

Minutes of a Meeting of the Industrial Commission of North Dakota
Held on July 29, 2014 beginning at 1:00 p.m.
Governor's Conference Room

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

Also

Present: Jolene Kline, Housing Finance Agency
Max Wetz, Housing Finance Agency
Dave Flohr, Housing Finance Agency
Lynn Helms, Department of Mineral Resources
Bruce Hicks, DMR – Oil and Gas Division
Alison Ritter, DMR – Oil and Gas Division
Ed Murphy, DMR – Geological Survey
John Hoganson, DMR – Geological Survey
John Morrison, Crowley Fleck
Pamela Link, Laborers District Council of MN & ND
Kari Doan, Department of Agriculture
Danette Welsh, ONEOK
Jerod Tufte, Governor's Office
Andrea Travnicek, Governor's Office
Debbie Becher, BC/CU
Ken Tupa
Members of the Press

Governor Dalrymple called the Industrial Commission meeting to order at 1:03 p.m. and the Commission took up Housing Finance Agency business.

Ms. Jolene Kline, Housing Finance Agency Executive Director, provided the Commission with a copy of the Housing Finance Agency Advisory Board's recommendations regarding revisions to the ND Roots Program as follows:

RE: Changes to the NDHFA Roots Program

The NDHFA Advisory Board recommends the Industrial Commission approve the following changes to the ND Roots Program:

- Suspend the requirement that the borrower must have lived outside of North Dakota for a 12 month period prior to establishing residency in the state
- Suspend the requirement that the borrower or spouse must work at least 20 hours in the state
- Suspend the requirement that the borrower must sign a purchase agreement or contract to build a home within 365 days of employment in the state

By making these changes, the ND Roots Program would be available to any resident who meets the 140 percent of median income test by county. Downpayment and/or closing cost assistance may also be available to the borrower.

Current ND Roots income limits based on the 140 percent calculation are as follows and would remain in place:

County	Income Limits
Burleigh and Morton	\$107,380
Cass	\$100,940
Grand Forks	\$97,720
Mercer, Oliver	\$107,800
Richland	\$98,980
Stark	\$98,420
Williams	\$110,600
All Other Counties	\$97,440

She commented on the changes being recommended and how these revisions would assist North Dakotans in purchasing a home.

It was moved by Attorney General Stenejem and seconded by Commissioner Goehring that the Industrial Commission accept the recommendation of the Housing Finance Agency Advisory Board and approve the following changes to the ND Roots Program:

- **Suspend the requirement that the borrower must have lived outside of North Dakota for a 12 month period prior to establishing residency in the state;**
- **Suspend the requirement that the borrower or spouse must work at least 20 hours in the state;**
- **Suspend the requirement that the borrower must sign a purchase agreement or contract to build a home within 365 days of employment in the state**

In response to a question Ms. Kline stated with these changes there were no time constraints on how long the borrower had lived in or out of the state.

In response to a question regarding suspending the requirement regarding number of hours worked, Ms. Kline said with these revisions the policy would no longer be a limiting factor--that you had to be employed. On the underwriting side, a participating lender who does the underwriting of the loan would be determining that there is sufficient income for that household to qualify for the mortgage. She stated that the provision had been included because when the Agency first established the program in 2002 the focus was to get workforce into the state.

In response to a question regarding the suspension of the requirement that the borrower sign a purchase agreement or contract to build within 365 days of employment, Ms. Kline stated there would be no time limit. She indicated that requirement had been put in there as an incentive that a person moving back to the state must buy a home within 365 days. Because the residence requirement is being suspended, there is no limitation. It could be an existing homeowner under the First Home Program who wants to move up to a second home. They could use this program

to buy a more expensive second home opening up that starter home for a new family just starting out.

In response to a question regarding if the Agency is worried about being overwhelmed by applications, Ms. Kline said that is why they are recommending suspend instead of eliminate. The limitations were put in place in 2002 because the Agency had very limited financial capacity and needed to control the amount of loans. Today, the secondary market is good for taxable bonds and the Agency anticipates funding these loans from that funding source. If something happens in the secondary market the Agency can make those adjustments because they are only suspending the limitations.

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

In response to a question regarding the Housing Finance Agency using its affordable housing programs for the development of a mobile home park that could rent out lots at a controlled rate, Ms. Kline said that has not been contemplated but she did not see a reason why it would not work. Typically, the Agency has funded bricks and mortar as opposed to infrastructure – because of the Agency's limited resources the funding has been capped at no more than 30 percent of the project. Theoretically, 30 percent of those lots would have income and rent restrictions. She thought it could work but would have to look at it in greater detail.

Governor Dalrymple requested Ms. Kline to research it because there are situations emerging where the rent on a mobile home lot is too high and that is not much different than an apartment that is too expensive. The Commission requested that Ms. Kline focus on this possibility because it is an urgent need.

Being no further Housing Finance Agency business, Governor Dalrymple adjourned this portion of the meeting at 1:13 p.m. and took up Department of Mineral Resources business.

INDUSTRIAL COMMISSION OF NORTH DAKOTA



Karlene Fine, Executive Director and Secretary

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Held on July 29, 2014 beginning at 1:00 p.m.
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Present: Governor Jack Dalrymple, Chairman
Attorney General Wayne Stenehjem
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Also

Present: Lynn Helms, Department of Mineral Resources
Bruce Hicks, DMR – Oil and Gas Division
Alison Ritter, DMR – Oil and Gas Division
Ed Murphy, DMR – Geological Survey
John Hoganson, DMR – Geological Survey
John Morrison, Crowley Fleck
Pamela Link, Laborers District Council of MN & ND
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Members of the Press

Governor Dalrymple called the Department of Mineral Resources portion of the Industrial Commission meeting to order at 1:13 p.m. following completion of Housing Finance Agency business.

Mr. Lynn Helms, Department of Mineral Resources and Oil and Gas Division Director, presented proposed orders for two cases heard on June 26, 2014:

Case 22523, Order 24857. Mr. Helms presented proposed Order 24857 in Case 22523 and indicated that this Case has been docketed by the Commission to review the authorization previously made in 2012 by Order 20658 regarding the operation of a portable oil and gas waste treating facility. (A copy of Order 24857 is available in the Commission files.) He reviewed the history of this particular case and outlined the process the Department of Mineral Resources Oil and Gas Division has adopted in recent rules and orders regarding these portable treating plant approvals and permits. Currently when a treating plant is approved the operator has one year to begin construction and if the operator does not do so the approval expires.

In discussion with the Commission Mr. Helms indicated that there are a few dozen of these older cases that do not have the automatic expiration language in them. The staff is placing each of these cases on the docket for hearing and making a determination if the authorization should continue or be withdrawn. In response to a question, Mr. Helms stated they do not want to have these prior approvals outstanding. The operators may turn their approvals over to another operator who may not have gone through the review process. In this particular case the operator had sent in a letter stating they had not begun any construction on the waste treating facilities and had no plans to do so.

Mr. Bruce Hicks, Assistant Director, Oil and Gas Division stated that extensive new rules had been adopted by the Commission for treating plants during the past two years. By revisiting

these approvals where there is no activity the Commission can look at each one and rescind the prior approvals which would then allow new operators to come in and seek approval for a treating plant under the current regulations.

Case 22523: It was moved by Commissioner Goehring and seconded by Attorney General Stenehjem that Order 24857 issued in Case 22523 which rescinds Order No. 20658 be approved and effective this 29th day of July, 2014.

Governor Dalrymple said he was going to vote for this but wanted to make it clear that it is on the basis that the Commission wants to keep permits current and for no other reason.

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

Case 22542, Order 24876 - Mr. Helms presented proposed Order 24876 for Case 22542 which was a request for a completion of a well outside the 500 foot section line corridor. (A copy of the order and the exhibit from the case are available in the Commission files.) He said the request is to complete a portion of the well bore in a section line well that is a significant distance away from the section line. The hearing was held to see whether it prevents waste and protects correlative rights. Mr. Helms went over the exhibit which depicted where the wellbore would be located. He said both 1280's share equally in the production from the well. By allowing them to do this, the well could produce another 75,000 barrels of oil (12.5% of the total production of the well) but the problem is that oil would be shared equally by both 1280's even though the oil is all coming from the west 1280. This is the first of thirty of these types of applications in this field. It would save eight acres per well of surface acreage. Potentially if this process is applied field wide, it would be 240 acres but it does not protect correlative rights. For that reason the recommendation of the staff is that the Commission adopts Order 24876 which denies this request.

In response to a question Mr. Helms said this issue could potentially be addressed through a pooling. However, better than that is that future applications could address the completion of the second well down the section line and commit the operator to drilling that from the other 1280's – so that both 1280's get some well bore out of the section line well. That would treat everyone fair.

Case 22542: It was moved by Commissioner Goehring and seconded by Attorney General Stenehjem that Order 24876 issued in Case 22542, denying the application be approved and effective this 29th day of July, 2014. On a roll call vote, Governor Dalrymple, Attorney General Stenehjem and Commissioner Goehring voted aye. The motion carried unanimously.

The Industrial Commission took under consideration the following Resolution of Appreciation which Attorney General Stenehjem read into the record.

It was moved by Attorney General Stenehjem and seconded by Commissioner Goehring that the following Resolution of Appreciation be approved:

**Resolution of Appreciation
Dr. John W. Hoganson**

- Whereas,** Dr. John W. Hoganson has worked for the State of North Dakota for over 33 years at the North Dakota Geological Survey--since March, 1981 and during that time received the Governor's Award of Excellence in Public Service; and
- Whereas,** John has walked and explored miles and miles of North Dakota and chipped away at rocks to gain a vast understanding of its geology and to discover the flora and fauna that once inhabited this part of the world; and
- Whereas,** John, during the past seven years, served as the State Paleontologist and has been dedicated to preserving the State's many fossils. He initiated the State Geological Survey public digs that have been held throughout the State -- from the Pembina Gorge in northeastern North Dakota to the Badlands in southwestern North Dakota; and
- Whereas,** during John's tenure with the State he authored or contributed to over 150 publications including the State's Blue Book and was a co-author of the book *Geology of the Lewis & Clark Trail in North Dakota* which was released during the Lewis and Clark Bicentennial; and
- Whereas,** John, through his passion for fossils, inspired children and adults to appreciate this aspect of our natural heritage and has made the science of North Dakota paleontology come alive. His tireless work on the Adaptation Gallery: Geologic Time at the Heritage Center leaves a legacy for all who tour that exhibit to appreciate for years to come; and
- Whereas,** John has expressed his desire to retire and have more time to be with family, complete some research projects and enjoy time fishing;
- Now, therefore, the Industrial Commission members hereby offer their heartfelt thanks to John for his many years of service at the North Dakota Geological Survey and extend their best wishes to John and his family for many years of enjoyable retirement.**

Adopted this 29th day of July, 2014

Mr. Hoganson stated he received a lot of support over the years from four Governors and four Industrial Commissions and in the last four years it has been Mr. Murphy and Mr. Helms that have really supported what they have been trying to do in the paleontology program and developing it to where it is now. He thanked everyone for their support.

Governor Dalrymple, Attorney General Stenehjem and Commissioner Goehring voted aye. The motion carried unanimously.

The Commission members thanked Dr. Hoganson for his service and a group picture was taken. The Commission asked Dr. Hoganson to be around on the State's 125th birthday. He said he would be there on November 2. He said he has been granted emeritus status by the agencies he has been involved with so he will continue to do some work at the Heritage Center in years to come.

Mr. Helms presented proposed comments on the EPA Advanced Notice of Proposed Rulemaking regarding the information that should be reported or disclosed for hydraulic fracturing chemical substances and mixtures and the mechanism for obtaining this information.

He said in May EPA issued an advanced notice of proposed rule-making in response to a petition they received from Earth Justice and 114 other parties. The proposed rulemaking would deal with chemical disclosure for hydraulic fracturing under the Toxic Substances Control Act. He stated that these proposed comments touch on three important things:

- 1) Shortly after this petition was received and while EPA was considering it, North Dakota adopted very extensive hydraulic fracturing rules. They deal not only with chemical disclosure through Frac Focus but also a real emphasis on well construction. That is emphasized in these comments.
- 2) Secondly, EPA received this petition August 4, 2011 and a week later Frac Focus went live so as this petition was being prepared, so was Frac Focus. Frac Focus does nearly everything the petition asks for on a nationwide basis. It does chemical disclosure for hydraulic fracturing, it has done chemical disclosure for about 78,000 hydraulic fracturing treatments nationwide, so that makes this rule-making really unnecessary.
- 3) Thirdly, the comments discuss the importance of trade secret protection. Part of the petition was a concern about the fact that Frac Focus does protect trade secrets. He stated that it is very important that the companies who manufacture and use hydraulic fracturing chemicals are allowed to invest in newer, greener and cleaner chemicals. The only way they are going to do that is if they can have some trade secret protection for the initially introduced chemicals as they are developing a market. If we take that away, then we are going to lock ourselves into 2014 chemical mixtures and we may miss a real opportunity to make hydraulic fracturing safer and cleaner.

In response to a question, Mr. Helms indicated that the major difference between what is already being done and the proposed federal rule is the confidentiality status for proprietary chemicals. Mr. Helms said what EPA has been asked to do is replace Frac Focus with their own system. Obviously, that is duplicative, expensive and unnecessary. The significant difference would be under the petition's proposal there would be no trade secret protection at all, everything would be disclosed every time immediately. It also contemplated going even further and creating a chemical registry for every single chemical used in the oil field even if it is a pint of corrosion inhibitors or a cup of scale inhibitor. That is mentioned in the proposed comments.

In response to a question Mr. Helms stated that North Dakota's rules do not provide permanent, perpetual confidentiality of hydraulic fracture chemical information. North Dakota's rules utilize Frac Focus and under the Frac Focus system, there is temporary trade secret protection but it goes away over time--once the patent on the chemical or mixture expires.

In response to a question regarding if there is a leak and the public needs to know, then the information would be disclosed, Mr. Helms said North Dakota's rules provide for that. If there

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was a leak the Commission may release such confidential completion and production data to health care professionals, emergency responders, and state, federal, or tribal environmental and public health regulators if the Director deems it necessary to protect the public's health, safety, and welfare. The Commission could penetrate that trade secret shield to protect the public.

In response to a question, Mr. Helms indicated that in regards to well bore construction, North Dakota requires more layers of protection between the drinking water and frac chemicals than anywhere in the country. It is done in a way that works for industry--it adds to their costs but it doesn't price them out of the business.

In response to a question regarding the only reason to require the disclosure is in the event there is a leak, Mr. Helms stated that was correct.

It was moved by Commissioner Goehring and seconded by Attorney General Stenehjem that the Industrial Commission approve and direct staff to submit by August 18, 2014 the following comments to the Environmental Protection Agency on the information that should be reported or disclosed for hydraulic fracturing chemical substances and mixtures and the mechanism for obtaining this information (Docket Identification Number: EPA-HQ-OPPT-2011-1019):

July 29, 2014

Document Control Office (7407M)
Office of Pollution Prevention and Toxics (OPPT)
Environmental Protection Agency
1200 Pennsylvania Ave. NW.
Washington, DC 20460-0001

**RE: COMMENTS docket identification (ID) number EPA-HQ-OPPT-2011-1019
Advance notice of proposed rulemaking to seek comment on the information that should be reported or disclosed for hydraulic fracturing chemical substances and mixtures and the mechanism for obtaining this information
40 CFR Chapter I
Environmental protection, Chemicals, Confidential business information, Exploration and production, Fracking, Hazardous substances, Hydraulic fracturing, Oil and gas, Reporting and recordkeeping.
[FR Doc. 2014-11501 Filed 5-16-14; 8:45 am]**

Dear Environmental Protection Agency Administrator McCarthy:

The North Dakota Industrial Commission (NDIC) appreciates the opportunity to offer comments on the Environmental Protection Agency (EPA) advance notice of proposed rulemaking (ANPR) and public participation process to seek comment on the information that should be reported or disclosed for hydraulic fracturing chemical substances and mixtures and the mechanism for obtaining this information.

There are currently 192 rigs operating in North Dakota and production has increased to over 1,000,000 barrels of oil per day, due solely to hydraulically fractured horizontal wells. As the

members of the NDIC, we believe hydraulic fracturing and horizontal wells are key components of energy security and economic recovery for the United States.

As the members of the NDIC, we believe the proposed rulemaking is unnecessary in North Dakota since the NDIC has already promulgated effective regulations requiring chemical disclosure and environmental protection. North Dakota's rules properly focus on well construction and testing to prevent hydraulic fracturing fluids from entering the environment and also include a requirement for operators to disclose chemicals used in hydraulic fracturing on FracFocus within 60 days of completion of the hydraulic fracturing operation.

Therefore, North Dakota has an enormous interest in this proposed rulemaking and provides the following comments:

FracFocus was undergoing final testing at the time Earthjustice and the 114 other groups were preparing the petition that precipitated this advance notice of proposed rulemaking and FracFocus 1.0 went online on 8/11/11, just one week after the petition was received by EPA. In addition, FracFocus has since been upgraded to make it more user friendly and to provide more information about the hydraulic fracturing process. FracFocus has been in use for nearly 3 years and has successfully mapped and reported the chemicals used in almost 78,000 hydraulic fracturing stimulations.

EPA maintains continuing coordination with its Federal partners in planning information reporting rules that will complement the Bureau of Land Management's (BLM) proposed regulation: Oil and Gas; Hydraulic Fracturing on Federal and Indian Lands (78 FR 31636, May 24, 2013). The intent of these dialogues is to ensure both EPA's and BLM's efforts provide useful information for assessment and disclosure purposes, while not overly burdening reporting entities. BLM has chosen FracFocus as the primary method of chemical disclosure.

By far the best way for EPA to minimize reporting burdens and costs, avoid duplication of efforts, and maximize transparency and public understanding is to encourage the use of FracFocus nationwide.

Allowing for trade secret protection as performed within FracFocus is important for three reasons:

- First, it is the law of the land. Current federal and state laws provide for trade secret protection to encourage United States manufacturers and processors to develop newer, safer, and greener products.
- Second, trade secret protection is a wonderful incentive for investment by hydraulic fracturing chemical manufacturers in newer, safer, and greener products.
- Finally, release of such trade secret protected information might encourage operators to forego using the "newest" and "proprietary" chemicals since no proprietary information protection is provided.

Any information needed to respond to incidents involving release of hydraulic fracturing chemicals not available through FracFocus is already available through EPCRA and CERCLA laws and rules. EPA is encouraged to use incentives and recognition programs to support the development and use of safer chemicals (both those created deliberately and inadvertently) in hydraulic fracturing. Safer chemicals are generally less toxic to human health and the environment, and are less persistent and bioaccumulative than their alternatives. Under an EPA-sponsored voluntary initiative, EPA could provide resources and recognition for companies committed to promoting and using safe and sustainable practices.

EPA should not consider including reporting on any combination of water and/or chemicals introduced or intended to be introduced into an oil or gas well for the purpose of maintaining or improving the function and productivity of the well, including recovery methods, (e.g., acid treatments, corrosion inhibitors, scale reducers, biocides). Such chemicals are used in volumes several orders of magnitude less than the volume of a typical hydraulic fracturing stimulation, at significantly lower pump pressures than those utilized during typical hydraulic fracturing treatments, and in concentrations much higher than those found in typical hydraulic fracturing fluids. Information on such chemicals used is also already available through EPCRA and CERCLA laws and rules.

EPA should consider funding of programs such as FracFocus and Interstate Oil and Gas / Ground Water Protection Council programs such as State Oil and Gas Regulatory Exchange, UIC Peer Reviews, and National Field Inspector Certification Program. All of these programs are overseen by Governors and state regulators who can provide independent third-party certification, collection of information, and development of best practices about hydraulic fracturing operations in lieu of a new EPA mandatory reporting or voluntary disclosure program.

As the members of the NDIC, we believe the proposed rulemaking is unnecessary since the NDIC has already promulgated regulations requiring chemical disclosure and environmental protection, there are numerous multi-state programs in place to accomplish all of the stated goals of such a rulemaking, and there are no known environmental contamination incidents from hydraulic fracturing cited in the United States. If the EPA proceeds with the proposed rulemaking states like North Dakota that already have comprehensive disclosure requirements should be exempted from the rule.

In response to a question regarding what other states are doing Mr. Helms stated that there are 30 oil and gas producing states in the nation and at last count 24 were using Frac Focus so it is a very uniform system but there are six who are not. He stated that one of the draft comments is a statement suggesting that EPA should do what it can to encourage all 30 states to adopt Frac Focus as a standard for chemical disclosure.

In response to a question on federal rulemaking, Mr. Helms said the system should presume that states will take care of this because that is the best place for this type of regulation and chemical disclosure to take place and only if that is not happening would you step in with federal jurisdiction and promulgate some type of rule. Mr. Helms pointed out that the petition was filed within a week of Frac Focus going live three years ago. There was a legitimate concern four years ago but the states recognized that concern and built Frac Focus.

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

Mr. Helms stated that Mr. Hicks would be presenting the Oil and Gas Division Quarterly Report. The Report has been revised to provide more detailed statistics regarding permitting.

Mr. Hicks presented the Oil and Gas Division Quarterly Report. (A copy of the Quarterly Report is available in the Commission files.) He reviewed the new detailed permitting statistics and explained each of the new statistics.

Mr. Helms updated the Commission regarding oil conditioning issues and the four-part solution discussed at the last Industrial Commission meeting. He said last week the US Department of Transportation (USDOT) came out with proposed rules dealing with rail cars and rail maintenance, speed limits, etc. which relate to the first two parts of the solution. USDOT is also working with Homeland Security and the Department of Emergency Services to make sure that emergency managers are up to speed on what is being transported through North Dakota communities and have the proper emergency response ability in place. That relates to the third part of the solution. The fourth part of the four-part solution falls under the purview of the Industrial Commission under 38-08-04. He noted that twenty years ago he wrote a computer program regarding oil conditioning for the company he worked for at the time. Oil conditioning is using the proper series of gas separators, heater treaters and tank residence time to achieve the proper components in the crude oil and it can be done by controlling pressures, temperature, etc. Twenty years ago the goal was market driven as well as safety driven. He stated that he is aware that some extensive work has been done in this area by Turner, Mason & Company and SGS Laboratories (Turner Mason) -- a Bakken Crude Quality Assurance Study. He would like to have that information provided to the Industrial Commission so if it turns out some type of regulatory backstop is needed to make sure the right processes are implemented in the field, the Commission would have the correct information and could either adopt rules, orders or whatever it takes. He stated that it is his understanding that the information from the study will be ready this week or next week.

In response to a question regarding if the study includes findings on crude oil samples and variations, Mr. Helms said his understanding is that Turner Mason study looked at the sampling done by PHMSA; the sampling by the refiners and they had also conducted their own set of samples and ran them through their analysis and is coming up with a standard of what should be considered a Bakken barrel. When they did their collecting of the samples they also recorded the field operating practices that were associated with each sample – was there a separator, a heater treater, was there a stock tank for storage, and what pressures and temperatures were all those things operating at. He thought this study would help the Commission understand what needs to be done in the field to produce a Bakken barrel.

In response to a question regarding who commissioned the report, Mr. Helms said it was the North Dakota Petroleum Council. The initial goal of the report was to try to create something like a West Texas Intermediate (WTI) benchmark – a set of parameters that said if you buy a Bakken barrel or you haul a Bakken barrel this is what is in your truck, pipeline or this is what will come in through the gate of your refinery. That was the initial idea but they also recorded all that field operation data that went with the samples. They have the capability to translate that true Bakken barrel back and show what it took in the field to make that barrel meet the Bakken standard.

In response to a question regarding the results of different studies about the volatility of Bakken oil not being uniform from one well to the next and if this study could answer how to get to a standardized barrel, Mr. Helms said yes. It is his understanding that this study is the only one that has addressed the operating conditions at the sample sites and why a certain set of conditions resulted in a certain barrel with certain components in it versus another set of conditions that

resulted in a slightly different barrel. It also will address how we achieve a uniform barrel and what conditions go with that. To the best of his knowledge, this is the only study that has done that – others did a lot of sampling and characterization and showed it was this kind of barrel and that kind of barrel which was good but those were designed to compare Bakken to other types of crude oil. This is the only study he knows of that connects Bakken oil characteristics with field operations.

Governor Dalrymple said the Commission should hear the results of the study without delay because the Commission needs this information as soon as possible. The Commission may need to act immediately depending on what we find out. The proposed rules that came out from DOT apparently is referring to Bakken oil and not everyone knows what that means – that doesn't seem very scientific and we need to proceed on a scientific basis – what is it we are talking about exactly; how do we standardize it; and, if necessary, control it.

In response to a question, Mr. Helms stated it is his understanding that Turner Mason will have put the finishing touches on the study by the end of this week. He recommended not delaying in having the study presented to the Commission. It may not be the definitive final answer. They talked earlier this month about getting some initial information and holding a hearing so the Commission gets other points of view but certainly this information would be an important part of setting up that hearing and getting it into the record.

It was moved by Attorney General Stenehjem and seconded by Commissioner Goehring to have the Industrial Commission Executive Director schedule an Industrial Commission meeting next week for a presentation of the Turner, Mason & Company and SGS Laboratories Bakken Crude Quality Assurance Study.

Governor Dalrymple said this will be with an eye to deciding whether or not we need to set up a hearing of some kind.

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

Governor Dalrymple asked Mr. Helms to start thinking ahead about what steps the Commission would have to take to begin to monitor, regulate and oversee oil conditioning if it is determined that oil conditioning should be required. Right now we are assuming producers are doing conditioning but we do not have a mechanism to verify that.

In response to a question regarding other mechanisms besides oil conditioning in the field, Mr. Helms stated there are other mechanisms – none of them without a significant downside. He indicated the subject being discussed is field operation practices in conditioning that deal with the crude oil as it comes out of the well head. At that location you have a place for the light ends to go—a natural gas connection or whatever you are going to do with the natural gas—and you also have the opportunity to properly handle the oil before it goes into a truck or through a LACT meter or a pipe or a rail car. You can catch it before it becomes part of the transportation system. It makes sense to do the conditioning in the field. There are other options to do it downstream

somewhere in a very large and very expensive operation. It was noted that downstream mechanisms would require transporting the Bakken oil and may end up treating a product that may not need to be treated. For those reasons Mr. Helms stated there are a lot of synergies in doing the conditioning at the wellhead.

Governor Dalrymple asked that the Commission be provided information on the difference between processing, stabilizing and conditioning. He also asked that the Commission receive information on how the West Texas Intermediate (WTI) benchmark was established. If we are going to try to get to a standardized Bakken oil product it would be good to know how it works with WTI. Mr. Helms noted that is one of the specialties of Turner, Mason and Company so they could answer that question directly as to what is the process to establish a crude oil benchmark and the parameters that go with it. If that is achieved there could be a new benchmark that could be traded on the commodity exchanges--just like WTI.

Attorney General Stenehjem requested that staff provide a summary of the US DOT proposed regulations. It was noted that there was going to be a meeting on August 8 conducted by the federal government -- Quadrennial Energy Review where it would be beneficial to have some of this information.

Governor Dalrymple also asked that information be provided regarding the new tank car regulations and, if implemented, their impact on the North Dakota oil and gas industry. Mr. Helms stated that Justin Kringstad, Pipeline Authority Director, has been looking into that. There are some really critical junctures in terms of crude oil transportation in North Dakota in 2015 and 2016 with the announcement of the proposed three new pipeline projects (Sandpiper, Energy Transfer and Energy Services). It might be helpful to have Justin walk through the timelines for those projects. The initial review is that if those projects proceed as currently proposed and everything goes right, there would be little or no interruption in the transporting of oil from North Dakota. If one or more of those pipelines does not proceed, there could potentially be a problem.

Governor Dalrymple also asked if staff could identify someone that could brief him on the proposed railcar retrofit regulations and potential impacts on the rail transportation system.

Being no further Department of Mineral Resources business, Governor Dalrymple adjourned this portion of the meeting at 2:10 p.m. and took up Renewable Energy 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: Al Anderson, Renewable Energy Program
Andrea Pfennig, Renewable Energy Program
DeAnn Ament, Public Finance Authority
Doug Anderson, Attorney General's Office
Kari Doan, Department of Agriculture
Members of the Press

Governor Dalrymple called the Renewable Energy Program portion of the Industrial Commission meeting to order at 2:10 p.m. following completion of Department of Mineral Resources business.

Ms. Karlene Fine, Industrial Commission Executive Director, presented the Renewable Energy Development Fund financial report as follows:

Renewable Energy Development Fund
Financial Statement
2013-2015 Biennium
July 10, 2014 Renewable Energy Council Meeting

	<u>Cash Balance</u>
July 1, 2013 Balance	\$ 2,757,612.42
Revenues from Resources Trust Fund	\$ 3,000,000.00
Revenues through May 31, 2014	\$ 2,058.73
Expenditures net of returns through May 31, 2014	<u>\$(1,317,835.27)</u>
Cash Balance as of May 31, 2014	\$ 4,441,835.88
Outstanding Administrative Commitments (<i>estimate</i>)	\$(77,517.50)
Outstanding Project Commitments as of May 31, 2014	<u>\$(844,652.00)</u>
Uncommitted dollars as of May 31, 2014	\$ 3,519,666.38

Renewable Energy Development Fund
Continuing Appropriation Authority
2013-2015 Biennium

July 1, 2013 Balance of Uncommitted Dollars	\$ 825,744.42
Transfer from Resources Trust Fund for 2013-2015 Biennium	\$ 3,000,000.00
Interest Income (Estimated)	\$ 10,000.00
Income from Project Applications (Estimated)	\$ 1,500.00
Returned Commitments	<u>\$ 163.23</u>
	\$ 3,837,407.65
Administrative Commitments	\$(110,000.00)
Commitments 2013-2015	<u>\$(198,300.00)</u>
	\$ 3,529,107.65

Senate Bill 2014 (2013 Legislative Session) included an amendment to “57-51.1-07. Allocation of moneys in Oil Extraction Tax Development Fund” that stated the following:

Five percent of the amount credited to the Resources Trust Fund must be transferred no less than quarterly into the Renewable Energy Development Fund, not to exceed three million dollars per biennium.

Renewable Energy Development Fund (54-63-04, N.D.C.C.) – Continuing appropriation. The Renewable Energy Development Fund is a special fund in the state treasury. All funds in the Renewable Energy Development Fund are appropriated to the Industrial Commission on a continuing basis for the purpose of carrying out and effectuating this chapter. Interest earned by the Fund must be credited to the Fund.

Mr. Al Anderson presented the Renewable Energy Council’s recommendation regarding Grant Round 21 application titled “Distributed Geothermal Power” Submitted by: University of North Dakota; Request for \$100,230; Total Project Costs \$200,835; Project Duration: 2 years. (A copy of the application and recommendation is available in the Commission files.) He indicated that the primary objective of the project is to demonstrate the technical and economic feasibility of electrical power generation using the heat contained in oil field fluids. A geothermal system that has been designed and built through the combined efforts of UND & Access Energy will be installed at a Continental Resources water supply well site near Marmarth. The system will generate a continuous 250 kW of electricity from non-conventional low temperature geothermal water. He stated that the Council vote was four “yes” to zero “no”. The technical advisor recommendation is to support with the technical reviewers at two “fund” and one “funding may be considered”.

It was moved by Attorney General Stenehjem and seconded by Commissioner Goehring that the Industrial Commission accepts the recommendation of the Renewable Energy Council to fund the grant application “Distributed Geothermal Power” and authorizes Karlene Fine, Industrial Commission Executive Director, to execute an agreement with the University of North Dakota to provide a total of Industrial Commission Renewable Energy Program funding in an amount not to exceed \$100,230. On a roll call vote, Governor Dalrymple, Attorney General Stenehjem and Commissioner Goehring voted aye. The motion carried unanimously.

Being no further Renewable Energy Program business, Governor Dalrymple adjourned this portion of the meeting at 2:17 p.m. and the Commission took up Public Finance Authority 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 July 29, 2014 beginning at 1:00 p.m.
Governor's Conference Room

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

Also

Present: DeAnn Ament, Public Finance Authority
Doug Anderson, Attorney General's Office
Debbie Becher, BC/CU
Eric Hardmeyer, Bank of North Dakota
Bruce Schumacher, Bank of North Dakota
Bob Humann, Bank of North Dakota
Tom Redmann, Bank of North Dakota
Members of the Press

Governor Dalrymple called the Public Finance Authority portion of the Industrial Commission meeting to order at 2:17 p.m. following completion of Renewable Energy Program business.

Ms. DeAnn Ament, Public Finance Authority Executive Director, presented a request for a \$152,000 increase to an existing Drinking Water State Revolving Fund loan (from \$850,000 to \$1,002,000) for the City of Westhope. She said this is to finance the replacement of their water tower going from a 50,000 gallon to 200,000 gallon water tower. They need additional funds which will bring it over the one million dollar mark so it needs to come before the Commission. It will be repaid with water revenues. The City has had excess operating revenues of \$117,107 the last two years and will easily make the 120 percent coverage requirement. The Advisory Committee recommended approval.

It was moved by Attorney General Stenehjem and seconded by Commissioner Goehring that the Industrial Commission approves the following resolution:

RESOLUTION APPROVING
LOAN FROM DRINKING WATER STATE REVOLVING FUND

WHEREAS, the Industrial Commission has heretofore authorized the creation of a Drinking Water State Revolving Fund Program (the "Program") pursuant to N.D.C.C. chs. 6-09.4, 61-28.1, and 61-28.2; and

WHEREAS, the State Revolving Fund is governed in part by the Master Trust Indenture dated as of July 1, 2011 (the "Indenture"), between the North Dakota Public Finance Authority (the "NDPFA") and the Bank of North Dakota (the "Trustee"); and

WHEREAS, the City of Westhope (the "Political Subdivision") has requested an increase in the amount of \$152,000 to an existing loan (from \$850,000 to \$1,002,000) from the Program to finance a water storage tank; and

WHEREAS, NDPFA's Advisory Committee is recommending approval of the Loan; and

WHEREAS, there has been presented to this Commission a form of Loan Agreement proposed to be adopted by the Political Subdivision and entered into with the NDPFA;

NOW, THEREFORE, BE IT RESOLVED by the Industrial Commission of North Dakota as follows:

1. The Loan is hereby approved, as recommended by the Advisory Committee.

2. The form of Loan Agreement to be entered into with the Political Subdivision is hereby approved in substantially the form on file and the Executive Director is hereby authorized to execute the same with all such changes and revisions therein as the Executive Director shall approve.

3. The Executive Director is authorized to fund the Loan from funds on hand in the Drinking Water Loan Fund established under the Indenture upon receipt of the Municipal Securities described in the Political Subdivisions bond resolution, to submit to the Trustee a NDPFA Request pursuant to the Indenture, and to make such other determinations as are required under the Indenture.

4. The Commission declares its intent pursuant to Treasury Regulations §1.150-2 that any Loan funds advanced from the Federally Capitalized Loan Account shall be reimbursed from the proceeds of bonds issued by the NDPFA under the Indenture.

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

Ms. Ament provided the Commission with the following memorandum regarding a loan to the City of Marion in the amount of \$136,702 approved by the Public Finance Authority Advisory Committee:

Re: Marion, Clean Water State Revolving Fund Program Loan

Under current policy, the Public Finance Authority can make loans under the State Revolving Fund Program in an amount not to exceed \$1,000,000 and under the Capital Financing Program in an amount not to exceed \$500,000 without seeking the final approval of the Industrial Commission. Within this policy, once the loan has been funded, the Public Finance Authority is required to provide the details of the loan to the Industrial Commission. Accordingly, the Public Finance Authority and its Advisory Committee used this policy to approve the following loan:

The committee reviewed an application from the City of Marion requesting a \$136,702 loan under the Clean Water State Revolving Fund (CW SRF) Program to finance a permanent pumping station, reroute water from the slough and reroute drainage from the sewage lagoons. Total construction costs for this project will be \$521,500 with \$201,652 from CDBG and \$183,146 from the State Water Commission. The requested term for the CW SRF loan is 20 years. The City of Marion will issue revenue bonds payable with user fees.

The loan was approved by the Public Finance Authority's Advisory Committee the July 22, 2014 Advisory Committee meeting.

Ms. Ament presented the following memorandum regarding a Disaster Financing Program update and her recommendation to reopen the Disaster Financing Program:

Re: Disaster Financing Program Update

Background

On June 16, 2011, the Industrial Commission authorized the ND Public Finance Authority (PFA) to offer Disaster Financing through the Capital Finance Program (CFP) to political subdivisions that are within a county that has received a Presidential Public Disaster Declaration or a

gubernatorial executive order or proclamation of a state disaster or emergency. The Disaster Financing provides short term funding for a political subdivision while the entity is waiting for reimbursement from either the federal or state government or to provide cash flow financing until sufficient tax revenues have been received to meet the local match requirements. The terms of the bonds offer flexible maturities up to 5 years. The interest rate is the 3 month LIBOR + 1.25%, adjusted monthly with a floor of 2.25%. The Disaster Financing program closed on December 31, 2013.

Program Status

Thirty-nine loans totaling \$71,531,546 have been approved. Of the thirty-nine approved borrowers, twenty-seven have borrowed a total of \$19,967,127 and currently have \$7,780,873 outstanding. To fund these loans, the PFA has utilized PFA funds in the amount of \$6,236,515 and borrowed \$13,730,612 from the Bank of North Dakota.

Recent Emergency Declaration

On July 3, the Governor issued an emergency declaration to assist areas of the state hard hit by overland and riverine flooding. State and local officials have conducted initial flood damage assessments in Bottineau, Divide, Eddy, McHenry, Mountrail, Pierce, Renville and Ward counties. Additional counties could be eligible for flood recovery assistance as officials continue to assess damages. The Governor has also requested the Federal Emergency Management Agency assist state and local officials in conducting an assessment of damages.

Recommendation

I would recommend the Disaster Financing program be re-opened to assist political subdivision impacted by the emergency declaration. In addition, it should be made a permanent program.

In response to a question Ms. Ament stated the Commission would be apprised of every loan-- if the loan is greater than \$500,000 the Commission would have to act on it or they would get a memorandum if it is less than \$500,000.

Ms. Ament stated that the Authority has an agreement with BND to provide funding up to \$100 million. They utilize the funding in increments of \$20 million. So far the Authority has not used the first \$20 million. The Commission would also be kept informed of the amount of funding utilized from the Bank.

It was moved by Commissioner Goehring and seconded by Attorney General Stenehjem that the Industrial Commission authorize the North Dakota Public Finance Authority to re-establish the Capital Financing Program-Disaster Financing to provide disaster assistance to political subdivisions affected by weather related events until federal and state money is available or to assist in cash flowing local match requirements and to approve the following criteria for this program:

Capital Financing Program Disaster Financing

- Purpose:** This program provides disaster assistance to political subdivisions affected by weather related events until federal and state money is available or to assist in cash flowing local match requirements.
- Applicant:** Any North Dakota political subdivision that is within a county that has received a Presidential Public Disaster Declaration or a gubernatorial executive order or proclamation of a state disaster or emergency.
- Lender:** Public Finance Authority. The process requires the political subdivision to submit a Capital Financing Program Disaster Financing application to the PFA. Approval is subject to credit review and approval by the PFA Advisory Committee and when applicable, the Industrial Commission.
- Use of Proceeds:** To provide short term funding for a political subdivision while the entity is waiting for reimbursement from either the federal or state government or to provide cash flow financing until sufficient tax revenues have been received to meet the local match requirements.
- Terms:** The terms of the bonds will be flexible maturities up to 5 years. The interest rate is the 3 month LIBOR + 1.25% adjusted monthly with a floor of 2.25%.
- Fees:** Bond counsel fees generally are based upon the size of the borrowing and are set by each firm; payment of these fees is the responsibility of the borrower.
- Collateral:** The political subdivision must show ability to repay the financing either from Federal or State government disaster payments or from tax receipts.

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

It was moved by Commissioner Goehring and seconded by Attorney General Stenehjem that the Industrial Commission proceed into Executive Session pursuant to N.D.C.C. 44-904-19.1 for attorney consultation and update and discussion on potential litigation. On a roll call vote, Governor Dalrymple, Attorney General Stenehjem and Commissioner Goehring voted aye. The motion carried unanimously.

Being no further non-confidential Public Finance Authority business, Governor Dalrymple adjourned this portion of the meeting at 2:25 p.m. and the Commission took up confidential Public Finance Authority 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 July 29, 2014 beginning at 1:00 p.m.
Governor's Conference Room

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

Also

Present: Eric Hardmeyer, Bank of North Dakota
Bruce Schumacher, Bank of North Dakota
Bob Humann, Bank of North Dakota
Tom Redmann, Bank of North Dakota
Members of the Press

Governor Dalrymple called the Bank of North Dakota portion of the Industrial Commission meeting to order at 2:36 p.m. following completion of Public Finance Authority confidential business.

Mr. Eric Hardmeyer, Bank of North Dakota President, presented a proposed Resolution Adopting Written Procedures to Ensure Compliance with Certain Continuing Requirements of the Internal Revenue Code with Respect to the Conduit Bond Program. He said this relates to the North Dakota Farm Finance Agency which the Bank of North Dakota administers for the state. He briefly commented on the Farm Finance Agency noting that it is a tax exempt program bankers use to help finance beginning farmers. This type of program has been used across the nation and has been in place for a number of years. In North Dakota the Bank of North Dakota has the Beginning Farmer Program that is similar and most borrowers use the Bank of North Dakota's Beginning Farmer Program.

Mr. Bob Humann, Bank of North Dakota Senior Vice President, stated that even though this program isn't used a lot certain procedures need to be put in place. The Farm Finance Agency's bond counsel has indicated that certain written procedures need to be adopted by the Commission to meet the IRS regulations. The bond counsel takes care of the reporting for the Bank's role in these financings but there are some responsibilities that the borrower, the recipient of these bond proceeds, must comply with and that is what is outlined in these proposed written procedures.

It was moved by Attorney General Stenehjem and seconded by Commissioner Goehring that the Industrial Commission approves the following resolution:

RESOLUTION ADOPTING WRITTEN PROCEDURES TO
ENSURE COMPLIANCE WITH CERTAIN CONTINUING REQUIREMENTS
OF THE INTERNAL REVENUE CODE WITH RESPECT TO THE
CONDUIT BOND PROGRAM

WHEREAS, the North Dakota Farm Finance Agency, a body politic and agency of the State of North Dakota duly organized and existing under and by virtue of the Constitution and laws of the State of North Dakota (the "Agency") is authorized and empowered by North Dakota Century Code 54-17 (the "Act") to issue bonds and notes for the purpose of assisting agricultural or business enterprises in the State and in furtherance thereof the Agency has established its First Time Farmer Finance Program (the "Program"); and

WHEREAS, the Agency issues bonds (the “Conduit Bonds”) under the Program and loans the proceeds thereof to agricultural or business enterprises (each, a “Conduit Borrower”); and

WHEREAS, the Conduit Bonds are sold to and purchased by individuals, banks or other entities (each, a “Lender”); and

WHEREAS, the interest on the Conduit Bonds is intended to be excluded from federal income tax of the holders thereof (“Tax-Exempt Bonds”); and

WHEREAS, a Conduit Borrower must comply with certain requirements of the Internal Code of 1986, as amended (the “Code”) regarding use of the proceeds of Tax-Exempt Bonds and investment of proceeds of Tax-Exempt Bonds and certain other moneys related to Tax-Exempt Bonds (the “Continuing Requirements”); and

WHEREAS, as a condition of the issuance of Tax-Exempt Bonds, the Agency requires each Conduit Borrower to enter into a loan and/or financing agreements, tax exemption agreements or certificates (the “Conduit Bond Documents”) in which is set forth the factual basis and the Agency’s expectations with respect to the related Tax-Exempt Bonds that support the exclusion of the interest on such Tax-Exempt Bonds from the federal income tax of the holders thereof; and

WHEREAS, the Agency desires to adopt written procedures requiring that each Conduit Borrower be responsible for establishing within the Conduit Bond Documents written procedures to comply with the Continuing Requirements and that the Conduit Borrower monitor such compliance and take remedial action, as necessary; and

WHEREAS, a proposed form of Conduit Bond Post Issuance Procedures has been prepared and submitted to the Commission for consideration and it is in the best interests of the Agency to adopt such procedures; and

NOW, THEREFORE, Be It Resolved by the Industrial Commission, as follows:

Section 1. The Conduit Bond Post Issuance Procedures are hereby approved in substantially the form as has been presented to the Commission and the Agency hereby resolves to abide by the Conduit Bond Post Issuance Procedures and to periodically update the Conduit Bond Post Issuance Procedures in accordance with the Internal Revenue Code and supporting Internal Revenue Service rulings and regulations. The Industrial Commission Executive Director is hereby authorized and directed to edit, refine, finalize and memorialize the Conduit Bond Post Issuance Procedures, with advice from Bond Counsel, in order to ensure compliance with State and Federal laws and regulations.

Section 2. All resolutions or parts thereof in conflict herewith are hereby repealed to the extent of such conflict.

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

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July 29, 2014

Mr. Hardmeyer reviewed the Second Quarter 2014 Performance Highlights. (A copy of the Performance Highlights is available in the Commission files.) During this presentation the Commission and Bank management had a detailed discussion on the volume and size of the various loans being made this year.

Mr. Hardmeyer presented the non-confidential Bank of North Dakota Advisory Board May 15 & 22, 2014 minutes.

Governor Dalrymple closed the meeting at 3:01 p.m. pursuant to North Dakota Century Code 6-09-35 to discuss the items on the agenda under Bank of North Dakota confidential business.

Following the confidential portion of the meeting, the Commission reconvened in non-confidential session at 3:24 p.m. and it was noted that during the confidential portion of the meeting, it had been moved and seconded that the Bank of North Dakota be authorized to participate in three loans identified as Attachments 15 - 17. 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 3:25 p.m. and the Commission took up Western Area Water Supply Authority 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 July 29, 2014 beginning at 1:00 p.m.
Governor's Conference Room

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

Also

Present: Eric Hardmeyer, Bank of North Dakota
Jaret Wirtz, WAWSA (By Speakerphone)
Members of the Press

Governor Dalrymple called the Western Area Water Supply Authority portion of the Industrial Commission meeting to order at 3:25 p.m. following completion of Bank of North Dakota business.

Ms. Karlene Fine, Industrial Commission Executive Director, presented the Western Area Water Supply Authority monthly financial report with the following cover memorandum. (A copy of the attachments to the memorandum is available in the Commission files.)

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

Attached is the Western Area Water Supply Authority (WAWSA) financial information for the month of June and for the six months ending June 30, 2014.

Pages 1 & 2 were prepared by the Bank of North Dakota reflecting debt service payments. Two payments were made in July:

- an interest payment of \$192,619 on July 7, 2014 which was applied to three of the WAWSA loans
- debt service prepayment of \$1,291,075 on July 10, 2014 which was applied to debt service payments due in 2015. This payment was applied to the debt service owed on BND Loan #1 (Original loan was \$50,000,000 and the principal owed is now down to \$43,798,231). On this particular loan WAWSA has now made prepayments totaling \$6,201,717-- prepayments that cover all of the 2015 debt service payments through June 30, 2015.

The next 3 pages (pages 3, 4 & 5) I prepared based on the information provided by WAWSA staff reflecting revenues and expenses and showing net income. Net income for the month of June was -276,110.73. The negative number is due to the significant prepayment that was made in June of \$1.9 million. Revenues were up in June at \$3,178,479. -- the second highest month so far in 2014, Page 6 is the balance sheet prepared by WAWSA staff as of June 30, 2014. As noted on the Balance Sheet the Accounts Receivables are \$5,396,901.66.

In response to a question, Mr. Wirtz indicated that the signs the Commission had approved will be installed in the August/September timeframe.

Mr. Wirtz indicated that July was another solid month of sales. He stated the system is seeing a greater need for domestic water which may restrict the amount of water that is available for industrial sales in August. They are trying to keep all their storage as full as possible. He discussed the volume of water they are putting through the Water Treatment Plant and stated that it was very fortunate that they had gotten that capacity up to the 14 MGD level before this summer--in fact they are pushing it over that level. Work has already begun on expanding the capacity to 21 MGD--if everything stays on schedule that should be complete by next February/March which will be very helpful to meet the domestic and industrial water needs next

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July 29, 2014

summer. He did note that while expanding the Water Treatment Plant they have identified some infrastructure needs that should be replaced so the plant can handle the maximum flows every day. They are making every effort to have the appropriate parts available so they don't have to slow down the operations of the plant. They also have the additional plant at R&T that is helping out. He stated that the expansion to 21 MGD is very much needed.

Being no further Western Area Water Supply Authority business, Governor Dalrymple adjourned this portion of the meeting at 3:32 p.m. and the Commission took up Student Loan Trust 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 July 29, 2014 beginning at 1:00 p.m.
Governor's Conference Room

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

Governor Dalrymple called the Student Loan Trust portion of the Industrial Commission meeting to order at 3:32 p.m. following completion of Western Area Water Supply Authority business.

Ms. Karlene Fine, Industrial Commission Executive Director and Student Loan Trust Authorized Officer, discussed the Procedures for Maintaining Tax Exemption of Bonds. She said these are procedures that are already being done but there needs to be documentation that the Industrial Commission has adopted them.

It was moved by Commissioner Goehring and seconded by Attorney General Stenehjem that the Industrial Commission approves the following procedures for the Student Loan Trust:

NORTH DAKOTA STUDENT LOAN TRUST
PROCEDURES FOR MAINTAINING TAX EXEMPTION OF BONDS

PURPOSE

The purpose of the following procedures is to ensure that the Student Loan Trust (the "Trust") is able to maintain the tax-exempt status of its outstanding bonds and demonstrate compliance with applicable rules.

ELEMENTS

1. Responsibility. The Authorized Officer ("Officer") for the Trust is responsible for carrying out these procedures.
2. At or Before Closing. Review and understand (and discuss with bond counsel as necessary) the tax related representations and undertakings in the bond documents and tax certificates.
3. After Closing. After issuing the bonds the Officer shall do the following:
 - Transcript. Obtain a transcript of relevant documents from bond counsel or financial advisor and maintain the transcript at an accessible location.
 - Accounting. In conjunction with the bond trustee, establish accounting mechanisms that allow the Trust to separately identify the funds which are treated as bond proceeds and track (a) the investment of bond proceeds, (b) the expenditure of bond proceeds on the loans to be financed, (c) the collection and investment of revenues expected to pay debt service and (d) loan repayments.
 - Investments. Determine whether any bond proceeds, funds which secure or are expected to be used to pay bonds or any loan repayments are entitled to a "temporary period" during which the funds may be invested without yield restriction, monitor compliance with the temporary period requirements and restrict investment yield as necessary at the end of identified temporary periods.
 - Expenditures. Review available records to monitor the disbursement of bond proceeds for loans. If all of the bond proceeds were not disbursed within the required time period, consult with bond counsel to determine whether it is

appropriate to make a special allocation of proceeds and other funds or for advice on what must be done with excess proceeds (and earnings on the proceeds).

- Rebate. Engage a professional rebate analyst so that no later than five years after the bonds were issued (and each five-year period thereafter) and at final maturity, a determination is made in consultation with bond counsel or financial advisor whether “arbitrage rebate” is owed or whether an exemption applies. Then arrange for the timely payment of any rebate due.
- Record Retention. Retain all records relating to the investment of bond proceeds and funds pledged or expected to be used for the payment of the bonds, expenditures of bond proceeds and the uses of the financed property for the life of the bonds and three years thereafter.
- Other. Follow any other procedures for post-issuance compliance that are contained in the bond documents or tax certificates.

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

Being no further Student Loan Trust business, Governor Dalrymple adjourned this portion of the meeting at 3:34 p.m. and the Commission took up North Dakota Building Authority business.

INDUSTRIAL COMMISSION OF NORTH DAKOTA



Karlene Fine, Executive Director and Secretary

(Note: The North Dakota Student Loan Trust and the North Dakota Building Authority procedures were discussed and acted on together but for purposes of the minutes have been written up separately.)

Minutes of a Meeting of the Industrial Commission of North Dakota
Held on July 29, 2014 beginning at 1:00 p.m.
Governor's Conference Room

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

Governor Dalrymple called the North Dakota Building Authority portion of the Industrial Commission meeting to order at 3:32 p.m. following completion of Student Loan Trust business.

Ms. Karlene Fine, Industrial Commission Executive Director and North Dakota Building Authority Authorized Officer, discussed the Procedures for Maintaining Tax Exemption of Bonds. She said these are procedures that are already being done but there needs to be documentation that the Industrial Commission has adopted them.

It was moved by Commissioner Goehring and seconded by Attorney General Stenehjem that the Industrial Commission approves the following procedures for the North Dakota Building Authority:

NORTH DAKOTA BUILDING AUTHORITY
PROCEDURES FOR MAINTAINING TAX EXEMPTION OF BONDS

PURPOSE

The purpose of the following procedures is to ensure that the North Dakota Building Authority (the "Authority") is able to maintain the tax-exempt status of its outstanding bonds and demonstrate compliance with applicable rules.

ELEMENTS

1. Responsibility. The North Dakota Industrial Commission Executive Director ("Executive Director") acting as one of the Authorized Officers for the North Dakota Building Authority is responsible for carrying out these procedures.
2. At or Before Closing. Review and understand (and discuss with bond counsel as necessary) the tax related representations and undertakings in the bond documents and tax certificates.
3. After Closing. After issuing the bonds the Executive Director shall do the following:
 - Transcript. Obtain a transcript of relevant documents from bond counsel or financial advisor and maintain the transcript at an accessible location.
 - Accounting. In conjunction with the bond trustee, establish accounting mechanisms that allow the Authority to separately identify the funds which are treated as bond proceeds and track (a) the investment of bond proceeds, (b) the expenditure of bond proceeds on the projects to be financed, (c) the collection and investment of revenues expected to pay debt service and (d) loan repayments.
 - Pooled Financing Requirements. To the extent required, monitor expenditures of bond proceeds to determine whether bonds must be called for redemption if the requirements that 30% of net proceeds be used to make or finance loans within one year and that 95% be so used within three years are not met. Also monitor compliance with expectations regarding making of loans and payment of issuance costs.

- Investments. Determine whether any bond proceeds, funds which secure or are expected to be used to pay bonds or any loan repayments are entitled to a “temporary period” during which the funds may be invested without yield restriction, monitor compliance with the temporary period requirements and restrict investment yield as necessary at the end of identified temporary periods.
- Expenditures. Review available records to monitor the disbursement of bond proceeds for loans. If (a) the Authority has knowledge that bond proceeds were not spent on the authorized project or (b) all of the bond proceeds were not disbursed within the required time period, consult with bond counsel to determine whether it is appropriate to make a special allocation of proceeds and other funds devoted to the project or for advice on what must be done with excess proceeds (and earnings on the proceeds).
- Rebate. Engage a professional rebate analyst so that no later than five years after the bonds were issued (and each five-year period thereafter) and at final maturity, a determination is made in consultation with bond counsel or financial advisor whether “arbitrage rebate” is owed or whether an exemption applies. Then arrange for the timely payment of any rebate due.
- Monitor Use. Except for arrangements specifically allowed by the bond documents, if the Authority is informed of any sale, lease, management agreement or similar arrangement which results in use by a private party of any portion of the financed project, consult with bond counsel before completion of the transaction. If necessary, with the advice of bond counsel, take such steps as are required to ensure that any resulting nonqualified bonds are remediated.
- Record Retention. Retain all records relating to the investment of bond proceeds and funds pledged or expected to be used for the payment of the bonds, expenditures of bond proceeds and the uses of the financed property for the life of the bonds and three years thereafter.
- Other. Follow any other procedures for post-issuance compliance that are contained in the bond documents or tax certificates.

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

Being no further Building Authority business, Governor Dalrymple adjourned this portion of the meeting at 3:34 p.m. and the Commission took up State Mill business.

INDUSTRIAL COMMISSION OF NORTH DAKOTA



Karlene Fine, Executive Director and Secretary

(Note: The North Dakota Student Loan Trust and the North Dakota Building Authority procedures were discussed and acted on together but for purposes of the minutes have been written up separately.)

Minutes of a Meeting of the Industrial Commission of North Dakota
Held on July 29, 2014 beginning at 1:00 p.m.
Governor's Conference Room

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

Governor Dalrymple called the State Mill portion of the Industrial Commission meeting to order at 3:34 p.m. following completion of North Dakota Building Authority business.

Ms. Karlene Fine, Industrial Commission Executive Director, reported on the State Mill's unaudited profits for the fiscal year ending June 30, 2014 and the transfers made to the General Fund and Agricultural Products Utilization Fund as follows:

RE: State Mill transfers

At the July 1 Industrial Commission meeting you passed the following motion:

It was moved by Attorney General Stenehjem and seconded by Commissioner Goehring that the State Mill is authorized to transfer five percent of the net income earned by the Mill for fiscal year 2014 to the Agricultural Fuel Tax Fund (AFTF) and transfer to the General Fund \$3,408,600 of the annual earnings and undivided profits of the Mill as per the request of the Office of Management and Budget Director noting that the transfers will be based on unaudited year-end results and reserving the right to adjust the number to the AFTF once the year-end results have been audited. Further that Mill management reports the amount of the transfers to the Commission at their July 29 meeting.

In compliance with your directive, on July 24, based on unaudited FY14 profits of \$13,351,343, the Mill transferred \$667,567.14 to the **APUC Fund** and \$3,408,600 to the General Fund.

Please note that when making the transfer on July 24 we became aware that the Agricultural Fuel Tax Fund (AFTF) had been changed to the Agricultural Products Utilization Fund. Therefore, to make the record clear we would request that the Industrial Commission affirm the Mill's transfer to the Agricultural Products Utilization Fund rather than the Agricultural Fuel Tax Fund by adopting the following motion:

It was moved by ____ and seconded by ____ that the North Dakota State Mill's transfer on July 24, 2014 to the Agricultural Products Utilization Fund rather than the Agricultural Fuel Tax Fund is approved.

It was moved by Commissioner Goehring and seconded by Attorney General Stenehjem that the North Dakota State Mill's transfer on July 24, 2014 to the Agricultural Products Utilization Fund rather than the Agricultural Fuel Tax Fund is approved. On a roll call vote, Governor Dalrymple, Attorney General Stenehjem and Commissioner Goehring voted aye. The motion carried unanimously.

In response to a question, Ms. Fine stated that the previous years' transfers to the Agricultural Fuel Tax Fund had ended up in the Agricultural Product Utilization Fund but the dollars had gone through the Agricultural Fuel Tax Fund.

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Being no further State Mill business, Governor Dalrymple adjourned this portion of the meeting at 3:35 p.m. and the Commission took up Industrial Commission 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 July 29, 2014 beginning at 1:00 p.m.
Governor's Conference Room

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

Governor Dalrymple called the Administrative portion of the Industrial Commission meeting to order at 3:35 p.m. following completion of State Mill business.

Ms. Karlene Fine, Industrial Commission Executive Director, indicated that the Commission would generally see the minutes from the last meeting on their agenda. However, because of vacation schedules and illness she had been unable to complete the July 1, 2014 minutes. She will make every effort to have them available for the Commission's next meeting

Being no further Administrative business, Governor Dalrymple adjourned the Commission meeting at 3:36 p.m.

INDUSTRIAL COMMISSION OF NORTH DAKOTA



Karlene Fine, Executive Director and Secretary