

Minutes of a Meeting of the Industrial Commission of North Dakota  
Held on September 24, 2015 beginning at 1:00 p.m.  
Roughrider Room and Governor's Conference Room  
State Capitol

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

Also

Present: Lynn Helms, DMR  
Bruce Hicks, DMR  
Andrea Travnicek, Governor's Office  
Jason Nisbet, Governor's Office  
Michelle Mielke, Department of Agriculture  
Members of the Press  
A complete list of attendees is available in the Commission files

Governor Dalrymple called the Industrial Commission meeting to order at 1:00 p.m. in the Roughrider Room of the State Capitol and the Commission took up Department of Mineral Resources business.

Mr. Lynn Helms, Department of Mineral Resources Director, stated that as requested by the Industrial Commission he asked Mr. Eric Dille, Chairman of the North Dakota Petroleum Council Flaring Task Force, to appear today to present detailed information on the Task Force's request for revision of the gas capture goals and to be available to answer the Commission's questions. He indicated that if there are detailed questions about midstream operations, Mr. Phil Archer from Whiting is available to answer those questions from an operator standpoint and a midstream gas gathering standpoint.

Mr. Eric Dille of EOG Resources/Chairman of the Gas Flaring Task Force, presented the following Power Point presentation.



## North Dakota Industrial Commission

NDPC Flaring Task Force Brief



## Meeting Objectives

### Still committed to meeting the 90% capture target by 2020

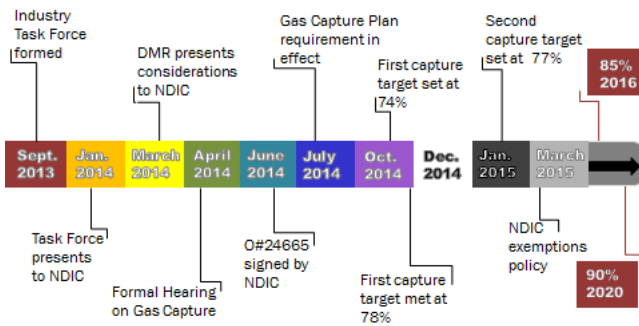
- Currently exceeding capture targets
- NDIC and Industry acknowledged gas capture targets are aggressive
- NDPC Flaring Task Force meeting for the last 4 months to evaluate current market condition impacts to flaring
- Producing 16% more gas than estimated in January 2014
- As stated in Jan 2014, we will need your help to achieve higher capture targets by providing regulatory flexibility
- Asking for patience from NDIC by approving 2 additional construction seasons to achieve 85% capture target and allow a gas capture credit for operators that exceed capture targets
- Answer NDIC's questions from August 26, 2015 meeting

2

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## A Brief History



3

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## Easements/ROW

- Private easements/ROWS a few landowners can hold up significant gas capture
- Federally permitted easements/ROWS timelines are problematic
  - Federal and Ft. Berthold Reservation lands

Two examples of critical pipeline projects delayed or canceled

### 100 MMcf/d, 6% of total gas flared

- Hess Hawkeye Pipelines ROW Approval
  - ROW requires multiple federal agencies, primarily BLM and USACE approval
  - 3+ years to get BLM approval
  - USACE approval still pending
  - Construction delayed
- OneOk Lost Bridge Pipeline ROW
  - Spent 20 months trying to obtain ROW, finally cancelled
  - Now building new Dunn County natural gas plant - 3<sup>rd</sup> quarter 2016

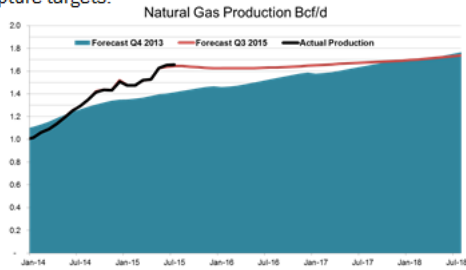
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## Production Growth

In May 2015, actual production exceeded original forecast by 16% or 230 MMcfd, requiring more natural gas infrastructure to meet capture targets.



Source: North Dakota Pipeline Authority, average of Class 1 and 2

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## Production Growth

### Natural gas production has exceeded expectations

- Capture targets set in early 2014 were based on 4<sup>th</sup> Quarter 2013 NDPA production forecast
- Actual production exceeding the original forecast
  - Improved completion techniques, resulting in higher IPs and EURs
  - Rig efficiency gains
  - Concentrated areas due to multi-well pad drilling
  - Rigs moving to core areas with higher gas volume
  - Increased scrutiny has better defined GORs
  - Oil conditioning/stabilization

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## Natural Gas Infrastructure

Additional infrastructure investment since January 2014 exceeds \$3.0 billion

- 1,250 miles of pipeline
- 125,000 HP for 650 MMcf/d of field compression

Gathering



- 450 MMcf/d new and expanded gas plants
- 50,000 Bbls/d NGL fractionation

Processing



- 75,000 Bbls/d NGL pipeline capacity
- 20 miles residue gas pipeline

Takeaway






Note: Excludes investments in temporary wellhead remote capture units

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## Natural Gas Infrastructure

Investment continues with announced projects underway over the next 18 months totaling \$1.6 billion

<ul style="list-style-type: none"> <li>730 miles of pipeline</li> <li>90,000 HP for 460 MMcf/d of field compression</li> </ul>	<ul style="list-style-type: none"> <li>415 MMcf/d new plants</li> <li>26,000 Bbls/d de-ethanizer</li> </ul>	<ul style="list-style-type: none"> <li>28,000 Bbls/d NGL pipeline capacity</li> <li>10 miles residue gas pipeline</li> </ul>
<p>Gathering </p>	<p>Processing </p>	<p>Takeaway </p>

> **Bringing total natural gas infrastructure investment in the Basin to nearly \$11 billion since 2006**

Note: Excludes investments in temporary wellhead remote capture units

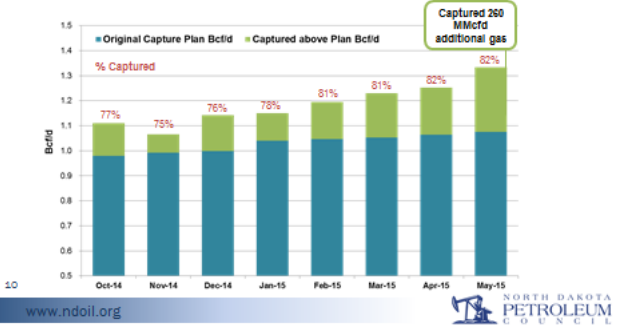
## Industry Response

**Actions taken to achieve capture targets in light of higher production forecasts**

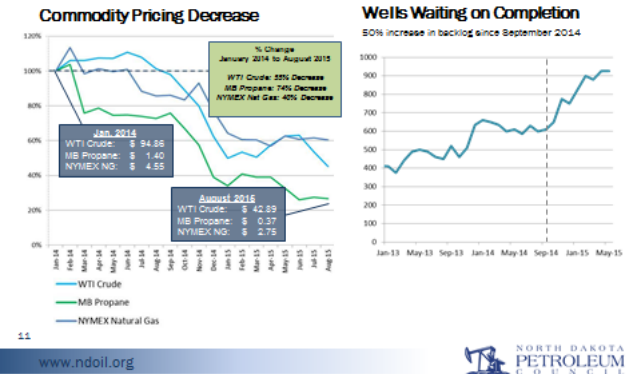
- Voluntary curtailment
  - 1.1+ million barrels total curtailed as of May 2015 based on NDPC member survey results
  - Individual company peak curtailed rates of 5,000 – 10,000 barrels per day
- Accelerated midstream build-out
  - 6 new natural gas processing facilities and associated field infrastructure announced beyond what was under construction
  - 2 of these announced natural gas processing facilities put on hold due to commodity price decline and corresponding reduction of activity
- Voluntarily delaying completions while waiting on infrastructure development

## Gas Capture Performance

As a result of these actions, Industry has exceeded targets for both absolute volume and percentage of gas captured



## Current Environment



## Midstream Build Out

### Challenges to Achieve 85% Capture Target by January 2016

- Natural gas production higher than forecasted, requires more infrastructure
- Several key pieces of midstream infrastructure scheduled to be completed in late 2015 and early 2016
  - Critical to meeting capture targets
- Regional connectivity to processing plants
  - Cancelled or delayed projects due to ROW or permits create regional bottlenecks

## Summary

### Still committed to meeting the 90% capture target by 2020

- Currently exceeding capture targets in actual volume and percentage
- Asking for patience from NDIC by approving 2 additional construction seasons to achieve 85% capture target and allow a gas capture credit for operators that exceed capture targets
- As stated in Jan 2014, we will need your help to achieve higher capture targets by providing regulatory flexibility

Throughout the presentation the Commission and Mr. Dille and Mr. Archer responded to questions. Mr. Dille concluded his presentation by stating that the NDPC Flaring Task Force is requesting:

- 2 additional constructions season to achieve 85% capture target and allow a gas capture credit for operators that exceed capture targets.

Following the completion of the presentation the Commission members, Mr. Helms, Mr. Dille, Mr. Archer and Mr. Ness had a lengthy discussion.

Governor Dalrymple summarized the information that he had heard regarding what had changed since the original gas capture goals had been established in January 2014:

- 16% more gas than had been forecasted in the 4<sup>th</sup> quarter of 2013 mostly because wells are producing more than they used to;
- Easements and right-of-ways have been must slower to obtain than expected;
- The Hess Hawkeye Line was severely delayed primarily due to right-of-way issues;
- A OneOK plant was aborted and had to be redesigned in a different location which has resulted in a delay to the 3<sup>rd</sup> quarter of 2016;
- The Targa Resources Badlands plant has been delayed.

It was noted that there was an additional factor, because of the low price environment which no one could have predicted, has resulted in the 914 drilled but unfracked wells and no one knows when those wells will be completed and that oil and gas production will impact the industry's ability to meet the gas capture goals.

Governor Dalrymple stated that the presentation shows that there are some very good reasons why the targets and the goals have become more difficult and many of these realistically could not have been expected and not something that a person would really expect the industry to anticipate. He proposed a more gradual increase in the capture percentage. It is tailored to what the Commission has been told will be happening -- Lonesome Creek to be available in early 2016 and another OneOK plant to be operational by the 3<sup>rd</sup> quarter of 2016. Those projects will return us back to the path that we have been on. Governor Dalrymple distributed the following revised gas capture goals for discussion:

- Capture 77% up until 4/1/16
- Capture 80% by 4/1/16
- Capture 85% by 11/1/16
- Capture 87% by 11/1/17
- Capture 89% by 11/1/18
- Capture 91% by 11/1/19
- Capture 93% by 11/1/20

He noted that this proposal provides for continuous increases in capture rates from where it is today and by 2020 he would expect the industry to capture more than 90%. Of course, the Commission understands that there is a risk of projects not being completed.

Attorney General Stenehjem stated that it seemed to him that we are at half time at this point, it is time to look at the score but what really matters is what the score is at the end of the game. He has consistently been saying that the Commission needs to be focused on where we are going and where we are going to wind up at the end. That is what really matters and why, when the policy was adopted, there was a provision that states the Commission may revise such goals in the future if deemed necessary. Now we are hearing from the Task Force that those eventualities have arisen. It is important that we have goals that are achievable and that we aren't raising expectations that are not going to be possible. The Commission did previously say that we hope that there is a potential at 95% at the end game. He stated that he was impressed by the efforts that the industry has made and the investments of billions of dollars. Now they are facing some circumstances that were beyond their control and are seeking some relief. He is supportive of granting some relief but would also want to make sure that what is approved is actually achievable and the Commission is not raising hopes beyond what is actually realistic. He would also suggest that anything

the Commission does would not remove from the Order the flexibility to revisit the goals if the Commission determined that it is necessary.

The Commission also reviewed the recommendation Mr. Helms had made the prior month which in part was:

- Extend the 85% capture target one construction season
- Evaluate an administrative process that would allow individual operators to accumulate up to 3 months gas capture credit that could be applied to a problem month

In response to a question, Mr. Helms indicated that he continues to be supportive of allowing an additional construction season and moving the 85% goal to November 1, 2016. The goals that the Governor has presented are doable but are aggressive goals. He stated that he very much liked having some intermediate goals so that we don't just go to 85% on November 1, 2016 and then there is no new goal until October or November of 2020 which leaves things sitting in the same spot for four years. At whatever level the Commission decides he would recommend that there be an annual review of progress and goals and extenuating circumstances in December of each year. He suggested December because at that point of time the construction season will have ended, the Commission will be able to look back and see how we did with the past goals and how we are looking for the next year and that upcoming goal. That will help the Commission and the industry to stay on track. By having a set date each year the Commission will be more proactive. He stated that, as the Commission had suggested, he had worked with staff and they did a review and they have determined that the agency could handle 90 days of rolling credits for operators without creating a significant administrative burden. He is supportive of having a program where an operator could accumulate MCF of credits for exceeding the goals for a 90 day period and if they ran into an emergency situation they could spend those credits to bring a month into compliance. It would be a reward system for people who are going above and beyond the goals to have some confidence that they have some credits and if they ran into real trouble they would have those credits to use. It would allow another measure of flexibility for those companies that have been really putting their shoulder to the wheel and exceeding the goals.

In response to a question on what the price needs to be for there to be more investment in gas processing, Mr. Helms noted that a real concern is the value of the natural gas liquids which has just plummeted. Two years ago the price was over \$5 a gallon; today you can haul it away from the plant tailgate for a nickel. The economics he and the staff have been seeing from companies is that the gas stream with the liquids in it needs to be in the \$3.50 to \$4.00 range to stimulate construction of natural gas infrastructure. It is in the \$2.50 range right now. It is \$1.00 to \$1.50 on the negative side of being able to finance those additional plants that are going to be needed to push that 90+% goal.

In response to a question it was noted that the industry was at 82% last month and is at 80% this month because of maintenance issues. Mr. Helms indicated that he did not have a projection for the Commission of when they might be at 85%. It is his anticipation that with the system being as full as it is now and the letters that have gone out from the gas gathering companies in McKenzie County about system problems and not being able to add plant capacity until the end of the January at best that we are likely to drop back to 77/78% by January or February. When the Lonesome Creek Plant comes on line it should be possible to move back into the low 80's -- 80 to 83%

Commissioner Goehring indicated that he would be supportive of the approach of incremental increases every year. There needs to be more time because of the amount of time it takes for the market to react. This is a bit aggressive and suggested that the goals be as follows:

85% - November 1, 2016

86% - November 1, 2017

87% - November 1, 2018

And then ramping up a little more aggressively after that.

In response to a question, Mr. Dille indicated that he did not believe the industry could achieve anything higher than 90% in 2020. When that number was established in 2014 it was an aggressive number. Although the stretch goal was 95% the midstream systems are so big it is a heavy lift to get to 95% and that means everything is happening and working right. With maintenance, pigging, downtime of plants and all those factors there would need to be closer to 10% of flaring across the state once everything is in place. That is how the Task Force arrived at 10% back in January 2014 and felt that was very aggressive. Director Helms helped the Task Force to get to 95% as a stretch goal. The Task Force is certainly willing to evaluate that but it takes everybody on deck to get that done and that includes market conditions. He indicated that they would work hard to exceed those goals and suggested that an engineering analysis be done to see if those levels are achievable in 2020.

Mr. Dille also stated that this is a technology play and who knows what happens in 3 years, 4 years or 5 years to the Bakken. He asked the Commission for flexibility. He noted that the original goals were developed based on large infrastructure investments. That is where the horsepower is in meeting these goals--the investment of billions of dollars.

Governor Dalrymple stated setting a goal for gas capture has no meaning at all unless there is going to be some effort to reach that goal. This is where we would like to be. That is why it is a policy and we are working together with industry and we really appreciate that you have a working group that put some effort into it and you have been really straight forward about what is doable and what is not doable. It is kind of a team effort but in the end we do want gas capture goals and we want those goals to show that over time we are on a trajectory that is better and better. I think people in North Dakota are going to expect that. So, it is all about goals that we are taking seriously and a trajectory where people can see that gas capture is gradually improving 1.5% a year. You know it is an ongoing process with goals and policies but if you are at 85% in 2016 and you want to keep improving you could improve 1.5% a year and you are going to end up at 91% in 2020. Even beyond 2020 why not talk about continuous improvement? There are a lot of states that wouldn't think 90% is all that great. We understand that the industry has got to buy into this. We know that you have been trying to do things and we need you to continue to try. So we do need to agree on something but I just think if these goals aren't realistic they are pointless. So let's talk about what we can do. I don't like jumping from 85% to 90% in one shot. I think it should be a 1.5% a year over the five year period so we know every year what we are shooting for. Otherwise it is getting easier which I won't support.

In response to a question, Mr. Helms indicated that the pressure that can be applied to midstreamers is only to regulate their customers and that is the operators or producers which is what the Commission has done. The Commission has control over how much the operators can produce and what they can permit and what they can complete. That is the feedstream for the midstream companies and really that is pretty much the extent of influence that the Industrial Commission has in that world.

In response to a question regarding the goals, Mr. Ness indicated that they could not pretend to predict that we are going to stimulate midstream investment of upwards of \$4 to \$5 billion more. We can support the November 1, 2016 to 85% knowing that is still going to be a challenge. An 88% goal in 2018 is a flag that will hold everyone accountable. We do need some help on these easements discussions with other government entities. The industry would not be here today requesting relief if they had been able to get the easements needed for the Hess and OneOK projects. The industry would have been at the 85% goal. The industry just cannot predict what it can do in 2020 under the current conditions. If you want to put the



stake in the ground at 91% in 2020 the industry will do its best to get there but the industry is going to need more help in getting there.

Governor Dalrymple indicated that this moves us in the right direction and the State is trying to create an incentive of some kind for everybody in the industry to figure out a way to create some value for this gas. Mr. Ness indicated that producers need a value out of the gas--every penny counts today.

In response to a question, Mr. Ness indicated that there needs to be a discussion about the drilled but not completed wells--time doesn't permit that discussion today but that is also another issue that is part of this whole matter. Ultimately it has a big impact on where this gas goes in the next year. 900 wells is a tremendous amount of gas out there.

**It was moved by Attorney General Stenehjem and seconded by Commission Goehring that the Industrial Commission adopts the revised Gas Capture Goals as follow:**

- **Capture 77% up until 4/1/16**
- **Capture 80% by 4/1/16**
- **Capture 85% by 11/1/16**
- **Capture 88% by 11/1/18**
- **Capture not less than 91% to as much as 93% by 11/1/20**

**and to further require that the Gas Capture Goals be annually reviewed in December by the Commission with the Department of Mineral Resources finalizing a three month rolling credits program to be brought to the Commission's next meeting and that the Department of Mineral Resources complete an engineering study for ultimate gas capture and further that the Commission may revisit such goals in the future if deemed necessary. On a roll call vote, Governor Dalrymple, Attorney General Stenehjem and Commissioner Goehring voted aye. The motion carried unanimously.**

Mr. Helms reported, in response to a recent press conference and information released about gas capture plans, permitting and whether the Department of Mineral Resource is following the policy, the staff did a full audit of the system earlier this week. They took all the permitting staff off their permitting duties and had them do an audit. They found that there were 2,558 applications after the June 1, 2014 date requiring gas capture plans. They verified that 100% of those permits have a gas capture plan. He wanted to reassure the Commission that there is a gas capture plan for every one of those 2,558 permits. He stated that he isn't sure where the confusion arises but he suspects it is over permit dates, dates they are received or dates they are submitted. It was noted that the different terms referring to dates can be confusing.

Mr. Helms presented Order No. 26143 for Case No. 23802 regarding the creation and establishment of two overlapping 2560-acre spacing units and provided a copy of an exhibit from the hearing. (A copy of the handout is available in the Commission files.) He said the offset operator opposed the overlapping spacing units. It is a section line well. The concern of the offset operator was that their well might be fractured into. Proposed Order No. 26143 is identical to three previous orders approved in situations like this. It will put the objectionable well on the opposite side of the section line as far from the offset well as possible. It will also require significant additional notice and detail so the operator can prepare their well to prevent damage to the well. Mr. Helms indicated that the Commission previously approved three orders just like this one.

**Case 26143: It was moved by Commissioner Goehring and seconded by Attorney General Stenehjem that Order 23802 issued in Case 26143, be approved and effective this 24<sup>th</sup> day of September, 2015. On a roll call vote, Governor Dalrymple,**

**Attorney General Stenehjem and Commissioner Goehring voted aye. The motion carried unanimously.**

Mr. Helms presented a NDSU proposal to conduct research/demonstration projects as outlined in Section 6 of House Bill 1358. (A copy is available in the Commission files.) He said last month the Oil and Gas Research Council came to the Commission with two recommendations. One was that the Commission approves the EERC proposal for evaporation pit cleanup technology research which the Commission did approve. The Oil and Gas Research Council also heard a presentation from NDSU that was a competitive proposal that would augment/complement the EERC study. The Oil and Gas Research Council's second recommendation was that the Commission, if possible, funds the NDSU proposal. What he is presenting is a complementary study proposal for \$309,000 that could be funded under Section 6 of HB 1358 out of the Abandoned Well Plugging Site Reclamation Fund. It will test some really cutting edge technologies and he is excited about it. He recommended approval of the expenditure of those funds out of the Abandoned Well Plugging Site Reclamation Fund for this proposal as a demonstration project.

**It was moved by Attorney General Stenehjem and seconded by Commissioner Goehring that the Industrial Commission approve the NDSU proposal to conduct research/demonstration projects as outlined in Section 6 of House Bill 1358 regarding soils around brine pits in an amount not to exceed \$309,000.**

In response to a question regarding the time frame, Mr. Helms said it begin this fall. A lot of the work that is going to be done is lab work and green house work so it has a time frame that gives us results prior to the next legislative session. It is a one year study.

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

Mr. Bruce Hicks, Oil and Gas Division Assistant Director, presented and reviewed the April - June Oil and Gas Division quarterly report. He noted that it also included the information for the first quarter January - March. (Copies of the quarterly report are available in the Commission files.)

He highlighted certain portions of the reports:

- Permitting is down 33 percent over the second quarter of a year ago.
- Drilling is down 56 percent. Rigs are moving into the core area which requires additional permits so that is another reason why permitting is not down as far.
- Gas capture numbers moving down further. The industry has met the gas capture goals that the Commission set all three of the last quarters.
- The Areas of Interest – There were three permits that were issued to Petro Hunt in an Area of Interest. The permits were all on an existing pad which is south of Lake Sakakawea about 20 miles northwest of New Town. We did have some comments and we basically covered all the comments with a perimeter dike, a liner under the entire facility, no cuttings pit, remote shut downs, addressing a nitrogen issue in the area. The only thing we did not address is the recommendation that there be an eagle survey and we can't require that so we did not impose it.

In response to a question Mr. Hicks indicated that for that quarter there were 3 permits in an Area of Interest. The 10 previous permits were covered on the previous report. In total there have been 13 permits in the Areas of Interest.

Mr. Hicks reviewed the Complaints section of the report. He noted that in response to the Governor's request they have added a justification column. He stated that most of the complaints are first offenses or mechanical failures and he indicated what the offense was under the Justification column. He specifically reviewed the Emerald Oil complaint noting it was a mechanical failure. They were only granted 50% relief on that penalty because they did not do some of the requirements that we requested like a photo of the top joint of the seven-inch to make sure there is no wear, and we thought it was important enough that we should not suspend 90% of that fine. Gadeco has had numerous violations; the Division staff has tried very hard to bring them into compliance, finally did the complaint, 58% of that penalty was suspended but again, we required them to pay more because of the issues the Division has had. The Division did not see any repeat violators, so he believes that what they are doing is working.

In response to a question, Mr. Hicks indicated that this report reflects 1 year and 1 quarter--5 quarters. Each quarter he will drop off one quarter and add the new quarter.

Governor Dalrymple indicated that what Mr. Hicks had included is what he was looking for and he thanked him for including it in the report.

Being no further Department of Mineral Resources business, Governor Dalrymple adjourned this portion of the meeting at 2:41 p.m. and the Commission took up Pipeline Authority business in the Governor's Conference Room.

INDUSTRIAL COMMISSION OF NORTH DAKOTA



Karlene Fine, Executive Director and Secretary

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Held on September 24, 2015 beginning at 1:00 p.m.  
Governor's Conference Room  
State Capitol

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

Also

Present: Andrea Travnicek, Governor's Office  
Jason Nisbet, Governor's Office  
Michelle Mielke, Department of Agriculture  
Justin Kringstad, Pipeline Authority  
Lynn Helms, DMR  
Ron Ness, ND Petroleum Council  
Members of the Press  
A complete list of attendees is available in the Commission files

Governor Dalrymple called the Pipeline Authority portion of the Industrial Commission meeting to order at 2:47 p.m. following completion of Department of Mineral Resources business and relocation to the Governor's Conference Room.

Mr. Justin Kringstad presented the Pipeline Authority Annual Report from July 2014 to June 30, 2015. (A copy is available in the Commission files.) He said he has covered most of this material through his quarterly updates to the Commission. He said the Annual Report includes hard copies of the maps of what is on the website today.

Ms. Karlene Fine, Industrial Commission Executive Director and Secretary, indicated that by law the Commission is to receive an Annual Report and Financial Report. She presented the Pipeline Authority Annual Financial Report as follows:

**NORTH DAKOTA PIPELINE AUTHORITY  
BALANCE SHEET  
June 30, 2015**

**Assets**

Current Assets	
Cash	151,880
Total assets	151,880

**Liabilities**

Current Liabilities	
Accounts Payable	0
Total liabilities	0

**Net Position**

Unrestricted	151,880
Total net position	151,880

**NORTH DAKOTA PIPELINE AUTHORITY  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION  
For the Fiscal Year Ended June 30, 2015**

**Expenditures:**

Consultanting Services	106,388
Director Travel Expenditures	2,040

Newsletter	1,605
Professional Fees	0
Total Expenditures	110,033
Revenues Under Expenditures	(110,033)
<b>Other Financing Sources:</b>	
Interest Income	110
Transfers In	0
Total Other Financing Sources	110
Change in Net Position	(109,922)
Net Position Beginning of Year	261,802
Net Position End of Year	151,880

**NORTH DAKOTA PIPELINE AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2015**

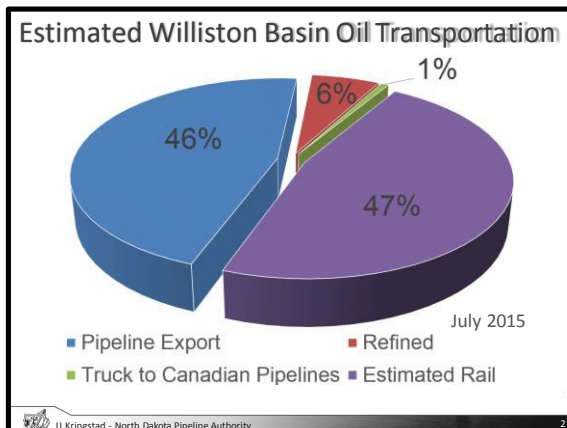
**Note 1**

The Pipeline Authority receives no General Fund dollars. The Industrial Commission upon the recommendation of the Oil and Gas Research Council authorized the transfer of \$200,400 from the Oil and Gas Research Fund to the Pipeline Authority Administrative Fund during the 2013-2015 biennium. The Pipeline Authority Administrative Fund must be maintained as a special fund and all monies transferred into the Fund are appropriated on a continuing basis and must be used and disbursed solely for the purpose of defraying the administrative costs incurred by the Pipeline Authority.

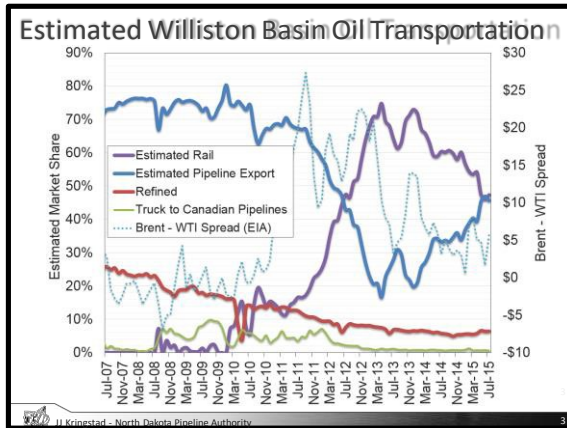
**Note 2 - Commitments**

The Authority has commitments of \$134,400 for administrative services and \$5,300 for printing and distribution of a quarterly newsletter. The administrative contract goes through July 31, 2015 and the newsletter contract extends through September 30, 2015.

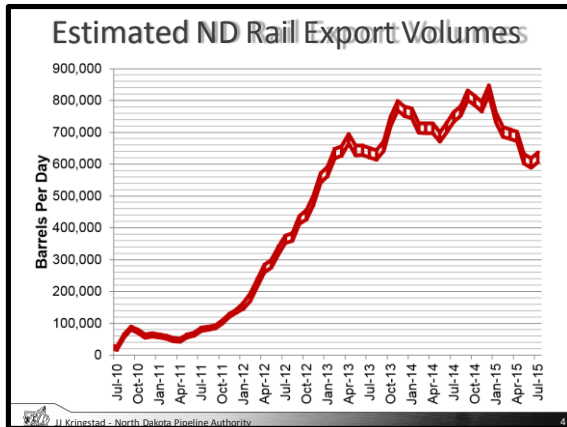
Mr. Kringstad presented the Quarterly Report. (A copy of the full report is available in the Commission files.) He said reviewed a few slides as follows:



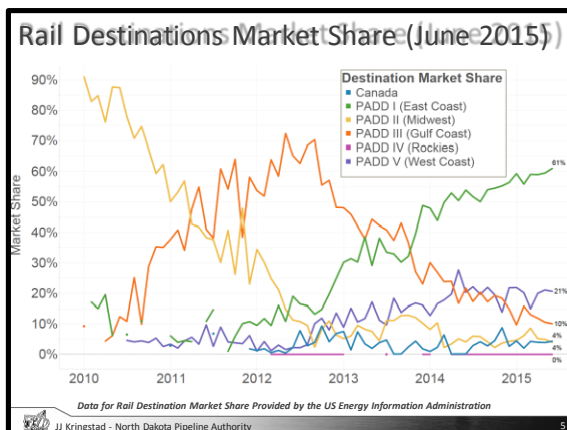
He said this is a snapshot of the most current month of the transportation breakdown. He noted that it has shifted. North Dakota now has a majority, 53%, of the oil being refined in the state or moved out by pipeline with an estimated 47% leaving by rail. Historically that percentage was significantly higher and has ticked downward in 2015.



The purple line is the rail estimated market share. In 2015 that has been continuing to drop in market share percentage due primarily to the Double H pipeline going into service in February and the Dakota Prairie Refinery taking more barrels out by pipe and then refining additional barrels within the State itself. The other underlying factor there has been market conditions have continued to be conducive on the pipeline side of the equation – that spread between Brent pricing on the coast versus the Midcontinent pricing has been fairly narrow for most of 2015 thus far.



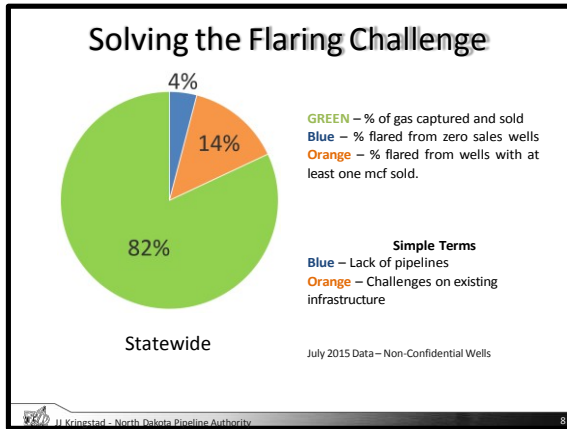
Slide four is his estimated rail movements out of North Dakota – note the downward trend in 2015. The Double H pipeline, that went into service in February, was the last major pipeline expansion. There is going to be a lull with major pipeline projects until late 2016 and if there is any incremental growth in production it is likely going to be met by rail transportation until those systems go into service.



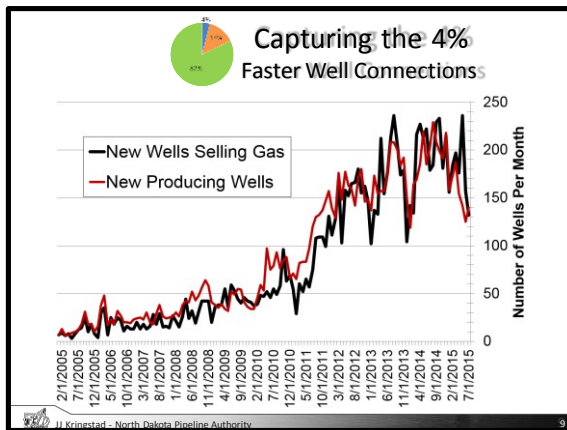
Slide five answers the questions of where this crude oil has been moving to – historically he did not have a good answer but now the EIA has been tracking destinations. The majority or 61 percent of the oil leaving by rail is going to the east coast followed up by the west coast and the gulf coast. That has changed over time for different reasons but as we sit today the majority of those rail cars are being loaded and moving to either the east or west coast. Pricing on the east and west coasts – those are the highest priced markets for crude oil and the only access we have continues to be rail transport. This is June refinery lot purchase prices.

In response to a question regarding the Sandpiper Pipeline, Mr. Kringstad said Sandpiper had received a Determination of Need ruling but now, based on court action, it has been indicated that that Determination can only be made until the full Environmental Impact Study is completed. He indicated it would be early October when the Public Utility Commission will meet for the first time since that court ruling has come out. At that time there will be more details as far as the process going forward. The EIS has been ongoing– Enbridge had been working on it because they needed it for the final decision. It is unknown if or how much of a setback that court decision was to the entire process.

Mr. Kringstad indicated that the pricing spread between Brent and the Midcontinent is a narrow spread so he does not anticipate any major shifts in the next several months.



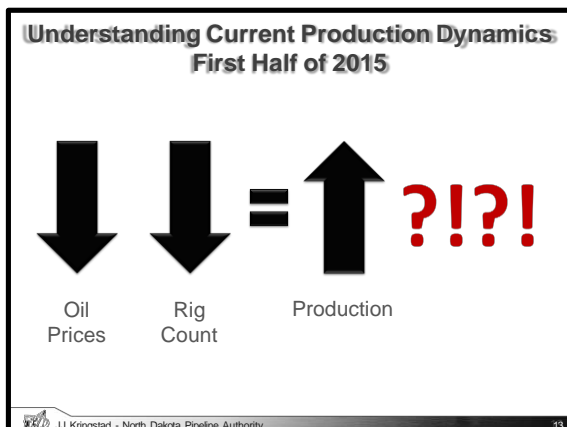
Mr. Kringstad said the majority of gas that is still being flared is from those wells that are connected so that continues to be the major flaring issue in North Dakota - wells that are connected – it is just that the system is not large enough to handle it so that is where most of the investment is going to continue to be focused is getting additional compression and maintenance on those lines to ensure they can minimize the amount of gas that is being flared from wells that do have a pipeline connection.



Mr. Kringstad said the last slide of the quarterly update would be how fast the industry is getting new wells connected – it continues to be good news. Overall they are keeping pace with the drilling. As we are seeing less rigs there may be a chance that if there are some random wells out there that don't have a pipeline connection that they could get to them during some of this slower period for the industry.

The Commission took a few minutes and reviewed a draft of the motion from the Department of Mineral Resources portion of the meeting. It was suggested, so that it is clear, that the language restate what is in the current order --the Commission may revise such goals in the future if deemed necessary -- in addition to the annual review.

There was discussion about the wording regarding the 91% and 93% levels. It was indicated that the plan would be to determine that number at not less than 91% and maybe as much as 93% depending upon what the engineering study indicates is achievable.



Mr. Kringstad discussed a couple big research projects he undertook the last couple months to address some of the midstream concerns of where we can expect production going. This slide sums up a lot of our questions from the first half of 2015 when we saw prices dropping, rigs dropping and yet our oil production in North Dakota stayed the same, relatively robust. He wanted to look at why that was and can we expect that to continue going forward. He didn't

necessarily know if it was good news that came out of this work but what he did find was a lot of things going on – when a well starts its drilling life and when it actually starts bringing oil production online.

He reviewed a slide which showed the month when a well actually began being drilled and when the well went on line. He indicated, for example, that the majority of the wells in June that were starting to produce oil and gas actually began being drilled as far back as April or May 2014 and a lot of the drilling was probably taking place prior to the price collapse and the rig fleet slowdown. That information indicates that the State may not have yet seen the impact of the dropping rig fleet. In summary, it is about 170 to 180 days to when a well begins drilling to when it starts bringing oil and gas to the surface. Those production highs and robust production in the first half of 2015 were likely a relic of 2014 activity. That is why we saw counter intuitive production versus what was happening with the drilling levels. The second half of 2015 is when we will start to feel the pinch of that rig fleet reduction. It is yet to be seen if increases in efficiency and production are going to be enough to offset that drilling activity. Underlying this are the drilled but uncompleted wells which are a wild card in this whole equation. He indicated that this information was made available in August.

Mr. Kringstad updated the Commission on the work he began last winter and said every quarter he is going to revisit Bakken drilling economics and try to understand what areas are going to continue to be attractive at different price points. He has made available on his website a series of slide that will assist the reader in understanding Bakken economics. If an operator is seeking a 20% rate of return on their investment, they will need at least 700 barrels of oil per day as their minimum peak month of production and as you get higher, less and less of North Dakota geographically is attractive or has proven itself capable of producing those levels of crude oil. This work and these slides show where and what is the price point that drilling will continue to be attractive in North Dakota for the various levels of rates of return.

In response to a question regarding the costs for drilling a well to completion, Mr. Kringstad said he has changed this number. When he did this last winter the price was \$7, \$8 and \$9 million for wells and this time he moved it to \$6, \$7 and \$8 million. He indicated that he reduced it to \$6 million because some operators have now publicly stated that \$6 million is the new target. They are not at \$6 million yet but they would like to get to that number in the future. Drilling costs continue to go down, as of today, modern wells have not seen \$6 million yet but he had included it on the slides if they reached that goal.

He indicated that he is often asked the question, what is the breakeven price in North Dakota. His response is that it really depends on where you are at in the State on how much your well costs are. In the higher producing areas you will see it is anywhere from the upper \$20's to the mid \$30's. If you are in some of the fringe area and you have medium well costs, the numbers are in the \$50.00 to \$60.00 range for a breakeven price.

The Commission thanked Mr. Kringstad for the information and indicated it was very helpful.

Being no further Pipeline Authority business, Governor Dalrymple adjourned this portion of the meeting at 3:07 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 September 24, 2015 beginning at 1:00 p.m.  
Governor's Conference Room  
State Capitol

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

Also

Present: Andrea Travnicek, Governor's Office  
Jason Nisbet, Governor's Office  
Michelle Mielke, Department of Agriculture  
Jaret Wirtz, WAWSA  
Joel Erickson, Bank of North Dakota  
Members of the Press

Governor Dalrymple called the Western Area Water Supply Authority portion of the Industrial Commission meeting to order at 3:08 p.m. following completion of Pipeline Authority business.

Ms. Karlene Fine, Industrial Commission Executive Director and Secretary, presented the Western Area Water Supply Authority August financial report and Debt Reduction Report as follows: (A complete copy of the report is available in the Commission files.)

RE: Western Area Water Supply Authority - Industrial Sales - August, 2015 and Debt Repayment Report

Attached is the Western Area Water Supply Authority (WAWS) financial information for the month of August, 2015.

Page 1, prepared by the Bank of North Dakota, reflects debt service payments through the month of August, 2015 and what has been paid so far in September.

The next 3 pages (pages 2, 3 & 4) I prepared based on the information provided by WAWS staff reflecting August revenues and expenses and net income. On page 2 it is reflected that there were no capital improvement disbursements (highlighted in orange) and WAWS continued to make principal payments (highlighted in yellow). Note WAWS has now begun to make principal payments on the second BND loan. Previously they were only making interest payments on this loan. Net income for the month of August was **(\$42,951.14)**. One reason for the negative number was a payment of accrued interest to the McKenzie County Water Resource District in the amount of \$320,813.09. Page 5 is the net income report for the 2013-2015 biennium so you have the numbers for comparison. Page 6 is the balance sheet prepared by WAWS staff as of August 31, 2015. As noted on the Balance Sheet the Accounts Receivables are \$3,035,832.97. Page 7 shows the status of the approved capital projects and the balances still outstanding if the projects go forward. (There were no changes on this document from last month.)

If you have questions I will be available to review the numbers. Jaret Wirtz will be joining the meeting to discuss the numbers from the month of August and to give you a forecast on water sales for the remainder of the year.

Ms. Fine noted two one-time costs -- a payment of accrued interest on a loan and a bad debt cost that was recognized this month. In response to a question regarding the accrued interest payment, Mr. Wirtz said he is not aware of any more of those type of costs. He indicated that the reason for that amount was that the loan could not be closed out until USDA had resolved some issues and that took a considerable amount of time.

Ms. Fine said another thing on this report for the first time is WAWS have begun making principal payments on the other BND loan. Previously principal payments were only being made on the \$50 million BND loan; now, in accordance with the loan documents, WAWS is starting to make payments on the \$40 million loan as well.

Mr. Jaret Wirtz indicated for the month of August they ended with up with sales of about \$1.5 million which was fairly decent from what WAWS has been seeing. He indicated that in previous years they have seen more sales in the fall when other sources of water aren't available to the industry. They have not seen that this year in September and they are not sure what to expect. September is probably going to have around \$1 million in sales. There is much more competition this year and a slowdown in the drilling. It is hard to tell where WAWS stand as far as market share--the Water Commission will provide them that information when the data comes in. With that information they will know if they are in that 20 to 25% of the industrial sales market. He said it is hard to estimate the level of sales in the next couple of months. He believes the numbers for the depots will remain steady as the water from those locations is being used for service or maintenance water - between \$600,000 to \$800,000.

It was indicated that the State Engineer for the Water Commission is beginning to phase out the emergency water permits. After five years it is hard to make a case that these water permits are needed for emergencies. It is a difficult process but it may have an impact on water sales.

In response to a question, Mr. Wirtz said WAWS doesn't have anyone out marketing for them. They get a lot of phone calls on prices and the staff tells them the price and closets spot where WAWS could make that water available. He indicated that some of the potential buyers don't understand that the Industrial Commission sets the price. The buyers are used to negotiating prices. Governor Dalrymple thought it was very encouraging the amount of business that WAWS is able to do at the current price levels. He indicated that they have tried to have more information on their website--providing interactive maps, etc. and meeting with the potential buyers. He provided some examples of the prices that their competitors are offering.

Mr. Wirtz said it was in legislative intent that WAWS was going to get \$60 million of funding for some projects. They are trying to find ways to maximize those dollars. The Water Commission will be considering at its October 6 meeting authorizing the \$60 million grant contingent on WAWS coming up with a \$20 million match. The Water Commission has a 75/25% match requirement in their policies. WAWS is going to request a \$10 million loan through domestic sales from the Water Commission and then WAWS will need to see financing for the other \$10 million. They will be talking to BND about that financing. The \$20 million in financing will be paid with domestic sales dollars and pledging the WAWS domestic revenues towards those loans which in the past has all been industrial loans.

In response to a question regarding the \$60 million amount being a line item in legislation, Mr. Wirtz said it is not a specific line item, it was all legislative intent. There was no set amount that WAWS is guaranteed in the law--it is reflected in the minutes of the legislative committees' discussion. In response to a question he indicated that he believes that is what the Water Commission's understanding is of the legislative action.

Being no further Western Area Water Supply Authority business, Governor Dalrymple adjourned this portion of the meeting at 3:23 p.m. and the Commission took up Public Finance Authority business.

INDUSTRIAL COMMISSION OF NORTH DAKOTA



Karlene Fine, Executive Director and Secretary

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Held on September 24, 2015 beginning at 1:00 p.m.  
Governor's Conference Room  
State Capitol

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

Also

Present: Jason Nisbet, Governor's Office  
Michelle Mielke, Department of Agriculture  
DeAnn Ament, Public Finance Authority  
Members of the Press

Governor Dalrymple called the Public Finance Authority portion of the Industrial Commission meeting to order at 3:24 p.m. following completion of Western Area Water Supply Authority business.

Ms. DeAnn Ament, Public Finance Authority Executive Director, presented a Drinking Water State Revolving Fund Program loan request from South Central Regional Water District in the amount of \$3,125,000. She said they want to extend their services to Tappan and Dawson. They already have 350 new users signed up. They will issue revenue bonds. They meet the 120 percent coverage and the Advisory Committee recommended approval.

**It was moved by Commissioner Goehring and seconded by Attorney General Stenehjem that the Industrial Commission adopts 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, South Central Regional Water District (the "Political Subdivision") has requested a loan in the amount of \$3,125,000 from the Program to finance expansion to the cities of Dawson and Tappen; 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 reported on the approval of a Drinking Water State Revolving Fund Program loan for the City of Sheyenne in the amount of \$130,000 as follows:

**Re:** Sheyenne, Drinking Water State Revolving Fund

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 Sheyenne is requesting a \$130,000 loan under the Drinking Water State Revolving Fund (DW SRF) to finance the removal and reinstallation of insulation around the City's water tower stand pipe. Total construction costs are estimated at \$130,000. The requested term for the DW SRF loan is 20 years. The City of Sheyenne will issue revenue bonds payable with user fees.

The Public Finance Authority's Advisory Committee approved this loan at their September 11, 2015 meeting.

Ms. Ament gave the following update regarding North Dakota Natural Beef:

**RE: ND Natural Beef (NDNB) Final Update**

**Timeline**

**April 21, 2015** The Industrial Commission appointed the Public Finance Authority Executive Director to negotiate and finalize the sale of the property previously owned by NDNB as per their instructions.

**April 22, 2015** SBA waiver and Sheriff's Deed are recorded; PFA may now dispose of the property.

**April 30, 2015** The property was listed with Konrad Olson Commercial Real Estate.

**July 27, 2015** A purchase agreement for \$1,399,000 was signed by CHS, Inc. The dollar amount negotiated with CHS, Inc. was within the parameters given by the Industrial Commission.

**July 28 to September 14, 2015** The purchase agreement was drafted and the final form approved by the Attorney General's Office as well as the Quitclaim Deed. In addition, the Public Finance Authority hired Ulteig Engineers to complete a professional survey of the property. The Attorney General's Office, CHS, Inc., The Title Company and Public Finance Authority are all in agreement that documents relating to this sales transaction are in order.

**September 15, 2015** The Governor signed the Quitclaim Deed.

**September 16, 2015** The sale was closed and the property transferred to CHS, Inc.

**Financial Summary**

Sale Price	\$	1,399,000
Closing costs	(113,561)	
Net Proceeds		<u>1,285,439</u>
Principal to call date		1,919,025
Interest to call date		799,832
Fees to call date		3,567
NDSU		160,000
SBA		5,000
Legal		15,689
Property Taxes		159,049
Property Preservation		<u>290,555</u>
		<u>3,352,716</u>
<b>PFA Estimated Loss*</b>		<u><u>(2,067,277)</u></u>

\*There will be insurance refunds and final utility bills that won't be paid until October and possibly even November.

The Industrial Commission commended Ms. Ament for all her hard work on dealing with this property.

Ms. Karlene Fine, Industrial Commission Executive Director and Secretary, discussed an appointment to the North Dakota Public Finance Authority Advisory Committee as follows:

RE: PFA Advisory Committee appointment

A brief update on the work that has been going on in finding an appointee for the Public Finance Authority Advisory Committee. DeAnn and I have discussed the expertise that would be beneficial to the Committee as well as the time commitments an individual would need to make to serve on the Committee. At this point we are focusing our efforts to finding someone from western North Dakota. I have reached out to a County Commissioner and asked if he has any suggested names--perhaps a retiree that has a good understanding of public finance and time availability to serve.

Bottom line, at this point I do not have an individual to recommend but want you to know that I am diligently looking for someone to serve and am keeping this on the agenda. Hopefully, we will have someone for your consideration at next month's meeting.

Being no further business, Governor Dalrymple adjourned this portion of the meeting at 3:28 p.m. and the Commission took up Bank of North Dakota 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: Tim Porter, Bank of North Dakota  
Jason Nisbet, Governor's Office  
Michelle Mielke, Department of Agriculture  
Members of the Press  
A complete list of attendees is available in the Commission files

Governor Dalrymple called the Bank of North Dakota portion of the Industrial Commission meeting to order at 3:29 p.m. following completion of Public Finance Authority business.

Mr. Tim Porter, Bank of North Dakota Senior Vice President, presented the Standard and Poor's Rating Review of Bank of North Dakota. (A copy is available in the Commission files.) He said S&P issued the report on Tuesday. Ratings were affirmed at 'AA-/A1+' which are very good ratings for the Bank. The stand alone credit profile was actually lowered from 'A+' to 'A'. The stand alone credit profile for an average bank operating in the United States is a 'BBB+', so the Bank of North Dakota is a notch ahead of the average bank. Previously the Bank was two notches ahead. What S&P actually lowered was the business outlook in the State due to what could potentially happen with an extended period of low oil prices and also the agriculture commodity side was taken into consideration. To offset that is the State's support of the Bank, and the earnings and capital of the Bank. Because of those factors they bumped the rating up one notch. That basically kept the Bank's rating affirmed at the 'AA-'. If something happens to the State rating then they would come back and look at the Bank but they anticipate the Bank's rating will be stable at the 'AA-/A1+'. The Bank's deposits are rated at 'AA+' which is one notch below the State's rating of 'AAA' again because of the State's support of the Bank. He said the review was very favorable and in S&P's words "the Bank is one of the higher rated banks in the country".

Mr. Porter provided a copy of the information sheet on the Bank of North Dakota Infrastructure Loan Program. (A copy is available in the Commission files.) He said this information is now on the Bank's website and the program's criteria have been released. He reviewed the program as follows:

- House Bill 1443 established this Fund with \$100 million of BND's capital and \$50 million from the Strategic Investments and Improvements Fund.
- Communities with a population of less than 2,000 qualify for \$50 million of that total amount and \$100 million is for communities with populations greater than 2,000. Those amounts were established to assure that both larger and smaller communities received loans.
- Communities that received surge funding are not initially eligible to apply. There is a link to a list of those communities that are ineligible at this time.
- Under eligibility the project must be new construction. There is another link for a Qualifying Project Determination Form – if a community has a question whether a project would be eligible, they can complete that form, describe the project and send it to the Bank and the Bank will get back to them within a couple days telling them if the project qualifies for the program.
- Use of the proceeds -- some examples are given of qualifying projects and some examples of ineligible use of the proceeds such as flood control.
- The application process--the Application Form is on the website as a link so they can complete it on line and submit it. There is an application deadline of November 30, 2015. The plan is to get back to the community as to whether the project qualifies by December 15. The Bank then has a thirty day time period to look through those applications and determine eligibility from the applications submitted for that round.

- The loan details are there, the maximum loan is \$15 million with a 2% interest rate with a maximum term of thirty years. The Bank is ready to go forward with this program.

It was noted that many individuals will be surprised by the number of cities on the surge list that were eliminated in the legislation -- all those growing cities in the west have been eliminated. However, there is good growth in a lot of other places across the state.

Mr. Porter stated the communities have to exhaust any federal funds that they qualify for – any other grant programs or other funds that they can get before coming to the Bank for this program. If communities need work on their water infrastructure, they can go to the State Revolving Fund and other programs.

Mr. Porter said he attended the Bismarck City Commission meeting where the Bank had an agenda item to vacate the street that was behind the buildings that the Bank acquired that are adjacent to the Bank's building. The request was approved unanimously. This will enable the Bank to have more flexibility as they do the planning for the new building. This was needed because of the location of the geothermal wells.

Governor Dalrymple closed the meeting at 3:38 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 3:46 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 a loan identified as Attachment 15. 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 the meeting at 3:48 p.m.

INDUSTRIAL COMMISSION OF NORTH DAKOTA



Karlene Fine, Executive Director and Secretary