

Minutes of a Meeting of the Industrial Commission of North Dakota
Held on August 26, 2014 at 1:00 p.m.
Governor's Conference Room

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

Also
Present: Vance Taylor, State Mill
Ed Barchenger, State Mill
Jaret Wirtz, WAWSA
Cory Chorne, WAWSA-EA2S
Jerod Tufte, Governor's Office
Members of the Press

Governor Dalrymple called the Industrial Commission meeting to order at 1:00 p.m. in the Governor's Conference Room and the Commission took up State Mill business.

Mr. Vance Taylor, State Mill President and General Manager, presented the FY 2014 Fourth Quarter Report and Year-End Report as follows:

North Dakota Mill
Review of Operations
4th Quarter Ended June 30, 2014
Pre-Audit

SUMMARY

Operations in the 4th Quarter led to a profit of \$4,779,096 compared to a profit of \$4,205,828 in last year's 4th Quarter. For the year we had a profit of \$13,351,343 compared to \$11,907,228 last year. Our annual profit of \$13,351,343 is the second best year the mill has experienced.

| | <u>Quarter</u> | | <u>Year-to-Date</u> | |
|------------------------|------------------|------------------|---------------------|-------------------|
| | <u>6/14</u> | <u>6/13</u> | <u>6/14</u> | <u>6/13</u> |
| Profits | 4,779,096 | 4,205,828 | 13,351,343 | 11,907,228 |
| Sales | 76,056,402 | 85,873,214 | 310,189,182 | 318,974,830 |
| Cwt. Shipped: | | | | |
| Spring | 2,778,759 | 2,913,209 | 11,124,625 | 10,863,044 |
| % to Total | 91.8% | 91.5% | 91.1% | 91.0% |
| Durum | <u>248,358</u> | <u>272,129</u> | <u>1,093,149</u> | <u>1,077,251</u> |
| Total | <u>3,027,117</u> | <u>3,185,339</u> | <u>12,217,773</u> | <u>11,940,295</u> |
| Bag Shipments | 632,095 | 631,412 | 2,620,509 | 2,478,647 |
| % to Total | 20.9% | 19.8% | 21.4% | 20.8% |
| Tote Shipments | 25,648 | 25,052 | 130,277 | 147,735 |
| % to Total | 0.8% | 0.8% | 1.1% | 1.2% |
| Family Flour Shipments | 61,159 | 52,911 | 271,257 | 237,195 |
| % to Total | 2.0% | 1.7% | 2.2% | 2.0% |

| | | | | |
|------------------|------------------|------------------|-------------------|-------------------|
| Organic Flour | | | | |
| Shipments | 20,367 | 47,571 | 149,401 | 188,307 |
| % to Total | 0.7% | 1.5% | 1.2% | 1.6% |
| Wheat Purchased: | | | | |
| Spring | 5,583,273 | 5,943,030 | 24,036,222 | 23,628,585 |
| Durum | <u>367,009</u> | <u>607,038</u> | <u>2,192,437</u> | <u>2,010,602</u> |
| Total | <u>5,950,282</u> | <u>6,550,068</u> | <u>26,228,659</u> | <u>25,639,187</u> |

SALES

4th Quarter

Sales for the 4th Quarter were \$76,056,402 compared to \$85,873,214 last year. Shipments of 3,027,117 cwts. are 158,222 cwts. below last year's 4th Quarter. Bag shipments for the 4th Quarter are 632,095 cwts. compared to 631,412 cwts. last year. Tote shipments are 25,648 cwts. compared to 25,052 cwts. last year. Family flour shipments of 61,159 cwts. is 15.6% above last year's 4th Quarter. Organic flour shipments of 20,637 cwts. is 56.6% below last year.

Year-to-Date

Sales for the fiscal year came in at \$310,189,182. This is 2.8% under last year. Shipments of 12,217,773 cwts. are 277,478 cwts. above last year. Year-to-date bag shipments are 2,620,509 cwts. or 141,863 cwts. above last year. Year-to-date tote shipments are 130,277 cwts. compared to 147,735 cwts. last year. Family flour shipments for the year are 271,257 cwts., which is a 14.4% increase from last year. Organic flour shipments are 149,401 cwts. compared to 188,307 cwts. last year.

OPERATING COSTS

4th Quarter

Operating costs for the 4th Quarter are \$7,115,327 compared to \$6,124,972 last year, an increase of 16.2%. Operating cost per cwt. of production is \$2.43 compared to \$1.92 last year, an increase of 26.6%. The increase in operating costs were mainly due to the rail service issue.

Year-to-Date

Year-to-date operating costs are \$25,255,631 compared to \$23,169,764 last year, an increase of \$2,085,867. Operating costs per cwt. of production for the year is \$2.10 compared to \$1.94 last year.

PROFITS

4th Quarter

For the 4th Quarter we experienced a profit of \$4,779,096 compared to a profit of \$4,205,828 last year. Gross margins as a percent of gross sales for the Quarter was 15.7% compared to 12.1% last year, an increase of 3.6%.

Year-to-Date

For the year we had a profit of \$13,351,343 compared to profits of \$11,907,228 last year. Gross margins as a percent of gross sales for the year were 12.6% compared to 11.2% last year, an increase of 2.4%.

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. As the table shows

each futures month listed shows we are closely matched in each period. The mill does remain at risk for the basis.

**Position Report
30-June-14**

| Period | Hedge Ratio |
|---------------|--------------------|
| Sep-14 | 1.1 |
| Dec-14 | 1.2 |
| Mar-15 | 1.0 |
| May-15 | 1.0 |
| Net Position | 1.1 |

In response to a question regarding pricing and margins, Mr. Taylor stated at the current time the Mill is in a good position in regards to pricing and margins. They are seeing the same market conditions that they experienced last year. The Mill's flour is definitely in demand; running 24/7 to keep up with demand. Demand is good and prices and margins in general will follow that.

Mr. Taylor presented the proposed FY 2015 Gain Sharing Plan. (A copy is available in the Commission files.) He reviewed the 2014 Gain Sharing Plan and stated it played a significant part in driving the Mill's strong results last year. Plant employees worked hard and achieved three of the four goals – the cost per cwt goal was missed mainly because of rail service issues. Fiscal year 2014's Gain Sharing Plan payout was 18.09 percent. The average gain sharing payout over the last ten years has been about 12 percent. He said the 2015 plan will help motivate the hourly and salaried employees over the entire year to work together as a team. It helps to maximize results and promote safety.

In response to a question regarding what the changes are between the 2014 plan and the 2015 proposed plan, Mr. Taylor stated just the cost per cwt goal. He is proposing that the goal be increased from \$1.87 to \$1.97 because of the increased energy costs and expected rail service issues. The rest of the plan would stay the same as last year.

The Commission discussed the goals, how they relate to profits and how the safety goal works and how that particular goal promotes a more safe environment.

It was moved by Commissioner Goehring and seconded by Attorney General Stenehjem that the Industrial Commission approve the State Mill FY 2015 Gain Sharing Plan as follows:

**NORTH DAKOTA MILL
GAIN SHARING PROGRAM
FY 2015**

- **Eligibility – all full-time employees on June 30, 2015 that worked a minimum of 1,000 hours during the program year are eligible.**

- No pay out of any bonuses if profit before gain sharing expense accrual does not exceed 1.0 million dollars.
- No payout on the profit part of the plan if profit before gain sharing expense accrual does not exceed 2.0 million dollars.
- Payout will be calculated as a percent of earnings from July 1, 2014 to June 30, 2015.
- Goal numbers were set to reflect current realities for the new plan year.
- Goal numbers were set by the General Manager and the Union Negotiating Committee and are attainable with effort.

The plan consists of two independent parts. 4% potential payout is from exceeding gain sharing goals and an uncapped potential payout is from profits.

For the year ending June 30, 2015 the goals are as follows:

Gain Sharing 1st Part - 4% Bonus Potential*

| | |
|--|------------|
| <u>Goals</u> | |
| Cwt./man-hour (includes all hours) | 33.0 |
| Cost per cwt. (before gain sharing exp.) | \$1.97 |
| Yield | 77.2% |
| Safety Record | 150 Points |

*4% bonus potential if all numbers are met or exceeded. Each goal is worth 1% of the 4%.

Gain Sharing 2nd Part - Uncapped Bonus Potential

Profits (before gain sharing expense accrual):

2.0 million = 2.0% bonus pay out

4.5 million = 4.5% bonus pay out

Each additional 1.0 million in profits = 1.0% additional bonus payout.

NOTE: The 1st Part of the gain sharing goals begin to payout at a profit (before gain sharing expense accrual) level greater than \$1.0 million. The 2nd Part of the Gain sharing Goals begin to payout at a profit (before gain sharing expense accrual) level greater than \$2.0 million.

EXAMPLE #1:

The mill makes \$1.5 million profit (before gain sharing expense accrual) and we exceed the goal for cwt./man-hour and cost/cwt. but not the safety record or yield. The total bonus received would be 2% for goals + 0% for profit = 2.0%.

EXAMPLE #2:

The mill makes \$2.5 million profit (before gain sharing expense accrual) and we exceed the goal for cwt. /man-hour, cost/cwt., and the safety record but not the yield. The total bonus received would be 3% for goals + 2.5% for profit = 5.5%.

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

Mr. Taylor reported on the Capital Expenditures for FY 2014 as follows:

**NORTH DAKOTA MILL
Capital Expenditures for FY 2014
August 26, 2014**

| <u>Capital Expense Item</u> | <u>Approved / Remaining Budget</u> | <u>Net Capital Cost</u> | <u>Under / (Over)</u> | <u>Completed Project Cost</u> |
|--|--|-----------------------------|---------------------------|---------------------------------------|
| Plant | | | | |
| Grain Terminal Crossover Upgrade | \$49,916 | \$49,490 | \$426 | \$139,574 |
| Grain Spout Removal & Roof Upgrade | 36,775 | 36,460 | 315 | 64,685 |
| K Mill Capacity Increase - Phase 2 | 106,611 | 106,303 | 308 | 3,549,692 |
| Wheat Midds Transfer System Upgrade | 81,114 | 49,231 | 31,883 | 368,116 |
| A and B Flour Transfer Systems Upgrade Phase II | 174,171 | 171,579 | 2,592 | 272,407 |
| E Mill Upgrade | 110,300 | 73,580 | 36,720 | 123,280 |
| Refurbish Concrete Wheat Storage Bins | 104,550 | 104,540 | 10 | 134,990 |
| Top Cover Placers (3) | 87,020 | 84,352 | 2,668 | 107,332 |
| K Mill Upgrade Phase 3 | 3,235,395 | 3,233,898 | 1,497 | 3,898,503 |
| D Mill Filters | 365,000 | 364,996 | 4 | 364,996 |
| * Electrical Power Distribution Upgrade | 2,755,000 | 87,840 | 2,667,160 | |
| Terminal Elevator Roofs | 600,000 | 599,647 | 353 | 599,647 |
| Forklift Replacements (4) | 95,000 | 92,578 | 2,422 | 92,578 |
| * Whole Wheat Mill Upgrade | 190,000 | 86,467 | 103,533 | |
| Laboratory Fermentation Cabinet | 17,000 | 15,100 | 1,900 | 15,100 |
| * Retail Bag Packing Upgrade | 760,000 | 249,664 | 510,336 | |
| * B Mill Capacity Increase | 7,400,000 | 790,417 | 6,609,583 | |
| Computers/Technology | | | | |
| Warehouse Management System | 130,000 | 127,036 | 2,964 | 127,036 |
| Systems Improvements, Replacements, and Upgrades | 100,000 | 95,579 | 4,421 | |
| Microsoft SQLServer (4) | 35,179 | | | 35,179 |
| HP Proliant DL380p G8 2U Rack Server (2) | 13,861 | | | 13,861 |
| Redundant Systems Hardware | 46,540 | | | 46,540 |

| | | | | |
|-----------------------------------|---------|---------------------|---------------------|---------------------|
| Other | | 400,000 | 314,465 | 85,535 |
| Bronze Boot | 201,815 | | | 201,815 |
| Active UPS | 15,111 | | | 15,111 |
| Catwalk Track to Trainshed | 22,533 | | | 22,533 |
| Warehouse Mgmt System - Hardware | 50,410 | | | 50,410 |
| Forklift | 24,597 | | | 24,597 |
| Total Capital Expenditures | | \$16,797,852 | \$ 6,733,222 | \$10,064,630 |
| | | | | \$10,267,981 |

* Carried over to Fiscal Year 2015

Mr. Taylor presented proposed the Capital Expenditures for 2015. (A copy is available in the Commission files.) He said all of these projects are important for continued, reliable operation of the plant.

It was moved by Attorney General Stenhjem and seconded by Commissioner Goehring that the Industrial Commission approve the following Capital Expenditures for FY 2015:

**NORTH DAKOTA MILL
 Capital Plan for FY 2015
 August 26, 2014**

| Capital Expense Item | Remaining Budget |
|---|-------------------------|
| Carryover from FY 2014 | |
| Plant | |
| Electrical Power Distribution Upgrade | \$ 2,667,160 |
| Whole Wheat Mill Upgrade | 103,533 |
| Retail Bag Packing Upgrade | 510,336 |
| B Mill Capacity Increase | 6,609,583 |
| Total Carryover Capital Expenditures | \$ 9,890,612 |
| FY 2015 Capital Expense Item | Plan |
| Plant | |
| Payloader | \$ 280,000 |
| Old Warehouse Roof Upgrade | 115,000 |
| Maintenance Shop Equipment | 60,000 |
| A/B Mill Electrical Room | 335,000 |

| | |
|---|----------------------|
| Propane Mixer System | 310,000 |
| Modification of Cargo Doors & Openings in A/B Mill | 120,000 |
| Air Makeup Systems Modifications | 130,000 |
| E-Mill High Pressure Filter | 75,000 |
| Main Office Upgrade | 125,000 |
| Lab Equipment Upgrades | 45,000 |
| Computers/Technology | |
| Systems Improvements, replacements, and upgrades | 150,000 |
| Other | 400,000 |
| Total New Capital Expenditures | \$ 2,145,000 |
| | |
| Total Capital Expenditures | \$ 12,035,612 |

Capital Projects for Consideration FY 2015

August 26, 2014

1. Payloader - \$280,000

The current 1983 Caterpillar model 950B payloaders (2) have been in continuous service for over 30 yrs. and have in excess of 30,000 hours on them. The payloaders are used for clearing snow, moving railcars, construction projects and various other tasks. Replacing one now and the other at a later date is needed to ensure the reliability of this essential piece of equipment.

2. Old Warehouse Roof Upgrade- \$115,000

This roof area is approximately 8,000 sq. ft. and has had a number of items installed on it resulting in leakage and general deterioration. This project would repair and upgrade this area.

3. Maintenance Shop Equipment - \$60,000

A new break and shear for metal fabrication are needed in the maintenance shop. The existing equipment is antiquated and does not provide the precision required for current projects.

4. A/B Mill Electrical Room - \$335,000

A new electrical room with transformers and motor starters will address current load demands and allow for future expansion projects.

5. Propane Mixer System - \$310,000

A replacement of the existing system is needed to meet the flow requirements of the boilers since the addition of a 500 HP boiler. The new system will also provide the most current controls and monitoring equipment.

6. Modification of Cargo Doors and Openings in A/B Mill - \$120,000

This project will enlarge and replace the existing cargo doors in the A/B Mill to allow for hoisting large equipment required for future plant upgrades.

7. Air Makeup System Modifications - \$130,000

Adding fan wall systems to both the existing B-Mill and Wheat Cleaning Building Air Makeup Systems is needed to compensate for recent and planned equipment upgrades. In addition new controls will allow for better air balance and resulting mill and cleaning house performance.

8. E-Mill High Pressure Filter - \$75,000

Replacing the existing filter will correct some performance issues and will provide better a better pneumatic conveying system for the mill.

9. Main Office Upgrade - \$125,000

New carpet, paint and a minimal amount of office furniture is necessary to upgrade the main office to presentable standards and accommodate one additional customer service employee.

10. Lab Equipment Upgrades- \$45,000

A fermentation cabinet in the baking lab is worn out to the point where replacement is required. The addition of a Chopin SDmatic analyzer will give us the ability to measure starch damage, which is critical for flour absorption.

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

Mr. Taylor discussed the FY 2015 Strategic Plan. (A copy is available in the Commission files.) He reviewed the 2014 plan highlights.

It was moved by Commissioner Goehring and seconded by Attorney General Stenehjem that the Industrial Commission approve the FY2015 Strategic Plan as follows:

**North Dakota Mill & Elevator
Strategic Plan FY 2015**

Strategic Issue 1

Promote and Support North Dakota Agriculture, Commerce and Industry

A. Develop and Market New Agricultural Products

1. Identify and promote new spring wheat and durum products
2. Develop and market new white wheat products
3. Evaluate retail mixes

B. Increase State Mill Demand for Conventional and Organic Wheat

1. Continue to grow our conventional spring wheat and durum business
2. Continue to grow our organic spring wheat and organic durum business
3. Focus on continuing to grow the whole wheat business
4. Assist current customers in the growth of their business and seek out new customers

C. Work with the Dakota Pride Cooperative and Other Agricultural Organizations

1. Assist Dakota Pride with identity preserved projects and Ag Identity joint ventures.
Facilitate Dakota Pride Cooperative exports through the ND Trade Office
2. Explore additional partnerships for Dakota Pride Cooperative members

3. Identify and develop projects with other North Dakota agricultural organizations

D. Identify and Target New Export Opportunities

1. Increase export sales to current customers
2. Identify new conventional and organic export customers
3. Explore working with Latin American companies

Strategic Issue 2

Identify and Respond to Emerging Issues in the Flour Mill Industry

A. Respond to Changing Grain Market Conditions and Increased Volatility

1. Investigate ways to refine our grain market risk management procedures
2. Develop risk measurement calculations

B. Develop a Strategy to Meet Grain Purchasing Needs During a Year With Reduced Planted Acreage

1. Investigate ways to originate grain from more distant North Dakota sources cost effectively
2. Continue to develop additional contacts across North Dakota for sourcing wheat and durum

C. Develop a Strategy to Mitigate Higher Transportation Costs

1. Implement a standardized fuel surcharge policy for trucks
2. Work to minimize rail fuel surcharges
3. Respond to BNSF marketing program changes

D. Study the Effects of Mergers of Major Competitors and Suppliers

1. Respond to potential customers who anticipate being affected by mergers
2. Analyze possible effects of mergers on grain merchandising and transportation issues
3. Evaluate the impact of regional grain elevator consolidation

E. Address Customer Issues

1. Identify opportunities tied to continued mergers within the baking and flour distribution industries
2. Stay abreast of changing consumption patterns and react accordingly
3. Evaluate flour pricing contract options
4. Stay abreast of emerging food safety issues

F. Focus and Rapidly React to Current Critical Issues

1. Continue to monitor GMO wheat issues
2. Prepare and address potential rail service issues that could impact customers
3. Work with NDSU on research of wheat
4. Work with NCI to develop milling techniques to handle vomitoxin wheat

Strategic Issue 3

Increase Profitability

A. Increase Gross Margins

1. Leverage our superior quality and brand recognition
2. Evaluate causes and costs of problem shipments

B. Minimize Plant Costs

1. Minimize energy costs
2. Effectively manage overtime
3. Decrease unscheduled downtime

- C. Minimize Freight Costs**
 - 1. Right size the rail car fleet considering recent rail service issues
 - 2. Maximize rail car loading weights
 - 3. Minimize demurrage costs
- D. Upgrade Technology**
 - 1. Refine the new warehouse management system
 - 2. Evaluate designs for a new flour distribution system
 - 3. Evaluate increasing packaging capacity
 - 4. Identify, evaluate and acquire transportation management software
- E. Improve Infrastructure**
 - 1. Explore increasing the grain storage capacity of the elevator
 - 2. Evaluate ways to speed up grain unloading in the terminal elevator
 - 3. Continue implementation of the electrical power distribution upgrade project
 - 4. Evaluate the potential purchase of additional property
- F. Explore Expansion Opportunities**
 - 1. Investigate possible acquisitions
 - 2. Evaluate continued expansion of existing milling units
 - 3. Evaluate feasibility of a new mill building

Strategic Issue 4

Grow our Customer Base

- A. Maintain a Consistent High Quality Product**
 - 1. Emphasize high quality when purchasing wheat and durum
 - 2. Optimize milling and blending procedures
 - 3. Evaluate in house lab testing procedures and requirements
- B. Continue to Improve our High Level of Customer Service**
 - 1. Continue to increase the exchange of information through electronic means
 - 2. Continue to visit customers to improve relationships
 - 3. Stress continued training for customer service and sales employees
- C. Identify and Target New Customers & Markets**
 - 1. Identify and target new potential dedicated spring wheat customers
 - 2. Target new markets and consumer warehouse outlets to grow the retail business
 - 3. Grow the bag and tote business
- D. Maintain and Leverage our ISO 22000, ISO/TS 22002-1 & ISO 9000 Certifications**
 - 1. Continue to focus on continuous improvement
 - 2. Stay informed on ISO 22000, ISO/TS 22002-1 & ISO 9000 certifications program changes
 - 3. Pass our ISO 22000, ISO/TS 22002-1 & ISO 9000 certifications surveillance audit
- E. Review and Revise Marketing Strategies as Necessary**
 - 1. Review advertising media to optimize promotional opportunities for all industrial and retail products
 - 2. Promote the functional differences between our products and those of the competition
 - 3. Promote our industry leading level of customer service

Strategic Issue 5

Invest in our Employees

A. Promote Workplace Safety

1. Create awareness and instill safe work practices for all employees through orientation training and supervision
2. Conduct weekly department safety meetings
3. Correct all safety issues as soon as possible
4. Plan for an office building location that is not located in a high rail and truck traffic area.

B. Improve the Retention of our Workforce

1. Review and recommend market based compensation
2. Promote job satisfaction through recognition
3. Provide opportunities for upward mobility and job enrichment
4. Develop an employee retention program

C. Recruit Quality People

1. Insure that compensation, working conditions and future opportunities compete with other similar companies
2. Actively seek out quality employees
3. Maintain professional hiring practices
4. Evaluate staffing needs due to business growth and attrition
5. Annually review the leadership succession plan

D. Enhance Workplace Communications

1. Promote communications between management and staff
2. Conduct annual performance reviews with employees
3. Improve communications with legislators and agricultural organizations/groups

E. Improve Job Performance Through Training

1. Emphasize the importance of growth and training during employee orientation
2. Review career objectives and identify training needs to achieve employee objectives
3. Record training activity and obtain employee feedback on training sessions

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

Mr. Taylor presented revisions/amendments to the Employee Handbook. (A copy is available in the Commission files.) He said the service award program change matches up to what OMB has for other state employees and the second page modifies their emergency action plan with new employee phone numbers and the third page adds a recruitment and retention bonus policy.

It was moved by Attorney General Stenehjem and seconded by Commissioner Goehring that the Industrial Commission approve the following revisions and amendments to the State Mill Employee Handbook:

North Dakota Mill Employee Handbook Revisions

Service Award Program

1. Five years; plaque and a \$25 gift certificate
2. Ten years; plaque and a \$50 gift certificate
3. Fifteen years; plaque and a \$75 gift certificate
4. Twenty years and up; plaque and a \$200 gift certificate
5. Twenty five years and up; plaque and a \$200 gift certificate
6. Thirty years and up; plaque and a \$200 gift certificate
7. Thirty five years and up; plaque and a \$200 gift certificate
8. Forty years and up; plaque and a \$200 gift certificate
9. Forty five years and up; plaque and a \$200 gift certificate

1. Three years – plaque and a \$25 gift certificate
2. Five years – plaque and a \$50 gift certificate
3. Ten years – plaque and a \$100 gift certificate
4. Fifteen years – plaque and a \$150 gift certificate
5. Twenty years – plaque and a \$200 gift certificate
6. Twenty-five years – plaque and a \$250 gift certificate
7. Thirty years – plaque and a \$300 gift certificate
8. Thirty-five years – plaque and a \$350 gift certificate
9. Forty years – plaque and a \$400 gift certificate
10. Forty-five years – plaque and a \$450 gift certificate
11. Fifty years – plaque and \$500 gift certificate

Emergency Action Plan

CALL OUT LIST:

| | <u>Home</u> | <u>Cell</u> |
|--------------|---------------------|-------------------------|
| Randy Egstad | 746 8222 | 701 330 7585 |

CALL OUT LIST:

| | <u>Home</u> | <u>Cell</u> |
|-----------------|-------------|--------------|
| Travis Devlin | 757-0274 | 701-330-7586 |
| Dillon Janousek | | 701-330-4323 |

Recruitment and Retention Bonus Policy

Recruitment and Retention Bonuses - Recruitment and retention bonuses are available if an employee occupies a position identified as a hard-to-fill occupation. A hard-to-fill occupation includes an occupation or position in which demand exceeds supply, special qualifications are required, competition with other employers is the strongest, there is a risk of losing an incumbent with rare skills, the position is filled by a highly skilled employee who is in high demand in the marketplace, loss of the employee would result in significant replacement cost, the position is filled by key personnel, or the position has other unique recruitment or retention issues identified and documented by the appointing authority. Bonuses paid under this program are approved by the Mill President and are reported to ND Human Resource Management Services. Eligibility criteria includes recruitment efforts, turnover statistics, labor market factors, special qualifications, and budget availability. Individuals receiving recruitment or retention bonuses will be required to sign a bonus agreement and will be expected to repay the bonus if they do not fulfill the terms of the agreement.

Recruitment Bonus - A lump-sum payment which is not part of an employee's base salary, paid to recruit a new employee into a Mill position. A recruitment bonus is used in extraordinary circumstances where there is a demonstrated need to fill a position and normal methods of filling the position are not satisfactory

Retention Bonus - A lump-sum payment which is not part of an employee's base salary, and is paid to retain a Mill employee where there is critical need, recruitment has been difficult, or the risk of losing an employee is high.

This policy is in accordance with [N.D.C.C. 54-06-31](#), which states each agency must have a written Recruitment and Retention policy.

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

Being no further State Mill business, Governor Dalrymple adjourned this portion of the meeting at 1:30 p.m. and the Commission took up WAWSA 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 August 26, 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: Jaret Wirtz, WAWSA
Cory Chorne, WAWSA-AE₂S
Lynn Helms, DMR
Bruce Hicks, DMR – Oil and Gas Division
Ed Murphy, DMR – Geological Survey
Alison Ritter, DMR – Oil and Gas Division
John Morrison, Crowley Fleck
Zac Weis, WPX Energy
Dave Searle, Marathon Oil
Kari Cutting, ND Petroleum Council
Kari Doan, Dept. of Agriculture
Jerod Tufte, Governor's Office
David Leis
Members of the Press

Governor Dalrymple called the WAWSA portion of the Industrial Commission meeting to order at 1:30 p.m. following completion of State Mill business.

Ms. Karlene Fine, Industrial Commission Executive Director, presented the July Monthly Financial Report as follows:

RE: Western Area Water Supply Authority - Industrial Sales - July, 2014 and Debt Repayment Report (August)

Attached is the Western Area Water Supply Authority (WAWSA) financial information for the month of July and for the seven months ending July 31, 2014.

Pages 1 & 2 were prepared by the Bank of North Dakota reflecting debt service payments. One payment was made on July 31, 2014 after the last Industrial Commission meeting in the amount of \$174,138 which is reflected in the July financial information. (Last month we talked about the other two payments they had made in July.) This July 31 payment was applied to interest payments on 3 outstanding loans. Another payment was made on August 15 and is not reflected in the July financial information:

- an interest prepayment of \$86,396, and
- a principal prepayment of \$1,850,217 which was applied to debt service payments due in 2015. This prepayment was applied to the debt service owed on BND Loan #1 (Original loan was \$50,000,000 and with the August 15 prepayment the principal owed is now down to \$41,948,014). On this particular loan WAWSA has now made prepayments totaling \$8,051,934- prepayments that cover all of the 2015 debt service payments through September 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 July was \$217,221.63. Revenues in July were \$2,888,739 -- the third highest month so far in 2014, Page 6 is

the balance sheet prepared by WAWSA staff as of July 31, 2014. As noted on the Balance Sheet the Accounts Receivable are \$5,282,212.30.

The Commission discussed the information in the report and directed that the prepayment be separated out in the financial reports.

Ms. Fine presented a request from WAWSA for the payment of costs from the industrial sales account. She said Mr. Wirtz submitted five invoices totaling \$8,157.67 for payment. (A copy of the invoices is available in the Commission files.)

Mr. Wirtz briefly reviewed the work that had been done and the costs and said the invoices were all for costs related to industrial sales

It was moved by Attorney General Stenehjem and seconded by Commissioner Goehring that the Industrial Commission approve the expenditure of \$8,157.67 from the Western Area Water Supply Authority Industrial Sales Account for capital projects. On a roll call vote, Governor Dalrymple, Attorney General Stenehjem and Commissioner Goehring voted aye. The motion carried unanimously.

Ms. Fine presented the following request which she had just recently received for a capital project investment involving water storage:

Storage Capital Request from Jaret Wirtz--

I am requesting on behalf of the Western Area Water Supply Authority Executive Committee that the Industrial Commission approve the Authority moving forward with the following capital cost item including the Authority being reimbursed for the cost (approximately \$120,000) of design engineering and bidding:

The increased industrial demands on the south side of the Missouri River in McKenzie County have at times required us to limit sales. Limited capacity due to restrictions in pipe size, pumps and storage capacity have caused us to limit and even cease our industrial sales at times. To assist us in meeting these industrial demands and preventing limitations and shutdowns to our customers WAWS has determined that an additional storage facility is needed. This additional storage facility would be placed near our existing Indian Hills reservoir and would be 2 MG in size. No additional land will be needed for this facility as we have enough space at our existing location. The cost of this project is estimated not to exceed \$2 Million (which includes the cost of the design engineering and bidding). We would like to move forward this fall to ensure the project would be done by June, 2015.

In terms of payback on the investment, it is difficult to calculate the rate of return. This is a long term payback and the increased storage capacity will pay itself back over time as we will have more water to sell in McKenzie County. Essentially, we have the ability to sell an additional \$40,000 worth of water in the event of a shortage or temporary shutdown of the plant. These shortages are often numerous with the amount of demands we have in the Williston area. In coordination with our staff, we have concluded that we should be able to sell approximately an additional 1-2MG/month (\$20,000-\$40,000/month of additional sales). This is not a fast return, but as we look to be more marketable as an industrial provider of water we need to become a more reliable source to guarantee future contracts with existing and potential customers. We are currently serving a customer who has

put in a significant amount of underground infrastructure and is currently taking large volumes of water from the system. In order to avoid restrictions and shutoffs to customers like this additional storage is needed. We are currently working with other customers in the area to connect to the WAWS system and the extra storage capacity will help as we negotiate these potential contracts.

If the Industrial Commission approves the Authority moving forward with this project, when the Authority has the bids we would then bring back a recommendation for the Commission to award the low bid.

Mr. Wirtz apologized for the short notice for this request. He stated this is an issue that they have been monitoring but recent events had made it more obvious that something needed to be done. They struggled with storage last week with high demands and the amount of rainfall that came in southwestern McKenzie County and Montana which resulted in high turbidity levels again at the water treatment plant in Williston. That resulted in the Authority having to restrict industrial sales – probably lost a couple hundred thousand in sales – for a couple days to make sure there was enough water for the domestic side in Williston, Watford City, McKenzie County and the rural systems. The only thing they can really do is put more storage in to go through those peaks and valleys. Therefore, they are proposing a two million gallon storage tank next to their existing two million gallon storage tank. They already have the land/property, the site is flattened, utilities are there and it would just be the requirement of building the tank and a small amount of piping over to their pump station to get more water.

Ms. Fine stated if the Commission approves the design/engineering/bidding for \$120,000 – then once the bids are in, the Authority would seek approval from the Commission to proceed with the building of the water storage tank.

It was moved by Commissioner Goehring and seconded by Attorney General Stenehjem that the Industrial Commission authorize the Western Area Water Supply Authority to proceed with the designing and bidding of a capital project for additional water storage near the existing Indian Hills reservoir at a cost not to exceed \$120,000 and to provide a recommendation on the construction of the storage after the bidding has been completed. On a roll call vote, Governor Dalrymple, Attorney General Stenehjem and Commissioner Goehring voted aye. The motion carried unanimously.

Governor Dalrymple asked Mr. Wirtz to come to a future meeting and discuss the “big picture” that the Western Area Water Supply Authority sees for the next few years.

Mr. Wirtz said he would be happy to present an overview of the Western Area Water Supply Project and their strategic plan for the upcoming legislative session as well as into the future.

Being no further WAWSA business, Governor Dalrymple adjourned this portion of the meeting at 1:45 p.m. and the Commission took up Department of Mineral Resources 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 August 26, 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: Lynn Helms, DMR
Bruce Hicks, DMR – Oil and Gas Division
Ed Murphy, DMR – Geological Survey
Alison Ritter, DMR – Oil and Gas Division
John Morrison, Crowley Fleck
Zac Weis, WPX Energy
Dave Searle, Marathon Oil
Kari Cutting, ND Petroleum Council
Kari Doan, Dept. of Agriculture
Jerod Tufte, Governor's Office
Eric Hardmeyer, Bank of North Dakota
Bob Humann, Bank of North Dakota
Lori Gabriel, Bank of North Dakota
Chad Johnson, Bank of North Dakota
Jim Leier, Bank of North Dakota
Members of the Press

Governor Dalrymple called the Department of Mineral Resources portion of the Industrial Commission meeting to order at 1:45 p.m. following completion of WAWSA business.

Mr. Lynn Helms, Department of Mineral Resources Director, presented orders for two complaint cases heard by the Administrative Law Judge of the Office of Administrative Hearing on June 23, 2014:

Case 21020, Order 25285 - Dakota Disposals, LLC.

Case 21747, Order 23921 - Sam Houston SWD, LLC; RES Reddell Energy Services; Charles Reddell; Ralph Reddell. (Copies of the orders are available in the Commission files.)

Mr. Helms asked the Commission to act on these two complaint cases and orders together. He said the cases are for the same situation. They had a situation where a company constructed a salt water disposal site without a permit. The Department issued the original complaint against a company called Dakota Disposals, LLC. Because of some of the quirks in the Administrative Practices Act, rather than amend that complaint and add the four other parties into that complaint it was easier to issue a second complaint and combine the two for purposes of hearing and a decision. That is what was done. The two cases and two orders deal with the same infraction -- the construction of a salt water disposal site without a permit. A hearing was held before the Office of Administrative Hearings Administrative Law Judge and the Judge provided a recommended order. That recommended order was restated in the Commission's format and is what is before the Commission for consideration. The first order assesses no penalty against Dakota Disposals. They did not actually exist at the time the infraction occurred. The second order assesses a \$25,000.00 penalty and approximately \$1,155.00 in expenses against Sam Houston SWD, LLC; RES Reddell Energy Services; Charles Reddell; Ralph

Reddell for the construction of the site without a permit. These two orders would dispose of the two cases and would allow us to proceed with collection of the penalty.

Case 21020: It was moved by Commissioner Goehring and seconded by Attorney General Stenehjem that Order 25285 issued in Case 21020, be approved and effective this 26th day of August, 2014.

Case 21747: It was moved by Commissioner Goehring and seconded by Attorney General Stenehjem that Order 23921 issued in Case 21747, be approved and effective this 26th day of August, 2014.

In response to a question regarding who is paying the fine, Mr. Helms said we are leaving it up to the four named parties to decide who pays it as they are jointly and separately liable for the \$25,000 fine with the exception of Dakota Disposals LLC. Dakota Disposals LLC is actually the successor entity; they didn't exist at the time of the infraction. They were the owner of the site when we discovered the infraction and started the process. If they chose not to pay the fine we will end up in district court asking for a judgment. We will ask for a judgment against all four parties so we make sure we collect it.

In response to a question regarding if Dakota Disposals acquired this from those four individuals, Mr. Helms stated yes, the company was actually formed after the infraction occurred but before the complaint process was started. In the findings of the order, you will find that the Oil and Gas Division doesn't believe they are totally innocent in this either but the Administrative Law Judge thought that the majority weight of all the evidence indicated that the four other parties are really the ones responsible. Dakota Disposal, on the other hand, has some problems – they are not registered to do business in North Dakota and they are going to find it difficult to get a bond to actually construct this site because they do not have a recorded lease for the land in question. They testified that they had one, but they could not produce one for the Administrative Law Judge or subsequent to that so until they can provide that evidence and get registered to do business in the state, they are not going to be in business either. There was further discussion regarding the wording in the order, the parties involved and the amount of the penalties.

In response to a question regarding what is going to happen to the site, Mr. Helms said another party could do all the correct paperwork and get a permit and construct the salt water disposal well at this site. It is his understanding that this is what the landowner wants – a legitimate salt water disposal operator to rent this site and pay him for disposing of salt water. The other option would be that the State collects this money, confiscates the bond and reclaims the site – puts it back to the way they found it. This amount of money should be adequate in conjunction with the bond, the \$75,000 should be sufficient - \$50,000 bond and \$25,000 penalty – that would be enough money to put the site back the way they found it.

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

Mr. Helms presented Order 24947 in Case 22612 heard on July 23, 2014 - application for an overlapping 1280-acre spacing unit. (A copy of Order 24947 is available in the Commission files

along with the map exhibit he used to explain the case.) He said QEP, the applicant in this case, wants to form a 1280-acre spacing unit that would encompass Sections 11 and 12 and drill a lease line well. Hess owns wells and is proposing wells in the area to the west and appeared in opposition concerned that the hydraulic fracturing operations of QEP might damage their wells, both existing and proposed. Hess asked that the Commission limit the size of fracturing stages that QEP will use. Hess presented evidence of two wells that had been damaged by offset hydraulic fracturing operations. One was a good analog of this and another not such a good analog but they did present evidence from those two wells. The order he is asking the Commission to approve addresses all of those findings of fact, it allows QEP to drill this lease line well but it puts two major conditions on it. The first condition is that the well has to be located off the section line to the east onto QEP's 1280 spacing unit so that it is as far from the Hess wells as possible but still within that corridor that makes it a lease line or overlapping producer (up to 250 feet).

In response to a question regarding if it would be 250 feet away, Mr. Helms said probably. Obviously because of drilling error, they are going to have to give themselves some wiggle room there but it will be as close to 250 feet as they can physically place it to the east of that lease line. The second thing is more important, rather than getting into the business of dictating how large fracture stages should be or how many they should be – we are requiring that QEP gives significant advanced notice to Hess of when they are going to fracture this well. The current Administrative Rule says three to seven days and we are saying thirty to forty-five days advanced notice - so Hess can prepare its wells.

In response to a question regarding how Hess could prepare their wells, Mr. Helms explained the options Hess has if they have a minor concern or if they have a significant concern. One method is much less costly than the other.

In response to a question regarding these costs, Mr. Helms said QEP is a partner in the Hess wells so they will share in the expense of preparing the wells to protect them. As he previously stated the Order requires QEP to give a much longer advance notice and to provide detailed information to Hess about the number of fracture stages, where they are going to be located and how large each of those stages will be so Hess can properly assess the risk and have time to prepare their wellbores. Rather than the Commission getting into the business of determining how big a fracture should be, the staff thought it best the Commission make sure that offset operators know exactly what is going to happen, when it is going to happen and far enough in advance that they can prepare for it. That is what this order does to resolve this issue.

In response to a question regarding if this solution is satisfactory to anyone, Mr. Helms said we will find out. The staff does not visit with the companies after they come up with a solution. He is one hundred percent confident it will be satisfactory to QEP – because it allows them to drill the well, essentially where they wanted and fracture it as they see fit. However, there are two increased burdens on them, move the well to the east and provide significant additional notice to their offset operator.

In response to a question, Mr. Helms said Hess is going to be a working interest owner in all of this - as a working interest owner they would also have the option of objecting as a partner in the lease line well.

There was further discussion about further development of the wells in this area.

Case 22612: It was moved by Commissioner Goehring and seconded by Attorney General Stenehjem that Order 24947 issued in Case 22612, be approved and effective this 26th day of August, 2014. On a roll call vote, Governor Dalrymple, Attorney General Stenehjem and Commissioner Goehring voted aye. The motion carried unanimously.

Mr. Ed Murphy presented the North Dakota Geological Survey Quarterly Report. (A copy of the quarterly report is available in the Commission files.)

Mr. Helms went through the following presentation to explain crude oil conditioning, stabilization, and processing:

North Dakota Department of Mineral Resources



<http://www.oilgas.nd.gov> <http://www.state.nd.us/ndgs>

**600 East Boulevard Ave. - Dept 405
Bismarck, ND 58505-0840
(701) 328-8020 (701) 328-8000**

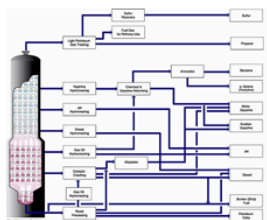
Crude Oil Processing / Refining

1. Distillation

Modern distillation involves pumping oil through pipes in hot furnaces and separating light hydrocarbon molecules from heavy ones in downstream distillation towers – the tall, narrow columns that give refineries their distinctive skylines.

During this process, the lightest materials, like propane and butane, vaporize and rise to the top of the first atmospheric column. Medium weight materials, including gasoline, jet and diesel fuels, condense in the middle. Heavy materials, called gas oils, condense in the lower portion of the atmospheric column. The heaviest tar-like material, called residuum, is referred to as the "bottom of the barrel" because it never really rises.

In some cases, distillation columns are operated at less than atmospheric pressure (vacuum) to lower the temperature at which a hydrocarbon mixture boils. This "vacuum distillation" (VDU) reduces the chance of thermal decomposition (cracking) due to over heating the mixture.



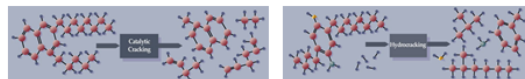
2. Cracking

Efficiently converts middle distillate, gas oil and residuum into the highest value products like gasoline, jet and diesel fuels by using a series of processing plants that literally "crack" large, heavy molecules into smaller, lighter ones.

Heat and catalysts are used to convert the heavier oils to lighter products using three "cracking" methods: fluid catalytic cracking (FCC), hydrocracking (Isomax), and coking (or thermal-cracking). The Fluid Catalytic Cracker (FCC) uses high temperature and catalyst to crack heavy gas oil mostly into gasoline.

Hydrocracking uses catalysts to react gas oil and hydrogen under high pressure and high temperature to make both jet fuel and gasoline.

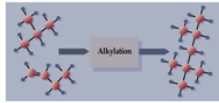
The Delayed Coking Unit (Coker) converts low-value residuum using the coking, or thermal-cracking process to high-value light products, producing petroleum coke as a by-product. The large residuum molecules are cracked into smaller molecules when the residuum is held in a coke drum at a high temperature for a period of time. Solid coke (similar to anthracite coal) remains and must be drilled from the coke drums for use as fuel or in cement manufacturing.



3. Combining

While the cracking processes break most of the gas oil into gasoline and jet fuel, they also break off some pieces that are lighter than gasoline.

Combining uses Alkylation Units. This process takes the small molecules and recombines them in the presence of acid and catalyst to convert them into high octane gasoline.



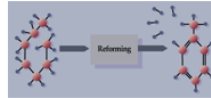
4. Reforming

Octane rating is a key measurement of how well a gasoline performs in an automobile engine. Much of the gasoline that comes from the Crude Units or from the Cracking Units does not have enough octane to burn well in cars.

The gasoline process streams in the refinery that have a fairly low octane rating are sent to a Reforming Unit where their octane levels are boosted. These reforming units employ precious-metal catalysts - platinum and rhenium - and thereby get the name "reformer."

In the reforming process, hydrocarbon molecules are "reformed" into high octane gasoline components. For example, heptane is reformed into toluene.

The reforming process actually removes hydrogen from low-octane gasoline. The hydrogen is used throughout the refinery in various cracking (hydrocracking) and treating (hydrotreating) units.



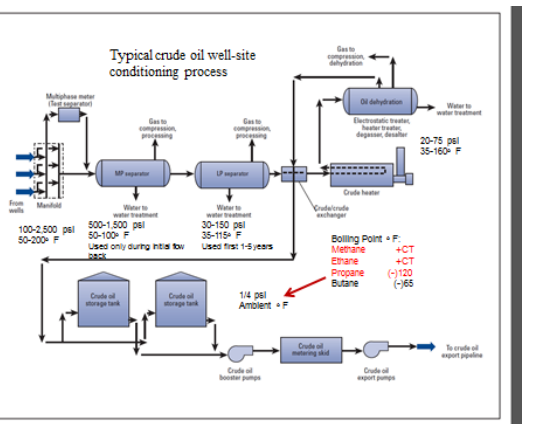
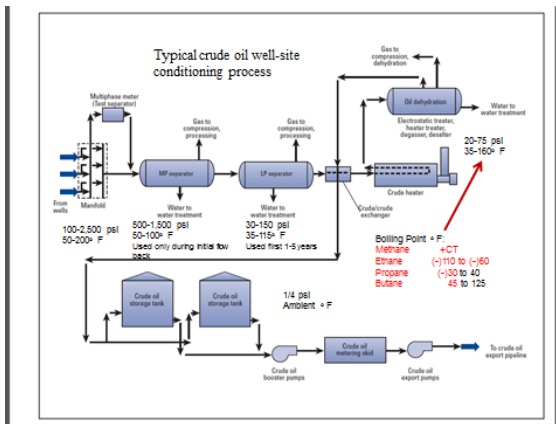
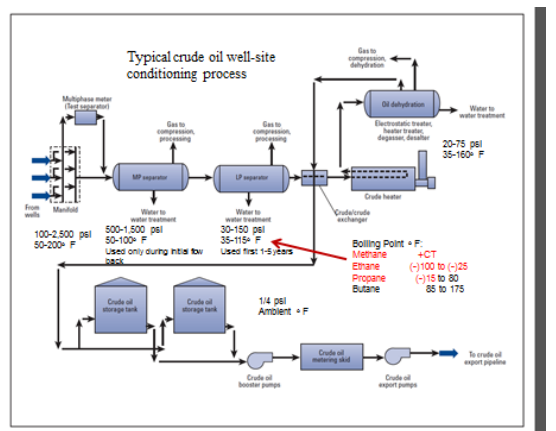
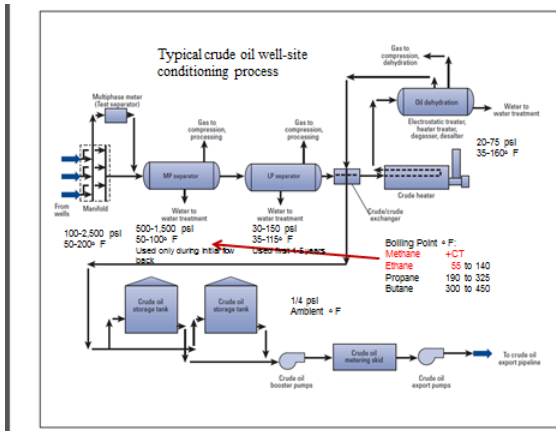
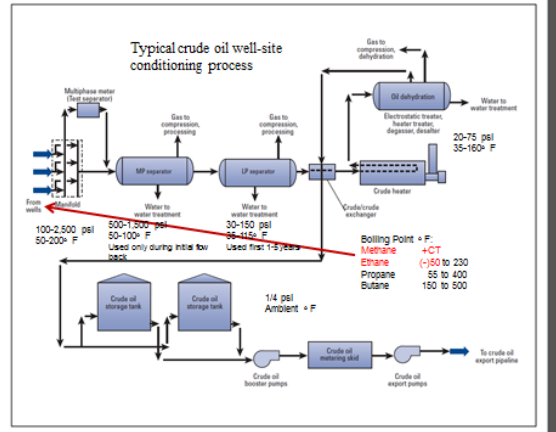
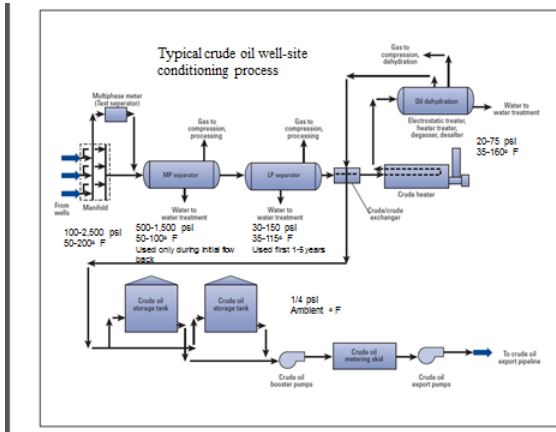
Crude Oil Stabilization

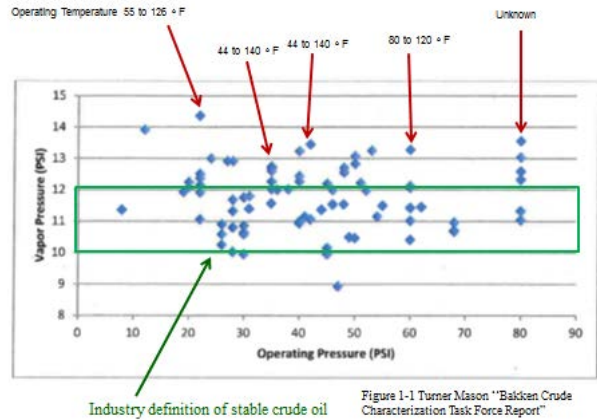
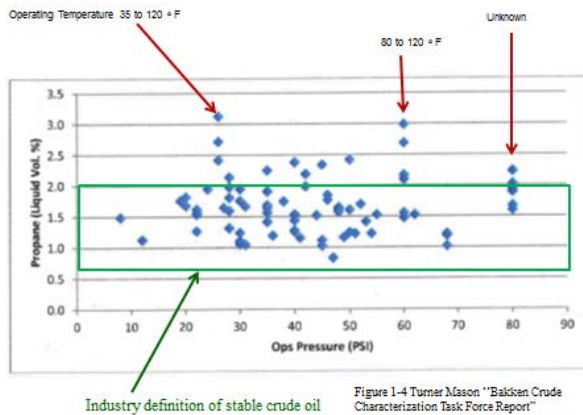
This technical document from NASH describes the process of crude oil stabilization. It features a diagram of a liquid ring pump and several text sections:

- Crude Stabilization:** Explains that liquid ring pumps remove dissolved gases from crude oil to stabilize its true vapor pressure. The removed gas can be boosted downstream and used for fuel.
- Crude Stabilization:** Details that stabilization removes light gases (hydrogen sulfide, ethane, propane, butane) and heavy gases (pentane, hexane, heptane, octane, nonane, decane) to stabilize the crude oil's vapor pressure.
- Water Content:** States that before treatment, water content is up to 0.5% and after treatment, it is reduced to 0.1%.
- Hydrogen Sulfide (H₂S):** States that before treatment, H₂S is up to 1,000 ppm by weight and after treatment, it is reduced to 100 ppm by weight.
- Liquid Ring Pump:** Describes the pump's operation, where the crude oil is pumped to the top of the stabilizer column, and the liquid ring pump at the bottom removes the liquid.

This schematic diagram shows the layout of a Crude Stabilization Plant and a Flare Gas Recovery System. The plant includes a Vacuum Separator, Liquid Ring Vacuum Pump, Main Gas Compressor, and Condensate Stabilization unit. The Flare Gas Recovery System includes a flare gas compressor and a flare gas separator. The diagram shows the flow of crude oil, gas, and condensate through these units. Contact information for NASH is provided at the bottom right.

Crude Oil Conditioning





Mr. Helms and the Commission members discussed the information he presented.

In response to a question regarding the industrial complexes, Mr. Helms said given the State's current production you would need one for every rail transload facility which is twenty-two and depending on pipeline blending facilities you could need fifty – somewhere between 22 and 50.

Mr. Helms said that there is equipment that already exists that would fit within the current well footprint.

In response to a question regarding if all the wells in the State have this conditioning operation, Mr. Helms said they all have a portion of it--some of them have the entire system, some have a lesser portion of it. He noted that the conditioning equipment doesn't always stay there the entire time – as production drops off, the operator can remove parts of it and move the equipment on to the next new well.

In response to a question regarding what he hopes to achieve and what can be accomplished with the hearing, Mr. Helms said what he hopes to determine is what are the appropriate operating conditions – should all wells have an LP separator and how long during their life should it be there and what are the appropriate operating pressures and temperatures? He thinks we can achieve that.

In response to a question regarding as a result of that then we will have a product that is safer to transport by rail, Mr. Helms stated yes.

In response to a question regarding so much depending on what happens to the gas that is captured and if there is going to be a pipeline somewhere to move it? What about the potential for compressed gas such as GE talks about – is this a situation where there could be compression of gas and moving it somewhere? Mr. Helms said it certainly is. All of the gas that comes off of these vessels needs to go somewhere and right now in North Dakota 72 percent of it is captured in the gathering and processing system, which is equipped to handle it but 28 percent of it ends up in a flare stack. That still is an option but as the control over operating conditions is tightened, there will be opportunities for well site processes to capture that gas, market the NGL's, or compress the gas for beneficial use. He indicated that over the next decade there will be a build out of the gas gathering and processing infrastructure and at some point in the 2020's there will be a point where 95 percent of the gas leaves

the well site by that route. There will still be five percent that will be available for those well site processes that fit within the existing well footprint.

In response to a question regarding taking some volatility off even in storage, Mr. Helms said yes. The hot oil (under normal conditions the Turner Mason study said that the vessel should operate at somewhere between 90 and 120 degrees) leaves the vessel at between 90 - 120 degrees but when the pressure drops significantly from 20 to 75 pounds per square inch to less than one pound per square inch, a lot of vapor comes off the top of those tanks. That is why you saw the effort on the part of industry to capture what they call the VOC's. Those VOC's are those vapors that leave the crude oil as it comes off the heater treater and the pressure drops very significantly and the temperature. There will be a lot of butane and some propane, significant amounts, in those tank vapors in that last step. There are well site processes, vapor recovery units and gas gathering systems to capture that and put it to beneficial use.

Governor Dalrymple thought Mr. Helms was well prepared for the hearing and he prepared the Commission as well. We will see what everyone says, it might be surprising.

Mr. Helms said there may be some surprises and we certainly need to keep our ears open and our minds open to those ideas.

Mr. Helms indicated that he is still working on getting someone to come to a future meeting and talk about the proposed rail car rules and their impact on the rail industry.

Being no further Department of Mineral Resources business, Governor Dalrymple adjourned this portion of the meeting at 2:55 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 August 26, 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
Bob Humann, Bank of North Dakota
Lori Gabriel, Bank of North Dakota
Chad Johnson, Bank of North Dakota
Jim Leier, Bank of North Dakota
Kari Doan, Dept. of Agriculture
Jerod Tufte, Governor's Office
Members of the Press

Governor Dalrymple called the Bank of North Dakota portion of the Industrial Commission meeting to order at 3:01 p.m. following completion of Department of Mineral Resources business.

Mr. Eric Hardmeyer, Bank of North Dakota President, and Mr. Bob Humann, Bank of North Dakota Senior Vice President, discussed the proposed Ag Commodity Export Enhancement Program - General Loan Policy. They noted that this proposed program would be an amendment to the Bank's General Loan Policy. Mr. Human stated that two years ago the Bank started with the Export Enhancement Program that was solely put together for equipment that was manufactured in North Dakota to be sold outside the state to overseas buyers. All along their intentions were to come back after Bank management was more familiar with all the agriculture programs to be able to provide an ag commodity export enhancement program. This new program is twofold – to take care of any type of raw products that might be produced in North Dakota whether it is crops or livestock and also open it up so it could be used for food grade products such as flax seed being turned into flax oil, so the oil could also be exported. The key thing with this policy is in the second paragraph under purpose where it says "Bank of North Dakota (BND) will work with the Export-Import Bank (Ex-Im Bank) to utilize the programs offered by the Ex-Im Bank to provide insurance coverage of not less than 90% on bulk commodity sales as well as processed ag product transactions." The Bank will have 90 percent coverage that is going to take the risk out of these transactions. The Bank can either do the transactions directly with North Dakota exporters or the Bank can do the transactions in conjunction with a North Dakota financial institution. Mr. Humann stated his only concern with this program is that the export/import programs are up for reauthorization as of September 30, 2014. These programs would need to be reauthorized for the Bank to be able to leverage and take advantage of those programs.

It was moved by Commissioner Goehring and seconded by Attorney General Stenehjem that the Industrial Commission adopt the recommendation of the Bank of North Dakota Advisory Board and approve the following Ag Commodity Export Enhancement Program - General Loan Policy:

ATTACHMENT D7
LOAN POLICY

AG COMMODITY EXPORT ENHANCEMENT PROGRAM

Purpose and Structure –

The purpose of the program is to provide North Dakota ag commodity exporters a tool to help facilitate their export sales to foreign buyers. For the purposes of this program, ag commodities shall include both bulk ag commodities as well as food-grade value-added ag-products.

Bank of North Dakota (BND) will work with the Export-Import Bank (Ex-Im Bank) to utilize the programs offered by the Ex-Im Bank to provide insurance coverage of not less than 90% on bulk commodity sales as well as processed ag product transactions. NDCC § 6-09-15 allows BND to make, purchase, guarantee, or hold loans that are insured or guaranteed in whole or in part by the United States, its agencies, or instrumentalities.

Qualifying Requirements –

Eligibility for insurance coverage is based on the financial strength of the foreign buyer as well as the financial and political stability of the country where the buyer is located, as determined by Ex-Im Bank. The need to analyze either the foreign buyer or ND ag commodity exporter will be dependent upon the Ex-Im program utilized.

Use of Loan Proceeds –

The loan proceeds will be paid directly to the North Dakota exporter shortly after the goods are shipped or services are performed.

Loan Amount –

The amount of the loan to the North Dakota ag commodity exporters or the foreign buyer, depending upon the specific insurance program, will be the sum of the loan proceeds paid to the exporter shortly after shipment. Approved loan and insurance fees may be financed depending upon the specific transaction and the program parameters. The minimum transaction size is \$200,000.

Loan Documentation –

Dependent upon the transaction, BND may require the filing of a first secured position on the specific goods and accounts receivable being financed. An assignment of the Ex-Im Bank insurance policy and a power of attorney as necessary to file a claim under the policy may be a requirement. The guaranty of the owner of the North Dakota ag commodity exporter may also be required dependent upon the Ex-Im program.

Interest Rate –

The interest rate will be established by BND. It is typically a floating rate based on a fixed spread over a variable rate index determined by BND's Investment Committee.

Fees –

BND will charge a facility fee for administrative costs associated with quoting the loan, gathering the information, and making a preliminary determination on whether the borrower may qualify. BND will work with an experienced export trade broker throughout this process and the borrower will be responsible for any fees associated with that assistance.

The borrower is responsible for the Ex-Im Bank policy premium. The policy premium is contingent upon the loan closing and may be eligible to be financed as part of the loan.

Repayment Terms –

The term of the credit facility is a maximum of 1 year. The underlying eligible receivables to be financed are limited to a maximum of 180 days. BND's Investment Committee will have the authority to approve modifications to the repayment terms subject to Ex-Im Bank's approval of any modification.

North Dakota Lender Referral and Approval Process –

A North Dakota exporter wishing to use this program to help facilitate a sale should first contact their North Dakota lender. The ND lender will in turn contact BND for information and a preliminary quote. At that time, the referring lender will advise BND if they wish to participate in the loan and if so, at what level. ND lenders are encouraged to participate, however BND has the ability to proceed without participation if that is the desire of the lender.

BND will provide an indicative loan quote along with a listing of the information the borrower must provide in order to proceed with the application. Should the borrower choose to proceed with an application, BND will require submission of applicable facility fees and any other information required to make a preliminary application.

BND, with assistance from the trade broker, will determine whether it appears the borrower and the proposed transactions will qualify. If so, BND will work with the trade broker to complete the process and submit the information to Ex-Im Bank for their consideration. In all cases, BND and the trade broker will review and approve all loan documents prior to funding. Dependent upon the insurance program utilized, Ex-Im Bank may also review and approve loan documents prior to funding.

Upon final approval, BND will notify the referring lender who will notify their client and the foreign buyer. At time of funding, BND will pay the exporter the loan proceeds and participate the agreed upon amount of the loan with the North Dakota lender.

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

Mr. Eric Hardmeyer gave an update on the DEAL One Program. He said that this program allows the student loan borrower to refinance and consolidate their student loans. Through the end of last week the Bank had done about \$72 million in loans for nearly 1,800 borrowers. Approximately \$24 million of that amount was debt that the Bank already had in its portfolio either as existing federal loans or DEAL loans. The good news is two-thirds of it is all new debt to the Bank. He noted that 83% of the borrowers have selected the variable rate. The Bank will be going out with another round of advertising in the near future. He noted that he continues to get positive feedback about the program.

Governor Dalrymple said he has been in discussions with a number of individuals about the need for capital in general in North Dakota but especially in western North Dakota for political subdivisions. The state has a variety of programs such as school construction, Public Finance Authority, Resources Trust Fund through the Water Commission and the programs at the Bank of North Dakota. There needs to be a comprehensive approach to providing the capital rather than a disconnected smorgasbord. He noted that the work the Bank has done for political subdivisions has been very much appreciated and those entities appreciate working with experienced bankers. He wanted to have more conversations with Bank staff on this issue and what the role of the Bank should be.

Mr. Hardmeyer responded that the Bank has seen some of the same issues that the Governor is referring to and would be very interested in having those conversations as they believe there is a more cohesive way of providing the needed capital.

Mr. Hardmeyer presented the non-confidential Bank of North Dakota Advisory June 26, 2014 minutes.

Governor Dalrymple closed the meeting at 3:09 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 3:45 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 loans identified as Attachments 16 - 19. In non-confidential session, on a roll call

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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 3:45 p.m. and the Commission took up Lignite Research, Development and Marketing Program business.

INDUSTRIAL COMMISSION OF NORTH DAKOTA

A handwritten signature in blue ink that reads "Karlene Fine". The signature is written in a cursive style with a large initial 'K' and a long, sweeping underline.

Karlene Fine, Executive Director and Secretary

Minutes of a Meeting of the Industrial Commission of North Dakota
Held on August 26, 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: Margaret Olson, Attorney General's Office
Jason Bohrer, Lignite Energy Council
Tyler Hamman, Lignite Energy Council
Members of the Press

Governor Dalrymple called the Lignite Research, Development and Marketing Program portion of the Industrial Commission meeting to order at 3:45 p.m. following completion of Bank of North Dakota business.

Attorney General Stenehjem discussed the State of Minnesota Public Utilities Commission Notice of Oral Arguments for CI-00-1636; CI-14643 - the Investigations into Environmental and Socioeconomic Costs Under Minn., Stat. §216B.2422, Subd. 3 scheduled for September 4, 2014. He said the Industrial Commission has previously submitted written comments in this matter. The Minnesota Public Utilities Commission is now having a public hearing on it and North Dakota and other parties are allotted three minutes each to present their arguments. Rather than sending Ms. Olson of his staff or go himself, he suggested that the Commission have the lawyers who are doing the Next Gen Act litigation go over and present the Commission's comments.

It was moved by Commissioner Goehring and seconded by Attorney General Stenehjem that Attorney General Stenehjem or his representative be authorized to present oral arguments on September 4, 2014 to the Minnesota Public Utilities Commission in regards to CI-00-1636; CI-14643 -- the Investigations into Environmental and Socioeconomic Costs Under Minn. Stat. §216B.2422, Subd. 3 -- as it relates to the question:

What further determination should the Minnesota Public Utilities Commission make with respect to its referral of the docket to the Office of Administrative Hearings?

Attorney General Stenehjem said he consulted with their contacts in Minnesota and asked if there would be any point if he went or sent Ms. Olson and they said no since each party was only allotted three minutes to speak.

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

In response to a question, Mr. Bohrer said the Lignite Energy Council also has three minutes. It is their intent to leverage the Industrial Commission's three minute message with their own three minute message. He said he has been talking with the same people regarding travel and came to the same conclusion; it would not add anything for them to be physically present there but they didn't dare not use that time allotted to them. Their plan is to have the same person read the Lignite Energy Council's comments as well. However, they have not foreclosed the option of sending someone to be physically present.

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Being no further Lignite Research, Development and Marketing Program business, Governor Dalrymple adjourned this portion of the meeting at 3:48 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 August 26, 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: Lynn Helms, Department of Mineral Resources

Governor Dalrymple called the Public Finance Authority portion of the Industrial Commission meeting to order at 3:48 p.m. following completion of Lignite Research, Development and Marketing Program business.

Ms. Karlene Fine, Industrial Commission Executive Director, presented on behalf of DeAnn Ament, Public Finance Authority Executive Director, a Drinking Water State Revolving Fund Program loan application from the Barnes Rural Water District in the amount of \$1,659,000. She said the District is doing improvements on their water treatment facilities. The State Water Commission also has a grant involved in this project. The District is going to put funds aside each year for the next five years so they will meet the debt service reserve requirement and both the PFA Advisory Committee and Ms. Ament recommended approval.

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

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, Barnes Rural Water District (the "Political Subdivision") has requested a loan in the amount of \$1,659,000 from the Program to finance an addition to the water treatment plant; 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 motions carried unanimously.

Being no further Public Finance Authority business, Governor Dalrymple adjourned this portion of the meeting at 3:50 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 August 26, 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: Lynn Helms, DMR

Governor Dalrymple called the Administrative portion of the Industrial Commission meeting to order at 3:53 p.m. following completion of Public Finance Authority business.

Ms. Karlene Fine, Industrial Commission Executive Director, presented the draft Industrial Commission July 29, 2014 meeting minutes (non-confidential and confidential) and August 6, 2014 meeting minutes for approval.

It was moved by Commissioner Goehring and seconded by Attorney General Stenehjem that the Industrial Commission approve the July 29, 2014 meeting minutes (non-confidential and confidential) and August 6, 2014 meeting minutes. Governor Dalrymple, Attorney General Stenehjem and Commissioner Goehring voted aye. The motions carried unanimously.

The Commission went into closed session at 3:55 p.m. pursuant to N.D.C.C. 54-10-26 to discuss the draft audit findings and the proposed Commission response.

Following the closed session and being no further Administrative business, Governor Dalrymple adjourned the meeting at 4:17 p.m.

INDUSTRIAL COMMISSION OF NORTH DAKOTA



Karlene Fine, Executive Director and Secretary