

TECHNICAL REVIEWERS' RATING SUMMARY

G016-C

Contribution of the Petroleum Industry to the North Dakota Economy

Submitted by North Dakota Petroleum Council

Principal Investigator: Ron Ness

Request for \$13,000; Total Project Costs \$26,000

Rating Category	Weighting Factor	Technical Reviewer			Average Weighted Score
		16C-01	16C-02	16C-03	
Objective	9	4	4	4	36.0
Availability	9	5	5	3	39.0
Methodology	7	5	4	3	28.0
Contribution	7	5	3	4	28.0
Awareness	5	5	4	3	20.0
Background	5	5	5	4	23.3
Project Management	2	3	4	4	7.3
Equipment Purchase	2	5	5	5	10.0
Facilities	2	4	5	5	9.3
Budget	2	5	4	3	8.0
Average Weighted Score		235	211	181	209
Maximum Weighted Score					250
 <u>OVERALL RECOMMENDATION</u>					
FUND		X	X	X	
FUNDING TO BE CONSIDERED					
DO NOT FUND					

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Applicant's Response

On behalf of the Petroleum Council, we are pleased with the favorable comments in the reviews. There were a few good questions raised and I am providing clarification on some specific points raised by the technical reviewers.

1. The objectives or goals of the proposed project with respect to clarity and consistency with North Dakota Industrial Commission/Oil and Gas Research Council goals are: 1 – very unclear; 2 – unclear; 3 – clear; 4 – very clear; or 5 – exceptionally clear.

Reviewer 16C-01 (Rating: 4)

The objective stated in the Abstract section on page 3 is clearly consistent with the NDIC/OGRC goal of promoting public awareness of the benefits of the oil and gas (O&G) industry to North Dakota.

Reviewer 16C-02 (Rating: 4)

This project is well aligned with the Oil and Gas Research Council goals and objectives contained in the third bullet (“Most effectively educate the general public about the benefits and opportunities...”) and the final bullet (“develop baseline information that will lead to other projects.....”)

Reviewer 16C-03 (Rating: 4)

Very straight forward explanation of research aims and uses.

2. With the approach suggested and time and budget available, the objectives are: 1 – not achievable; 2 – possibly achievable; 3 – likely achievable; 4 – most likely achievable; or 5 – certainly achievable.

Applicant's Response

“What's the timeline?”

The timeline for the study is as follows: the surveys were mailed in early April. Collecting sufficient data continues to be a challenge as operators are extremely busy and many companies refuse to disclose private financial information. The objective is to have the data collected by September 1 and have the data analyzed and the report finalized by November 15. A shorter timeline would be preferred but it is not feasible with the amount of work it takes to complete the project.

Reviewer 16C-01 (Rating: 5)

The logic and reasoning with respect to the approach are sound. The team assembled to conduct the work has a demonstrated track record of successfully conducting such surveys and economic analyses. This has been demonstrated by their 2005 survey. These elements, as described quite well in the proposal, indicate that the proposed time and budget are adequate to achieve the stated objectives.

Reviewer 16C-02 (Rating: 5)

There are a few inconsistent dates set forth in the surveys (response deadlines of May and June 2008); however, when those are updated, the overall goal of project completion of one year is achievable. This reviewer suggests a shorter timeline, with results of the study targeted to be

available to the 2009 Legislative Assembly (a timeline of 6 months is also assumed to be achievable).

Reviewer 16C-03 (Rating: 3)

We are into the time period of the survey already. I assume they have started but there was nothing to indicate this to be the case.

3. The quality of the methodology displayed in the proposal is: 1 – well below average; 2 – below average; 3 – average; 4 – above average; or 5 – well above average.

Applicant's Response

Reviewer 03 "What's the estimated market price of oil used in the study?"

The price of oil used in the study to compute impacts is the actual price received by producers in 2007. The survey is using real data, no estimations are required.

Reviewer 16C-01 (Rating: 5)

The methodology is described in a clear and concise manner. The questionnaires provided as appendices demonstrate the specific nature of the economic data that will be provided. The strong contacts the NDPC has with the O&G industry suggests the collection of sufficient data is achievable and the experience of the NDSU researchers suggest the methodology is sound and effective.

Reviewer 16C-02 (Rating: 4)

NDSU is well regarded as a regional leader in economic research including sample design and techniques. The lead researchers are both experts with many years' experience in applied economics.

(This reviewer has had some concerns with the North Dakota I/O model, as it has had a tendency to overestimate certain impacts. The I/O model is continually improved by NDSU economists, however, and updated versions have likely dealt with overestimation issues. In any case, this model has been shown to work well in establishing the economic contribution of several key industries in the state, including the first oil and gas industry analysis.)

Reviewer 16C-03 (Rating: 3)

This is a standard approach to this type of question. There is no mention of the market price of oil in their planned communications. Some may want to know if this is relevant.

4. The scientific and/or technical contribution of the proposed work to specifically address North Dakota Industrial Commission/Oil and Gas Research Council goals will likely be: 1 – extremely small; 2 – small; 3 – significant; 4 – very significant; or 5 – extremely significant.

Reviewer 16C-01 (Rating: 5)

The data will provide the public and policy makers with critical data regarding the economic impact of the oil and gas industry to ND. This data is particularly critical when considered in the context of 1) high gasoline prices that significantly affect consumers; and 2) the tremendous increase in activity since 2005 as a result of the booming Bakken play. In the case of consumer frustration with gas prices, the study results will demonstrate that a strong oil and gas industry is a key component of the overall ND economy and that policies aimed at "punishing" the industry may have negative unintended consequences for ND. The study will also provide important insight regarding the true magnitude of the Bakken boom on the ND economy.

Reviewer 16C-02 (Rating: 3)

This study does not propose to add to the scientific or technical body of knowledge of the oil and gas industry itself. Still, the contribution will be significant from the prospective of technical knowledge of the many related facets of the industry and how each contributes to the overall North Dakota economy.

Reviewer 16C-03 (Rating: 4)

The proposed work clearly qualifies under paragraph 54-17.6-02 and will likely result in useful information to disseminate to the public.

5. The principal investigator's awareness of current research activity and published literature as evidenced by literature referenced and its interpretation and by the reference to unpublished research related to the proposal is: 1 – very limited; 2 – limited; 3 – adequate; 4 – better than average; or 5 – exceptional.

Reviewer 16C-01 (Rating: 5)

The PI's awareness of the current research and literature in the relevant area is clearly demonstrated both within the body of the proposal and the references on page 10.

Reviewer 16C-02 (Rating: 4)

There is little doubt that Mr. Ness is a leading expert in all oil and gas issues and as such, will be well-suited to be the principal investigator on this study. It is possible this question may deserve a rating of "5" except Ness actually didn't discuss the current research so much as mention the lack of any.....

Reviewer 16C-03 (Rating: 3)

The references indicate experience working with a 23 year old model and some of ND's economic sectors. There is no sense of a broader understanding of current research in the energy economics sector or beyond the North Dakota experience.

6. The background of the investigator(s) as related to the proposed work is: 1 – very limited; 2 – limited; 3 – adequate; 4 – better than average; or 5 – exceptional.

Reviewer 16C-01 (Rating: 5)

The NDPC and NDSU personnel are clearly exceptionally qualified to conduct the proposed work. The quality of the questionnaire, the success of the 2005 survey, the experience of the NDSU researchers displayed in the text and the references, and the strong connection between NDPC and industry demonstrate their exceptional background.

Reviewer 16C-02 (Rating: 5)

Ness is uniquely and appropriately qualified to assist in this work and is very well known and respected among the industry.

Reviewer 16C-03 (Rating: 4)

The investigator clearly has experience doing this type of research.

7. The project management plan, including a well-defined milestone chart, schedule, financial plan, and plan for communications among the investigators and subcontractors, if any, is: 1 – very inadequate; 2 – inadequate; 3 – adequate; 4 – very good; or 5 – exceptionally good.

Applicant's Response

Question 7 – Reviewer 03 “What’s the Communications Plan?”

The Communications Plan is fairly well described in the proposal but more is available. The outreach efforts will include the publication of the final report and a summary along with fact sheets. There will be a news conference and interviews generated, the information will be posted on the website and used in presentations and distributed to policy-makers in a Tidbits.

Reviewer 16C-01 (Rating: 3)

While the description provided in Sections 6 and 7 is adequate for the reviewer to evaluate and understand the proposed schedule and budget, no milestone chart or plans for communication between NDPC and NDSU are provided. It is also not clear where the 50% cost-share for the project will be coming from.

Reviewer 16C-02 (Rating: 4)

The timeline, description of communication methods (and acknowledgement that communication of results will be very important) all indicate a very good project plan. Additionally the measures of successful communication of results were helpful and indicated knowledge of the target audience the eventual use of the completed project.

Reviewer 16C-03 (Rating: 4)

The timing of investigation, research and writing are plausible and are clearly spelled out in the proposal.

8. The proposed purchase of equipment is: 1 – extremely poorly justified; 2 – poorly justified; 3 – justified; 4 – well justified; or 5 – extremely well justified. (Circle 5 if no equipment is to be purchased.)

Reviewer 16C-01 (Rating: 5)

No equipment will be purchased.

Reviewer 16C-02 (Rating: 5)

No equipment to be purchased.

Reviewer 16C-03 (Rating: 5)

Only services are being purchased and all seem well explained and reasonable.

9. The facilities and equipment available and to be purchased for the proposed research are: 1 – very inadequate; 2 – inadequate; 3 – adequate; 4 – notably good; or 5 – exceptionally good.

Reviewer 16C-01 (Rating: 4)

The NDPC and NDSU appear to have the facilities and equipment necessary, as demonstrated by their track-record in conducting such studies and successfully communicating results.

Reviewer 16C-02 (Rating: 5)

NDSU facilities and equipment will be exceptionally good as will the “facilities” that include the modification of the ND Petroleum Council website to allow for the dissemination of the study results.

Reviewer 16C-03 (Rating: 5)

No purchases to be made that qualify here.

10. The proposed budget “value”¹ relative to the outlined work and the financial commitment from other sources is of: 1 – very low value; 2 – low value; 3 – average value; 4 – high value; or 5 – very high value. (See below)

Reviewer 16C-01 (Rating: 5)

Considering the fact that the impact of the O&G industry on ND is measured in billions of dollars, the decisions of policy makers on fiscal policies affecting the industry can have tremendous impact. In short, \$13,000 is a very reasonable investment for NDIC/OGRC to ensure that multi-million dollar policy decisions are based on reliable and current economic data.

Reviewer 16C-02 (Rating: 4)

This project is deemed to be of very high value, but the financial commitment is neutral.

Reviewer 16C-03 (Rating: 3)

The receivables mentioned are consistent with what one could expect for the prices charged.

Section C. Overall Comments and Recommendations:

Please comment in a general way about the merits and flaws of the proposed project and make a recommendation whether or not to fund.

Reviewer 16C-01 (Fund)

Merits –

- 1) the proposed team is exceptionally suited to successfully conduct the proposed activities and achieve the stated goals of both the proposal and the NDIC/OGRC.
- 2) The data that will be generated will be critical for policy makers at the local, county, and state level to make well-informed decisions regarding fiscal policy and planning related to the oil & gas industry in ND.
- 3) The timing of the study is very appropriate considering the dramatic changes in the oil price environment, operational and capital expenditure costs, and overall activity in the state that have occurred since the first study in 2005. The data from the 2005 study is very dated and thus severely limited in its usefulness. Both the public and policy makers need updated information, and this study will provide it.

Flaw –

- 1) It is not clear from whom or how co-funding for the study will be obtained/provided.

Recommendation –

This project should be funded based on the key role the study will play in educating the public and policy makers with respect to the vital role that O&G plays in a healthy, sustainable ND economy.

Reviewer 016C-02 (Fund)

Fully understanding the increasing economic contribution of the oil and gas industry will be vital to policy makers as they grapple with state budget and taxing structure demands. From a more global perspective, North Dakota is a growing player in the world energy production “arena” and, as such, accurate and timely information regarding the economic scope of oil and gas industry in North Dakota will be key to responsible expansion.

This proposal appears to be a good one, well worth the investment requested. The researchers and the investigator are well-known and highly regarded as experts in their fields. Their product will be thorough, statistically sound, and likely disseminated in a manner that will educate, and inform.

Reviewer 16C-03 (Fund)

There is an issue with the fact that the proposal does not make clear whether current market conditions will be evaluated as a factor in the current contribution of this sector in the North Dakota economy. Should prices change, say dramatically fall, in the next year there is a significant chance that the contribution of the industry will change dramatically. I think the model as developed captures much of the activity though not all that would occur in response to oil and gas firm spending.

Applicant's Response

Section C – Summary Reviewer 01 “Who is paying for the study?”

The Petroleum Council will provide the matching funding for the study.

In closing the Petroleum Council Board of Directors believes the value of this study to the general public, policy-leaders, and the State of North Dakota will be significant since the oil activity in North Dakota has become such big news across the nation and world. Having this data to compare with the 2005 data will provide a real assessment of how significant the booming oil activity is to the North Dakota economy and should be a good indicator of what can be expected in terms of economic impacts if oil activity continues at the current pace. In addition, the Empower North Dakota Commission has made gathering data such as this a priority for all sectors of the state's energy industry and this project helps meet that goal. We look forward to seeing the results later this year.