

Minutes of a Meeting of the Industrial Commission of North Dakota
Held on August 4, 2022 beginning at 1:00 p.m.
Governor's Conference Room – State Capitol

Present: Governor Doug Burgum, Chairman
Attorney General Drew H. Wrigley
Agriculture Commissioner Doug Goehring

Also Present: This meeting was open through Microsoft Teams so not all attendees are known
Agency representatives joined various portions of the meeting.

Governor Burgum called the meeting of the Industrial Commission to order at approximately 1:10 p.m.

NORTH DAKOTA TRANSMISSION AUTHORITY

Mr. John Weeda, North Dakota Transmission Authority Director, presented an update of Midwest Independent Service Operator (MISO) transmission projects. (A copy of the update is available in the Commission files.) Prior to beginning his presentation, Mr. Weeda provided some data from 10:00 a.m. today that the price at Center, North Dakota on a megawatt of electricity was \$10.72; in eastern North Dakota it was \$26.90 (more than double the price at Center) and then in Minneapolis it doubled again and it was higher than that in Illinois at \$105.16 and in Michigan at \$134.00. He stated that this shows the difficulty of getting electricity from North Dakota to the market.

Mr. Weeda indicated that MISO had recently approved 18 projects at a total cost of \$10.38 billion for projects in the MISO footprint with one project in North Dakota – Jamestown to Ellendale 345 kV line at a cost of \$439 million. In addition, there is a project from Big Stone South to Alexandria and on to Cassie's Crossing which will help with congestion and ultimately benefit the Ellendale line that goes to Big Stone. MISO is expected to approve two more tranches for other areas of the MISO footprint in the near future.

In response to a question, Mr. Weeda stated there is a nationwide study that is being done by DOE and NREL and Northwest National Labs of what the demand will be in the future and provided a handout showing what the estimated needs will be and the amount of transmission that is needed across the entire country. What MISO has just approved is the generation/transmission to meet current needs—it does not include the anticipated growth needs and the transition of the generation fleet.

Mr. Weeda reviewed the economic benefits of the 18 projects that were approved by MISO. He also provided a timeline for completion of the 18 projects using existing rights-of-way as much as possible. It is estimated to take 6 to 10 years for the projects to be completed and in-service.

Mr. Weeda noted the stated reasons that MISO is following as new projects are approved in their role as the reliability coordinator include:

- Adapting to fleet change
- Optimization of energy markets and resources
- Enablement of decarbonization goals
- Enhanced flexibility

Mr. Weeda provided a slide that listed the quantitative benefits of these projects to the MISO members.

Mr. Weeda reiterated the statement MISO has made that capacity is a State responsibility. Due to the urgent need for dispatchable capacity on the system, the State-by-State approach has been challenging. Both

MISO and SPP are waking up to the fact that they have to take a stronger role in getting dispatchable capacity on to the system.

There was discussion about the information that is given to the public on these issues and in particular the pricing.

Mr. Weeda introduced Claire Vigessa, Transmission Authority Deputy Director, who has been focusing his attention on SPP. He provided the Commission with information on his background in the energy industry and also his roles on local economic development committees over the years.

Mr. Vigessa discussed the information he has been gathering on the work of the SPP and what appears to be a refocusing on electric grid reliability and what can be done by SPP.

Mr. Weeda reported on the development of an energy plan that is needed for the IJA proposals which will be done in coordination with the Department of Commerce.

Mr. Weeda noted the excellent presentation that Julie Fedorchak, Chairman of the Public Service Commission, had made to the Energy Development and Transmission Committee which clearly pointed out the gap we are seeing between total generation going up and dispatchable energy going down which has resulted in the instability of the grid.

Mr. Weeda stated that there are five projects that are very viable and are moving forward. Basin has two projects on their 345 transmission lines which will be looping the system and increase service to the oil fields. The MISO projects that were previously discussed from Jamestown to Ellendale. Work is going on with Grid United for a DC connection from St. Anthony to the Colstrip Station--80% of the path has been granted permission to survey the route. WAPA has signed an MOU to become the lead federal agency and the needed studies are underway. This will provide an outlet for North Dakota energy to the western interconnect—a 10-year project. Minnesota Power has begun discussions on its line from Center to Duluth.

Mr. Weeda noted that at a future meeting he will bring additional information on what is being discussed at a national level.

OIL AND GAS RESEARCH PROGRAM

Ms. Karlene Fine, Industrial Commission Executive Director, provided a financial report. She noted that the cash balance as of June 30, 2022, was \$32,760,336.90 with \$28,145,349 committed to outstanding projects. The cash funding that is non-committed as of June 30, 2022, is \$4.6 million. She noted that there is sufficient funding available should the Commission fund the application that is being presented today.

Mr. Reice Haase, Industrial Commission Deputy Executive Director, presented the following memorandum regarding the Oil and Gas Research Council's recommendation for the allocation of additional funding for the "Field Study to Determine the Feasibility of Developing Salt Caverns for Hydrocarbon Storage in Western North Dakota" and to consider a request from the EERC to amend Contract G-054-104 regarding this Study.

RE: Amendment to Contract G-054-104: "Field Study to Determine the Feasibility of Developing Salt Caverns for Hydrocarbon Storage in Western North Dakota"

Senate Bill 2014 passed by the 67th Legislative Assembly included an appropriation of \$9.5 million to the Oil and Gas Research Program (OGRP) for the purpose of studying the feasibility of constructing

underground salt caverns in North Dakota “for the storage of energy resources, including natural gas, liquified natural gas, NGLs, and hydrogen.” The bill also required financial “or other types of support” from a nonstate entity to demonstrate commitment to the study. The Commission approved a proposal from EERC to meet the intent of the bill at its June 9th, 2021 meeting, with a private \$500,000 in-kind match for acquiring a surface location.

EERC convened an Industry Advisory Board, consisting of nine members representing oil and gas operations, midstream, power generation, and salt cavern operations. The Advisory Board provides in-kind technical assistance to EERC for the project.

During the spring of 2022, an abandoned well pad was chosen as the location to drill a stratigraphic test well, eliminating the cost for acquiring a surface location. Cost for drilling the test well caused the original \$9.5 million budget to be exceeded by approximately \$4 million due to challenges encountered while drilling:

- Surface casing parted, which required an additional seven days of rig time
- Instable shale was encountered while drilling below the surface casing shoe, requiring the mobilization of a cement truck and two cement squeezes
- Drill bit deviated from the original borehole and began sidetracking, requiring a second borehole
- Drilling fluid losses above the Dakota Group required six days to heal

These unanticipated costs have prevented EERC from completing the project. Remaining tasks include core analysis, geologic modeling, and engineering design. Of the three remaining tasks, core analysis is the most time sensitive, as core samples begin to degrade once collected. The cost to complete core analysis is approximately \$700,000. The cost to complete the geologic modeling and engineering tasks is approximately \$2.3 million.

On July 26th, 2022, the Oil and Gas Research Council voted to recommend the Industrial Commission reallocate \$2.5 million from Contract G-049-092: “Underground Storage of Produced Natural Gas” to Contract 054-104 for the purposes of covering the cost of the drilling overrun and core analysis. The Council also discussed waiving any cost-share requirement for the reallocated dollars. When discussing the remaining \$2.3 million required to complete the project, the Council discussed several options, including an Emergency Commission request, allocating the remaining OGRP funds for the current biennium, or determining if other funds committed to projects could be reallocated. No formal recommendation was made regarding the Council’s preference for the discussed options.

Contract G-049-092 was approved by the Commission at its June 9th, 2019 meeting, as directed by House Bill 1014 passed by the 66th Legislative Assembly. The bill appropriated \$6 million, “or so much of the sum as may be necessary” for “pilot projects relating to the underground storage of produced natural gas.” To date, \$2.8 million in expenses have been accrued, leaving \$3.1 million remaining in the budget. Contracted task completion for the project is at 80%. EERC estimates that approximately \$500,000 is needed to close out the project.

I recommend the Commission authorize the Executive Director and Secretary to execute a contract amendment for Contract G-054-104 to replace the \$500,000 private in-kind match with a \$500,000 in-kind match from the Industry Advisory Board. I further recommend that the Commission accept the recommendation of the Oil and Gas Research Council and reallocate \$2.5 million from Contract G-049-092 to Contract G-054-104 and waive the match OGRP Policy 3.02 match requirement on the reallocated dollars.

In response to a question, it was noted that Underground Storage Project included language regarding underground storage of natural gas which could be stored in the salt caverns so the work to be done under the Salt Cavern Study also fits with the work being done under the Underground Storage Study. There is alignment between the two studies to meet legislative intent.

It was moved by Commissioner Goehring and seconded by Attorney General Wrigley that the Industrial Commission authorize the Executive Director and Secretary to execute a contract amendment for Contract G-054-104 to replace \$500,000 of land acquisition match with non-state in-kind match, and to reallocate \$2,500,000 from Contract G-049-092 to Contract G-054-104 and waive the Oil and Gas Research Program Policy 3.02 match requirement on the reallocated dollars. On a roll call vote, Governor Burgum, Attorney General Wrigley and Commissioner Goehring voted aye. The motion carried unanimously.

Ms. Fine noted that the Commission may see further funding requests for this project as there is still important work that needs to be done, but at this time this meets the immediate needs for the project and keeps it moving forward.

Mr. Brent Brannan, Oil and Gas Research Program Director, presented the Oil and Gas Research Council's recommendation on the Grant Round 56 application titled "Agricultural Carbon Capture in Western North Dakota" submitted by the North Dakota Natural Resources Trust. This project request is for \$500,000 with a total project cost of \$1,051,000 and will last for two years.

The overall objective of this proposed project is to quantify how agricultural C capture in managed grazing lands could serve to reduce the footprint of oil and gas exploration in western North Dakota. Three subobjectives for meeting this goal are:

- 1) scientifically collect, process, and analyze high frequency atmospheric C data and environmental covariates (precipitation, soil and air temperature, soil moisture, net radiation) using state-of-the-art micrometeorological instruments and associated sensors at grazed and ungrazed pastures;
- 2) report how rotational, managed grazing influences rates of biological C utilization (using net C uptake data) and C sequestration (using net C uptake and export data);
- 3) frame results as a prototype to illustrate how North Dakota grazing lands can be managed to improve C utilization and sequestration for the benefit of agricultural and energy industries and rural economies.

These goals require measurement of net C uptake and exports as forage in grazing animals. The final report will provide guidance materials for land managers and investors interested in optimizing biological utilization and sequestration of C. Guidance will show how asynchronous grazing influences plant production, diversity, and rates of C sequestration in grazed and ungrazed grasslands. This proposal represents an initial set up and data collection phase, covering two years of work. Additional years of data and economic impacts over subsequent years, in Phases II and III is anticipated.

Participants: NDNRT, Ecological Insights, Dickinson State University., North Dakota Grazing Lands Coalition, the National Fish and Wildlife Foundation, the North Dakota Petroleum Council, and the North Dakota Stockmen's Association.

He stated that there were three Independent Technical Reviewers and 2 recommended funding and 1 recommended not to fund. The Oil and Gas Research Council vote was 5 to fund and 1 not to fund. There were two Council members that stated conflicts of interest: Zac Weis and Ron Ness.

It was noted that this work is needed to develop a standard that might be used in quantifying and determining a consistent assessment.

It was moved by Commissioner Goehring and seconded by Attorney General that the Industrial Commission accepts the Oil and Gas Research Council's recommendation to fund the grant application "Agricultural Carbon Capture in Western North Dakota" and authorizes the Industrial Commission Executive Director/Secretary to execute a contract with the North Dakota Natural Resources Trust in an amount not to exceed \$500,000. On a roll call vote, Governor Burgum, Attorney General Wrigley, and Commissioner Goehring voted aye. The motion carried unanimously.

DEPARTMENT OF MINERAL RESOURCES (DMR)

Mr. Lynn Helms, DMR Director, and Bruce Hicks, Oil and Gas Division Assistant Director, presented orders for the Commission's consideration.

Ms. Fine introduced Steve Nelson, the Assistant Attorney General who works with the Department of Mineral Resources as well as other Industrial Commission programs.

Mr. Helms presented proposed Order No. 31257 in Case No. 28712 which would terminate the Little Knife North-Madison Unit in Dunn County. He reviewed the history of the unit and indicated that there is no further enhanced oil recovery, injections or development that will take place in the unit. He also reviewed the steps that have been taken regarding the commingling of production on the two remaining wells, approval by the Bureau of Land Management of the termination, fulfillment of the unit operating agreement requirements for termination, and the filings that had been completed at the Dunn County courthouse. There were no objections to the termination and the correlative rights have been protected. The Oil and Gas Division staff recommended that Order No. 31257 be approved to terminate the unit.

It was moved by Commissioner Goehring and seconded by Attorney General Wrigley that the Industrial Commission approve Order No. 31257 issued in Case No. 28712 approving the termination of the Little Knife North-Madison Unit, Dunn County, ND, operated by Scout Energy Management LLC, this 4th day of August 2022. On a roll call vote, Governor Burgum, Attorney General Wrigley, and Commissioner Goehring voted aye. The motion carried unanimously.

Mr. Helms presented two proposed orders regarding the establishment of a policy for drilling horizontal wells from a surface location outside the spacing unit and a drill-back policy for horizontal wells. He indicated that the proposed orders were drafted by the Oil and Gas Division staff after two hearings (April 19th and June 30th) and two periods of time for comments. This action is needed after the staff had identified 18 ghost holes that could have an impact on correlative rights and fracking in the area around the ghost holes. He stated that the locations of the 18 ghost holes have been made public.

Mr. Helms reviewed the information and comments that had been received: importance of being able to drill-back or drill from an offset spacing unit and maximize the lateral length of a well to prevent waste; importance of notifying adjacent spacing unit operators and allowing them a period of time for input and, if needed, to request a hearing. The staff had also reviewed information on what has been done in other states.

This is a new policy that requires if an operator wants to use drill-back or drill from an adjacent spacing unit, the operator has to provide prior notice to the operator of the adjacent spacing unit, and the operator must file with their drilling permit an affidavit that they have done that. The permit will not move forward until that is all recognized and notice has taken place. The policy also emphasizes that once that permit is approved it will be posted on the Commission's approved permit list, but no action is to be taken to begin drilling the well or building the road or a pad for three days; again allowing that adjacent spacing unit

operator an opportunity to file an objection and to get the permit suspended and to ask for a hearing to sort out any issues surrounding the drill-back or the drilling from an offset spacing unit.

The policy includes provisions on what has to take place before the permit is filed or before any permitting action can happen. The policy includes the notice requirements, what information needs to be provided in the notice including contact information so that adjacent spacing operator knows who to talk to resolve any issues and who it has to go to. It leaves an opportunity for a hearing to be held before the Commission and allows for a mineral owner to submit their comments. After what was heard at the two public hearings and two comment periods the staff believes these two orders deal with the issues that were raised and what is being proposed will prevent waste and protect correlative rights.

In response to a question, Mr. Helms stated that these policies are designed to prevent the establishment of a ghost hole without the knowledge of the adjacent spacing unit mineral owner and operator and allows for an opportunity for a hearing.

It was moved by Commissioner Goehring and seconded by Attorney General Wrigley that the Industrial Commission approve Order No. 31848 issued in Case No. 29279 and Order No. 31973 issued in Case No. 29449 this 4th day of August 2022, establishing a policy for drilling horizontal wells from a surface location outside the spacing unit and a drill-back policy for horizontal wells requiring notice to the operator of adjacent spacing unit. On a roll call vote, Governor Burgum, Attorney General Wrigley, and Commissioner Goehring voted aye. The motion carried unanimously.

Mr. Helms and Mr. Hicks presented Order 31918 in Case 29348 setting the amount of a bond for an operator (RTR Energy, LLC) who wants to drill a well in Hettinger County. He stated this is outside the area that normally produces oil and gas. There was a producing well drilled by Amoco Production in 1984. That well went through eight different operators before the Industrial Commission confiscated the well and plugged it and reclaimed the site. This is a situation that the Oil and Gas Division does not want to repeat. This location is 35 miles from the closest saltwater disposal well and eight miles from the closet gas gathering pipeline. If it is successful, it will flare gas and the produced saltwater will have to be trucked a great distance. The previous well produced 88% water over its lifetime. It is questionable how economic the well will be so, on that basis, staff believes that a standard single well bond is not appropriate. This company has no other assets in the state. RTR Energy has estimated that it would cost \$100,000 to plug this well and \$100,000 to reclaim the site. Based on that information, this order recommends a \$200,000 bond and allows for Director's Orders to reduce that bond back to \$50,000 if, after the well is drilled and the operator demonstrates that the well is economic, and going to pay out, and there will be cash flow to plug and reclaim the well.

In response to a question, Mr. Helms stated that the law limits the amount of the bond to the estimated plugging and reclamation costs. The staff did review the operator's estimates and believes the amounts are sufficient to do the plugging and reclamation.

In response to a question, Mr. Helms stated the operator has done additional seismic work in the area and believes there is "attic" oil in the formation that was not produced by the previous operators.

It was moved by Commissioner Goehring and seconded by Attorney General Wrigley that the Industrial Commission approve Order No. 31918 issued in Case No. 29348 this 4th day of August, 2022, setting the bond at \$200,000 for a well to be drilled in Section 24, T.133N., R.97W., Hettinger County, ND, Tepee Butte Field, authorizing the director to sign administrative orders reducing the bond based on evidence the well will pay out, and accept RTR Energy, LLC's offer to reimburse reclamation costs incurred by the North Dakota Industrial Commission for the Urlacher #1-24 well.

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

Mr. Helms and Mr. Nelson provided an update on outstanding litigation:

- Case No. 31-2020-CV-0018 - Northern Oil and Gas, Inc. vs. Continental Resources, Inc; Board of University and School Lands and ND Industrial Commission et al. – *discovery is expected to continue through 3rd quarter of this year*
- Case No. 27-2022-CV-00305 - Blue Steel Oil and Gas, LLC v. North Dakota Industrial Commission, Slawson Exploration Company, Inc and White Butte Oil Operations, LLC – (risk penalty case) *reply brief has been filed and waiting for a decision (no hearing was requested).*
- Case No. 13-2022-CV-00059 – Specialized Technological Threading, Inc., v. North Dakota Industrial Commission – *a schedule has been presented with a briefing schedule to be developed over the next 45 days.*
- North Dakota Industrial Commission v. U.S. Department of Interior – *An amended motion had been filed directing that the Department of Interior complete the administrative record – no new activity at this point.*
- Dominek v Equinor et al. – *filed an amicus brief in District Court – waiting for a decision*
- Case No. 05-2019-CV-00085 - Northwest Landowners Association vs. State of North Dakota, et al. – *will be discussed in executive session*

It was moved by Attorney General Wrigley and seconded by Commissioner Goehring that under the authority of North Dakota Century Code Section 44-04-18.4 the Industrial Commission enter into executive session for the purpose of discussing commercial information including the North Dakota Mill’s marketing strategies and sales plan and under the authority of North Dakota Century Code 44-04-19.1 (5) and 44-04-19.2 for attorney consultation on Case 29224, Department of Interior case and Case No. 05-2019-CV-00085 - Northwest Landowners Association vs. State of North Dakota, et al. On a roll call vote, Governor Burgum, Attorney General Wrigley, and Commissioner Goehring voted aye. The motion carried unanimously.

Governor Burgum stated that the Commission will be meeting in executive session for attorney consultation on the Department of Mineral Resources Case 29224, the Department of Interior case and Case No. 05-2019-CV-00085 - Northwest Landowners Association vs. State of North Dakota, et al. Only the Commission members, their staff including the Attorney General’s staff, Department of Mineral Resources staff, and Industrial Commission staff will be in the Department of Mineral Resources confidential portion of the executive session.

Following the Department of Mineral Resources executive session, the Industrial Commission will enter into executive session regarding Bank of North Dakota business pursuant to N.D.C.C. 6-09-35 to consider those items listed on the agenda under Bank of North Dakota confidential business. Only Commission members, their staff, Industrial Commission staff, and BND staff will participate in that executive session.

Following the Bank of North Dakota executive session, the Industrial Commission will enter into executive session to consider North Dakota Mill business. Only Commission members, their staff, Industrial Commission staff, and North Dakota Mill staff will participate in that executive session.

Any formal action by the Commission on any of these items will occur after it reconvenes in open session

Governor Burgum reminded the Commission members and those present in the executive sessions that the discussion must be limited to the announced purpose for entering into the executive sessions which is anticipated to last approximately 90 minutes for the three executive sessions.

The executive session for Department of Mineral Resources business began at 2:10 p.m. and the Commission took up those items listed on the agenda and as noted above.

DMR EXECUTIVE SESSION

Members Present:

Governor Doug Burgum
Attorney General Drew H. Wrigley
Commissioner Doug Goehring

DMR Personnel Present:

Lynn Helms
Bruce Hicks

Others in Attendance:

Ryan Nordell	Governor's Office
John Reinke	Governor's Office
Dutch Bialke	Department of Agriculture
Matt Sagsveen	Attorney General's Office
Steve Nelson	Attorney General's Office
Karlene Fine	Industrial Commission Office
Reice Haase	Industrial Commission Office

The Department of Mineral Resources executive session ended at 3:25 p.m. and the Commission continued in executive session pursuant to N.D.C.C. 6-09-35 and considered the following items listed on the agenda under BND confidential business:

- Consideration of loan requests
 - Non-Accrual Loans Quarterly Recap/Detail
 - Problem Loans – Adversely Classified Quarterly Recap
 - Loan Charge-Offs and Recoveries Y.T.D. 6/30/2022
 - Off-Balance Sheet Risk Quarterly Recap/Detail
 - Presentation of Bank of North Dakota Advisory Board May 19, 2022 confidential meeting minutes
 - Other Bank of North Dakota confidential (as defined under N.D.C.C. 6-09-35) business
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BND EXECUTIVE SESSION

Industrial Commission Members Present:

Governor Doug Burgum
Attorney General Drew H. Wrigley
Agriculture Commissioner Doug Goehring

Bank of North Dakota Personnel:

Todd Steinwand, Bank of North Dakota
Kirby Evanger, Bank of North Dakota
Craig Hanson, Bank of North Dakota
Kelvin Hullet, Bank of North Dakota
Rob Pfennig, Bank of North Dakota

Others in Attendance:

Ryan Nordell	Governor's Office
John Reinke	Governor's Office
Dutch Bialke	Department of Agriculture
Karlene Fine	Industrial Commission Office
Reice Haase	Industrial Commission Office

The BND executive session ended at 4:15 p.m. and the Commission continued in executive session and took up North Dakota Mill business - Discussion of North Dakota Mill's marketing strategies and sales plan.

NORTH DAKOTA MILL EXECUTIVE SESSION

Members Present:

Governor Doug Burgum
Attorney General Drew H. Wrigley
Commissioner Doug Goehring

North Dakota Mill Personnel:

Vance Taylor	North Dakota Mill
Cathy Dub	North Dakota Mill

Others in Attendance:

Ryan Nordell	Governor's Office
John Reinke	Governor's Office
Dutch Bialke	Department of Agriculture
Karlene Fine	Industrial Commission Office
Reice Haase	Industrial Commission Office

The North Dakota Mill executive session ended at 4:45 p.m. and the meeting reconvened in open session.

NORTH DAKOTA MILL (Mill)

Mr. Vance Taylor, North Dakota Mill President and CEO, reviewed the FY23 North Dakota Mill Strategic Plan which included the mission of the North Dakota Mill and the Key Objectives.

It was moved by Commissioner Goehring and seconded by Attorney General Wrigley that the Industrial Commission approve the following North Dakota State Mill & Elevator Strategic Plan for FY 2023:

**North Dakota State Mill & Elevator
Strategic Plan FY 2023**

Our Mission:

The mission of the North Dakota Mill & Elevator is to:

- **Promote and provide support to North Dakota agriculture, commerce, and industry.**
- **Provide superior quality, consistency, and service to our customers.**
- **Grow the business and provide a profit to our owners – the citizens of North Dakota.**
- **Conduct our business with the highest integrity so that our employees, customers, suppliers, and owners are proud to be associated with the North Dakota Mill & Elevator.**

Strategic Plan FY 2023:

- Key Objective 1: Promote and Support North Dakota Agriculture, Commerce, and Industry**
- Key Objective 2: Identify and Respond to Emerging Issues in the Flour Milling Industry**
- Key Objective 3: Maximize Profit Potential**
- Key Objective 4: Grow our Customer Base**
- Key Objective 5: Invest in and Protect our Employees**

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

Mr. Taylor also provided the following list of the North Dakota Mill’s accomplishments for FY22.

1. Purchased 32,945,190 bushels of wheat from regional farmers and elevators, which was delivered by 28,037 trucks and 1,309 railcars.
2. Shipped 15,607,152 cwts. of flour to customers.
3. Earned gross revenues of \$473 million.
4. Achieved profits of \$14.6 million.
5. Passed the FSSC 22000 Surveillance Audit.
6. Completed construction and commissioned the H & I Milling units.
7. Generated an economic impact of \$1,248,593,398 to the Greater Grand Forks area. He noted that this was the first year that number had exceeded \$1,000,000,000.

Mr. Taylor and Ms. Cathy Dub, North Dakota Mill CFO, presented the following 4th Quarter and Year Ended June 30, 2022 Report.

**North Dakota Mill
Review of Operations
4th Quarter Ended 6/30/2022**

SUMMARY

Operations in the 4th Quarter led to a profit of \$5,016,908 compared to a profit of \$2,065,479 in last year’s 4th Quarter. For the year we had a profit of \$14,677,789 compared to \$13,460,320 last year (an increase of 9%).

	<u>Quarter</u>		<u>Year to date</u>	
	<u>6/22</u>	<u>6/21</u>	<u>6/22</u>	<u>6/21</u>
Profits	\$ 5,016,908	\$ 2,065,479	\$14,677,789	\$ 13,460,320
Sales	139,409,200	90,421,937	473,013,523	339,161,011
 Cwt. Shipped				
Spring	3,814,420	3,677,605	14,361,771	14,510,641
% to Total	92.4%	91.8%	92.0%	91.9%
Durum	<u>312,391</u>	<u>329,255</u>	<u>1,245,381</u>	<u>1,274,239</u>
Total	<u>4,126,811</u>	<u>4,006,860</u>	<u>15,607,152</u>	<u>15,784,880</u>
 Bulk Shipments	3,473,218	3,432,218	13,081,118	13,286,559
% to Total	84.2%	85.7%	83.8%	84.2%
 Bag Shipments	609,672	542,766	2,344,249	2,341,404
% to Total	14.8%	13.5%	15.0%	14.8%

Tote Shipments	43,921	31,876	181,785	156,917
% to Total	1.0%	.8%	1.2%	1.0%
Family Flour Shipments	73,576	65,339	309,024	440,545
% to Total	1.8%	4.6%	2.0%	2.8%
Organic Flour Shipments	38,706	35,732	130,445	153,666
% to Total	.9%	.9%	.8%	1.0%
Grain Purchased:				
Spring	7,200,150	7,752,407	30,060,809	30,625,638
Durum	<u>645,368</u>	<u>686,252</u>	<u>2,884,384</u>	<u>2,556,132</u>
Total	<u>7,845,518</u>	<u>8,438,659</u>	<u>32,945,193</u>	<u>33,181,770</u>

SALES

3⁴th Quarter

Sales for the 4th Quarter were \$139,409,200 compared to \$90,421,937 last year. Shipments of 4,126,811 cwts. are 119,951 cwts. more than last year's 4th Quarter. Bag shipments for the 4th Quarter are 609,672 cwts., compared to 542,766 cwts. last year. Tote shipments are 43,921 cwts., compared to 31,876 cwts. last year. Family flour shipments of 73,576 cwts. is 8,236 cwts. higher than last year's 4th Quarter. Organic flour shipments of 38,706 cwts. is 8.3% above last year.

Year-to-Date

Sales for the fiscal year came in at \$473,013,523. This is 39.5% more than last year. The price of grain settled is \$4.20 per bushel more than last year. Shipments of 15,607,152 cwts. are 177,728 cwts. less than last year. Year-to-date bag shipments are 2,344,249 cwts. or 2845 cwts. more than last year. Year-to-date tote shipments are 1818,785 cwts. compared to 156,917 cwts. last year. Family flour shipments for the year are 309,024 cwts., which is a 29.9% decrease from last year. Organic flour shipments are 130,445 cwts. compared to 153,666 cwts. last year.

OPERATING COSTS

4th Quarter

Operating costs for the 4th Quarter are \$11,967,196 compared to \$12,917,639 last year, a decrease of 7.4%. The mill experienced an additional pension expense of \$481,668 in the last fiscal year. Operating cost per cwt. Of production is \$2.90 compared to \$3.26 last year, a decrease of 11.0%.

Year-to-Date

Year-to-date operating costs are \$42,922,097 compared to \$242,633,744 last year, an increase of \$288,353. Operating cost per cwt. of production for the year is \$2.74 compared to \$2.71 last year.

PROFITS

4th Quarter

For the 4th Quarter we experienced a profit of \$5,016,908 compared to a profit of \$2,065,479 last year. Gross margins as a percent of gross sales for the Quarter was 12.5% compared to 16.6% last year, a decrease of 4.1%.

Year-to-Date

For the year we had a profit of \$14,677,789 compared to profits of \$13,460,320 last year. Gross margins as a percent of gross sales for the year were 12.5% compared to 16.8% last year a decrease of 4.3%.

RISK MANAGEMENT

Risk Management Position

The table below shows the hedge ratio by futures month going forward. A hedge ratio shows the relationship between our net cash position and our futures position. The mill does remain at risk for the basis.

**Position Report
30-June-22**

Period	Hedge Ratio
Sep-22	1.0
Dec-22	1.0
Mar-23	1.0
May-23	.9
Net Position	1.0

Mr. Taylor provided the following report on the North Dakota Mill’s FY 2022 Transfers:

	Dollars	Percent
FY 2022 Profit	\$14,677,789.42	
Ag Products Utilization Fund	\$ 733,889.47	5.0%
General Fund	\$ 6,971,949.98	50% of remaining profits
Total Transfers	\$ 7,705,839.45	

Mr. Taylor presented and discussed with the Commission members the current and the proposed changes for the FY 2023 Gain Sharing Plan. He noted that the gain sharing plan was successful in FY22 with a payout of 22.47% and an average payout to the employees of \$18,551. He stated the proposed plan will continue to motivate all the Mill employees to work together as a team and maximize the Mill’s results and do it safely. The proposed goals are a challenge for the employees—they will be tough to make. Mr. Taylor stated the base levels are also being increased.

It was moved by Commissioner Goehring and seconded by Attorney General Wrigley that the Industrial Commission approves the following North Dakota Mill Gain Sharing Program for Fiscal Year 2023:

**NORTH DAKOTA MILL
GAIN SHARING PROGRAM
FY2023**

- Eligibility – all full-time employees on June 30, 2023 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 and any unknown adjustments (Pension, etc.), positive or negative does not exceed 4.0 million dollars.
- No payout on the profit part of the plan if profit before gain sharing expense accrual and any unknown adjustments (Pension, etc.), positive or negative does not exceed 6.0 million dollars.

- Payout will be calculated as a percent of earnings from July 1, 2022 to June 30, 2023.
- Goal numbers were set to reflect current realities for the new plan year.
- Goal numbers were set by the President and CEO and are attainable with effort.

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

For the year ending June 30, 2023 the goals are as follows:

Gain Sharing 1st Part – 4% Bonus Potential* Goals

Cwt./man-hour (includes all hours)	39.00
Cost per cwt. (pre gain sharing exp. and pension adjust.)	\$2.70
Yield	77.8%
Safety Record	172 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 and pension adjustments):

6.0 million = 6.0% 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 and any unknown adjustments - Pension, etc., positive or negative) level greater than \$4.0 million. The 2nd Part of the gain sharing goals begin to payout at a profit (before gain sharing expense accrual) level greater than \$6.0 million.

EXAMPLE #1:

The Mill makes \$3.0 million profit (before gain sharing expense accrual and any unknown adjustments - Pension, etc., positive or negative) 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 \$6.0 million profit (before gain sharing expense accrual and any unknown adjustments - pension, etc., positive or negative) 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 + 6.0% for profit = 9.0%.

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

Mr. Taylor provided the following report on the FY2022 Capital Expenditures:

NORTH DAKOTA MILL
Capital Expenditures for FY 2022
August 4, 2022

Capital Expense Item	Approved / Remaining Budget	Net Capital Cost	Under / (Over)	Completed Project Cost
Plant				
* Freight Elevator Upgrade	279,079	76,657	202,422	
* Upper Bulk Flour Storage Renovation	116,427	39,695	76,732	
Terminal Receiving Scales & Conveyors	2,051,563	2,005,525	46,038	8,303,962

Automated Flour Packing System	265,205	262,067	3,138	2,346,862
C Mill Equipment Upgrade	95,225	80,255	14,970	220,030
* Infestroyer Upgrades	210,000	51,390	158,610	
Packing Area Rebolt Sifters	83,760	70,880	12,880	117,120
Forklifts	54,000	53,968	32	53,968
* H & I Mill Expansion	11,863,365	10,363,010	1,500,355	
PT 1 Packing System Upgrade	420,000	419,995	5	419,995
* D Mill Product Transfer System	790,000	732,312	57,688	
* Rail Track, Crossing & Drainage Upgrades	750,000	673,081	76,919	
* Phase II Bulk Flour Storage Upgrade	285,000	-	285,000	
* Electrical Substation Upgrade	275,000	-	275,000	
* Wheat Midds Storage & Handling System Engineering	250,000	248,867	1,133	
* Retail Mixes Line Blending System	205,000	9,950	195,050	
* Spare Transformers	165,000	89,400	75,600	
* C Mill Wheat Delivery System	155,000	-	155,000	
* Grain Terminal Belt Conveyor Upgrades	460,000	2,486	457,514	
* Roll Chills	150,000	53,787	96,213	
* Autoclave	21,000	-	21,000	
Computers/Technology				
Systems Improvements, Replacements, and Upgrades	300,000	99,244	200,756	
CinchX Sales Order Software Upgrade				11,000
Palo Alto Upgrade				88,244
Other				
R2 Leg Terminal Upgrade				37,181
Terminal Drains				13,000
Electrical Upgrades - Office				9,761
Electrical Upgrades - NDM East				7,350
Purifiers				50,000
K Mill Building Siding Repair				142,460
Yard Dog Engine Repair				24,130
Parking & Asphalt				103,770

Total Capital Expenditures	\$ 19,644,624	\$15,720,219	\$ 3,924,405	\$ 11,948,832
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* Carried over to Fiscal Year 2023

Mr. Taylor presented the proposed FY 2023 Capital Plan and provided the summary of each project that was included in the Plan.

It was moved by Commissioner Goehring and seconded by Attorney General Wrigley that the Industrial Commission approves the North Dakota Mill FY 2023 Capital Plan as follows:

**NORTH DAKOTA MILL
Capital Plan for FY 2023
August 4, 2022**

Capital Expense Item

Carryover from FY 2022	Remaining Budget
Plant	

Freight Elevator Upgrade	\$ 202,422
Upper Bulk Flour Storage Renovation and Automation Phase 1	76,732
Infestroyer Upgrades	158,610
H & I Mill Expansion	1,500,355
D Mill Product Transfer System	57,688
Rail Track Crossing and Drainage Upgrade	76,919
Phase II Bulk Flour Storage Upgrade	285,000
Electrical Substation Upgrade	275,000
Wheat Midds Storage and Handling System Engineering	1,133
Retail Mixes Line Blending System	195,050
Spare Transformers	75,600
C Mill Wheat Delivery System	155,000
Grain Terminal Belt Conveyor Upgrades	457,514
Roll Chills	96,213
Autoclave	21,000

Total Carryover Capital Expenditures	\$ 3,634,236
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FY 2023 Capital Expense Item	Plan
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Plant

* Midds Storage and Handling System Phase I	34,000,000
* Asphalt & Concrete Paving	350,000
K, C and A Mill Sifter Upgrade	650,000
A Mill Roll Conversion	470,000
K Mill High Pressure Fans	450,000
Packing Flour Transfer Upgrade	375,000
A Mill Purifier and Flour Collection Conveyor Upgrade	325,000
Flour Transfer B Filter and Conveyor	310,000
Mill PLC Upgrades (6 Mills A, B, C, K, E, WW)	260,000
North Yard Rail Track Upgrade	175,000
Old Warehouse, Lab and SC 3 Roofs	165,000
Door Upgrades	160,000
G, H, and I Mill Central Vacuum System	150,000
Fork Lifts	65,000
Rail Car Opener	45,000

Computers/Technology

Systems Improvements, replacements, and upgrades	300,000
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Other	500,000
Total New Capital Expenditures	\$ 38,750,000
Total Capital Expenditures	\$ 42,384,236

<u>Capital Projects for Consideration</u>	<u>FY 2023</u>	<u>8/4/2022</u>
1. <u>K, C and A Mill Sifter Upgrade</u>		\$650,000
Replaces 2 sifters in the K Mill that are worn out to the point where replacement is required and replaces worn out sifter sieves in the K, C, and A Mills.		
2. <u>A Mill Roll Conversion</u>		\$470,000
Purchase and install new technology roll conversions to replace unreliable feed roll systems that are no longer supported by the manufacturer.		
3. <u>K Mill High Pressure Fans</u>		\$450,000
Purchase and install larger high-pressure fans with larger motors on the K Mill pneumatic system to improve reliability and capacity.		
4. <u>Packing Flour Transfer Upgrade</u>		\$375,000
Purchase and install larger positive pressure blowers with larger motors and pneumatic lines to speed up flour delivery and increase packing rates.		
5. <u>A Mill Purifier and Flour Collection Conveyor Upgrade</u>		\$325,000
Purchase and install two new flour collection conveyors to replace worn out equipment and install 5 purifiers to increase mill yields and efficiency.		
6. <u>Flour Transfer B Filter and Conveyor</u>		\$310,000
Move the B-Line transfer conveyor filter and purchase and install a new transfer conveyor to increase flour transfer efficiency from the mills to the load-out bins.		
7. <u>Mill PLC Upgrades (6 Mills A, B, C, K, E, WW)</u>		\$260,000
Purchase and install 6 new PLC units to replace aging PLC's that are no longer supported by the manufacturer.		
8. <u>North Yard Rail Track Upgrade</u>		\$175,000
Refurbish several tracks on the North side of the facility to maintain reliable operations.		
9. <u>Old Warehouse, Lab and SC 3 Roofs</u>		\$165,000
These roof areas need replacement.		
10. <u>Door Upgrades</u>		\$160,000
Several roll up and walk-through doors require replacement to improve fire safety and security.		
11. <u>G, H, and I Mill Central Vacuum System</u>		\$150,000
Purchase and install a central vacuum system for the G, H and I Mill building to improve cleaning efficiency.		
12. <u>Fork Lifts (2)</u>		\$65,000
Trade in two existing forklifts with excessive service hours and replace with two new units.		
13. <u>Rail Car Opener</u>		\$45,000
Purchase and install a high-speed rail car opener on pit 5 to increase inbound wheat car unloading speed.		
14. <u>Computers / Technology</u>		\$300,000
Several systems improvements, replacements and upgrades are required on our management information system.		
15. <u>Other Capital</u>		\$500,000
Total for all Capital projects (including other Capital):		\$4,400,000

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

Ms. Fine presented a Resolution of Appreciation for Mr. Robert Sombke who is retiring from the Mill after 25 years of service.

It was moved by Commissioner Goehring and seconded by Attorney General Wrigley that the following Resolution of Appreciation be adopted.

Resolution of Appreciation

Whereas, Robert (Bob) Sombke began his career at the North Dakota Mill in 1997 as Quality Assurance Manager, then as Quality Assurance & Technical Services Manager, and then ultimately promoted in 2018 to Vice President, of Quality Assurance and Technical Services; and

Whereas, Bob has over these 25 years seen the Mill expand in size as well as expand its list of customers; and

Whereas, Bob has been a key team member in working with the Mill's customers to assure that a quality product is always arriving at their bakeries; and

Whereas, Bob has led the effort to maintain the Mill's high FSSC 22000 rating resulting in the North Dakota Mill having a product that is known for its high quality; and

Whereas, Bob has announced that on September 30, 2022 it will be the right day to retire and spend more time with his wife, Debra, watch his grandkids grow up, and enjoy camping, hunting, and fishing at his leisure.

Now, therefore, the Industrial Commission hereby expresses deep gratitude to Bob Sombke for his 25 years of service to the North Dakota Mill and the citizens of North Dakota and wishes him the very best in his retirement.

On a roll call vote, Governor Burgum, Attorney General Wrigley and Commissioner Goehring voted aye and the motion carried unanimously.

Governor Burgum stated that during the DMR executive session, attorney consultation was provided to the Commission regarding Case 29224, the Department of Interior litigation and Case No. 05-2019-CV-00085 - Northwest Landowners Association vs. State of North Dakota, et al. These cases were discussed with the attorneys and advice was given by the Commission to the attorneys and no official action needs to be taken at this time.

Governor Burgum stated that during the BND executive session, the Commission made motions regarding nine Bank of North Dakota loan applications. **On a roll call vote, Governor Burgum, Attorney General Wrigley, and Commissioner Goehring voted aye to approve the Bank of North Dakota loan motions. The motions carried unanimously.**

Because of time constraints, the Bank of North Dakota reports that were to be presented during open session were delayed until a future meeting. It was noted that the Commission had been provided with a copy of the Bank of North Dakota Advisory Board May 19, 2022 non-confidential meeting minutes.

INDUSTRIAL COMMISSION ADMINISTRATIVE BUSINESS

Ms. Fine presented a memorandum regarding the funding of the Industrial Commission Administrative Office for the 2021-2023 biennium. The law states that funding for the office comes from the agencies and programs that are overseen by the Industrial Commission. The memorandum outlined the background information on how the transfer amounts were determined.

It was moved by Commissioner Goehring and seconded by Attorney General Wrigley that the Industrial Commission accept the recommendation of the Industrial Commission Executive Director/Secretary and approve the following 2021-2023 biennium transfers from the Commission agencies/programs for the Industrial Commission Administrative Office as follows:

Western Area Water Supply Authority	\$ 150,000
Bank of North Dakota	\$ 181,000
Outdoor Heritage Fund	\$ 175,000
State Mill	\$ 133,500
Housing Finance Agency	\$ 125,268
Lignite Research Fund	\$ 130,000
Oil and Gas Research Fund	\$ 130,000
Clean Sustainable Energy Program	\$ 40,000
Renewable Energy Fund	\$ 75,000
Public Finance Authority	<u>\$ 75,000</u>
	\$1,214,768

On a roll call vote, Governor Burgum, Attorney General Wrigley and Commissioner Goehring voted aye and the motion carried unanimously.

Ms. Fine stated that last month the Commission had authorized a 3% increase for Dave Flohr, Housing Finance Agency Executive Director. Mr. Flohr has asked that the increase be 2% as the Housing Finance Agency management team had agreed on a 2% increase for all the HFA management. The Commission members noted that Dave does an excellent job and deserves the higher percentage of increase, but they understand what he is doing as a leader of the Agency.

It was moved by Commissioner Goehring and seconded by Attorney General Wrigley that the Industrial Commission accept the recommendation of the Industrial Commission Executive Director/Secretary and change the salary adjustment previously approved for Dave Flohr, Housing Finance Agency Executive Director, from 3% to 2% effective July 1, 2022 as per the request of Mr. Flohr. On a roll call vote Governor Burgum, Attorney General Wrigley and Commissioner Goehring voted aye. The motion carried unanimously.

Ms. Fine provided the April 29, 2022 Industrial Commission meeting minutes for consideration.

It was moved by Commissioner Goehring and seconded by Governor Burgum that the April 29, 2022 meeting minutes be approved as presented. On a roll call vote Governor Burgum, Attorney General Wrigley and Commissioner Goehring voted aye. The motion carried unanimously.

Ms. Fine presented a letter giving notice of her retirement in November 2022 and thanked the Commission for the opportunity to serve as the Commission's Executive Director and Secretary. She also presented the following proposed plan for filling this position on an interim basis:

Over the past several months I have been working with Securities Commissioner Karen Tyler on projects to improve and modernize the operations of the Industrial Commission Administrative Office. I am recommending that Karen Tyler be appointed as interim Executive Director/Secretary beginning on November 2 on a part-time basis at an annual salary of \$60,000 while she continues to serve as Securities Commissioner. Utilizing an interim strategy that will allow for continued work on modernization projects and the operation of the agency with minimal disruption will be an effective approach to transitioning the Industrial Commission Administrative Office to new leadership. To complement the Deputy Executive Director's extensive knowledge on matters related to energy and natural resources, the appointment of Securities Commissioner Karen Tyler as Interim Executive Director will bring a knowledge base and level of experience necessary to support the finance related authority of the Commission. Karen has led a state government agency for 21 years, is a financial regulator with relevant experience regarding bond issuance and finance generally and has recently led her agency through modernization projects very similar to those the administrative office is pursuing.

The current Industrial Commission staff, Reice Haase, and Andrea (Andi) Rebsom, are doing great work and with their valuable knowledge on how the office functions the transition will go smoothly. Should you approve this plan I look forward to working with Karen over the next three months. During these three months her compensation would be based on an annual salary of \$30,000.

Commission members expressed their thanks for Ms. Fine's years of service.

It was moved by Commissioner Goehring and seconded by Attorney General Wrigley that the Industrial Commission accept the Industrial Commission Executive Director/Secretary's transition plan to retain Karen Tyler on a part-time basis at an annual compensation level of \$30,000 through November 1, 2022 and then on November 2, 2022 appoint Ms. Tyler as the Interim Industrial Commission Executive Director/Secretary and increase her annual compensation level to \$60,000 as she serves in the interim position. On a roll call vote Governor Burgum, Attorney General Wrigley and Commissioner Goehring voted aye. The motion carried unanimously.

Governor Burgum welcomed Ms. Tyler to the Industrial Commission Administrative Office team and requested that Ms. Tyler meet with each of the Commission members as part of the transition process.

With no further Industrial Commission business, Governor Burgum adjourned the meeting at 5:05 p.m.

North Dakota Industrial Commission



Karen Tyler, Interim Executive Director and Secretary