keep the spouts from freezing. In addition there will be a new billing system installed at each lane/station. The Authority has indicated that this is a critical project that is needed in order for the fill stations to become more reliable during the cold weather months and to improve customer satisfaction with a billing system that will provide the necessary information to the customer. They would like this project to be completed by October, 2014.

The Authority is proposing the relocation of three of their depots as follows:

Crosby Fill Station Relocation: The City of Crosby currently has a fill station located in the middle of the city. This station currently has one port and is not usable at this time, because of piping/storage limitations and cannot be reopened until this summer when the City of Crosby's storage tank is completed. The location of this station makes it very difficult to access for trucks hauling water. The relocation would allow for this station to be outside the City of Crosby and provide better access to industrial demands. The fill station would include two ports and have the capability to utilize both the City of Crosby's industrial ground water permit and WAWS water. Cost of this project is estimated to be \$1,153,000 not including the cost of the land (see Exhibit C). Return on investment is anticipated to be 24-36 months based on average sales of \$30,000 - \$50,000/month of sales. Construction to begin this summer and be completed by October, 2014.

Tioga Fill Station Relocation: The City of Tioga previously had a station located near the edge of the city that was last operational in 2010. Due to penalties acquired from over selling their industrial permit they were not allowed to sell water until this year. During that time the City has expanded in that location and the fill station has become non-accessible. However, the City has some additional property nearby in an industrial park that would be a sufficient location to relocate the depot. This new location would allow for a two port station and will have the capability to utilize the City of Tioga's existing industrial ground water permit and WAWS water. Cost of this project is estimated to be \$794,600. There will be no costs for the land (see Exhibit D). Return on investment is anticipated to be approximately 18-24 months at an average of \$30,000-\$40,000/month of sales. As this site is already identified they estimate that they could get this project completed by September, 2014.

Williston 2nd St. Fill Station Relocation: The City of Williston currently has a station located within the city. This location comprises 2 cold water lanes operated by WAWS and 3 hot water lanes operated by Armstrong Hot Water Solutions. Recently, the WAWS Board received notification from the City of Williston to relocate the 2nd St. station, due to traffic concerns and noise issues caused by heaters. In addition to that, the City has been expanding and access to the site has become more difficult. Both WAWS and the City of Williston believe that relocating the station west of the city near the proposed Williston Bypass would be beneficial for all parties. This relocation and construction of a new station would include 1 additional lane for a total of 6 lanes and would increase the volume of usage. Cost of this project is estimated to be \$2,482,000 to \$3,982,000 depending on contractual obligations with bringing natural gas to the site) not including the cost of the land (see Exhibit E). Return on investment is anticipated to be approximately 24 months with average sales of \$160,000/month. This project would be completed by the Summer, 2015.

In regards to the relocation of the water depots I believe the Water Commission will need to act on this request first. The law states: "The state water commission shall approve the planning, location, and water supply contracts of any authority depots, laterals, taps, turnouts, and risers for industrial sales for oil and gas exploration and production..." (*emphasis added*)

In regards to the signage you could debate whether lighted signs are needed. The Board has approved the signs with the condition that they are considered as capital improvements.

In regards to the filling station improvements, I believe the upgrade of the billing system could be considered Operations and Maintenance as it is a replacement of an existing billing system. The

enclosed buildings are probably a capital improvement although I am not certain of the “life” of these structures. Either way those costs would be charged against the industrial sales.

Jaret Wirtz and Mark Owan, Chairman of the Board, will be at the meeting to discuss these projects.

Ms. Fine stated that it is her interpretation of the law that prior to the Industrial Commission acting on the expenditures for the relocation of the three water depots, the Water Commission needs to approve the relocations. The Commission and Ms. Fine discussed the role of the Water Commission and the role of the Industrial Commission in regards to depots and any relocation. Ms. Fine stated that since the payment of the costs for the capital projects would come from industrial sales revenues she believes the Industrial Commission must approve those expenditures. However, before the Industrial Commission considers those expenditures, it is her understanding that the Water Commission first needs to determine if there should be any relocations of the depots. There was also discussion regarding how any capital improvement expenditures fit in the legislative directive of how industrial sales revenues should be spent and the pledge of the industrial sales revenues to debt service payments. The conclusion was that in regards to the depots there is some “gray” area that will need further review and discussion as to what the Water Commission should be looking at and what the Industrial Commission will need to act on. In regards to the other two capital project requests -- signage and filling station upgrades, the Commission called on Mr. Wirtz to explain the requests.

Mr. Wirtz discussed the capital improvements speaking first about signage which he said may or may not increase sales. It is more recognition of the site – draw attention to the site, letting people see it as they drive down the road, it is fresh water. The plan is to put signs at three of the depot--it would be the busier depots at Alexander, 13 Mile and Watford City. They discussed the size of the signs and the costs and the lighting. The Commission asked that Mr. Wirtz get pricing on smaller signage and bring the request back to a future meeting. Mr. Owan, Chairman of the WAWSA Board pointed out that because these sites are on busy highways they need to be of a size so they can be easily seen as traffic is moving at highway speeds.

Mr. Wirtz discussed fill station improvements and the installation of a new billing system. He stated that customers are asking for an improved billing system that would provide more detail. The improved system would allow more information to be inputted and then that could be included in the billing -- things like the identity of the driver, where the load of water is being delivered--the company and location, etc. In addition, there is a need to install enclosed heated buildings around the spouts to keep the spouts from freezing. The new billing system would also be housed in those buildings. He described the work that they currently have to do to keep the lanes open--going out and with blow torches melting the ice. He stated they are proposing these buildings be installed at the 4 locations with 6 spouts for a total of 24 buildings. He believes that with these buildings and the new billing system there will be more business. In response to a question, Mr. Chorne reviewed the breakdown on costs contained in Exhibit B. (A copy of Exhibit B is available in the Commission files.)

In response to a question, Mr. Wirtz stated that the Board had previously approved the installation of concrete pads at the depots and heated drain systems and that work is being done and will help with eliminating the ice buildup.

Mr. Wirtz discussed the Crosby, Tioga and Williston 2nd Street fill station relocations. He also mentioned that there should be a discussion about whether monies should be spent on depots or is there a better way to spend the capital to get direct pipelines built. This will be a discussion the Western Area Water Supply Authority Board needs to have.

Governor Dalrymple stated the Commission and the Western Area Water Supply Authority will need to have a discussion regarding the overall philosophy of reinvestment – if this was a private business, you would take some cash flow and reinvest it in capital improvements but you would pay down your debt over time – you would try to do both. At some point we need to have a discussion about what the boundaries are for capital improvements.

It was moved by Attorney General Stenehjem and seconded by Commissioner Goehring that the Industrial Commission approves the following Western Area Water Supply Authority capital project:

Fill Station Improvements including an updated Billing System - total cost not to exceed \$1,008,755.

On a roll call vote, Governor Dalrymple, Attorney General Stenehjem and Commissioner Goehring voted aye. The motion carried unanimously.

Mr. Wirtz will present the depot relocations to the Water Commission for their input.

Ms. Fine discussed the sale and lease of Western Area Water Supply Authority properties as follows:

RE: WAWSA Sale and Lease

Attached is an e-mail from Tami Norgard, Counsel for the Western Area Water Supply Authority (WAWSA) dated April 3, 2014 (without the attachments). In the e-mail she outlines two requests for the purchase and lease of WAWSA property. Both of these requests relate to the Alexander bypass. In Ms. Norgard's e-mail she also notes that state law provides:

If the state-guaranteed loans have not been repaid, without the written consent of the industrial commission the authority may not sell, lease, abandon, encumber, or otherwise dispose of any part of the property used in a water system of the authority if the property is used to provide revenue. (emphasis added)

I have consulted with Hope Hogan, Assistant Attorney General, and she has indicated that the Industrial Commission would need to give their consent prior to WAWSA being able to sell or lease the property outlined in Ms. Norgard's e-mail.

With the importance of the Alexander bypass and the need for a radio tower it is my recommendation to approve these requests. The WAWSA Board of Directors has adopted a motion approving the purchase and lease pending Industrial Commission action. I would recommend the following motion by the Commission:

It was moved by ____ and seconded by ____ that the Industrial Commission give their consent to the sale of 0.16 acres of a 5 acre parcel of land owned by the Western Area Water Supply Authority (WAWSA) to the North Dakota Department of Transportation at a price of \$4,000 and to a lease with the Alexander First Responders at no cost to the Alexander First Responders for the placement of a radio tower on the WAWSA 5-acre parcel of land.

It was moved by Commissioner Goehring and seconded by Attorney General Stenehjem that the Industrial Commission give their consent to the sale of 0.16 acres of a 5 acre parcel of land owned by the Western Area Water Supply Authority (WAWSA) to the North Dakota Department of Transportation at a price of \$4,000 and to a lease with the Alexander First Responders at no cost to the Alexander First Responders for the placement of a radio tower on the WAWSA 5-acre parcel of land. On a roll call vote, Governor Dalrymple, Attorney General Stenehjem and Commissioner Goehring voted aye. The motion carried unanimously.

It was moved by Attorney General Stenehjem and seconded by Commissioner Goehring that under the provisions of N.D.C.C. § 44-04-18.4 the Industrial Commission proceed into executive session to discuss commercial information including marketing strategies and sales plans at the North Dakota State Mill and under the provisions of N.D.C.C. § 44-04-19.1 the Industrial Commission discuss strategy and instructions regarding upcoming union contract labor negotiations. On a roll call vote, Governor Dalrymple, Attorney General Stenehjem and Commissioner Goehring voted aye. The motion carried unanimously.

Being no further Western Area Water Supply Authority (WAWSA) business, Governor Dalrymple adjourned this portion of the meeting at 3:17 p.m. and the Commission took up **confidential** State Mill business.

INDUSTRIAL COMMISSION OF NORTH DAKOTA



Karlene Fine, Executive Director and Secretary

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Present: Governor Jack Dalrymple, Chairman
Attorney General Wayne Stenehjem
Agriculture Commissioner Doug Goehring

Also

Present: Vance Taylor, State Mill
Ed Barchenger, State Mill
Jerod Tufte, Governor's Office

Governor Dalrymple called the State Mill portion of the Industrial Commission meeting to order at 3:44 p.m. following completion of **confidential** State Mill business.

Mr. Vance Taylor, State Mill President and General Manager, discussed the following Capital Project for FY 2014 -- B Mill Capacity Increase for \$7,400,000:

Capital Project for Consideration FY 2014 B Mill Capacity Increase

An opportunity exists to increase the capacity of the B Mill from 8,000 cwts. per day to 11,500 cwts. per day with the purchase and installation of equipment using the latest technology. The new wheat cleaning, grinding, sifting, purifying and air handling equipment will be incorporated into the existing B Mill flow. The addition of 3,500 cwts. of daily capacity is necessary to meet the increasing demand of current customers and to facilitate continued growth of the business. This project will create additional demand for over 2,500,000 bushels of North Dakota hard red spring wheat.

ASSUMPTIONS:

Project completed and begins operating 7/1/15
Project Cost \$ 7,400,000

Variable production costs estimated at the average cwt cost for repairs, maintenance, supplies, and utility costs. No additional people costs should be incurred.

Incremental lab costs estimated at FY 2013 lab costs per cwt times additional cwts sold.

Incremental Sales, Marketing, and Grain Dept costs estimate reflects added costs to process the additional paperwork and manpower involved with the additional sales volume.

Net cash flow per cwt. \$ 1.75

Current capacity of B Mill 8,000 cwts.

Capacity increase on B Mill 3,500 cwts.

Production days per year 330

Analysis:			
Additional capacity sold by 7/1/15 at the average net cash flow			
Period	Increase in Sales - Cwts.	Net Cash Flow on Incr. Cwts.	Additional Cash Flow
FY 2015	1,155,000	\$ 2,024,690	\$ 2,024,690
FY 2016	1,155,000	\$ 2,024,690	\$ 2,024,690
FY 2017	1,155,000	\$ 2,024,690	\$ 2,024,690
FY 2018	1,155,000	\$ 2,024,690	\$ 2,024,690
		Project Cost	\$ 7,400,000
		Payback in years	3.7

It was moved by Commissioner Goehring and seconded by Attorney General Stenehjem that the Industrial Commission approves the B Mill Capacity Increase Project in the amount of \$7,400,000 as a FY2014 capital project. On a roll call vote, Governor Dalrymple, Attorney General Stenehjem and Commissioner Goehring voted aye. The motion carried unanimously.

Mr. Taylor presented State Mill FY 2014 Third Quarter Report as follows:

North Dakota Mill
 Review of Operations
 3rd Quarter Ended 3/31/14

SUMMARY

Profits for the 3rd Quarter of the year were \$2,180,551 compared to \$3,126,533 last year. Operating activity for the nine months ending March resulted in a profit of \$8,572,247 compared to \$7,701,400 last year.

	<u>Quarter</u>		<u>Year-to-Date</u>	
	<u>3/14</u>	<u>3/13</u>	<u>3/14</u>	<u>3/13</u>
Profits	2,180,551	3,126,533	8,572,247	7,701,400
Sales	69,562,947	77,556,137	234,132,780	233,101,616
Cwt. Shipped:				
Spring	2,500,598	2,558,946	8,345,866	7,949,835
% to Total	91.0%	90.5%	90.8%	90.8%
Durum	<u>246,955</u>	<u>267,192</u>	<u>844,790</u>	<u>805,122</u>
	<u>2,747,553</u>	<u>2,826,138</u>	<u>9,190,657</u>	<u>8,754,956</u>
Bag Shipments	609,013	579,627	1,988,414	1,847,235
% to Total	22.2%	20.5%	21.6%	21.1%

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Tote Shipments	31,895	37,878	104,629	122,683
% to Total	1.2%	1.3%	1.1%	1.4%
Family Flour Shipments	65,600	53,134	210,098	184,284
Organic Flour Shipments	28,762	49,604	129,034	140,736
Grain Purchased:				
Spring	5,744,114	5,546,752	18,452,950	17,688,690
Durum	<u>559,109</u>	<u>301,009</u>	<u>1,825,427</u>	<u>1,403,563</u>
Total	<u>6,303,223</u>	<u>5,847,761</u>	<u>20,278,377</u>	<u>19,092,253</u>

SALES

3rd Quarter

Sales for the 3rd Quarter were \$69,562,947 compared to \$77,556,137 last year. Shipments of 2,747,553 cwts. are 78,584 cwts. below last year. Bag shipments for the 3rd Quarter are 609,013 cwts., which is 29,386 cwts. above last year's 3rd Quarter. Tote shipments for the 3rd Quarter are 31,895 cwts., which is 5,983 cwts. below last year. Family flour shipments reached 65,600 cwts., which is 23.5% above last year's 3rd Quarter.

Year-to-Date

Sales for the nine months ended March were \$234,132,780 compared to \$233,101,616 last year, an increase of 0.4%. Shipments of 9,190,657 cwts. are 435,700 cwts. above last year, an increase of 5.0%. This is a new record for 9 months of shipments. Shipments being up 5.0% while sales dollars were only up 0.4% is due to the reduction in the average settled price of grain. The average settled price decreased \$1.16 per bushel from last year. Year-to-date bag shipments are 1,988,414 cwts., an increase of 141,179 cwts. from last year. Tote shipments for the year are 104,629 cwts., which is 18,054 cwts. below last year. Family flour shipments for the nine months ended are 210,098 cwts., an increase of 14.0% from last year. Organic flour shipments were 129,034 cwts., a decrease of 8.3% from last year. It is due to lack of organic grain and not customer demand that has driven down the shipments of organic flour.

OPERATING COSTS

3rd Quarter

Operating costs for the 3rd Quarter were \$5,885,202 compared to \$5,883,956 last year, an increase of \$1,246. Operating cost per cwt. of production was \$2.16 compared to \$2.17 last year, a decrease of \$0.01.

Year-to-Date

Year-to-date operating costs are \$18,140,304 compared to \$17,044,793 last year, an increase of 6.4%. Operating cost per cwt. of production for the nine months ended was \$2.00 compared to \$1.95 last year, an increase of 2.6%.

PROFITS

3rd Quarter

Profits for the 3rd Quarter were \$2,180,551 compared to \$3,126,533 last year. Gross margins as a percent of gross sales for the quarter were 11.7% compared to 11.7% last year. The lower profits in the third quarter is primarily due to the reduction in shipments of flour to customers caused by the performance issues with the railroad companies.

Year-to-Date

Operating activity for the nine months ended March led to a profit of \$8,572,247 compared to \$7,701,400 last year. Year-to-date gross margins are 11.5% compared to 10.8% last year. This is the third best year at the mill for profits for the nine months ending March.

Risk Management Position

The table below shows our hedge ratio by futures month going forward. A hedge ratio shows the relationship between our net cash position and our futures position. The mill was in the process of rolling futures forward at month end to remove exposure to the May 2014 futures month. This position report shows the result as if this process had been completed.

**Position Report
31-Mar-14**

Period	Hedge Ratio
July-14	1.2
Sept-14	1.6
Dec-14	1.3
Mar-15	1.0
Net Position	1.1

In response to a question regarding the situation with the railroad, Mr. Taylor stated BNSF just released a new pod cast last week and he is headed to Fort Worth to meet with them later this week. The service is better than what it had been earlier in the year. The numbers they show state by state for the number of delayed cars and how many days they have delayed seems to be getting better. For the Mill, it has been masked by the K-Mill down time when the Mill has not needed as many cars to load because the Mill was shut down for four weeks. It looks like it is somewhat better but we will know for sure in a few weeks when they are all caught up with the normal stream of cars.

Prior to going into closed session it was moved by Attorney General Stenehjem and seconded by Commissioner Goehring that the Industrial Commission meeting be closed to hear a Lignite Research Program project report that has been determined to be confidential pursuant to 54-17.5-06. On a roll call vote, Governor Dalrymple, Attorney General Stenehjem and Commissioner Goehring voted aye. The motion carried unanimously.

Governor Dalrymple also closed the meeting pursuant to North Dakota Century Code 6-09-35 to discuss the items on the agenda under Bank of North Dakota confidential business.

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Being no further State Mill business, Governor Dalrymple adjourned this portion of the meeting at 3:52 p.m. and the Commission took up **confidential** Bank of North Dakota business.

INDUSTRIAL COMMISSION OF NORTH DAKOTA

A handwritten signature in blue ink, appearing to read "Karlene Fine".

Karlene Fine, Executive Director and Secretary

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Agriculture Commissioner Doug Goehring

Also

Present: Mike Jones, Lignite Research, Development and Marketing Program
Jason Bohrer, Lignite Energy Council
Tyler Hamman, Lignite Energy Council
Rich Voss, Great Northern Power
Chuck Kerr, Great Northern Power
Todd Joyner, Great Northern Power
Jerod Tufte, Governor's Office
Members of the press

Governor Dalrymple called the Lignite Research, Development and Marketing Program portion of the Industrial Commission meeting to order at 4:27 p.m. following completion of **confidential** Lignite Research, Development and Marketing Program business.

It was moved by Attorney General Stenehjem and seconded by Commissioner Goehring to authorize Karlene Fine, Industrial Commission Executive Director, to execute an amendment to Contract FY08-LXIII-161 with Great Northern Project Development granting a No-Cost Time Extension – extending the project schedule from April 1, 2014 to March 31, 2015. On a roll call vote, Governor Dalrymple, Attorney General Stenehjem and Commissioner Goehring voted aye. The motion carried unanimously.

Attorney General Stenehjem gave an update regarding the State's court case against Minnesota. He said he received the Order from the Judge. He read the following from a November 14, 2011 *Minneapolis Star Tribune* editorial:

This flawed lawsuit seeks to overturn key provisions of Minnesota's historic "2007 Next Generations Act". The lawsuit filed November 2 by Attorney General Wayne Stenehjem alleges the Minnesota law's restriction on coal fired electricity discriminates against North Dakota companies violating the US Constitution's Interstate Commerce Clause. The lawsuit is unlikely to succeed and is a waste of taxpayer dollars. Add to that the long standing presumption by the courts that the state statutes are constitutional and North Dakota's discrimination claim faces long odds. Bizarrely, Stenehjem's lawsuit cites the exemption as evidence of the laws bias against North Dakota. Environmental groups called the lawsuit baseless.

Attorney General Stenehjem indicated that the State won on every issue. He anticipates that the State of Minnesota is going to appeal but he would not trade places with the State of Minnesota. North Dakota has a solid record, solid facts and the Judge was very thorough in her decision. He thanked all those parties that participated in the case including the Lignite Energy Council and Great Northern Power Development and expressed his appreciation for their hard work. The Judge said this is not an environmental case, this is a constitutional law case and that is exactly what it is.

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Governor Dalrymple and Commissioner Goehring thanked the Attorney General for his work and congratulated him on the win.

Being no further Lignite Research, Development and Marketing Program business, Governor Dalrymple adjourned this portion of the meeting at 4:31 p.m. and the Commission took up Bank of North Dakota business.

INDUSTRIAL COMMISSION OF NORTH DAKOTA



Karlene Fine, Executive Director and Secretary

Minutes of a Meeting of the Industrial Commission of North Dakota
Held on April 21, 2014 beginning at 2:00 p.m.
Governor's Conference Room, State Capitol, Bismarck, ND

Present: Governor Jack Dalrymple, Chairman
Attorney General Wayne Stenehjem
Agriculture Commissioner Doug Goehring

Also

Present: Jerod Tufte, Governor's Office
Bruce Hicks, DMR Oil and Gas Division
Maxine Herr, PNB
Tammy Ibach, LSZ Group
Kari Doan, Department of Agriculture
Danette Welsh, Oneok
Members of the Press

Governor Dalrymple called the Department of Mineral Resources portion of the Industrial Commission meeting to order at 4:32 p.m. following completion of Bank of North Dakota business.

Mr. Bruce Hicks, Oil and Gas Division Assistant Director, presented orders for the following cases heard on March 27, 2014:

Case 21609, Order 23963 - Application to construct oil treating and oilfield waste treating/processing facility (A copy of Order 23963 is available in the Commission files.) – Mr. Hicks handed out a map showing the location of the proposed oil treating and oilfield waste treating/processing facility at the Earthworks saltwater disposal and treating plant site and location of the Delmont Rice residence as well as the location of the Rice family saltwater disposal and water depot. (A copy of the map is available in the Commission files.) He indicated that Delmont Rice appeared telephonically and had an attorney present at the hearing.

Mr. Hicks stated that the issues before the Commission are twofold:

- The offsetting surface owner, Delmont Rice who lives about $\frac{3}{4}$ mile east of the treating plant location is objecting to the site for a number of reasons - safety, lighting at night, possible ground water contamination and air quality issues. It was brought out at the hearing that the Rice disposal well is located on land owned by a relative of Delmont Rice approximately 1.5 miles northwest of his house and that Delmont had not objected to that application.
- The Dunn County Zoning Commission appeared and indicated that they have the jurisdiction to actually zone it and under their current zoning laws it would not be allowed.

In regards to the second point, Mr. Hicks noted that the Commission has previously established pursuant to the Attorney General's Opinion 2010-L-01 signed in 2010 and the subsequent amendments to the Administrative Code and North Dakota Century Code that the Commission has jurisdiction over treating plants and this is going to be co-located on a disposal well site. It is a disposal well/treating plant operation.

In regards to the first issue of Mr. Rice's groundwater contamination objection, the applicant has indicated that they will be installing monitoring wells and a leak detection system is going to be installed under all the equipment. In regards to the lighting objections, the site landowner, Mr. Scott Bice indicated that the North Dakota Department of Transportation (DOT) has approved the traffic going in and out of that location. One of the safety issues that Delmont Rice brought up was the sharing of the approach – he is going off east to his residence and off to the west is the disposal and treating plant operation. Since the DOT has issued an approach already for that location the staff believes the safety issue has been looked at and resolved.

In response to a question Mr. Hicks indicated that the facility will be co-located on a permitted injection well site and the operator of that injection well has to meet all the stipulations and specifications of an injection well. He stated that the injection well will have all the downhole requirements for a disposal well and with the stipulations for a treating plant there will be additional stipulations so with all of these stipulations there will be a very good monitoring system in place. No pits are allowed on the site.

Mr. Hicks stated that in regards to the lighting Earthworks has indicated that all their lights would be downward facing so they would not be a hindrance to traffic on the road.

In regards to the air quality concerns, Mr. Hicks stated that would be under the jurisdiction of the Health Department and if burning is taking place the operator would need to get a permit from the Health Department. They would not be able to exceed the ambient air quality standards.

In response to a question regarding what the stipulations are, Mr. Hicks stated the applicant would have to have an onsite inspection; they are required to construct the facility in accordance to the diagrams they submitted and the leak detection system and monitoring wells must be installed.

Case 21609: It was moved by Commissioner Goehring and seconded by Attorney General Stenehjem that Order 23963 issued in Case 21609, be approved and effective this 21st day of April, 2014. On a roll call vote, Governor Dalrymple, Attorney General Stenehjem and Commissioner Goehring voted aye. The motion carried unanimously.

Case 22015, Order 24348 - Application for overlapping 2560-acre spacing unit (A copy of Order 24348 is available in the Commission files.) – Mr. Hicks distributed an exhibit from the hearing which is a map. (A copy of the map is available in the Commission files.) Mr. Hicks indicated that this is an interesting case that the Commission has looked at before. Previously the Commission established two 1280-acre stand-up spacing units with 14 wells allowed on each of the 1280-acre spacing units. Then the Commission considered a case allowing 3 section line wells between the two 1280-acre spacing units. Because of the Commission's requirements regarding the section line wells, the applicant has now asked to develop this entire area as one 2560 acre spacing unit allowing 28 wells. The staff has some concerns about the proposal - the wells may be developed differently from one side of the 2560 acre unit than the other side and may not be evenly distributed, there may be other targets than what had previously been proposed

and the staff is not convinced that the correlative rights will be protected if the wells are not evenly distributed. The staff recommendation is to deny the applicant's request and have the area developed as previously approved with 1280-acre spacing units (14 wells per unit) and the 3 section line wells.

In response to a question, Mr. Hicks discussed the reasons why the applicant is requesting the 2560 acre unit and the issues with the setbacks. He indicated that by granting the applicants request would be like creating a mini-unit where you have a very large spacing unit and the applicant would be drilling wells that may not affect the other portion of that spacing unit.

Case 22015: It was moved by Commissioner Goehring and seconded by Attorney General Stenehjem that Order 24348 issued in Case 22015 which denies the application, be effective this 21st day of April, 2014. On a roll call vote, Governor Dalrymple, Attorney General Stenehjem and Commissioner Goehring voted aye. The motion carried unanimously.

Mr. Bruce Hicks reviewed the Oil and Gas Division Quarterly Report. (A copy of the Quarterly Report is available in the Commission files.) He said they are going to add another section to the report--a permitting section. This section will show the number of permits issued on public lands within the special places.

In response to a question he noted that they are making progress on catching up with the order writing but they are still behind. He stated they need experienced staff writing orders and when you pull in that staff other duties are not completed. He indicated that they are now automating the pooling orders so that is helping them catch up. Even though the number of outstanding cases waiting for orders is high, he pointed out that some of the cases deal with the same issues -- the operator has changed their mind about a well location or development plan so when they deal with the most recent request the other orders will be dismissed.

Mr. Bruce Hicks discussed the draft Industrial Commission statement to be presented at the Bureau of Land Management's Venting and Flaring Input Session scheduled for May 9 in Dickinson, North Dakota. He said the staff intends to participate in that Session and has some suggestions that they are going to offer as possible solutions for federal lands and lands on the reservations.

It was moved by Commissioner Goehring and seconded by Attorney General Stenehjem that the following comments be submitted to the Bureau of Land Management's Venting and Flaring Input Session scheduled for May 9 in Dickinson, North Dakota subject to final approval granted by signature:

Mr. Michael Nedd
Bureau of Land Management, Assistant Director
Energy, Minerals and Realty Management
202-208-4201 Office
202-208-4800 Fax
mnedd@blm.gov

The North Dakota Industrial Commission appreciates this opportunity to provide input on options the Bureau of Land Management is considering for addressing the venting and flaring of gas and the loss of gas through fugitive emissions from onshore Federal and Indian oil and gas leases.

The Commission has worked with numerous stakeholders on processes to reduce venting and flaring across North Dakota and has developed the following action plan:

- 1) Require Gas Capture Plans (GCP) for all future increased density, temporary spacing, and proper spacing cases.
- 2) Require Gas Capture Plans for all applications for permits to drill (APD) after June 1, 2014.
- 3) Require an affidavit that the GCP has been provided to listed gathering companies in the area.
- 4) Meet semi-annually with gathering companies to gauge effect of Gas Capture Plans, production curtailments, contracts, and service interruptions.
- 5) Dedicate information technology resources to develop a web based pipeline incident report form.
- 6) Direct the North Dakota Pipeline Authority to track flaring on and off the Fort Berthold Reservation and to track and report gas capture status vs GCP goals.
- 7) Docket for hearing a motion to review and revise all Bakken and Three Forks field rules governing production curtailment for flaring reduction.

The North Dakota Industrial Commission urges the Bureau of Land management to consider utilizing similar requirements to addressing venting and flaring of gas on federal lands in North Dakota.

Sincerely,
North Dakota Industrial Commission

Jack Dalrymple, Chairman
Governor

Wayne Stenehjem
Attorney General

Doug Goehring
Agriculture Commissioner

On a roll call vote, Governor Dalrymple, Attorney General Stenehjem and Commissioner Goehring voted aye. The motion carried unanimously.

Mr. Hicks discussed the hearing that was scheduled for the next day regarding the review and revision of the all Bakken and Three Forks field rules as it relates to curtailment of flaring. There is considerable interest and they anticipate a lot of participation.

Being no further Department of Mineral Resources business, Governor Dalrymple adjourned this portion of the meeting at 5:10 p.m. and the Commission took up Administrative business.

INDUSTRIAL COMMISSION OF NORTH DAKOTA



Karlene Fine, Executive Director and Secretary

Minutes of a Meeting of the Industrial Commission of North Dakota
Held on April 21, 2014 beginning at 2:00 p.m.
Governor's Conference Room, State Capitol, Bismarck, ND

Present: Governor Jack Dalrymple, Chairman
Attorney General Wayne Stenehjem
Agriculture Commissioner Doug Goehring

Also

Present: Jerod Tufte, Governor's Office

Governor Dalrymple called the Administrative portion of the Industrial Commission meeting to order at 5:10 p.m. following completion of Department of Mineral Resources business.

Ms. Karlene Fine, Industrial Commission Executive Director, presented a request from the State Investment Board for approval of Investment Board management of the ND State Board of Medical Examiners Fund as follows: (Copies of the attachments are available in the Commission files.)

RE: Investment Board Request

The North Dakota Century Code states in 21-10-06:

...The state investment board may provide investment services to, and manage the money of, any agency, institution, or political subdivision of the state, subject to agreement with the industrial commission. The scope of services to be provided by the state investment board to the agency, institution, or political subdivision must be specified in a written contract. The state investment board may charge a fee for providing investment services and any revenue collected must be deposited in the state retirement and investment fund... (emphasis added)

Attached is a request from the Fiscal and Investment Operations Manager for the State Investment Board to permit the Investment Board to provide investment management services for the North Dakota State Board of Medical Examiners Fund.

For some background information, this law was originally passed in 1963. At one time the Bank of North Dakota did all the investing for the State Investment Board. Over time that has changed but the law has remained. (The issue, I believe, was having two agencies providing the same services.) I have consulted with Eric Hardmeyer at the Bank of North Dakota and he indicated the Bank of North Dakota does not object to this request from the State Investment Board. Therefore I would recommend approval of the request from the State Investment Board.

It was moved by Commissioner Goehring and seconded by Attorney General Stenehjem to approve the request from the Fiscal and Investment Operations Manager for the State Investment Board and permit the Investment Board to provide investment management services for the North Dakota State Board of Medical Examiners Fund.

In response to a question regarding how much money is in the State Board of Medical Examiners Fund, Ms. Fine said she did not know.

On a roll call vote, Governor Dalrymple, Attorney General Stenehjem and Commissioner Goehring voted aye. The motion carried unanimously.

Ms. Fine did not present the request from the City of Fargo regarding revision to their Qualified Energy Conservation Bond allocation. She had to pull this because a couple of questions came up that relate to the authority that was given to the Commission in 2009. That authority was in an

appropriation bill so it was not codified into the statute. She has asked John Fox to look at this issue to decide if the Commission still has the authority to make a reallocation. She indicated that the Qualified Energy Conservation Bond program is a federal program. The question is if the Commission's authority to make allocations has expired. The Commission at that time had fully allocated the bond authority the State had received of about \$6 million but Fargo was not able to go ahead with the project that they had proposed. She will bring it back to the Commission once that question has been answered – if the Commission has the authority to amend that prior allocation.

Ms. Fine presented Industrial Commission minutes for the March 31, 2014 meeting. She asked if the Commission wanted the non-confidential minutes to their meetings posted on the Commission's website.

Attorney General Stenehjem stated the Commission should approve the minutes of their last meeting at a subsequent meeting so there is a specific time for them to take action.

In response to a question, Ms. Fine said some agencies do post their minutes on their websites and some don't. She indicated that in the past she has signed the minutes. She asked if the Commission wanted to sign the minutes or if the Governor, as Chairman, should sign the minutes or if she could continue signing the minutes.

Attorney General Stenehjem stated that after the Commission approves the minutes, Ms. Fine can sign them. Governor Dalrymple preferred to approve them at each meeting and have Ms. Fine sign them.

It was moved by Attorney General Stenehjem and seconded by Commissioner Goehring that the March 31, 2014 Industrial Commission meeting minutes be approved as presented. It is further directed that beginning with the March 31, 2014 minutes, the Industrial Commission Executive Director post the Industrial Commission non-confidential minutes on the Industrial Commission's website. On a roll call vote, Governor Dalrymple, Attorney General Stenehjem and Commissioner Goehring voted aye. The motion carried unanimously.

Ms. Fine briefly updated the Commission on hiring more Industrial Commission Administrative Office staffing.

Being no further Administrative business, Governor Dalrymple adjourned the meeting at 5:30 p.m.

INDUSTRIAL COMMISSION OF NORTH DAKOTA



Karlene Fine, Executive Director and Secretary