

Minutes of a Meeting of the Industrial Commission of North Dakota
Held on October 27, 2014 beginning at 1:00 p.m.
Governor's Conference Room

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

Also

Present: Al Anderson, Renewable Energy Program
Andrea Pfennig, Renewable Energy Program
Jason Nesbit, Governor's Office
Kari Doan, Department of Agriculture
Lawrence Bender, Fredrickson Byron
Pamela Link, Laborers 563
Danette Welsh, OneOk
Hope Hogan, Attorney General's Office
Lynn Helms, DMR
Bruce Hicks, DMR-Oil and Gas Division
Alison Ritter, DMR-Oil and Gas Division
Britton Monts, Monts Firm
Derrick Braaten
Matt Kelly, Tarlow & Stonecipher
John Morrison, Crowley Fleck
Andrea Stomberg, Transmission Authority
Members of the Press

Governor Dalrymple called the Industrial Commission meeting to order at 1:05 p.m. and the Commission took up Renewable Energy Program business.

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

Renewable Energy Development Fund
Financial Statement
2013-2015 Biennium
October 21, 2014 Renewable Energy Council Meeting

	<u>Cash Balance</u>
July 1, 2013 Balance	\$ 2,757,612.42
Revenues from Resources Trust Fund	\$ 3,000,000.00
Revenues through September 30, 2014	\$ 3,190.81
Expenditures net of returns through September 30, 2014	<u>\$(1,519,246.47)</u>
Cash Balance as of September 30, 2014	\$ 4,241,556.76
Outstanding Administrative Commitments (<i>estimate</i>)	\$(43,926.30)
Outstanding Project Commitments as of September 30, 2014	<u>\$(1,277,062.00)</u>
Uncommitted dollars as of September 30, 2014	\$ 2,920,568.46

Renewable Energy Development Fund
Continuing Appropriation Authority
2013-2015 Biennium

July 1, 2013 Balance of Uncommitted Dollars	\$ 825,744.42
Transfer from Resources Trust Fund for 2013-2015 Biennium	\$ 3,000,000.00
Interest Income (Estimated)	\$ 10,000.00
Income from Project Applications (Estimated)	\$ 1,500.00
Returned Commitments	<u>\$ 163.23</u>
	\$ 3,837,407.65
Administrative Commitments	\$(110,000.00)
Commitments 2013-2015	<u>\$(798,530.00)</u>
	\$ 2,928,877.65

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

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

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

Mr. Al Anderson, Chairman of the Renewable Energy Council, presented the Renewable Energy Council’s recommendation regarding the Grant Round 23 application titled “Application of Agricultural Byproducts for Energy Systems”; Submitted by Woodshed Renewables; Request for \$237,093; Total Project Costs \$638,232, Duration 2.5 years. (A copy is available in the Commission files.)

He stated that Woodshed Renewables is requesting funding from the Council to assist with the costs of an NDSU study to aid them in looking at a slightly different market. They have an existing facility in Finley that is not operating at this time. The challenge for the Finley location is wood – they transport it in from Minnesota. They are looking at trying to replace up to about 30 percent of that wood with agricultural pellets. Their key challenge on their business plan is all about the transportation. It would also be very environmentally sound and would help our agricultural industry in the state. He reviewed the primary objective of the project as follows:

- To define the market opportunity
- Optimize the production of solid fuels using standard equipment
- Estimate the costs and returns.

These will be achieved by the following tasks:

- Identify price points and markets for new products.
- Develop a regional urban wood waste and agricultural coproducts supply schedule
- Estimate revenue, costs and returns to pellet production using North Dakota-based renewable feedstocks
- Characterization of agricultural processing byproducts in relation to energy applications. The specific products are urban wood waste, soybean stover, bean splits and sunflower screens

- Development of high energy density formulation for pellets and fire logs.

He noted that three technical reviewers had looked at this with two supporting funding and one said funding may be considered. The technical advisor also supported the project. The Council vote was three yes and two voting no with no suggested contingencies. Mr. Anderson recommended the Commission support the project.

In response to a question regarding considering wheat straw and barley straw, Mr. Anderson said he didn't mean to imply it would only be the soybean stoker and sunflowers – those actually add BTU's - the wheat straw will be considered but does not have the advantage of adding the BTU's as much as the other two but it will be considered.

It was moved by Commissioner Goehring and seconded by Attorney General Stenehjem that the Industrial Commission accepts the recommendation of the Renewable Energy Council to fund the grant application “Application of Agricultural Byproducts for Energy Systems” and authorizes Karlene Fine, Industrial Commission Executive Director, to execute an agreement with Woodshed Renewables to provide a total of Industrial Commission Renewable Energy Program funding in an amount not to exceed \$237,093. On a roll call vote, Governor Dalrymple, Attorney General Stenehjem and Commissioner Goehring voted aye. The motion carried unanimously.

Being no further Renewable Energy Program business, Governor Dalrymple adjourned this portion of the meeting at 1:15 p.m. and the Commission took up Department of Mineral Resources business.

INDUSTRIAL COMMISSION OF NORTH DAKOTA



Karlene Fine, Executive Director and Secretary

Minutes of a Meeting of the Industrial Commission of North Dakota
Held on October 27, 2014 beginning at 1:00 p.m.
Governor's Conference Room

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

Also

Present: Jason Nesbit, Governor's Office
Kari Doan, Department of Agriculture
Lawrence Bender, Fredrickson Byron
Pamela Link, Laborers 563
Danette Welsh, OneOk
Hope Hogan, Attorney General's Office
Lynn Helms, DMR
Bruce Hicks, DMR-Oil and Gas Division
Alison Ritter, DMR-Oil and Gas Division
Britton Monts, Monts Firm
Derrick Braaten
Matt Kelly, Tarlow & Stonecipher
John Morrison, Crowley Fleck
Andrea Stomberg, Transmission Authority
Members of the Press

Governor Dalrymple called the Department of Mineral Resources portion of the Industrial Commission meeting to order at 1:15 p.m. following completion of Renewable Energy Program business.

Mr. Lynn Helms, Department of Mineral Resources Director, presented Orders for the following cases heard on July 24 & 25, 2014 and August 28, 2014: (Copies of the orders are available in the Commission files.

Mr. Helms indicated that he would like to take the following two cases together - the applicant, issues and recommendation are identical - the well names are different and the objecting parties (mineral owners) are different but all of the issues are identical between the two cases:

Case 22190, Order 24524 - determination of volumes and value of flared gas

Case 22201, Order 24535 - determination of volumes and value of flared gas

Mr. Helms stated that the initial cases were for the Commission to determine the volume and value of flared gas – both cases got caught up in mineral owner objections regarding whether notice was properly given and the applicant subsequently moved to dismiss. The party objecting to the notice talked about the need to have attorney fees and costs awarded. The Industrial Commission does not have jurisdiction to award attorney fees and costs. Legally, the best way to deal with these two cases is for the Commission to dismiss the cases as they stand without prejudice which would allow either the applicant or the objecting parties to bring a subsequent case. To deal with the notice problem they can provide personal notice to make sure there are no notice problems that could cause subsequent litigation and appeal of the order. It would get these two cases off the table and allow either party to bring an application and allow the cases to move forward. That is what these two orders do, they address in the findings of the orders all the things

he has discussed and dismisses the cases and mentions that either party could bring an application to have the matter heard.

In response to a question Mr. Helms stated that it would be a shared responsibility to bring the cases before the Commission. If the mineral owners want to receive royalties on the flared gas, they have an obligation and responsibility to get this back on the docket. The operator of the wells also has a responsibility in that they need to settle the matter with the mineral owners and the Tax Department. So both parties have a motive to get this issue back on the docket because the matter has to be settled in terms of the volume that taxes are due on. He said the Division could also put it back on the docket by their own motion.

In response to a question, Mr. Helms said this could be back on the docket as soon as December.

In response to a question, Mr. Helms stated that they never got to the scientific and technical merits of the case; all the discussion has been about the process.

Case 22190: It was moved by Attorney General Stenehjem and seconded by Commissioner Goehring that Order 24524 issued in Case 22190, dismissing the case be approved and effective this 27th day of October, 2014.

Case 22201: It was moved by Attorney General Stenehjem and seconded by Commissioner Goehring that Order 24535 issued in Case 22201 dismissing the case be approved and effective this 27th day of October, 2014.

Mr. Helms said he would note that if neither of the parties submit an application in three months, the Department will put the case on the docket.

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

Case 22197, Order 24531 - determination of volumes and value of flared gas – Mr. Helms asked to postpone consideration of an order for this case until next month. There is significant information that he did not receive until 11:58 a.m. this morning and did not have time to verify it and get a proposed order prepared. He noted that there is a lot of detail in these types of cases that the need to make sure is accurate.

Case 22659, Order 24994 - determination regarding taxes and royalties on flared gas – Mr. Helms said this is also an application to determine volume and value. The applicant, Continental Resources, asked for an order determining that taxes and royalties are not due because the well was not operated in violation of 38-08-06.4 or the field rules. He indicated that in the findings of the order the statement is made that the well was not operated in violation of the law and the field rules. Since the application does not request an exemption or for the Commission to determine the value of gas flared it is the recommendation of staff that the order dismiss the case. He indicated that is also what the Lawyer Family had moved to do so the Commission would also be satisfying the opposition in this case. He stated that the applicant would also be satisfied because

within the findings of Order 24994 the Commission goes through an analysis of when gas was flared and how much and put it in writing that the well was not produced in violation of the field rules or 38-08-06.4. An order dismissing the case actually does what both parties asked.

In response to a question regarding whether there is a violation of the field rules, Mr. Helms said the field rules for the Oliver-Bakken Pool in regards to flaring state that an operator has unrestricted production for the first sixty days, followed by 200 barrels per day for sixty days, followed by 150 barrels per day for sixty days, and down to 100 barrels per day. The operator came in before that kicked in and applied for an extension of that first period in a timely manner and got that approval from the Commission. So they got the proper extensions, connected the well within a year and they have flared intermittently some of the gas subsequent to that connection but they have sold significant volumes of gas – the vast majority of the gas has been sold so they have operated the well in compliance with the Commission’s field rules and the statute and the order explicitly states that.

Case 22659: It was moved by Commissioner Goehring and seconded by Attorney General Stenehjem that Order 24994 issued in Case 22659, dismissing the case be approved and effective this 27th day of October, 2014. On a roll call vote, Governor Dalrymple, Attorney General Stenehjem and Commissioner Goehring voted aye. The motion carried unanimously.

Mr. Helms presented the 2015 Oil and Gas Hearing Schedule.

It was moved by Commissioner Goehring and seconded by Attorney General Stenehjem that the 2015 Oil and Gas Hearing Schedule be approved as follows:

INDUSTRIAL COMMISSION
OF NORTH DAKOTA

Schedule for Oil & Gas Hearings 2015
Bismarck, North Dakota
DMR Conference Room
1000 East Calgary Ave

<u>Hearing Date</u>	<u>Docket Closing Date</u>
January 21, 2015 January 22, 2015	December 12, 2014
February 25, 2015 February 26, 2015	January 23, 2015
March 25, 2015 March 26, 2015	February 20, 2015
April 22, 2015 April 23, 2015	March 20, 2015

May 27, 2015 May 28, 2015	April 24, 2015
June 24, 2015 June 25, 2015	May 21, 2015 <u>THURSDAY</u>
July 22, 2015 July 23, 2015	June 19, 2015
August 26, 2015 August 27, 2015	July 24, 2015
September 16, 2015 September 17, 2015	August 14, 2015
October 21, 2015 October 22, 2015	September 18, 2015
November 18, 2015 November 19, 2015	October 16, 2015
December 16, 2015 December 17, 2015	November 13, 2015
January 20, 2016 January 21, 2016	December 11, 2015

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

Mr. Bruce Hicks presented the Oil and Gas Division Quarterly Report and noted the additional information that is being included from prior quarterly reports in regards to permits. (A copy of the Quarterly Report is available in the Commission files.) During this report in response to questions from the Commission, Mr. Helms explained the sources that he uses for the prices listed in the report. For oil it is Flint Hills and for gas it is EIA Henry Hub numbers.

The Commission and Mr. Helms discussed possible ongoing revenues sources that the State might have available to assist with the remediation and reclamation of salt water spills—an ongoing way of generating a revenue source for that work. There was discussion about the Abandoned Well Plugging Fund and how the dollars in that fund can be used. It was noted that the company has the first responsibility to pay for the costs of remediation and reclamation. However, if that source is not available or insufficient there is a need to find another ongoing source of revenue earmarked for that purpose.

Mr. Hicks and Mr. Helms discussed the flaring percentages -- 28% for June, 27% for July and a slight increase for August. Goal is to get to 26% for October. The more difficult goal will be in January which is 23%. Mr. Helms said the big impediments at this point are two major pipeline

projects that Hess and OneOK have undertaken to connect gas to the Hess Tioga Gas Plant and the OneOK gas plants. Both projects need and are waiting on federal approval. The plan was that the construction would be done this summer but now, without the federal approvals, that work is delayed until next summer. This has a significant impact on the gas flaring.

In response to a question Mr. Helms indicated that he did state that the production increase in August was less than expected. In 2012 and 2013 August saw a 4% production increase but this August it was 1.6% – significantly less than the last two years in terms of production increase. There are also a significantly larger number of wells waiting on completion. He asked some operators why this is happening and in the case of the two operators he personally spoke to, they have each postponed 20 completions in order to reduce their flaring. Together they had an inventory of 40 wells out of the 600 indicating that a number of operators were doing that in order to reduce the amount of gas flared. They have been delaying or postponing completions and as a result, the August production increase was significantly lower than the last two years. It is not a big surprise that it should happen with the focus on flaring reduction.

Mr. Helms reported that some of the risk penalty orders signed last month by the Commission regarding Zavanna vs. Emerald have been appealed to district court. The staff will keep the Commission advised on those cases as they go forward through the court system.

Mr. Helms reported there was really good attendance at the IOGCC meeting and the chairmanship of the organization has now switched from the Governor of Mississippi to the Governor of Utah.

Mr. Helms indicated that next month they will be bringing some proposed amendments to the statute to present to the Legislature and they are planning to bring an order on oil conditioning.

Being no further Department of Mineral Resources business, Governor Dalrymple adjourned this portion of the meeting at 1:50 p.m. and the Commission took up Pipeline 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 October 27, 2014 beginning at 1:00 p.m.
Governor's Conference Room

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

Also

Present: Jason Nesbit, Governor's Office
Kari Doan, Department of Agriculture
Pamela Link, Laborers 563
Danette Welsh, OneOk
Lynn Helms, DMR
Bruce Hicks, DMR-Oil and Gas Division
Alison Ritter, DMR-Oil and Gas Division
Justin Kringstad, Pipeline Authority
Andrea Stomberg, Transmission Authority
Members of the Press

Governor Dalrymple called the Pipeline Authority portion of the Industrial Commission meeting to order at 1:50 p.m. following completion of Department of Mineral Resources business.

Mr. Justin Kringstad, Pipeline Authority Director, presented the Pipeline Authority Annual Report (A copy of the Annual Report is available in the Commission files.) He reviewed the report and noted that the information in the report had previously been presented to the Commission throughout the year.

Ms. Karlene Fine presented the Pipeline Authority Annual Financial Report as follows:

**NORTH DAKOTA PIPELINE AUTHORITY
BALANCE SHEET
June 30, 2014**

Assets

Current Assets	
Cash	269,798
Total assets	<u>269,798</u>

Liabilities

Current Liabilities	
Accounts Payable	16,686
Total liabilities	<u>16,686</u>

Net Position

Unrestricted	253,112
Total net position	<u>253,112</u>

**NORTH DAKOTA PIPELINE AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET
POSITION**

For the Fiscal Year Ended June 30, 2014

Expenditures:

Consultant Services	105,191
Director Travel Expenditures	3,831
Newsletter	4,196
Professional Fees	249
Total Expenditures	<u>113,466</u>

Revenues Under Expenditures	<u>(113,466)</u>
-----------------------------	------------------

Other Financing Sources:

Interest Income	111
Transfers In	<u>200,400</u>
Total Other Financing Sources	<u>200,511</u>

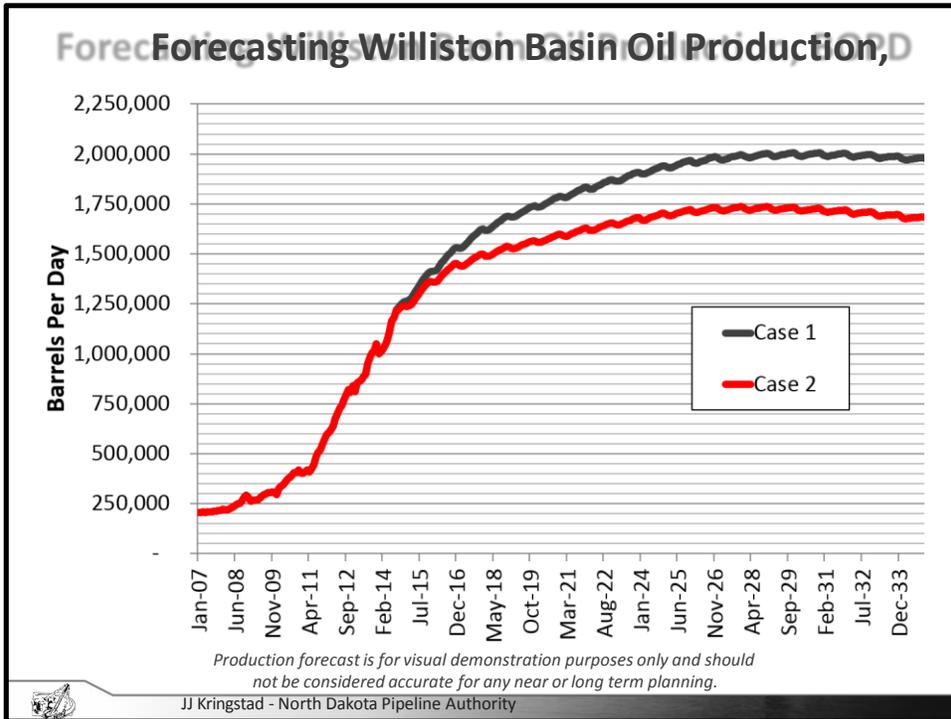
Change in Net Position	87,045
Net Position Beginning of Year	<u>166,067</u>
Net Position End of Year	<u><u>253,112</u></u>

Mr. Kringstad presented and discussed with the Commission the following Quarterly Pipeline Authority Update. (A copy of the Update is available in the Commission files.)

US Williston Basin Oil Production 2014

MONTH	ND	Eastern MT*	SD	TOTAL
January	936,865	71,648	4,830	1,013,343
February	953,201	73,645	4,712	1,031,558
March	976,605	73,097	4,753	1,054,455
April	1,003,145	74,675	4,755	1,082,575
May	1,040,469	72,365	4,677	1,117,511
June	1,092,519	74,301	4,785	1,171,604
July	1,114,421	75,162	4,875	1,194,457
August	1,132,331		4,675	--
September				--
October				--
November				--
December				--

JJ Kringstad - North Dakota



Forecasting Challenges

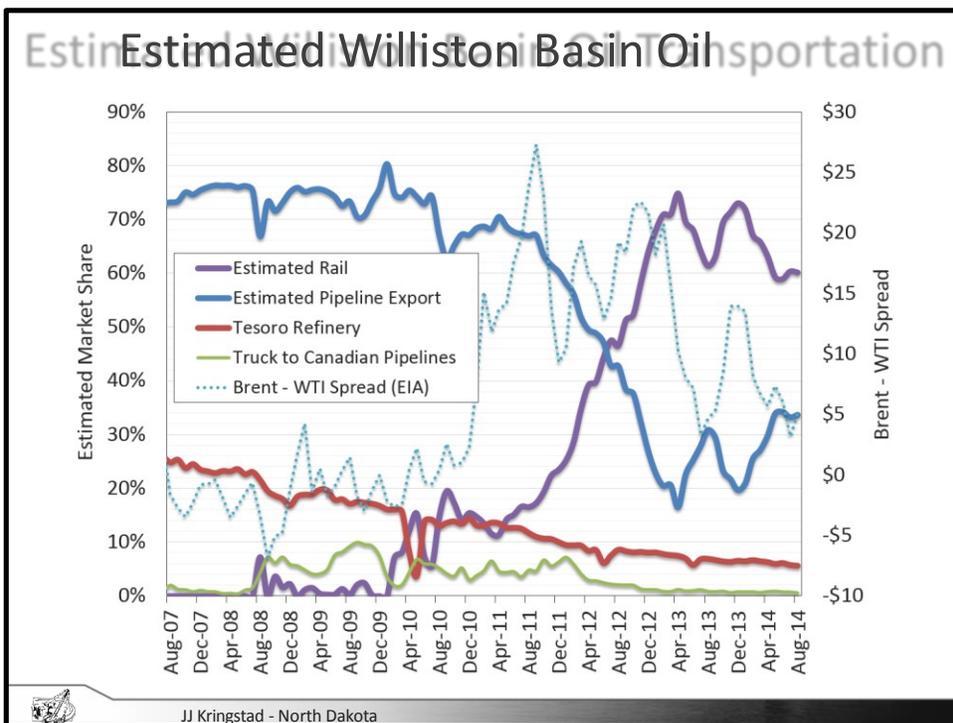
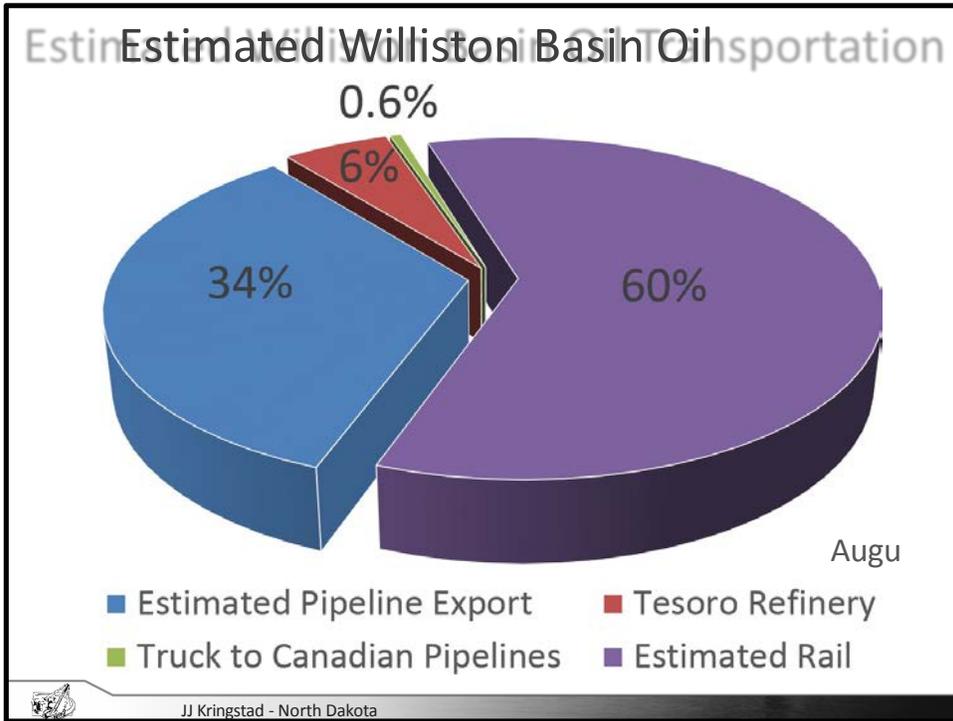
Current Model (Case 1)

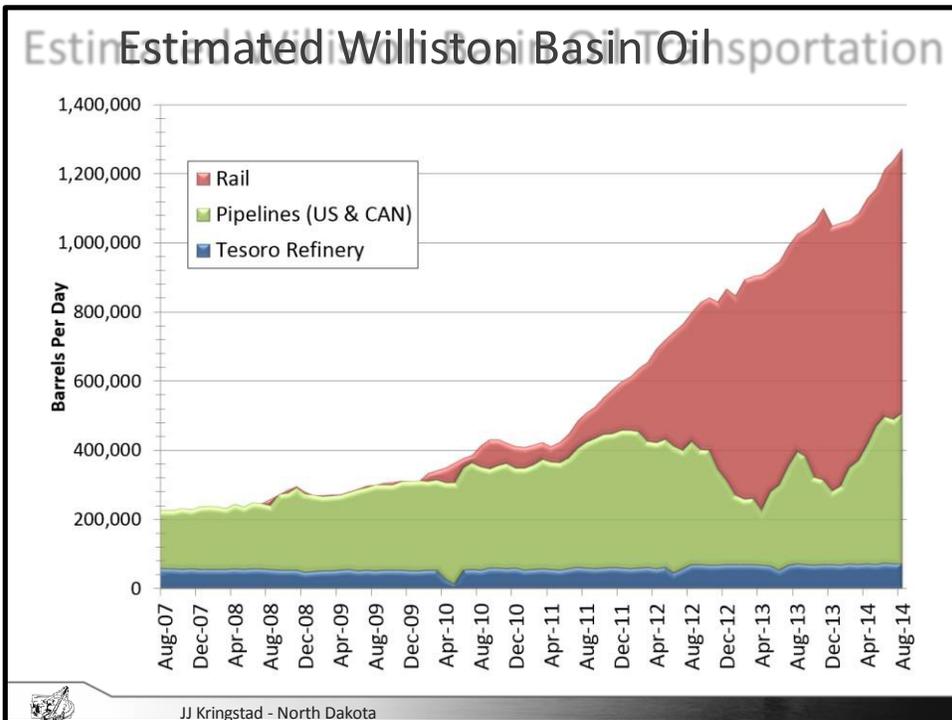
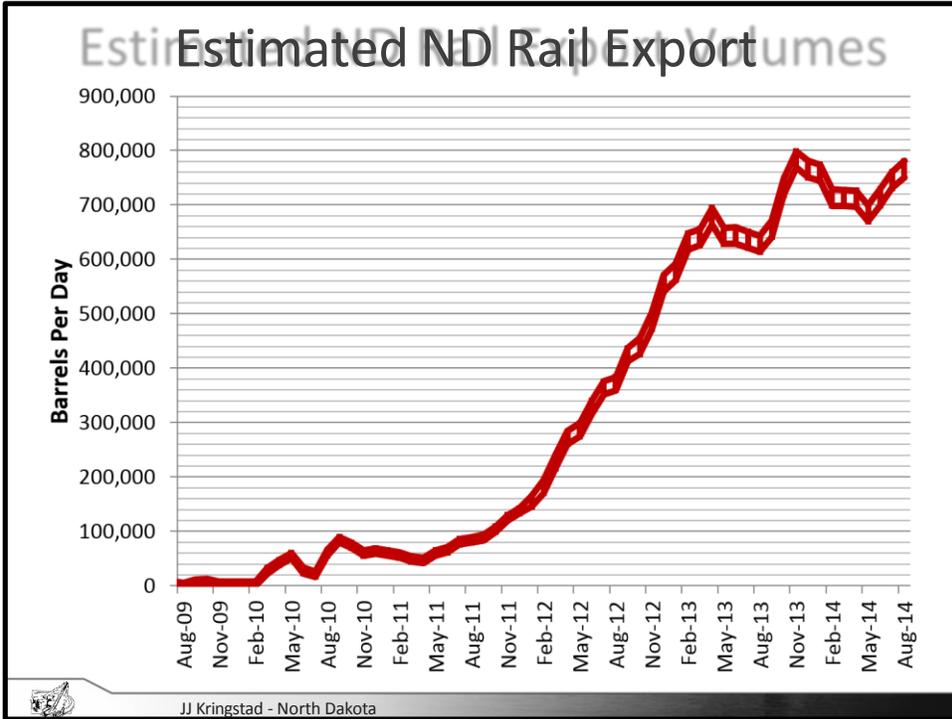
- Approx. 46,000 New Wells Out to Dec 2034
- Average EUR Roughly 342,000 BBLs
- Average First Month Production of 349 BOPD

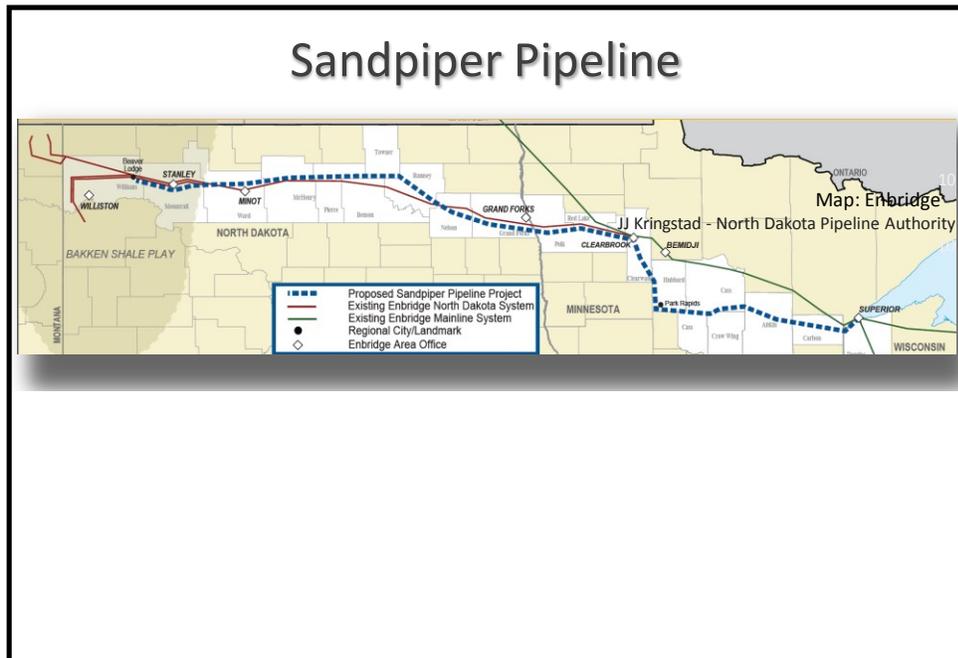
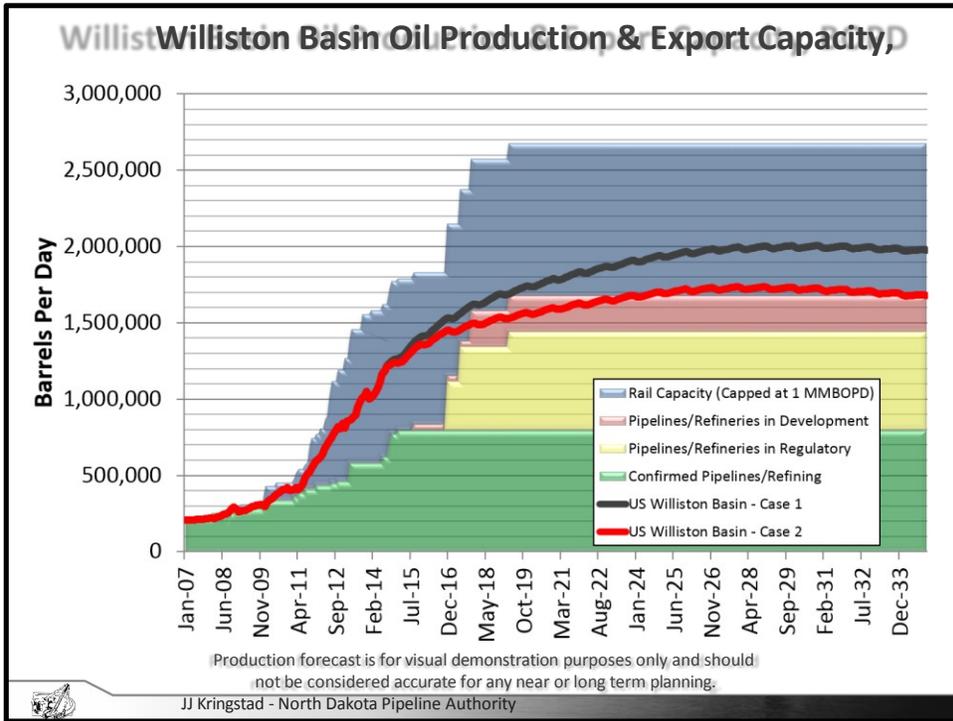
Ongoing Considerations

- Increased Density Drilling
- Drilling Efficiencies
- Improving Completion Techniques
- Productivity of the Lower Three Forks
- Eastern Montana Success

JJ Kringstad - North Dakota





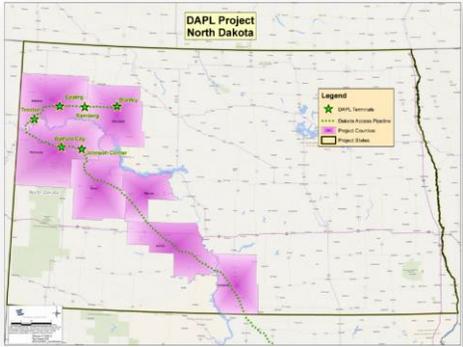
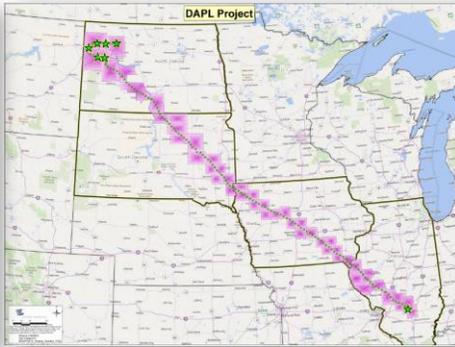


North Dakota Pipeline Company LLC - formerly known as Enbridge Pipelines (North Dakota) LLC

- Open Season Dates: November 26, 2013 – January 24, 2014
- 225,000 BOPD ND Capacity to Clearbrook, MN (24")
- 375,000 BOPD Clearbrook, MN to Superior, WI (30")

- In-service Date: Q1 2017
- Project cost: \$2.6 Billion

Energy Transfer Partners: Dakotaess

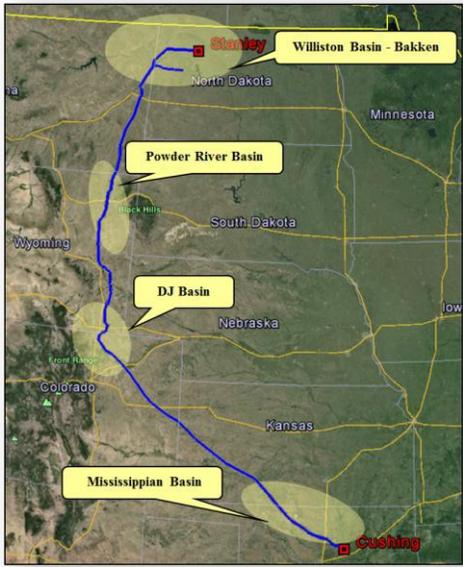



- Successful Open Season During the First Half of 2014
- 320,000 BOPD ND Capacity to Patoka, IL (30")
- Expandable Up To 570,000 BOPD if Shipper Demand Exists
- In-service Date: Late 2016

Map Source: Energy Transfer Partners

JJ Kringstad - North Dakota

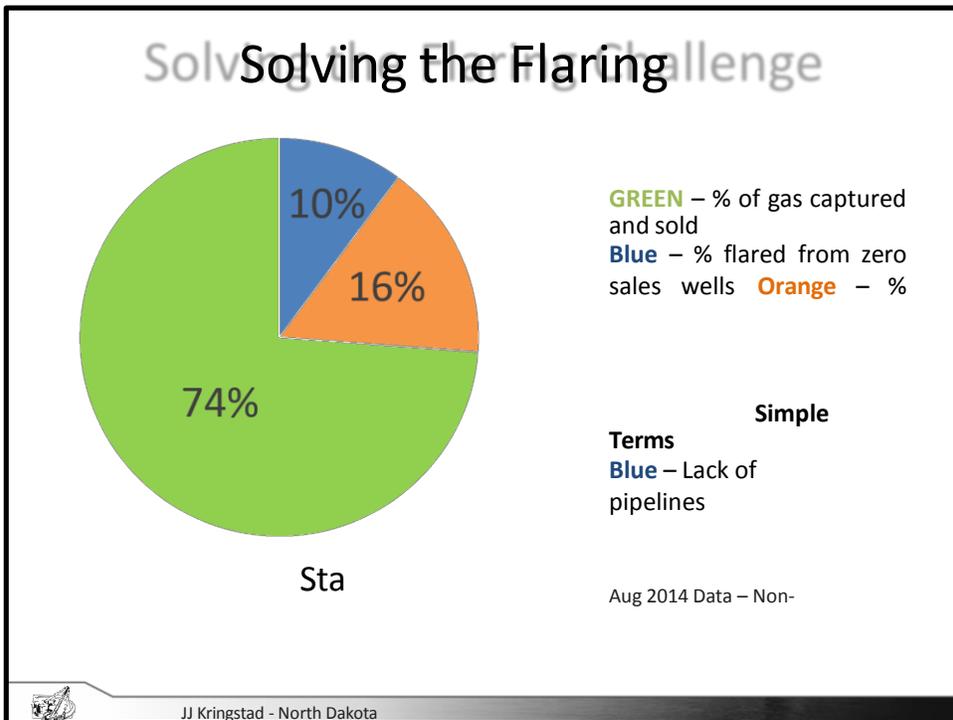
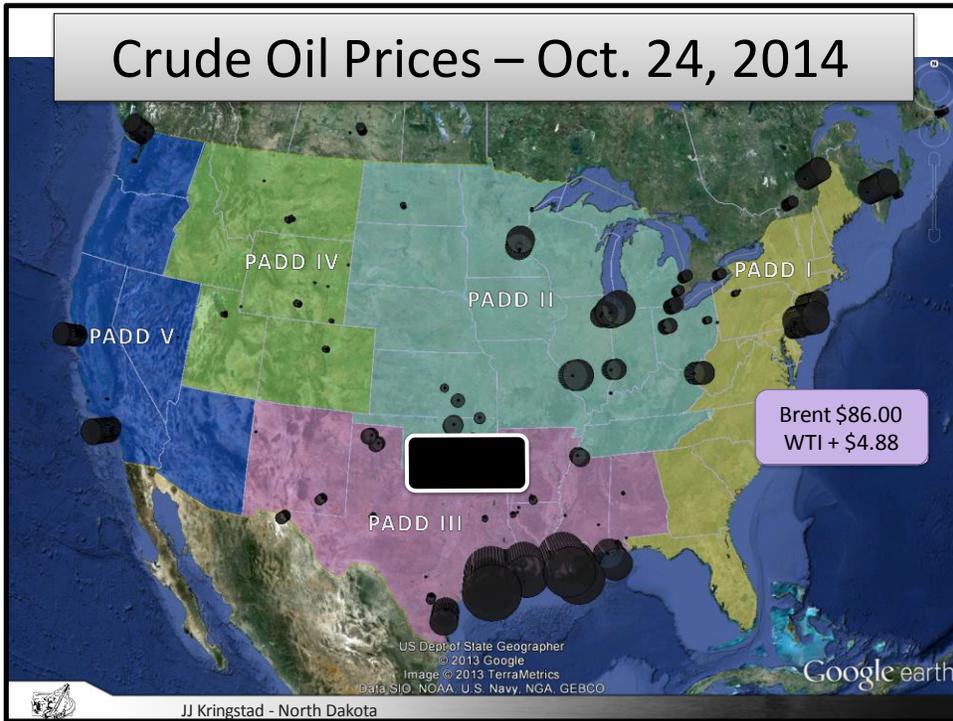
Bakken to Cushing Pipeline

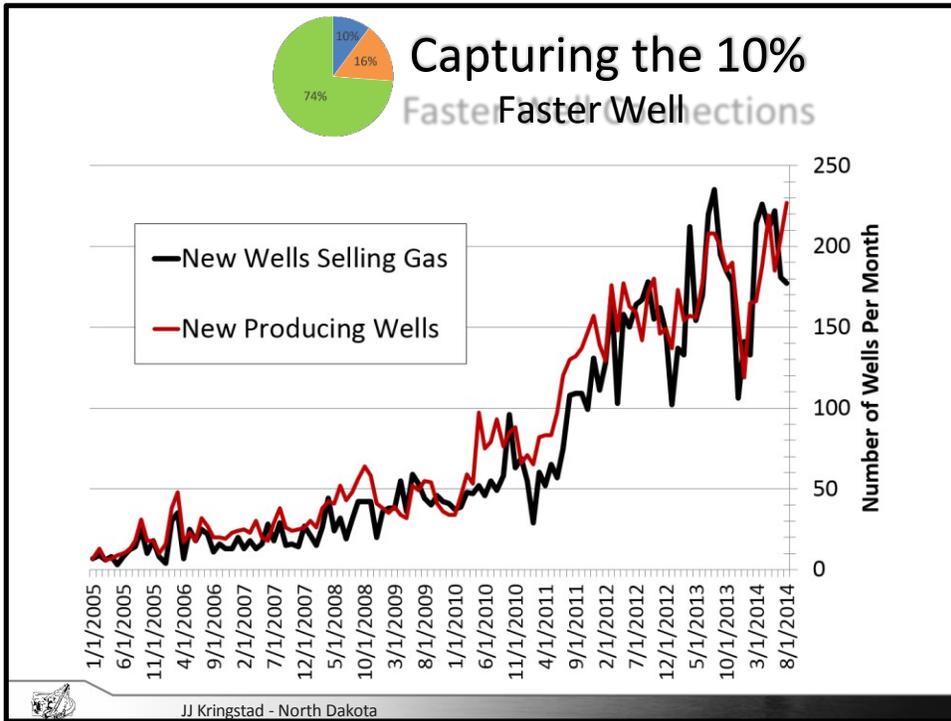


- Open Season Dates: September 4, 2014 – November 14, 2014
- 340,000 BOPD ND Capacity to Cushing, OK (30")
- Estimated 200-250,000 BOPD Available for Williston Basin Crude Oil
- 1,200 Miles, All New Construction
- Proposed In-service Date: Q3 2017

Map Source: Enterprise Products Partners

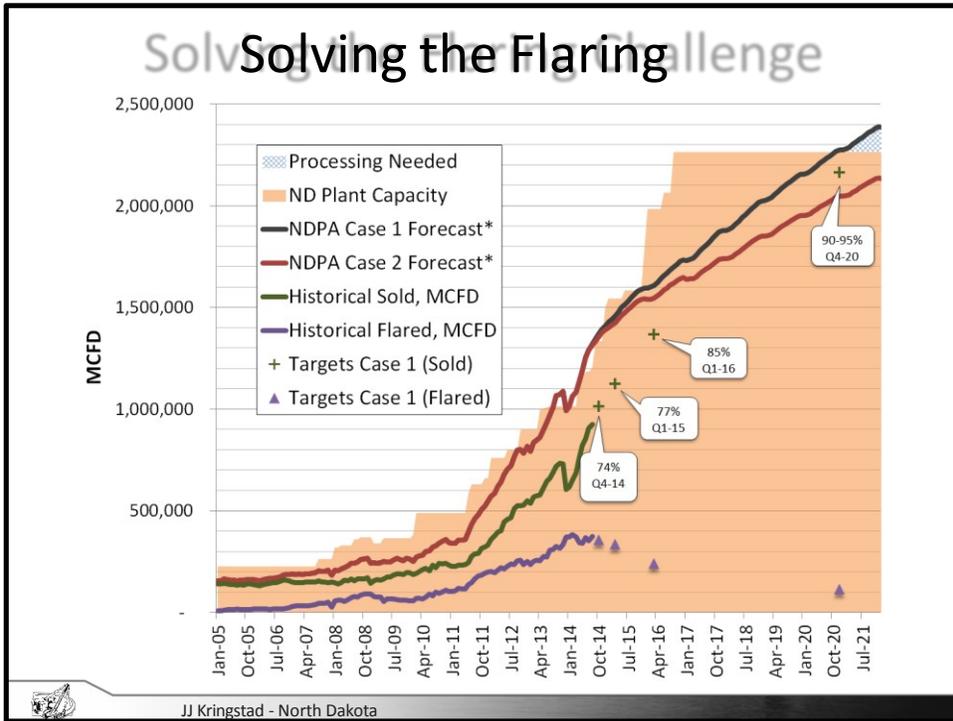
JJ Kringstad - North Dakota





JJ Kringstad - North Dakota Pipeline Authority
Natural Gas Processing Capacity, Million Cubic Feet Per Day

Owner Company	Facility	County	2006	2008	2010	2011	2012	2013	2014	2015	2016
North Dakota											
ONEOK	Lignite	Burke	6	6	6	6	6	6	6	6	6
ONEOK	Marmath	Slope	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5
ONEOK	Grasslands	McKenzie	63	100	100	100	100	100	100	100	100
ONEOK	Stateline I	Williams	NA	NA	NA	NA	100	100	100	120	120
ONEOK	Stateline II	Williams	NA	NA	NA	NA	NA	100	100	120	120
ONEOK	Garden Creek I	McKenzie	NA	NA	NA	NA	100	100	120	120	120
ONEOK	Garden Creek II	McKenzie	NA	NA	NA	NA	NA	NA	120	120	120
ONEOK	Garden Creek III	McKenzie	NA	NA	NA	NA	NA	NA	120	120	120
ONEOK	Lonesome Creek	McKenzie	NA	NA	NA	NA	NA	NA	NA	200	200
ONEOK	Demicks Lake	McKenzie	NA	NA	NA	NA	NA	NA	NA	NA	200
ONEOK	Bear Creek	Dunn	NA	NA	NA	NA	NA	NA	NA	NA	80
Petro Hunt	Little Knife	Billings	32	32	32	32	32	32	32	32	32
True Oil	Red Wing Creek	McKenzie	4	4	4	4	4	10	10	10	10
Sterling Energy	Ambrose	Divide	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
EOG Resources	Stanley	Mountrail	NA	20	0*	0*	0*	0*	0*	0*	0*
Whiting Oil & Gas	Robinson Lake	Mountrail	NA	30	45	90	90	90	110	110	110
Whiting Oil & Gas	Ray	Williams	NA	10	NA	NA	NA	NA	10	10	10
Whiting Oil & Gas	Belfield	Stark	NA	NA	NA	30	30	35	35	35	35
XTO - Nesson	Ray	Williams	NA	10	10	10	10	10	10	10	10
Hess	Tioga	Williams	110	110	110	110	110	110	250	250	250
Hiland Partners	Badlands	Bowman	4	40	40	40	40	40	40	40	40
Hiland Partners	Norse	Divide	NA	NA	25	25	25	25	25	25	25
Hiland Partners	Watford City	McKenzie	NA	NA	NA	50	90	90	90	90	90
Summit Resources	Knutson	Billings	NA**	NA**	NA**	NA**	NA**	NA**	NA**	NA**	NA**
Targa Resources	Badlands	McKenzie	NA	NA	NA	45	45	45	45	90	90
Targa Resources	Badlands II	McKenzie	NA	NA	NA	NA	NA	NA	NA	NA	200
USG Midstream Bakken	DeWitt	Divide	NA	NA	NA	NA	NA	3	3	3	3
Flatirons Field Services	N/A	Williams	NA	NA	NA	NA	NA	NA	45	45	45
Caliber Midstream	Caliber Midstream	McKenzie	NA	NA	NA	NA	NA	NA	10	10	10
Aux Sable - Chicago, IL											
Aux Sable	Prairie Rose	Mountrail	NA	NA	110	110	110	110	110	110	110
Total, MMCFD			227	370	490	660	900	1014	1499	1784	2264



The Commission thanked Mr. Kringstad for all the information.

Being no further Pipeline Authority business, Governor Dalrymple adjourned this portion of the meeting at 2:10 p.m. and the Commission took up Transmission 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 October 27, 2014 beginning at 1:00 p.m.
Governor's Conference Room

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

Also

Present: Jason Nesbit, Governor's Office
Kari Doan, Department of Agriculture
Andrea Stomberg, Transmission Authority
Members of the Press

Governor Dalrymple called the Transmission Authority portion of the Industrial Commission meeting to order at 2:13 p.m. following completion of Pipeline Authority business.

Ms. Andrea Stomberg, Transmission Authority Director, presented the Transmission Authority Annual Report (A copy of the Annual Report is available in the Commission files.) She said it is an updated version from previous years and reviewed it with the Commission. She noted in particular the work of the Midcontinent Independent Transmission System Operator (MISO) as it relates to modeling compliance scenarios and impacts to reliability as they relate to the EPA's recent Clean Power Plan proposal. She also commented on the ongoing work that needs to be done with the US Fish and Wildlife Service as it relates to transmission lines, wind turbines and birds--particularly the whooping crane. The Commission thanked her for the information.

Ms. Karlene Fine, Industrial Commission Executive Director and Secretary, presented the Transmission Authority Annual Financial Report as follows:

**NORTH DAKOTA TRANSMISSION AUTHORITY
BALANCE SHEET
June 30, 2014**

Assets

Current Assets

Cash 0

Total assets 0

Liabilities

Current Liabilities

Accounts Payable 0

Total Liabilities 0

Net Assets

Net Assets:

Unreserved 0

Total net assets 0

Total liabilities and net assets 0

**NORTH DAKOTA TRANSMISSION AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET
ASSETS
For the Fiscal Year Ended June 30, 2014**

Expenditures:	
Salaries and benefits	0
Grant - study	0
Office expenses	814
Consultants	<u>9,750</u>
Total Expenditures	<u>10,564</u>
Revenues Over (Under) Expenditures	<u>(10,564)</u>
Other Financing Sources:	
Transfers In	<u>10,564</u>
Total Other Financing Sources	<u>10,564</u>
Revenues and Other Financing Sources Over (Under)	
Expenditures and Other Financing Uses	0
Net Assets Beginning of Year	<u>0</u>
Net Assets End of Year	<u><u>0</u></u>

Being no further Transmission Authority business, Governor Dalrymple adjourned this portion of the meeting at 2:26 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 October 27, 2014 beginning at 1:00 p.m.
Governor's Conference Room

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

Also

Present: Jason Nesbit, Governor's Office
Kari Doan, Department of Agriculture
Jaret Wirtz, WAWSA
Cory Chorne, WAWSA
Mark Owens, WAWSA
Brad Thompson, 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 2:26 p.m. following completion of Transmission Authority business.

Ms. Karlene Fine, Industrial Commission Executive Director and Secretary, presented the Western Area Water Supply Authority monthly financial reports and Debt Reduction Report as follows: (Copies of the attachments are available in the Commission files.)

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

Attached is the Western Area Water Supply Authority (WAWS) financial information for the month of September and for the fourteen months ending September 30, 2014.

Pages 1 & 2 were prepared by the Bank of North Dakota reflecting debt service payments. This report reflects the payments made through October 21, 2014 while the remaining reports reflect September 30, 2014 numbers. In September one prepayment was made (9/22/2014) in the amount of \$645,537 consisting of:

- interest prepayment of \$54,357, and
- principal prepayment of \$591,180 which was applied to debt service payments due in 2015.

In October interest on all the loans was paid on October 2 (reflected in September expenses) in the amount of \$201,370 and then one prepayment was made (10/21/2014) in the amount of \$645,537 consisting of:

- interest prepayment of \$64,743, and
- principal prepayment of \$580,794 which was applied to debt service payments due in 2015.

All the principal prepayments are being applied to the debt service owed on BND Loan #1 (Original loan was \$50,000,000 and with the September and October prepayments the principal owed is now down to \$40,162,682). On this particular loan WAWS has now made principal prepayments totaling \$9,837,318.

The next 3 pages (pages 3, 4 & 5) I prepared based on the information provided by WAWS staff reflecting revenues and expenses and showing net income. Note this month is the first time you see capital improvement disbursements (highlighted in orange). Note prepayments have been separated out from the revenues and expenses. (see yellow highlighted line item). With those adjustments the net income for the month of September was \$1,330,801.66. Revenues in September were \$3,435,592.38. -- the second highest month so far in 2014, Page 6 is the balance sheet prepared by WAWS staff as of September 30, 2014. As noted on the Balance Sheet the Accounts Receivable are \$6,324,249.48.

In response to a question Mr. Wirtz provided the following report on the previously approved capital improvements:

- Depot upgrades, changes in the billing system and improvements with concrete and heated lanes at some facilities, those are about complete. Two stations are left to be done.
- Crosby depot - started looking for land and seeing how far out the city would like it to be located. Would like to start this project the first part of 2015.
- Signs - the lighted signs are all up – they look good and they've had a lot of compliments on them.

Mr. Wirtz presented information and recommendation of the Western Area Water Supply Authority Board on the following proposed capital projects:

Water Storage in McKenzie County – He reviewed the attachment regarding the bids for the Indian Hill Reservoir No. 2 project. (The attachment is available in the Commission's files.) He indicated that the low bid had come in substantially higher than the engineer's estimate. Due to the difference between the engineer's estimate and the low bid, the Board is delaying action on this project until the engineer has had an opportunity to evaluate whether this difference is a result of short term market conditions. He indicated that they had a 60 day time period to decide on whether or not to accept the low bid. He stated that they would bring this back at a later date.

Temporary water depot in McKenzie County - Ms. Fine presented the following:

RE: Capital Expenditures - Western Area Water Supply Authority

At the Industrial Commission ("Commission") September 17 meeting Jaret Wirtz, Executive Director of the Western Area Water Supply Authority ("Authority"), discussed with the Commission the Authority's desire to establish a temporary depot. The Commission authorized the Authority to proceed with getting estimates for installation of a temporary water depot in order to continue to utilize the water that comes from Ft. Berthold Rural Water per the contract between the McKenzie County Water Resources District and Ft Berthold Rural Water and report back to the Industrial Commission. However, at that time the Commission did not establish how much could be expended on getting that estimate.

At an earlier meeting you indicated that the Industrial Commission Executive Director could approve expenditures for capital projects once the Commission had approved the project up to the amount that the Commission authorized. The Authority has submitted one bill in the amount of \$3,578.10 for costs in obtaining the estimates on the temporary water depot. (A copy is attached.) Because the Commission did not establish a dollar amount I was not authorized to approve payment from the industrial account until the Commission had approved a certain dollar amount for getting the estimates. The billing states that the engineers estimate is that it could cost up to \$10,000 for their work on getting the estimates for completion of the project.

Mr. Wirtz has informed me that he will provide the Commission with an update on this project. Depending on his update, I would ask that the Commission establish an amount that could be expended from the industrial account for the work on getting an estimate for the proposed project. The proposed motion would be:

It was moved by ____ and seconded by ____ that the Industrial Commission approve the expenditure of up to \$10,000 from the industrial account on providing an estimate for the costs of installing a temporary depot in the Keene area.

Mr. Wirtz reviewed what is happening with Keene project:

- They have obtained a conditional use permit from the Township Board so that is in place if the decision is made to move forward;
- They got an estimate on the dirt work which was about \$40,000. They are in discussions with the landowner paying for the dirt work and WAWS then agreeing to a lease payment that would include that cost.
- They are still getting estimates on tanks as well as some other costs.

Governor Dalrymple indicated the Commission will want to review this one more time about the entire strategy and whether it was a good investment. He still should proceed with getting the estimates on all the costs.

Mr. Wirtz said they would continue to work on the estimates. They have some time now that they are getting into Fall and they would probably wait until Spring to move forward on any part of the construction. He also wants to visit with trucking companies to see if the volume is sufficient for them to want to utilize the temporary site.

It was moved by Commissioner Goehring and seconded by Attorney General Stenehjem that the Industrial Commission approve the expenditure of up to \$10,000 from the industrial account on providing an estimate for the costs of installing a temporary depot in the Keene area. On a roll call vote, Governor Dalrymple, Attorney General Stenehjem and Commissioner Goehring voted aye. The motion carried unanimously.

Mr. Wirtz presented the following PowerPoint slides and discussed with the Commission the WAWS plans and budget proposals for the next two years:

WESTERN AREA WATER SUPPLY PROJECT OVERVIEW

Presented By:
Jaret Wirtz
Executive Director

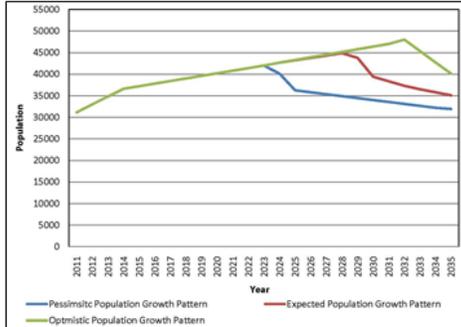
Strong Local Support

- Increasing Water Demand/Growing Population
- Poor Water Quality / Insufficient Quantity
- New User Moratoriums

City of Williston
Williams Rural Water District
McKenzie Water Resources District
R&T Water Supply Association
*BDW Added Legislatively

WESTERN AREA WATER SUPPLY AUTHORITY

WAWSP Service Area 2011 Population Projections



WAWSP By the Numbers - 2011

Total Estimated Project Cost: \$150 Million

- Water Plant Expansion: \$45 Million (to 20 MGD)
- Regional Transmission Infrastructure: \$88 Million
- Local Water Distribution Infrastructure: \$17 Million

Peak Estimated Service Population:

- 50,000 people
- 400 rural water requests



WAWSP By the Numbers - 2012

2010 Numbers:

- Original plan accounted for **400** users requests

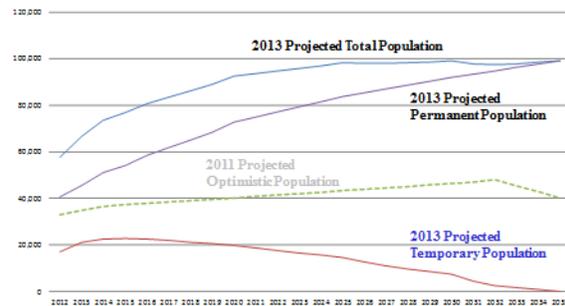
2012 Numbers:

- **1,200** rural water user hook-up requests
- **7,912** residential lot service requests
- **350** commercial lot service requests
- **4,450** crew camp/RV park service requests

Total of **12,912** user/service requests



2011 vs. 2013 Population Projections



WAWSP By the Numbers

2013 Project Summary:

- **\$350 Million** Total Estimated Project Cost
- **Projected Peak Service Population 100,000**
- **17,077 Rural Residential/Commercial Service Requests**

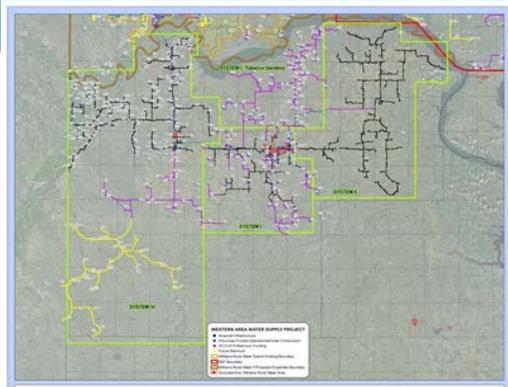


WAWSP By the Numbers

2013 Project Summary:

- **\$349 MM** Total Estimated Project Cost
 - 2011/2013 Biennium = \$110 MM
 - 2013/2015 Biennium = \$119 MM
 - Future Biennia = \$120 MM
- **Projected Peak Service Population 100,000**
- **The City of Williston alone is projected to climb to 50,220 people within 4 years**
- **17,077 Rural Residential and Commercial Service Requests**





WAWSP By the Numbers

2014 Project Summary:

- \$460.5 MM Total Estimated Project Cost
 - 2011/2013 Biennium = \$110 MM
 - 2013/2015 Biennium = \$119 MM
 - Future Biennia = \$231.5 MM
- Projected Peak Service Population 160,000
- 17,000 Rural Residential and Commercial Service Requests
- Current \$229 MM Allocation (\$190 MM loan (83%); \$39 MM Grant (17%))

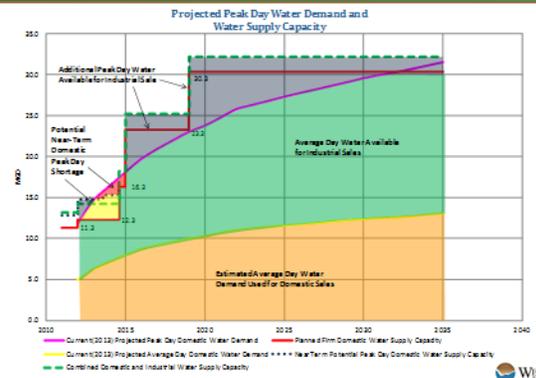


What Has Changed?

Variable	Original Business Plan Projection	2012 Business Plan Update	2014 Business Plan Update
Peak Population	48,000	100,000	160,000
Rural Users (non-municipal)	400	17,000+	
Estimated Project Cost	\$150 MM	\$350 MM	\$460.5 MM
New Wells To Be Drilled	20,000*	50,000*	74,000*

*Projections for Bakken and Three Forks

Oil Companies Play a Critical Role



WAWSA Industrial Direct Connections

2014 Permanent Direct Connections:

- Continental (Wheelock)
- Continental (WTP)
- Oasis (5 MG Reservoir)
- Caliber (Rawson)
- Whiting (Alexander)
- SME (Watford City)



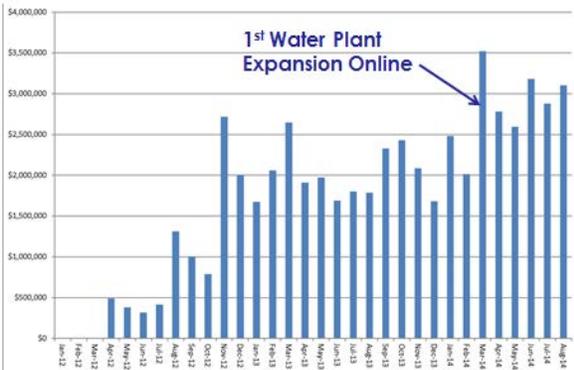
WAWSA Industrial Direct Connections

2015 Preliminary Industrial Capital Improvements:

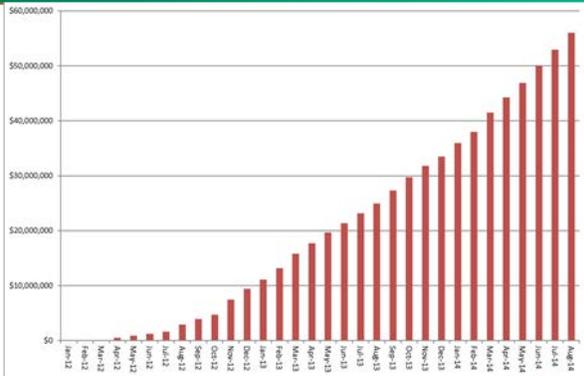
Project	2014	2015
Indian Hill Reservoir	\$2,000,000	
Crosby Depot	\$1,100,000	
Depot Upgrades	\$1,100,000	
Indian Hill Pump		\$350,000
Alexander Pump		\$350,000
DC Meter Vaults (3)		\$900,000
Total	\$4,200,000	\$1,600,000



Gross Industrial Revenue



Cumulative Gross Industrial Revenue



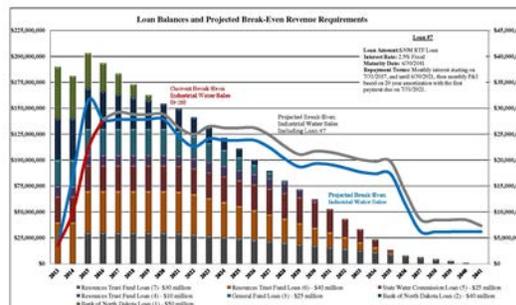
WAWSA Interest & Principal Payments

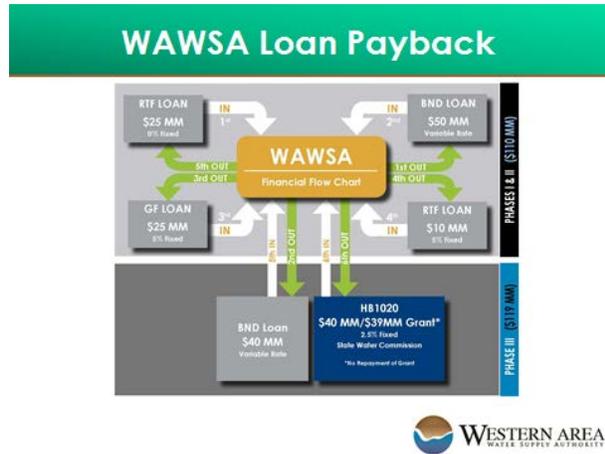
Loan	Source	Amount	Interest Pd	Principal Pd	Balance
Loan #1	RTF	\$25M	\$0	\$0	\$25,000,000
Loan #2	BND	\$50M	\$1,882,985	\$8,865,343	\$41,334,657*
Loan #3	NDGF	\$25M	\$1,805,428	\$0	\$25,000,000
Loan #4	RTF	\$10M	\$472,010	\$0	\$10,000,000
Loan #5	BND	\$40M	\$233,424	\$0	\$40,000,000
Loan #6	RTF	\$20M	\$0	\$0	\$2,125,070
Totals		\$170M	\$4,393,845	\$8,865,343	\$143,459,727

*Principal Paid Thru 9-30-2015



WAWSA Break Even Analysis





In response to a question regarding the Tioga project going to the side, Mr. Wirtz said they decided they already have funding for the R&T depot through the initial WAWSA project or the 2011 allocation and decided to hold off on Tioga because the benefit was not there. He does not anticipate doing that project.

The Commission thanked him for the presentation and providing the information on the Western Area Water Supply Board's overall plan.

Being no further Western Area Water Supply Authority business, Governor Dalrymple adjourned this portion of the meeting at 3:20 p.m. and the Commission took a short break before taking up Building 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 October 27, 2014 beginning at 1:00 p.m.
Governor's Conference Room

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

Also

Present: Jason Nesbit, Governor's Office
Kari Doan, Department of Agriculture
Brad Thompson, Bank of North Dakota
Eric Hardmeyer, Bank of North Dakota
Tim Porter Bank of North Dakota
Jason Johnson, Bank of North Dakota
Bob Humann, Bank of North Dakota
Chad Johnson, Bank of North Dakota
Kim Kautzamn, Bank of North Dakota
Jim Leier, Bank of North Dakota
Katie Moch, Eide Bailly
Members of the Press

Governor Dalrymple called the North Dakota Building Authority portion of the Industrial Commission meeting to order at 3:30 p.m. following completion of Western Area Water Supply Authority business and a ten minute break.

Ms. Katie Moch, Eide Bailly, presented the Building Authority Audit - June 30, 2014. (A copy of the audit is available in the Commission files.) She said they issued an unmodified or a clean opinion. They included an emphasis of a matter paragraph in the opinion to draw attention to the fact that the financial statements were restated for the implementation of a new GASB Standard that was effective in 2014. There was nothing done wrong previously, it just changed how certain items were accounted for so the financial statement do include that restatement. Other than that, there was nothing different or significant to draw your attention to in the financial statements. Page 24 gives the responses requested by the Legislative Audit and Fiscal Review Committee—there was no noncompliance with any statutes, laws, rules or regulations that were noted. No internal control deficiencies and no other findings or items to note.

Being no further Building Authority business, Governor Dalrymple adjourned this portion of the meeting at 3:32 p.m. and the Commission took up Student Loan Trust business.

INDUSTRIAL COMMISSION OF NORTH DAKOTA



Karlene Fine, Executive Director and Secretary

Minutes of a Meeting of the Industrial Commission of North Dakota
Held on October 27, 2014 beginning at 1:00 p.m.
Governor's Conference Room

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

Also

Present: Jason Nesbit, Governor's Office
Kari Doan, Department of Agriculture
Brad Thompson, Bank of North Dakota
Eric Hardmeyer, Bank of North Dakota
Tim Porter Bank of North Dakota
Jason Johnson, Bank of North Dakota
Bob Humann, Bank of North Dakota
Chad Johnson, Bank of North Dakota
Kim Kautzamn, Bank of North Dakota
Jim Leier, Bank of North Dakota
Katie Moch, Eide Bailly
Members of the Press

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

Ms. Katie Moch, Eide Bailly, presented the Student Loan Trust Audit - June 30, 2014. (A copy of the audit is available in the Commission files.) She said they issued an unmodified or a clean opinion. They included an emphasis of a matter paragraph in the opinion to draw attention to the fact that the financial statements were restated for the implementation of a new GASB 65. There was nothing done wrong previously, it just changed how certain items were accounted for so the financial statement do include that restatement. Other than that, there was nothing different or significant to draw your attention to in the financial statements. Page 35 is the responses to the questions asked by the Legislative Audit and Fiscal Review Committee. Also included is the OMB Circular A-133 Audit since the Student Loan Trust also has federal awards. Their firm had also issued an unmodified opinion on the federal awards audit - there was no noncompliance related to either the financial statement audit or the federal award audit. No internal control deficiencies and no other findings or items to note.

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

INDUSTRIAL COMMISSION OF NORTH DAKOTA



Karlene Fine, Executive Director and Secretary

Minutes of a Meeting of the Industrial Commission of North Dakota
Held on October 27, 2014 beginning at 1:00 p.m.
Governor's Conference Room

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

Also

Present: Jason Nesbit, Governor's Office
Kari Doan, Department of Agriculture
Brad Thompson, Bank of North Dakota
Eric Hardmeyer, Bank of North Dakota
Tim Porter Bank of North Dakota
Jason Johnson, Bank of North Dakota
Bob Humann, Bank of North Dakota
Chad Johnson, Bank of North Dakota
Kim Kautzamn, Bank of North Dakota
Jim Leier, Bank of North Dakota
Katie Moch, Eide Bailly
Members of the Press

Governor Dalrymple called the Bank of North Dakota portion of the Industrial Commission meeting to order at 3:34 p.m. following completion of Student Loan Trust business.

Ms. Katie Moch, Eide Bailly, presented the PACE Fund Audit - June 30, 2014. (A copy of the audit is available in the Commission files.) She said they issued an unmodified or a clean opinion. This audit was not subject to any changes due to GASB 65. Page 21 is the response to the Legislative Audit and Fiscal Review Committee questions – it was an unmodified opinion, there was no noncompliance issues noted and no internal control deficiencies and no other findings or matters reported.

Ms. Moch presented the AgPACE Fund Audit - June 30, 2014. (A copy of the audit is available in the Commission files.) She said they issued an unmodified or a clean opinion. This audit was not subject to any changes due to GASB 65. Page 14 is the response to the Legislative Audit and Fiscal Review Committee questions – it was an unmodified opinion, there were no noncompliance issues noted and no internal control deficiencies and no other findings or matters reported.

In response to a question regarding if the balance in the Student Loan Trust could be used by the Legislature for any purpose or are there any restrictions, Mr. Eric Hardmeyer, Bank of North Dakota President, said the Commission has the authority to transfer money out of the Student Loan Trust to the Guarantee Agency and transferred \$5 million a few years ago to support the reserves for the DEAL Program. He thought any other transfers would have to be done by legislative directive.

Ms. Karlene Fine, Student Loan Trust Authorizer Officer, said as long as there are bonds outstanding, the balance must be maintained in the Trust. Currently the Bank of North Dakota is the holder of the remaining bonds. Under the conditions of the bond agreements monies can be used for the Guarantee Agency. Ms. Fine said the Commission can transfer money to the Guarantee Agency and the Legislature can take out money, and has done that for certain

expenses, as long as the Trust has enough money available to meet debt service on the outstanding bonds. She said the Trust has sufficient funds to make the bond payments to the Bank.

In response to a question Mr. Hardmeyer stated that there is a need for some funding from the Student Loan Trust for reserves that may be needed for the DEAL One and other student loan programs held at the Bank.

In response to a question Mr. Hardmeyer stated that the Bank analyzes every quarter what the proper reserve level of the Bank should be overall. In regards to student loans, the reserve is held by the Guarantee Agency. The reserve is not held by the Student Loan Trust but by the Student Loan Guarantee Agency which is administered by the Bank. The Guarantee Agency insures reinsurance of all BND DEAL loans and federal student loans. Currently the Bank believes there are sufficient reserves held by the Guarantee Agency. However, the Bank is seeing very impressive numbers of borrowers utilizing the DEAL One program. They have now gone over \$100 million in DEAL loans so they will again be looking at what the appropriate reserve level is as that loan volume grows.

He said they may be looking at ways to utilize that money for the benefit of students such as scholarships or different features that the federal program has that we do not have, loan forgiveness, income based repayment – there are features we could look at. There was discussion regarding interest rates.

Mr. Hardmeyer discussed the DEAL One program indicating that just since April they have \$100 million in loans with 85% of the borrowers going with the variable rate. He indicated that there are another \$33 million of student loan borrowers in the Bank's portfolio with rates of 6% or more. They are sending out statement stuffers to these borrowers letting them know that this new program is available to them.

Mr. Hardmeyer presented the 2015 BND Holiday Schedule. He said the Bank will not close on July 3rd. The Bank is open to follow the Federal Reserve schedule. They will allow their employees to have an alternative day off. He noted that the Bank employees get Columbus Day off while state employees get Good Friday off.

It was moved by Commissioner Goehring and seconded by Attorney General Stenehjem that the Industrial Commission approves the 2015 Bank of North Dakota Holiday Schedule as follows:

**BANK OF NORTH DAKOTA
2015 HOLIDAY SCHEDULE**

The 2015 holidays will be observed by the Bank of North Dakota and the Federal Reserve Bank of Minneapolis and its Helena Branch on the following dates:

New Year's Day Thursday, January 1

Martin Luther King Jr. Day	Monday, January 19
Presidents Day	Monday, February 16
Memorial Day	Monday, May 25
Independence Day	Saturday, July 4
Labor Day	Monday, September 7
Columbus Day	Monday, October 12
Veterans Day	Wednesday, November 11
Thanksgiving Day	Thursday, November 26
Christmas Day.....	Friday, December 25

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

Mr. Hardmeyer reviewed the 2015-2017 BND Strategic Plan as follows: (A complete copy of the Strategic Plan is available in the Commission files.)

Executive Summary

Bank of North Dakota (BND) has developed its 2015 – 2017 Strategic Plan to establish the goals and strategies to execute on BND’s Mission “To deliver quality, sound financial services that promote agriculture, commerce and industry in North Dakota.”

The state of North Dakota is undergoing significant changes with the rapid growth in energy development and the impact it is having throughout the state. This has created renewed interest from across the country resulting in new business opportunities. It also is presenting challenges for businesses and communities to keep up with the need for a growing, skilled workforce and the resulting infrastructure and housing needs.

BND has established a new Vision that states: BND will be an agile partner that creates financial solutions for current and emerging economic needs. The focus of the vision is:

- Agile – The rapidly changing environment requires innovation, agility and flexibility.
- Partner – We seek to partner with financial institutions, state agencies, economic developers, and other stakeholders.
- Financial Solutions – We will meet a broad range of financial needs including lending, liquidity, asset management and transaction processing.
- Current and emerging economic needs – While meeting today’s needs, we also will be forward-looking to anticipate future needs and solutions to help with those needs.

Strategic Goals

BND has three strategic goals:

1. Develop and strengthen partnerships

2. Enhance stewardship of our public mission
3. Pursue a disciplined approach to long-term business performance.

Strategies

These goals will be achieved through the following four strategies:

1. Expand expertise and relationships to structure and finance economic development in North Dakota.
2. Provide a secure, challenging and rewarding work environment.
3. Broaden territory and enhance capabilities to meet the correspondent banking needs of financial institutions while protecting the bank's assets.
4. Improve the financial literacy and financial well-being of stakeholders.

A series of initiatives have been identified that further define how BND's resources will be deployed to execute on each of the strategies. These will be supported through a series of executive MBOs and employee goals to gauge progress and provide for accountability measures.

The end result is to ensure BND remains a sound financial institution that has the capabilities and resources to execute on its mission and vision long into the future.

Organization Description

During the early 1900s, North Dakota's economy was based on agriculture. Serious problems within the state prevented cohesive efforts in buying and selling crops and financing farm operations. Grain dealers outside the state suppressed grain prices, farm suppliers increased their prices, and interest rates on farm loans climbed.

By 1919, popular consensus wanted state ownership and control of marketing and credit agencies. In response, the state legislature established Bank of North Dakota and the North Dakota Mill and Elevator Association.

Bank of North Dakota was charged with the mission to "promote agriculture, commerce and industry" in North Dakota. It was never intended for BND to compete with or replace existing banks. Instead, BND was created to partner with other banks and assist them in meeting the needs of the citizens of North Dakota.

Bank of North Dakota opened July 28, 1919, with \$2 million of capital. Today, the Bank operates with more than \$600 million in capital. In partnership with over 100 financial institutions and numerous state agencies, BND continues to meet its mission to promote the development of agriculture, commerce and industry in North Dakota.

In 1967, BND made the first federally insured student loan in the nation. The Bank continues to provide the Dakota Educational Alternative Loan (DEAL) for students wanting to pursue post-secondary education and has recently created a DEAL One program to consolidate student loans at attractive interest rates.

Ownership and Boards

Bank of North Dakota is owned and operated by the state of North Dakota. Operations are overseen by the North Dakota Industrial Commission. The commission's functional designation was designed to conduct and manage (on behalf of North Dakota) certain utilities, industries, enterprises and business projects. The commission was also charged with the operation, management and control of BND. The governor (chairman), attorney general, and the agriculture commissioner comprise the Industrial Commission.

Established by state statute in 1969, BND's Advisory Board joined the Industrial Commission in overseeing BND. The following act states the purpose of the Board instituted by the North Dakota Legislature:

North Dakota's governor was given the power to appoint Advisory Board members knowledgeable in banking and finance. At present, the Board consists of seven members. The Advisory Board continues to review BND operations and makes recommendations to the Industrial Commission concerning management, services, policies and procedures.

Mission

To deliver quality, sound financial services that promote agriculture, commerce and industry in North Dakota.

Vision

BND will be an agile partner that creates financial solutions for current and emerging economic needs.

The focus of the vision is:

- Agile– The rapidly changing environment requires innovation, agility and flexibility.
- Partner – We seek to partner with financial institutions, state agencies, economic developers, and other stakeholders.
- Financial solutions – We will meet a broad range of financial needs including lending, liquidity, asset management and transaction processing.
- Current and emerging economic needs – While meeting today's needs, we also will be forward-looking to anticipate future needs and solutions to help with those needs.

Core Values

BND's core values serve as a guide in decision making and customer service.

Our Core values of service, teamwork, ethics, and people-centered allows BND to excel and deliver while accomplishing more together by doing the right thing and setting ourselves apart.

Excel and Deliver

We make decisions based on customer needs and preferences, recognizing the importance of continuous improvement, cost effectiveness and timeliness.

Service
Service

Together we accomplish more

We provide a positive work environment that fosters communication, respect, empowerment, accountability, commitment and partnerships.

Teamwork

Do the right thing

Teamwork
Ethics

We expect honesty and promote integrity and trust.

Employees set us apart

We embrace a culture that respects differences, encourages creativity and development, promotes work-personal balance and recognizes individuals for their contributions.

People-
Centered

Strategic Goals

BND has established the following strategic goals:

1. Develop and strengthen partnerships.
2. Enhance stewardship of our public mission.
3. Pursue a disciplined approach to long-term business performance.

Strategies and Initiatives

1. Expand expertise and relationships to structure and finance economic development in North Dakota.

Rationale:

Business and economic development projects are getting larger and more complex. They include a mix of equity, debt and tax-exempt bond financing. The economic developers, financial institutions (FI) and businesses perceive that BND has some of the capabilities but also need the participation of other state agencies. Over the next three years, BND will take the lead to coordinate the economic development capabilities of the state and enhance BND's capabilities to fill the gaps to make the process more seamless and efficient for the state.

Initiatives:

1. Facilitate the financing of large, complex projects.

The complexity of large projects continues to increase and creates challenges to the traditional funding models. Also, the number of projects being proposed over \$1 billion has significantly increased. BND will develop the ability to facilitate, and where appropriate, lead the financing package. BND will build relationships with others in the financial sector to facilitate the financing of these transactions.

2. Develop outreach process to economic developers.

BND will take a more active role to work directly with economic developers. A more formal calling program will be developed along with regular communication.

3. Align and coordinate more closely with the other economic development agencies to better deliver the capabilities and services of the state.

BND will partner with state agencies to provide a more collaborative approach to financing economic development efforts.

4. Create an Economic Development Campus.

Bring together the various state agencies that drive economic development into one location. It will improve the coordination of services and make it easier for customers to work with multiple agencies.

2. Provide a secure, challenging and rewarding work environment.

Rationale:

BND is challenged with the threats of cybercrime, increasing regulations, more sophisticated needs of customers and maintaining an organization with the appropriate skills. This will require a concerted effort over the next three years to ensure BND has the long term capabilities to fulfill its mission.

Initiatives:

1. Build and strengthen comprehensive employee development and leadership programs to prepare employees for future opportunities.

We value our employees as an important resource and will strive to continue to build the capabilities of the employees and managers. In 2014, the Situational Leadership program was initiated which will be implemented during the planning cycle.

2. Redesign compensation plans.

Due to the competition for talent, BND will evaluate the jobs to ensure they are appropriately sized, determine how to improve the compensation plans and plan options to retain and recruit the necessary talent.

3. Develop and integrate BND's technology plans.

BND has separate information security, technology and architecture plans. These plans will be consolidated into a comprehensive plan that aligns with the 2015-2017 Strategic Plan.

4. Design a new product development process.

Create a means to capture and analyze new product and service ideas from the various customer groups. The process will define how these ideas will be researched, prioritized and developed into potential new services. The goal is to effectively and efficiently deploy resources on the right new concepts and improve overall speed to market.

5. Implement Enterprise Risk Management (ERM).

Implement a comprehensive enterprise risk management program for BND. This includes the creation of a risk committee which will be responsible for overseeing the risk appetite statement, developing appropriate risk tolerances and ensuring proper monitoring and risk mitigation across all functional areas of the Bank.

6. Evaluate BND's/SLND's future for processing federal and DEAL student loans.

Determine the long-term options for the future of the student guarantee agency and the options for servicing the federally guaranteed student loans as the portfolio continues to decline.

3. Broaden territory and enhance capabilities to meet the correspondent banking needs of financial institutions while protecting the Bank's assets.

Rationale:

The number of banks and credit unions in North Dakota is expected to decline over the next five years as the smaller institutions are unable to survive. The banks located in North Dakota are also growing, building capabilities and expanding their reach. BND needs to expand and enhance the services provided to the banks and credit unions to continue to be a valued partner and to remain competitive with other correspondent banks and organizations. BND's success as a correspondent bank is critical since this is the largest source of revenue and profits which support BND's mission-driven programs.

Initiatives:

1. Expand to provide correspondent banking services to out-of-state branches of North Dakota FIs.

Currently, BND's FI customers need to establish relationships with other correspondent banks to provide services for non-North Dakota locations. It creates competitive risk for BND and more complexity for customers. This need will become more important as the banks expand, merge and grow their locations across the region.

2. Modify the lending organization to create more sales and relationship-focused resources.

The lending model will be modified and the roles redesigned to increase BND's ability to sell and service our customers. The Correspondent Bank of Choice initiative created one relationship manager position that has been positively received by banks. As the needs evolve and the size of the territory increases, BND will need additional resources with the capabilities to discuss the holistic needs of BND's customers.

3. Develop incentives for FIs to encourage expanded use of BND services.

Evaluate the profitability and scope of services used by customers and develop a relationship pricing model that encourages deeper relationships.

4. Package mortgage loans or DEAL loans to sub-participate with ND financial institutions.

Look for ways to provide value to our customer banks. This is in response to competitive pressure with other correspondent banks that are swapping commercial loans with their customers.

5. Implement Customer Relationship Management (CRM).

The implementation of a CRM system is an important component of the Correspondent Bank of Choice initiative from the previous plan.

6. Expand to provide correspondent banking services to financial institutions in states contiguous with North Dakota.

This is to serve banks from the neighboring states and leverage BND's capabilities to build scale and the capabilities to generate additional profits to be used within the state of North Dakota. The special programs and discounted interest rates authorized by the North Dakota Legislature will not be available to these institutions.

4. Improve the financial literacy and financial well-being of stakeholders.

Rationale:

North Dakota businesses and communities need a workforce that is financially literate and able to pay for education, buy homes, cars, pay rent, etc. People who have been hurt by the financial crisis of 2008 need to rebuild their credit before they can buy homes or use the traditional services of banks and credit unions. This creates more stability in the communities and a more productive workforce. It is a key part of BND's mission and is a way for BND to invest for the long term growth of the state.

Initiatives:

1. Develop financing programs for consumers and students with credit challenges.

Develop new programs (ex.risk pool concept, credit enhancements) that would allow North Dakota residents with credit challenges to qualify for certain loan types. Create a means to track success of those programs.

2. Expand student lending.

Identify the growth opportunities to expand the student lending program and further meet the needs of students and graduates.

3. Develop and deploy financial literacy initiatives.

Develop a partnership approach towards deploying financial literacy outreach programs for North Dakota residents with a focus on parents, students and homeowners. Programs may be deployed through various partners to reach the target audience.

Mr. Hardmeyer said this is probably the most aggressive far reaching plan the Bank has had. The Bank does a new plan every three years and the last one will expire at the end of 2014 so they thought it was important to reset for the next three years. They started it in June by meeting with a focus group of the Bank, financial institutions and credit unions – then went to a group of economic developers, had them in as a focus group, and then the Bank of North Dakota Advisory Board and the BND executive team. It was a very comprehensive approach to this plan.

Mr. Hardmeyer reviewed the executive summary and pointed out the new vision statement for BND. Our vision for the Bank is to be an agile partner that creates financial solutions for current and emerging economic needs. It is very straight forward. He reviewed the mission of the Bank and the four strategies. He discussed providing services to North Dakota banks which may have

branches in other states and BND helping them. They discussed those banks having percentages of business in North Dakota. He discussed an opportunity to do more business.

It was moved by Commissioner Goehring and seconded by Attorney General Stenehjem that the Industrial Commission approves the Bank of North Dakota Strategic Plan 2015-2017 as presented. On a roll call vote, Governor Dalrymple, Attorney General Stenehjem and Commissioner Goehring voted aye. The motion carried unanimously.

Mr. Tim Porter discussed the memorandum outlining the amendments to the Funds Management Policy. He said most of the changes reflect what their current practices are now. (A copy of the red-lined version of the Policy is available in the Commission files.)

It was moved by Commissioner Goehring and seconded by Attorney General Stenehjem that the Industrial Commission approves the following amendments to the Funds Management Policy:

- Page 4: Section 1 – Net Interest Income Management

To further elaborate on the concept of monitoring Net Interest Income (NII) through internal modeling, and around parallel and nonparallel shifts, the following documentation was revised and added:

“The risk parameters are measured using both parallel and nonparallel shifts of interest rates on a monthly basis”

“To demonstrate the impact of both parallel and nonparallel shifts, the Bank will report NII impacts under the following scenarios: 1) the full balance sheet will be shocked using both a parallel and nonparallel shift using current liability betas; 2) the full balance sheet will be shocked using a parallel and nonparallel shift and the current liability betas are raised to illustrate a more stressed scenario; and 3) the full balance sheet will be shocked using a parallel and nonparallel shift, and will also include a rate ramp to illustrate a more realistic or anticipated move in interest rates – current liability betas unchanged.”

- Page 4: Section 1 – Net Interest Income Management

In the table under “Acceptable Cumulative GAP range as a % of Total Assets”, the existing parameters of +/- 25% of Total Assets in the time period 91-365 days was revised to +/-30% of Total Assets given the Bank’s historical trend and current risk tolerance level.

- Page 4: Section 1 – Net Interest Income Management

In the table under “Acceptable Max. Net Interest Income Variance as a % of Annual Net Interest Income: +/-100bps ”, this metric of a +/-100bps shock **was removed** as the Bank is currently modeling rate shocks of +/-200bps and +/-400bps.

In the table under “Acceptable Max. Net Interest Income Variance as a % of Annual Net Interest Income: +/-200bps”, the existing maximum of 12.20% was revised to 12.50% to be more in line expectations.

An additional column was added to the table entitled: **“Acceptable Max. Net Interest Income Variance as a % of Annual Net Interest Income: +/-400bps”**. Given our process is to model this rate scenario, policy parameters are defined within this table. The methodology for the +/-400bps scenario is that we would set a maximum 2 times that of the +/-200bps scenario (12.50% x 2 = 25.00%).

- Page 5: Section 1 – Net Interest Income Management

The following excerpt was also added to clarify the table as presented:

“It should be noted that the above table incorporates 2 metrics: GAP and Net Interest Income. The Bank currently models GAP for time periods 0 days through 20+ years, thus the parameters as defined. As it relates to net interest income, the Bank currently models earnings impacts for a time horizon up to 2 years, thus the “N/A” designation for years 3 through 5+.”

- Page 5: Added narrative and a table describing Economic Value of Equity:

“In addition to, and related to interest rate risk management as discussed above, the Bank monitors the valuation of equity with respect to changes in interest rates. Managing equity at risk involves the measurement of what is commonly referred to as Economic Value of Equity, or EVE. This is the economic concept that gauges the impact of interest rate changes on the fair market value of assets, liabilities, and equity. The economic value approach provides a supplement to the earnings approach (net interest income as noted above) because of its focus on anticipated cash flows and the incorporation of balance sheet optionality as a result of changing interest rate environments. Monitoring changes in EVE is valuable in that it provides a comprehensive measurement of interest rate risk.”

ECONOMIC VALUE OF EQUITY GUIDELINES / PARAMETERS:

| ACCEPTABLE RANGE OF ECONOMIC VALUE OF EQUITY |
|--|--|--|--|
| +/- 100 B.P. | +/- 200 B.P. | +/- 300 B.P. | +/- 400 B.P. |
| ≤15% | ≤25% | ≤35% | ≤45% |

- Page 6: Section 2 – Balance Sheet Liquidity & Funding Management

In the table corresponding with “Long Term Liquidity”, the existing minimum of 20% was revised to 25% given the heightened emphasize and scrutiny on liquidity.

The following sentence was also added: **“These parameters are presented and monitored quarterly at Funds Management meetings.”**

- Page 11: Section 3 – Investment Portfolio Management

Under the table: “Approved Investment Guidelines”, the Maximum Amount per Issue size for Federal Agency Securities (non-structured) was revised from \$25,000,000 to \$50,000,000. In addition, the Maximum Amount per Issue size for Mortgage Backs was revised from \$15,000,000 to \$25,000,000. Given that the Bank’s investment portfolio has grown from \$300M to in excess of \$3B, an increase in per-issue size is considered reasonable.

- Page 13: Section 3 – Investment Portfolio Management

In the table: “Approved and Target Total Portfolio Duration Range”, the current Approved Minimum/Maximum Duration Range of 1.0 - 5.0 as revised to 1.0 - 4.0 as a result of the Bank’s overall investment strategy.

- Page 13: Section 3 – Investment Portfolio Management

Under the sub-section - Intent of Investment, the language was revised to state: “All investment securities purchased by Bank of North Dakota will be classified as Available for Sale or Held to Maturity on a case by case basis.”

- Page 14: Section 4 – Off Balance Sheet Hedging

Under sub-section B. Management Authority and Responsibilities, the language around broker rating was revised to state: “If the counterparty is a Broker/Dealer, the Broker/Dealer must possess an investment grade rating by Standards and Poor’s or Moody’s Rating Service and must be on the Bank’s approved Security Dealer List.” The previous language simply stated “an A rating or better”; it was determined that the revised language is better defined for the Bank’s purposes (removes the ambiguity of is ‘A-’ considered ‘A’ or not, etc.).

- Page 17: Section 4 – Off Balance Sheet Hedging

Removed the index heading: ‘G. Documentation’. This heading was duplicate index title under Section 4 of the Policy, and as this ‘Documentation’ was in reference to Strategy Development, the subsequent language was rolled-up into the Strategy Development index “F”.

- Page 19: Section 4 – Off Balance Sheet Hedging

Removed the index heading: ‘N. Documentation’. This heading was duplicate index title under Section 4 of the Policy, and as this ‘Documentation’ was in reference to Accounting for Off-Balance Sheet Transactions, the subsequent language was rolled-up into the Accounting for Off-Balance Sheet Transactions index “L”.

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

Mr. Hardmeyer presented the Third Quarter 2014 Performance Highlights. (A copy of the Performance Highlights is available in the Commission files.)

Mr. Hardmeyer presented the non-confidential Bank of North Dakota Advisory August 21, 2014 meeting minutes.

Governor Dalrymple closed the meeting at 4:45 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 4:57 p.m. and it was noted that during the confidential portion of the meeting, it had been moved and seconded that the Bank of North Dakota be authorized to participate in three loans identified as Attachments 24 - 26. In non-confidential session, on a roll call vote, Governor Dalrymple, Attorney General Stenehjem and Commissioner Goehring voted aye. The motion carried unanimously.

Being no further Bank of North Dakota business, Governor Dalrymple adjourned this portion of the meeting at 4:58 p.m. and the Commission took up Housing Finance Agency 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 October 27, 2014 beginning at 1:00 p.m.
Governor's Conference Room

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

Also

Present: Jason Nesbit, Governor's Office

Governor Dalrymple called the Housing Finance Agency portion of the Industrial Commission meeting to order at 4:58 p.m. following completion of Bank of North Dakota business.

Ms. Karlene Fine, Industrial Commission Executive Director, on behalf of Housing Finance Agency Executive Director Jolene Kline, presented the request for the appointment of a public hearing representative for the Low Income Housing Tax Credit Program public hearing on the proposed Qualified Allocation Plan. She stated the public hearing would be held on November 3, 2014.

It was moved by Attorney General Stenehjem and seconded by Commissioner Goehring that the Industrial Commission name Jolene Kline, Housing Finance Agency Executive Director, as the Public Hearing Representative for the Housing Finance Agency's proposed Low Income Housing Tax Credit Program Qualified Allocation Plan to be heard on November 3, 2014. On a roll call vote, Governor Dalrymple, Attorney General Stenehjem and Commissioner Goehring voted aye. The motion carried unanimously.

Being no further Housing Finance Agency business, Governor Dalrymple adjourned this portion of the meeting at 4:59 p.m. and the Commission took up Administrative business.

INDUSTRIAL COMMISSION OF NORTH DAKOTA



Karlene Fine, Executive Director and Secretary

Minutes of a Meeting of the Industrial Commission of North Dakota
Held on October 27, 2014 beginning at 1:00 p.m.
Governor's Conference Room

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

Also

Present: Jason Nesbit, Governor's Office

Governor Dalrymple called the Administrative portion of the Industrial Commission meeting to order at 4:59 p.m. following completion of Housing Finance Agency business.

Ms. Karlene Fine, Industrial Commission Executive Director, stated the minutes for the Commission's recent meetings were still being worked on so she had no minutes for approval.

Being no further Administrative business, Governor Dalrymple adjourned the meeting at 5:01 p.m.

INDUSTRIAL COMMISSION OF NORTH DAKOTA



Karlene Fine, Executive Director and Secretary