



INDUSTRIAL COMMISSION OF NORTH DAKOTA
OIL AND GAS RESEARCH COUNCIL

Governor
John Hoeven
Attorney General
Wayne Stenehjem
Agriculture Commissioner
Roger Johnson

Memorandum

TO: Oil and Gas Research Council
FR: Karlene Fine, Industrial Commission Executive Director
DT: June 25, 2007
RE: Funding Allocation and Pipeline Authority Project Process

Attached is a draft financial statement for the 2007-2009 biennium. As soon as the books are closed on the 2005-2007 biennium I will be able to fill in some of the blanks. However, at this point I am seeking some direction from the Oil and Gas Research Council ("Council") regarding whether you wish to maintain the allocation for priorities at the same levels for the 2007-2009 biennium. If you wish to maintain the same percentages for the priorities then I need direction as to which priority the funding for the Pipeline Authority should come from.

A second question is whether uncommitted funds from one biennium to the next biennium are carried forward and assigned to the same priority or if all uncommitted funds are totaled and then reallocated.

The last question relates to a policy for the Pipeline Authority Director to distribute funds. The Council has set aside \$50,000 for studies. With that action, I am proposing that the Director has the authority to allocate those funds to Pipeline Authority studies as the Director determines appropriate. The Director would discuss any allocation of those funds (up to \$50,000) with the Management Committee but would not be required to seek approval of the Council or the Industrial Commission ("Commission"). However, for any Pipeline Authority projects in excess of the amount set aside by the Council/Commission, the funding would need to be acted on by the Council and the Commission. I would propose the following policy in regards to this issue:

The Pipeline Authority Director is given authorization to expend the amount set aside by the Oil and Gas Research Council for Pipeline Authority studies after consultation with the OGRC Management Committee. These expenditures will be reported to the Council at their regular meetings.

I anticipate that the Pipeline Authority Director will be approached to provide funding in larger amounts for projects. The statute sets forth some of the process that must be taken if the Pipeline Authority wishes to construct a pipeline. The statute is less clear on the process for investing in pipeline facilities. This is an issue Mark and the Management Committee will be looking into and the Council will be hearing more about in the future. What should the process be for approval of participation/investment in projects? Should it be the same as the Oil and Gas Research Council review process? More to come on this issue in the future.....

Karlene

Wayne Biberdorf, Chairman
Ed Murphy
Ryan Kopseng

Al Anderson, Vice Chairman
Lynn Helms
Bob Mau

Ron Anderson
Anthony Duletski
Ron Ness



Oil and Gas Research Fund
 Financial Statement
2007-2009 Biennium
 June 26, 2007 OGRC Meeting

	<u>Cash Balance</u>
July 1, 2007 Balance	\$ _____
Revenues through _____	\$ _____
Expenditures through _____	\$ _____
Subtotal	\$ _____
Outstanding Technical Services Commitments (Est.)	\$ _____
Outstanding Pipeline Authority Commitments (Est.)	\$ _____
Outstanding Project Commitments in 2007-2009	<u>\$ (280,000.00)</u>
Balance	\$ _____

Oil and Gas Research Fund
 Continuing Appropriation Authority
 2007-2009 Biennium

Balance July 1, 2007	\$ _____
Income from Project Applications (Estimated)	\$ 2,100.00
Income from Interest Earnings (Estimated)	\$ _____
Revenues beginning October 1, 2007 through June 30, 2009	<u>\$3,000,000.00</u>
	\$ _____

57-51.1-07.3. Oil and gas research fund - Deposits - Continuing appropriation

There is established a special fund in the state treasury to be known as the oil and gas research fund. Two percent of the state's share of the oil and gas gross production tax and oil extraction tax revenues, up to three million dollars per biennium, must be deposited into the oil and gas research fund. The state treasurer shall transfer into the oil and gas research fund two percent of the state's share of the oil and gas production tax and the oil extraction tax revenues for the previous three months. All money deposited in the oil and gas research fund and interest on all such moneys are appropriated as a continuing appropriation to the council to be used for purposes stated in chapter 54-17.6.

Statute as amended and effective on July 1, 2007.

Oil and Gas Research Program Budget Allocation/Applications

Priorities	%	2007-2009 Biennium	Grant Round 13 05/01/07	Grant Round 14 11/01/07	Grant Round 15 5/01/08	Grant Round 16 11/01/08	Grant Round 17 5/01/09	Grant Round 18 00/00/00	Grant Round 19 00/00/00
Research	72.50%	\$2,175,000.00	\$270,000.00	\$ 0.00	\$0.00	\$0.00	\$0.00	\$ 0.00	\$0.00
Education	20.00%	\$600,000.00	\$109,150.00	\$ 0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Subtotal	92.50%	\$2,775,000.00	\$379,150.00	\$ 0.00	\$0.00	\$0.00	\$0.00	\$ 0.00	\$0.00
Admin.	7.50%	\$225,000.00	\$0.00	\$ 0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Total	100.00%	\$3,000,000							

Summary of Available Funding

<u>Priorities</u>	<u>Beginning Balance*</u>	<u>Remaining \$'s Uncommitted for 2007-2009 Biennium</u>
Research	\$1,895,000**	\$1,895,000
Education	\$ 600,000	\$ 600,000
Administration	\$ 225,000	\$ 225,000
Total	\$2,720,000	\$2,720,000

*The beginning balance will be adjusted once I receive direction regarding how the Pipeline Authority expenditures should be allocated and if unused funds that are carried over from one biennium remain in the same priorities or if the unused funds are added to the overall total and then reallocated to the priorities.

**The amount for research is reduced by \$280,000 which is the funding previously approved for the Plains CO2 Reduction Project for Phase 2 years three and four.

QUESTION: How do you want me to allocate the funding for the Pipeline Authority? Should a percentage be set aside; should a proportionate share be taken from each priority? The Council at their April 10, 2007 meeting recommended that a total of \$125,000 be set aside for the Pipeline Authority for the period June 1, 2007 – May 31, 2008. The Commission adopted that recommendation. Of that amount, \$9,285 will have been expended during the 05-07 biennium. The amount remaining for expenditure previously approved is \$115,715. (FYI, the contract negotiated with Mr. Makelky has total compensation at \$83,564—this is higher than the amount previously set aside by the Council by \$18,564.)