
AGENCY OVERVIEW**405 Industrial Commission****Date:** 12/11/2012**Time:** 10:50:52

Statutory Authority

North Dakota Century Code 4-36, 6-09.4, 17-05, 23-29-07.6, 28-32-02, 38-08, 38-08.1, 38-11.2, 38-12, 38-12.1, 38-14.1, 38-15, 38-19, 38-22, 49-24, 54-17, 54-17.2, 54-17.3, 54-17.6, 54-17.7, 54-17-34, 54-17-38, 54-63, and 57-61-01.5.

Agency Description

The Industrial Commission (IC) budget is comprised of three agencies including the Administrative Office, the Public Finance Authority (PFA), and the Department of Mineral Resources (DMR), which includes the Oil and Gas Division (OGD) and the Geological Survey (GS).

The Administrative Office coordinates the activities of the agencies overseen by the IC. The office is the contracting office for the Lignite, Oil and Gas, and Renewable Energy Research Programs. Funding for the Renewable Energy Program is a line item in this budget. This office is the primary contact for the Building Authority.

The DMR is the primary source of information regarding the geology of ND and is responsible for regulating all facets of petroleum production through enforcement of statutes, rules and regulations of the IC with regards to geophysical exploration, permitting of wells, establishing well spacing for producing reservoirs, inspection of facilities, approving enhanced oil recovery operations, ensuring proper plugging and site reclamation of all wells, and conducting hearings on oil and gas matters in a manner that will be most beneficial to the producer, royalty owner and all citizens of the state. The DMR maintains the state's core and sample library in Grand Forks, coordinates the State Fossil Collection, and disseminates geological information via the internet, maps, publications, presentations, tours and field trips. The DMR has statutory regulatory responsibilities for subsurface minerals, underground fluid injection, carbon dioxide underground storage, oil well cores and drilling samples, coal exploration drilling, geothermal and paleontological resources. The DMR determines the geologic suitability of all proposed landfills, reviews a variety of highway improvement projects as well as pipeline and transmission line corridors, and coordinates the State Fossil and State Mineral collections.

The PFA provides market and below market loans to political subdivisions through the purchase and holding of eligible securities and provides financial services in connection with the administration and management of the State Revolving Fund Program as the financial agent for the State Health Department. During the 2011-13 biennium the PFA offered disaster loan assistance to political subdivisions through its Capital Finance Program.

Agency Mission Statement

- Through the Administrative Office, serve as the central contact for the activities and programs overseen by the North Dakota Industrial Commission and serve as secretary for the Commission.
- Through the Administrative Office, facilitate the operations of the Oil and Gas Research Program which has the mission to promote the growth of the oil and gas industry through research and education.
- Through the Administrative Office (which serves as the contracting officer for the Lignite Research, Development, Education and Marketing Program), promote economic, efficient and clean uses of lignite and products derived from lignite in order to maintain and enhance development of North Dakota lignite and its products; preserve and create jobs involved in the production and utilization of North Dakota lignite; ensure economic stability, growth and opportunity in the lignite industry; and maintain a stable and competitive tax base for our state's lignite industry for the general welfare of North Dakota. The development of North Dakota's lignite resources must be conducted in an environmentally sound manner that protects our state's air, water and soil resources as specified by applicable federal and state law.
- Through the Transmission Authority (activities coordinated by the Administrative Office) with funding made available from the Lignite Research Program, assist with the removal of electrical transmission export constraints and assist with the upgrading and expansion of the region's electrical transmission grid to provide reliable electricity to our citizens and industries and for export to the regions' consumers.
- Through the Administrative Office acting as the North Dakota Building Authority, access the national capital markets for low-cost financing of capital projects approved by the legislature.
- Through the Pipeline Authority (activities assisted by the Administrative Office and the Department of Mineral Resources), facilitate development of pipeline facilities to support the production, transportation, and utilization of North Dakota energy-related commodities.
- Through the Administrative Office, in coordination with the Department of Commerce, facilitate the operations of the Renewable Energy Development Program which has the mission to promote the growth of North Dakota's renewable energy industries through research, development and education.

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- Through the Administrative Office as the authorized officer for the North Dakota Student Loan Trust, oversee funds held in the Student Loan Trust and provide funds, in coordination with the North Dakota Student Loan Guarantee Agency, to enhance student loans administered by the Bank of North Dakota.
- Through the Department of Mineral Resources, encourage and promote the development, production and utilization of oil and gas in the state in such a manner as will prevent waste, maximize economic recovery, assure that appropriate drilling and plugging operations are utilized that prevent the pollution of freshwater supplies by oil, gas, or saltwater and prevent blowouts, and fully protect the correlative rights of all owners to the end that the landowners, the royalty owners, the producers, and the general public realize the greatest possible good from these vital natural resources.
- Through the Department of Mineral Resources, investigate and report the geology of North Dakota emphasizing the state's energy resources and stressing applied research, public service, dissemination of information, advisory work and regulatory duties leading to the economic benefits or quality of life improvements for residents of the state, industry and other state, federal and local government agencies.
- Through the Department of Mineral Resources, maintaining the valuable oil and gas cores and coordinating the State's Fossil Collection for the benefit of the State's citizens.
- Through the Public Finance Authority, assist with the development of rural and urban North Dakota by providing political subdivisions and other qualifying entities access to flexible and competitive financing option for their local qualifying projects.
- Through the Public Finance Authority, assist small issue manufacturers in obtaining loans through tax-exempt financing.

Agency Performance Measures

Performance Measures are addressed under each of the individual programs.

Major Accomplishments

1. Helped coordinate the activities of the Pipeline Authority during an unprecedented level of activity.
2. Provided information on current pipeline construction activities through newsletters, webinars and presentations.
3. Retained Bentek Energy, through the Pipeline Authority, to prepare an analysis of the Williston Basin with the objective of forecasting natural gas production growth through 2025 to determine if adequate natural gas pipeline infrastructure exists in North Dakota.
4. Retained Kadrmas, Lee & Jackson, through a partnership with the Transmission Authority, Basin Electric Cooperative and Montana-Dakota Utilities Co., to study and project future electric load growth in the Williston Basin area.
5. Published 60 articles, maps, and reports; gave 71 presentations on various aspects of North Dakota geology, including the Bakken, Three Forks, Tyler, and Spearfish Formations, evaluation of sand deposits for proppant and the potential of clay deposits for ceramic proppant manufacture, sand and gravel resources, lineaments and oil production, geothermal potential, landslides, shallow gas, and paleontology; issued 233 geothermal, coal exploration, and subsurface mineral permits; prepared the mummified duckbill dinosaur "Dakota" for exhibit; reboxed 24,029 core and sample boxes in an effort to extend the life of the core and sample library; participated in five public fossil digs during the summer of 2009; answered more than 3,021 inquiries; lifted more than 812 tons of rock core off of the shelves in the core and sample library; and reviewed the geologic suitability of 16 pre-applications for oil field wastes.
6. Dealt with an increasing workload with the state experiencing record oil and gas production of approximately 675,000 barrels of oil per day, the highest level of drilling rig activity with the issuance of 2,000 well permits and a record setting number of cases heard (3,000) with orders issued and 15 seismic projects permitted. Completed an assessment of the oil potential of the Three Forks Formation in North Dakota. Enhanced royalty owner access. Co-sponsored the 2012 Williston Basin Petroleum Conference & Expo in Bismarck that drew a record setting 4,700 attendees.
7. Provided funding for litigation initiated by the Attorney General's Office against the State of Minnesota which limits the ability of ND citizens to export electricity to Minnesota.
8. Participated in the ongoing work of the EmPower Commission.
9. Refunded outstanding North Dakota Building Authority bonds which resulted in a savings of over \$2.0 million.
10. Leveraged \$7.9 million of state dollars with matching funds of \$18.8 million for research and educational projects through the three research programs thus far in the 2011-13 biennium.
11. Provided a low cost disaster loan program, through the Public Finance Authority, to assist political subdivisions faced with numerous costs from natural disasters during the 2011-13 biennium.

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Future Critical Issues

- The need for additional staffing in the Department of Mineral Resources along with competitive salaries for experienced personnel.
- Increasing environmental and reclamation workload on the Department of Mineral Resources as a result of federal and state legislation with no additional funding provided.
- Equipment and temporary salary needs for electronic storage and dissemination of oil and gas information to county governmental agencies, landowners, and all citizens of the State.
- Regulations that would remove the state from primacy of oil and gas development and specifically federal regulations that would ban fracking.
- Transmission (electrical) and Transportation (pipeline) constraints that limit the State's energy industries from moving energy both in and out of North Dakota.
- The lignite energy industry is facing an unknown future as a result of laws, regulations and court rulings, the lack of a national energy policy, and specifically proposed regulation from the Environmental Protection Agency. In addition to providing funding for the development of new technology, North Dakota must be prepared to address and litigate, if necessary, regulations that could place oversight of various aspects of lignite mining and electric generation at the federal rather than the state level.
- An increasing demand for renewable energy without sufficient time to develop technology and identification of the best possible sources.

REQUEST SUMMARY405 Industrial Commission
Biennium: 2013-2015

Bill#: SB2014

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Description	Expenditures 2009-2011 Biennium	Present Budget 2011-2013	Budget Request Change	Requested Budget 2013-2015 Biennium	Optional Budget Request
By Major Program					
Administration	40,939,255	47,881,244	(8,038,233)	39,843,011	3,078,159
Office of Mineral Resources	11,195,279	16,307,098	(1,175,823)	15,131,275	6,958,678
Public Finance Authority	367,249	654,027	7,216	661,243	0
Total Major Program	52,501,783	64,842,369	(9,206,840)	55,635,529	10,036,837
By Line Item					
Salaries and Wages	9,549,262	12,596,406	597,699	13,194,105	3,831,916
Operating Expenses	2,390,887	4,493,744	(1,362,289)	3,131,455	3,199,121
Capital Assets	37,998	0	0	0	5,800
Grants	11,112,752	19,971,300	(471,300)	19,500,000	0
Carbon Dioxide Storage Administration	0	532,000	(532,000)	0	0
Mineral Resources Contingency	0	359,186	(359,186)	0	0
Bond Payments	26,010,884	25,389,733	(5,579,764)	19,809,969	0
State Facility Lignite Proj	400,000	0	0	0	0
Renewable Energy Dev	3,000,000	1,500,000	(1,500,000)	0	3,000,000
Total Line Items	52,501,783	64,842,369	(9,206,840)	55,635,529	10,036,837
By Funding Source					
General Fund	14,132,076	18,075,613	(3,208,355)	14,867,258	9,958,678
Federal Funds	258,552	263,485	532	264,017	0
Special Funds	38,111,155	46,503,271	(5,999,017)	40,504,254	78,159
Total Funding Source	52,501,783	64,842,369	(9,206,840)	55,635,529	10,036,837
Total FTE	61.06	76.06	(1.00)	75.06	23.69

REQUEST DETAIL

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Bill#: SB2014

Date: 12/11/2012

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Description	Expenditures 2009-2011 Biennium	Present Budget 2011-2013	Budget Request Change	Requested Budget 2013-2015 Biennium	Optional Budget Request
Salaries and Wages					
Salaries - Permanent	7,180,639	9,123,761	401,865	9,525,626	2,400,666
Salaries - Other	0	0	0	0	450,000
Temporary Salaries	50,888	442,967	(146,727)	296,240	0
Overtime	1,773	0	0	0	0
Fringe Benefits	2,315,962	3,029,678	342,561	3,372,239	981,250
Salary Increase	0	0	0	0	0
Benefit Increase	0	0	0	0	0
Total	9,549,262	12,596,406	597,699	13,194,105	3,831,916
Salaries and Wages					
General Fund	8,490,462	11,551,878	545,120	12,096,998	3,753,757
Federal Funds	249,552	263,485	532	264,017	0
Special Funds	809,248	781,043	52,047	833,090	78,159
Total	9,549,262	12,596,406	597,699	13,194,105	3,831,916
Operating Expenses					
Travel	684,602	1,221,352	(463,408)	757,944	1,596,565
Supplies - IT Software	99,835	89,375	0	89,375	4,800
Supply/Material-Professional	45,445	49,200	23,900	73,100	0
Food and Clothing	3,834	7,650	0	7,650	5,500
Bldg, Ground, Maintenance	11,813	17,332	950	18,282	0
Miscellaneous Supplies	49,565	36,950	50	37,000	16,500
Office Supplies	48,250	56,600	2,460	59,060	1,000
Postage	32,584	31,450	19,800	51,250	0
Printing	30,893	36,000	25	36,025	0
IT Equip Under \$5,000	106,937	158,132	0	158,132	49,100
Other Equip Under \$5,000	11,583	24,880	100	24,980	28,600
Office Equip & Furn Supplies	10,495	64,500	0	64,500	41,055
Utilities	10,451	12,100	0	12,100	0
Insurance	9,602	18,150	0	18,150	0
Rentals/Leases-Equip & Other	19,481	5,630	0	5,630	0
Rentals/Leases - Bldg/Land	559,505	732,540	144,198	876,738	224,868
Repairs	38,831	51,120	930	52,050	0
IT - Data Processing	177,539	229,992	226	230,218	36,266
IT - Communications	82,304	140,824	300	141,124	33,312
IT Contractual Srvcs and Rprs	2,035	16,685	0	16,685	0
Professional Development	54,836	89,591	30,025	119,616	6,555
Operating Fees and Services	123,654	142,595	(295)	142,300	0
Fees - Professional Services	173,577	1,255,805	(1,121,550)	134,255	1,155,000

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Description	Expenditures 2009-2011 Biennium	Present Budget 2011-2013	Budget Request Change	Requested Budget 2013-2015 Biennium	Optional Budget Request
Medical, Dental and Optical	3,236	5,291	0	5,291	0
Total	2,390,887	4,493,744	(1,362,289)	3,131,455	3,199,121
Operating Expenses					
General Fund	2,203,616	4,132,549	(1,362,289)	2,770,260	3,199,121
Federal Funds	9,000	0	0	0	0
Special Funds	178,271	361,195	0	361,195	0
Total	2,390,887	4,493,744	(1,362,289)	3,131,455	3,199,121
Capital Assets					
Equipment Over \$5000	37,998	0	0	0	5,800
Total	37,998	0	0	0	5,800
Capital Assets					
General Fund	37,998	0	0	0	5,800
Federal Funds	0	0	0	0	0
Special Funds	0	0	0	0	0
Total	37,998	0	0	0	5,800
Grants					
Grants, Benefits & Claims	11,057,843	19,918,300	(418,300)	19,500,000	0
Transfers Out	54,909	53,000	(53,000)	0	0
Total	11,112,752	19,971,300	(471,300)	19,500,000	0
Grants					
General Fund	0	0	0	0	0
Federal Funds	0	0	0	0	0
Special Funds	11,112,752	19,971,300	(471,300)	19,500,000	0
Total	11,112,752	19,971,300	(471,300)	19,500,000	0
Carbon Dioxide Storage Administration					
Transfers Out	0	532,000	(532,000)	0	0
Total	0	532,000	(532,000)	0	0
Carbon Dioxide Storage Administration					
General Fund	0	532,000	(532,000)	0	0
Federal Funds	0	0	0	0	0
Special Funds	0	0	0	0	0

REQUEST DETAIL405 Industrial Commission
Biennium: 2013-2015

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Description	Expenditures 2009-2011 Biennium	Present Budget 2011-2013	Budget Request Change	Requested Budget 2013-2015 Biennium	Optional Budget Request
Total	0	532,000	(532,000)	0	0
Mineral Resources Contingency					
Salaries - Permanent	0	359,186	(359,186)	0	0
Transfers Out	0	0	0	0	0
Total	0	359,186	(359,186)	0	0
Mineral Resources Contingency					
General Fund	0	359,186	(359,186)	0	0
Federal Funds	0	0	0	0	0
Special Funds	0	0	0	0	0
Total	0	359,186	(359,186)	0	0
Bond Payments					
Transfers Out	26,010,884	25,389,733	(5,579,764)	19,809,969	0
Total	26,010,884	25,389,733	(5,579,764)	19,809,969	0
Bond Payments					
General Fund	0	0	0	0	0
Federal Funds	0	0	0	0	0
Special Funds	26,010,884	25,389,733	(5,579,764)	19,809,969	0
Total	26,010,884	25,389,733	(5,579,764)	19,809,969	0
State Facility Lignite Proj					
Grants, Benefits & Claims	400,000	0	0	0	0
Total	400,000	0	0	0	0
State Facility Lignite Proj					
General Fund	400,000	0	0	0	0
Federal Funds	0	0	0	0	0
Special Funds	0	0	0	0	0
Total	400,000	0	0	0	0
Renewable Energy Dev					
Transfers Out	3,000,000	1,500,000	(1,500,000)	0	3,000,000
Total	3,000,000	1,500,000	(1,500,000)	0	3,000,000

Renewable Energy Dev

REQUEST DETAIL

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Description	Expenditures 2009-2011 Biennium	Present Budget 2011-2013	Budget Request Change	Requested Budget 2013-2015 Biennium	Optional Budget Request
General Fund	3,000,000	1,500,000	(1,500,000)	0	3,000,000
Federal Funds	0	0	0	0	0
Special Funds	0	0	0	0	0
Total	3,000,000	1,500,000	(1,500,000)	0	3,000,000

Funding Sources

General Fund	14,132,076	18,075,613	(3,208,355)	14,867,258	9,958,678
Federal Funds	258,552	263,485	532	264,017	0
Special Funds	38,111,155	46,503,271	(5,999,017)	40,504,254	78,159
Total Funding Sources	52,501,783	64,842,369	(9,206,840)	55,635,529	10,036,837

CHANGE PACKAGE SUMMARY

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Description	Priority	FTE	General Fund	Federal Funds	Special Funds	Total Funds
Base Budget Changes						
One Time Budget Changes						
A-E 1 Remove 11-13 Bien One-Time Funding		0.00	(3,147,000)	0	0	(3,147,000)
Total One Time Budget Changes		0.00	(3,147,000)	0	0	(3,147,000)
Ongoing Budget Changes						
A-A 2 Base Budget Changes to Meet 100%		0.00	(247,289)	0	(471,300)	(718,589)
A-A 20 Reduction of Bond Payments		0.00	0	0	(5,579,764)	(5,579,764)
Base Payroll Change		(1.00)	185,934	532	52,047	238,513
Total Ongoing Budget Changes		(1.00)	(61,355)	532	(5,999,017)	(6,059,840)
Total Base Budget Changes		(1.00)	(3,208,355)	532	(5,999,017)	(9,206,840)

Optional Budget Changes

One Time Optional Changes

A-D 6 Possible Litigation with EPA	3	0.00	1,000,000	0	0	1,000,000
A-D 7 Market Equity	4	0.00	450,000	0	0	450,000
A-D 11 Housing Allowance	8	0.00	400,000	0	0	400,000
A-D 12 Architect	9	0.00	25,000	0	0	25,000
A-D 13 Renewable Energy Development	10	0.00	3,000,000	0	0	3,000,000
A-D 15 Oil Bearing Rocks	12	0.00	80,000	0	0	80,000
A-D 16 Temperature Profiles	13	0.00	50,000	0	0	50,000
A-D 17 Wide Bed Plotter	14	0.00	5,800	0	0	5,800
Total One Time Optional Changes		0.00	5,010,800	0	0	5,010,800

Ongoing Optional Changes

A-C 4 Inflation/Restoration	1	0.00	1,155,023	0	0	1,155,023
A-C 5 (2) FTE Eng Tech Field Inspectors	2	2.00	390,820	0	0	390,820
A-C 8 (6) FTEs: 4) Eng Tech, 1) Petrol Eng, 1) Acct/Bu	5	6.00	930,223	0	0	930,223
A-C 9 (1) FTE Geologist	6	1.00	215,251	0	0	215,251
A-C 10 (7) FTEs 3)PE, 4)ET, Add Space	7	7.00	1,581,449	0	0	1,581,449

CHANGE PACKAGE SUMMARY

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Description	Priority	FTE	General Fund	Federal Funds	Special Funds	Total Funds
A-C 14 (4) FTEs 1)PE, 1)ET, 2) Admin Assist	11	4.00	534,900	0	0	534,900
A-C 18 (3) FTE 3) Coningency Eng Tech	15	3.00	586,230	0	0	586,230
A-C 19 (0.69) FTE Admin Assist I	16	0.69	0	0	78,159	78,159
Total Ongoing Optional Changes		23.69	5,393,896	0	78,159	5,472,055
Total Optional Budget Changes		23.69	10,404,696	0	78,159	10,482,855

Optional Savings Changes

A-G 3 97% Optional Budget Savings		0.00	(446,018)	0	0	(446,018)
Total Optional Savings Changes		0.00	(446,018)	0	0	(446,018)

BUDGET CHANGES NARRATIVE

405 Industrial Commission

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Change Group: A	Change Type: A	Change No: 2	Priority:
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Base Budget Changes to Meet 100%

DEPT MINERAL RESOURCES

In order to absorb office and warehouse rent increases, advertising, postage, and motor pool mileage increases and meet the 100% budget guidelines we had to make the following adjustment.

SALARIES AND BENEFITS

During the 2011-2013 biennium we experienced a significant increase in workload due to a record setting rig count and oil production. This increased workload resulted in a 300+ drilling permit back log and an order back log of approximately 300 cases. To deal with that back log the Department contracted for services just to deal with that aspect of the increased workload. Current staffing levels are adequate to keep up with about 120 rigs. We have now exceeded that level of rigs. Even with the additional staffing being requested in this budget, temporary staffing will be crucial to meeting our mission both in the field and in the central office and flexibility is needed so that the personnel can be assigned to meet the most critical need. Increased interest in oil and gas and other minerals found in North Dakota is also resulting in an increased workload with the Geological Survey staff and temporary staffing is needed in order for the agency to have the flexibility to hire staffing as needed to meet our mission.

The Department also continues to face difficulties in hiring experienced oil and gas and geological staff and recruitment bonuses may be needed to find qualified personnel (See Budget Change A-C-9). Additional temporary salaries have been requested in order for the Department to have the flexibility to hire staff where it is most needed—either in the field or in the office—and to recruit experienced personnel.

FEDERAL FUNDS

Federal funds are not expected to increase.

TRAVEL

DOT motor pool rates will increase 27% from the 2011-2013 biennium resulting in an inflationary increase of \$12,940 for the Geological Survey, and \$231,932 for the Oil and Gas Division. Additional inflationary increases are hitting In-State Lodging, Utilities, Insurance, Janitorial, Data Processing, and ITD rates. To offset the necessary reductions, the number of field inspections will have to be reduced at a time when industry has a large number of inexperienced personnel who need guidance and supervision. This may result in inadequate protection of potable waters and correlative rights. (See Change Package A-C-4)

SUPPLY/MATERIAL-PROFESSIONAL

Geological Survey will experience an increase of \$22,000 in the accelerated re-boxing project. The NDGS re-boxed 24,029 core boxes and 4,970 sample boxes in an effort to extend the life of the core and sample library that is quickly filling up with oil cores and samples.

POSTAGE

Applications received for hearings have continued to rise dramatically during the 2011-2013 biennium. Decisions on said hearings are mailed out to all parties of such cases. The current postal budget of \$14,107 will be exceeded by an additional \$20,000 (See Budget Change A-A-2). Holding funding for postage constant to meet budget guidelines would require limiting the number of applications heard by the Commission. Since this will cause untimely delays in permitting and drilling wells and results in the loss of revenue to the state and royalty owners, this was not considered an option.

LEASE/RENT BLDG/LAND

Geological Survey rent is increasing \$5,000 in our Bismarck office building, and Oil and Gas Division rent is increasing \$137,368 in our Bismarck, Dickinson, Minot, and Williston office buildings. These offices currently provide a location for efficient synchronization of inspector data to our main database, contact between the general public and local Oil and Gas Division employees, and for inspectors to complete written correspondence.

BUDGET CHANGES NARRATIVE

405 Industrial Commission

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ADVERTISING SERVICES

Applications received for hearings have continued to rise dramatically during the 2011-2013 biennium. The current budget of \$82,000 will be exceeded by an additional \$30,000 (See Budget Change A-A-2). Holding funding for legal advertisements constant to meet budget guidelines would require limiting the number of applications heard by the Commission. Since this will cause untimely delays in permitting and drilling wells and results in the loss of revenue to the state and royalty owners, this was not considered an option.

PUBLIC FINANCE AUTHORITY

No changes.

ADMINISTRATION

In order to absorb increases in Travel, Supplies, and Rent; adjustments were made to Computer Supplies and Audit Fees.

Adjustments were made to Lignite Contracts, which were reduced by \$471,300. The appropriation for the Lignite Research Program is used for the administration of the program, marketing and environmental studies and education and research projects. The majority of grants are matched with either private or federal funding. No General Fund dollars are used for the Lignite Research program.

Change Group: A	Change Type: A	Change No: 20	Priority:
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Reduction of Bond Payments

ADMINISTRATION

Adjustments were made to North Dakota Building Authority bond payments, which were reduced by \$5,579,764. Each agency that has benefited from Building Authority financing is billed for their portion of the debt service payments. The Administrative Office appropriation reflects these dollars as special fund receipts whether they come from the General Fund or other funding sources.

Change Group: A	Change Type: C	Change No: 4	Priority: 1
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Inflation/Restoration

OIL & GAS: TRAVEL

Meeting budget guidelines required a decrease of \$660,870 in travel which will result in reducing our field inspections to less than half of current frequency. Restoring operating expenses and adjusting for cost inflation will allow the Department of Mineral resources to continue the service levels provided to the public and the oil and gas industry in 2012.

GEO SURV: TRAVEL

This line item was reduced by \$48,135 to bring our budget to the 100% mark. Inflationary increases are due to travel, rent, IT, and janitorial increases in our operating budget along with a \$22,000 increase in core box costs. This reduction will make it difficult for us to perform field inspections for our regulatory programs as well as fieldwork for numerous investigative projects that we are involved with across North Dakota.

RESTORE				
100% BASE	MOTOR POOL		RESTORE 97%	
<u>BUDGET CUTS</u>	<u>INFLATION</u>	<u>SUBTOTAL</u>	<u>SAVINGS CUTS</u>	<u>TOTAL</u>

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Oil & Gas	\$428,938	\$231,932	\$660,870	\$364,684	\$1,025,554
Geo Survey	<u>\$ 35,195</u>	<u>\$ 12,940</u>	<u>\$ 48,135</u>	<u>\$ 81,334</u>	<u>\$ 129,469</u>
TOTAL	\$464,133	\$244,872	\$709,005	\$446,018	\$1,155,023

Change Group: A	Change Type: C	Change No: 5	Priority: 2
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(2) FTE Eng Tech Field Inspectors

Oil & Gas Division

TWO FTE ENGINEERING TECH. IV \$390,820

General Fund for \$287,012 salaries plus \$103,808 operating for two Engineering Tech Inspectors. The Sixty-Second Legislative Assembly included these contingency positions and although the trigger of 9300 wells has not been reached, it will be before the end of the '11-'13 biennium. This change will allow the Oil & Gas Division to manage programs and personnel more efficiently. The Engineering Techs are needed to manage the current and future wells from the Bakken/Three Forks activity.

Change Group: A	Change Type: C	Change No: 8	Priority: 5
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(6) FTEs: 4) Eng Tech, 1) Petrol Eng, 1) Acct/Bud Spec

Oil & Gas Division

(4) FTE ENGINEERING TECH IV POSITIONS \$599,640

This optional adjustment of \$574,024 salaries plus \$25,616 operating is for four additional Engineering Tech positions in the Bismarck office. Due to record activity levels in permitting, drilling, completion of wells, and production, we are not able to timely process data submitted to assure compliance with regulations. This has resulted in a significant increase in workload and additional engineering techs are necessary to properly process such data.

UNCLASSIFIED GEOLOGY ANALYST POSITION \$196,518

This optional adjustment of \$190,114 salaries plus \$6,404 operating is for one FTE Geology Analyst position. Due to the rapidly increasing number of completed wells workload has greatly exceeded the ability of our single geology analyst to ensure that all logs are accurately and timely inspected and entered into our database. The additional geology analyst is necessary to ensure safety and environmental considerations are not compromised.

ACCOUNT/ BUDGET SPECIALIST POSITION \$134,064

This optional adjustment of \$127,660 salaries plus \$6,404 operating is for one FTE Account/Budget Specialist position. Due to the increase in daily accounting functions from increase in business, approval duties switched from OMB to our agency, and the increasing number of FTEs in the DMR; the financial and payroll workload has greatly exceeded the ability of our single Accounting Budget Specialist. The additional specialist is necessary to ensure financial accounting functions, OMB yearly reports, budget, and payroll considerations are not compromised.

Change Group: A	Change Type: C	Change No: 9	Priority: 6
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(1) FTE Geologist

BUDGET CHANGES NARRATIVE**405 Industrial Commission****Bill#: SB2014****Date:** 12/11/2012**Time:** 10:50:52Geological Survey

UNCLASSIFIED GEOLOGY POSITION \$215,251

This optional adjustment of \$160,639 salaries plus \$54,612 operating is for one Geology Analyst position. The growth in western North Dakota has generated numerous requests for information regarding sand and gravel, clinker (scoria), and other shallow minerals, as well as landslides, in this portion of the state. In addition, we have been inundated by special waste pre-application requests for review. In the past seven months, we have reviewed the geology and hydrogeology of 16 proposed sites for oil field waste disposal. That is equal to all of the pre-application waste reviews we performed in the previous eight years. Because consistency is extremely important in these reviews, this dramatic increase has significantly burdened one of our geologists, making it difficult for that person to complete Survey projects and respond effectively to requests from industry and the general public.

Change Group: A	Change Type: C	Change No: 10	Priority: 7
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(7) FTEs 3)PE, 4)ET, Add Space

Oil & Gas Division

ADDITIONAL OFFICE SPACE \$224,868

Due to the increasing number of FTEs in the DMR, current office space is inadequate. Offices in Bismarck, Dickinson, and Williston will require expansion to accommodate additional employees.

(3) FTE UNCLASSIFIED PETROLEUM ENGINEERS \$606,192

This optional adjustment consists of \$450,480 salaries plus \$155,712 operating expenses for three Petroleum Engineer Field Inspectors. In order to inspect the record number of drilling rigs operating in the state as often as necessary while witnessing well plugging and future unit activities additional personnel with four-year degrees are necessary to assure compliance with regulations. The number of drilling rigs is expected to remain near 200 for 15 to 20 years while well plugging and new unit activities increase over the same time frame.

(3) FTE ENGINEERING TECH FIELD INSPECTORS \$586,230

This optional adjustment of \$430,518 salaries plus \$155,712 operating is for is for three FTE Engineering Tech field inspector positions. Due to the rapidly increasing workload placed on Petroleum Engineering positions by drilling activity it will be more efficient to provide lower education level technical assistance in making routine producing well, injection well, and facility inspections.

Geological Survey

UNCLASSIFIED GEOLOGY POSITION \$164,158

Core archived in the Geological Survey core and sample library has been studied at a record pace in recent years. For example, last year we pulled over 1,100 tons of rock cores from the shelves in our warehouse so that oil and gas industry scientists, consultants, and academics could study them in our laboratory. At present, we only have two ftes in our facility (a geologist and technician) and this is not a sufficient staff to handle the workload that we are experiencing today and anticipate experiencing for the next several decades. For the past eight years we have retained a dozen University of North Dakota students to assist us in the core library and they have been good workers and a big help with tasks that are not time dependent. However, their hours generally do not coincide with the times we need immediate help. In addition to the core library, we have been experiencing record growth in geothermal permits. In 2010 and 2011 we issued more than 235 geothermal permits compared to 8 and 10

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permits issued in 2003 and 2004. This record growth has placed a burden on our core library technician trying who has been trying to assist us by inspecting geothermal sites in eastern North Dakota. The requested Engineering Tech position would assist with both programs.

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(4) FTEs 1)PE, 1)ET, 2) Admin Assist

(1) UNCLASSIFIED PETROLEUM ENGINEER PRODUCTION SUPERVISOR \$196,518

This optional adjustment consists of \$190,114 salary plus \$6,404 operating expenses for one Petroleum Engineer Production Supervisor. Due to record production activity and increasing use of new oil, gas, and water gathering and measurement processes we are in need of a production audit department supervisor with a four-year technical degree to assure timely and accurate filing and auditing of production data.

(1) ENGINEERING TECHNICIAN MEASUREMENT ANALYST \$137,632

This optional adjustment consists of \$131,228 salary plus \$6,404 operating expenses for one Engineering Technician measurement analyst. Due to record numbers of wells being placed on production that are expected to continue for 15 to 20 years we are in need of an additional oil and gas measurement analyst to assure compliance with regulations and standards for measuring oil and gas sales volumes.

(1) AUDIT / LEGAL ADMINISTRATIVE ASSISTANT \$110,007

This optional adjustment consists of \$103,603 salary plus \$6,404 operating expenses for one Administrative Assistant to assist with production audits and legal administrative documents. Due to record well activity levels and workload placed on current personnel, we are not able to timely process data submitted to assure compliance with regulations. An additional analyst is necessary to properly process such data. The current activity level is expected to continue for 15 to 20 years and the department is already experienced an overwhelming increase in workload.

(1) FILING / RECEPTION ADMINISTRATIVE ASSISTANT \$90,743

This optional adjustment consists of \$84,339 salary plus \$6,404 operating expenses for one Administrative Assistant to assist with filing documents and performing receptionist duties. Due to record well activity levels and workload placed on current personnel, we are not able to timely attend to the phone inquiries and walk-ins. The current activity level is expected to continue for 15 to 20 years and the department is already experienced an overwhelming increase in workload.

Change Group: A	Change Type: C	Change No: 18	Priority: 15
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(3) FTE 3) Coningency Eng Tech

Oil & Gas Division

(3) CONTINGENCY ENGINEERING TECH FIELD INSPECTORS \$586,230

This optional adjustment consists of \$430,518 salaries plus \$155,712 operating expenses for three contingency Engineering Tech Field Inspectors upon approval of the Emergency Commission if the total number of wells capable of production and injection in the state exceeds 15,000. The number of drilling rigs is expected to remain near 200 for 15 to 20 years resulting in a steady increase in the number of production and injection wells. However, an unexpected increase in oil price, decrease in well cost,

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or technology breakthrough could result in a much higher rate of increase in well numbers and the associated well and facility inspections needed to assure regulatory compliance during the biennium.

Change Group: A	Change Type: C	Change No: 19	Priority: 16
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(0.69) FTE Admin Assist I

During the 2011-201 the funding for a .31 position was utilized for a temporary person for a period of time. This optional request is to make the .31 position that is in the base budget a full-time position. The full-time position will assist with the operations of the Industrial Commission Administrative Office. This position will be a back-up person for the Administrative Assistant currently on staff.

In addition this position would have the following responsibilities:

- 50% - reviewing of applications and reports received for two of the three research programs overseen by the Industrial Commission. Assist in the drafting of contracts and summaries of reports as needed.
- 20% - maintaining and updating financial records on the various research projects that are overseen by this office.
- 20% - drafting of minutes from the Oil and Gas Research Council and Commission meetings as needed
- 10% - general office duties.

This position will not be required to be in the Capitol office—with internet connections should be able to do the majority of their work from a home office. It is anticipated that with a lap top computer and an internet connection these tasks could be completed at either the Capitol office or a home office. However, when the Administrative Assistant currently on staff is out of the office this individual will be located in the office.

The workload of the Industrial Commission Administrative Office has continued to increase with new responsibilities given to the agencies overseen by the Industrial Commission. This has resulted in delays in responding to constituents' requests and to processing of contracts and project payments.

Change Group: A	Change Type: D	Change No: 6	Priority: 3
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Possible Litigation with EPA

Department of Mineral Resources

ONE-TIME LITIGATION COSTS \$1,000,000

The Sixty-Second Legislative Assembly during special session appropriated these monies from the general fund to the Industrial Commission for the purpose of defraying expenses associated with possible litigation and other administrative proceedings involving the United States Environmental Protection Agency's efforts to regulate hydraulic fracturing. None of the appropriated funds have been expended at this time. Monies not spent must be cancelled within thirty days after the close of the '11-13 biennium. North Dakota must remain prepared to lead an effort in the courts to protect our state Underground Injection Control primacy and jurisdiction over hydraulic fracturing regulation if EPA does not explicitly exempt states that have adopted hydraulic fracturing rules that include chemical disclosure, well construction, and well bore pressure testing; or the definition of diesel remains too broad. Other federal agencies including the Bureau of Land Management, United States Geological Survey, and Department of Energy have now begun investigating hydraulic fracturing under a presidential executive order. The 63rd legislative assembly should consider a contingency appropriation of the sum of \$1,000,000, or so much of the sum as may be necessary, to the industrial commission for the purpose of defraying expenses associated with possible litigation and other administrative proceedings involving any federal agency's effort to regulate hydraulic fracturing.

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Change Group: A	Change Type: D	Change No: 7	Priority: 4
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Market Equity

Department of Mineral Resources

EQUITY INCREASES \$450,000

There is an ongoing need to pay competitive salaries for experienced personnel. There continues to be a tremendous difference between the salaries our agency is able to pay and those paid by the private sector. We have recently "lost" three employees to the private sector and it is crucial that we pay competitive salaries to retain our remaining experienced personnel. Oil and Gas Division Engineers and Survey geologists are paid 50-75% of what they can make in the private sector and support staff pay is approximately 80% of private sector for equivalent work. To keep these valuable experienced employees on staff during unprecedented mineral industry activity we request equity funding of \$450,000.

Change Group: A	Change Type: D	Change No: 11	Priority: 8
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Housing Allowance

Oil & Gas Division

ONE-TIME HOUSING ALLOWANCE \$400,000

DMR has experienced difficulty hiring qualified field inspectors in the Williston, Dickinson, and Minot offices due to the competitive pressure and higher cost of rental housing within areas of the state affected by oil activity and floods. The allowances would be made available only to full time employees and are not intended to enhance an employee's current standard of living unless they are now in temporary housing.

Change Group: A	Change Type: D	Change No: 12	Priority: 9
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Architect

Geological Survey

ONE-TIME ARCHITECT FEE FOR CORE LIBRARY \$25,000

The Wilson M. Laird Core and Sample Library is quickly filling to capacity due to the record level of oil and gas drilling occurring in western North Dakota. Although we have implemented a number of space savings programs, the building may be totally full by January 2016. Due to this urgency, we need to hire an architect so that we can bring a shovel-ready-plan to the legislature in 2015.

Change Group: A	Change Type: D	Change No: 13	Priority: 10
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Renewable Energy Development

This program provides financial assistance to encourage research and education for renewable energy development utilizing North Dakota products. The Renewable Energy R&D Program is opening doors to new markets by partnering with agriculture to create new fuels. In addition methods of co-firing biofuels with lignite is opening new opportunities for both lignite and for biofuels. If North Dakota is to be a leader in energy all facets of energy should be developed. Whether through the development

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of new agriculture commodities such as Energy Beets or the development of wind resources, the State can be a leader by partnering with the private sector. All funding provided through this program has at a minimum a one-to-one match.

Change Group: A	Change Type: D	Change No: 15	Priority: 12
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Oil Bearing Rocks

Geological Survey

ANALYSIS OF OIL-BEARING ROCKS \$80,000

The total organic content and the rock evaluation properties of oil-bearing rocks can provide extremely important information on the burial history of the Williston Basin. The burial history is needed to understand why rocks in one area of the basin are able to generate hydrocarbons while those same rocks a short distance away are not. Initial analyses have provided important insights into the Tyler and Bakken Formations. Additional information generated on the rocks above and below the Bakken (eg., Niobrara, Roughlock, and Icebox Formations) will provide valuable data that can be used in the exploration of hydrocarbons.

Change Group: A	Change Type: D	Change No: 16	Priority: 13
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Temperature Profiles

Geological Survey

ANALYSIS OF TEMPERATURE PROFILES \$50,000

The thermal structure of the Williston Basin is not well known. This is a significant shortcoming because oil generation rates increase exponentially with increasing temperature. Obtaining accurate temperature gradients from oil wells typically requires days if not weeks for temperatures within a well to reach equilibrium with the surrounding rock. Therefore, bottom hole temperatures from logs or drill stem tests are not sufficiently accurate. Accurate temperature gradients can only be obtained by temperature logging temporarily abandoned or inactive wells that are in thermal equilibrium with the surrounding rock. The Department of Mineral Resources would contract with a logging company and would coordinate the logging of these holes with the operators of candidate wells. We anticipate that 10-12 wells could be temperature logged across the basin.

Change Group: A	Change Type: D	Change No: 17	Priority: 14
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Wide Bed Plotter

Geological Survey

WIDE BED PLOTTER \$5,800

Our main plotter is six years old and beginning to show its age. We run about 100 print-on-demand maps through that plotter per month for internal use or sale to the general public. Our current Hewlett-Packard model is no longer available.

Change Group: A	Change Type: E	Change No: 1	Priority:
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Remove 11-13 Bien One-Time Funding

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The 62nd legislative assembly allowed for one-time funding consisting of the following:

Renewable energy development program - \$1,500,000
 Temporary employees at Core Library - \$90,000
 Carbon dioxide storage facility administrative fund - \$532,000
 Coalbed methane/shaoow gas studies - \$25,000
 Fracturing sand and proppant studies - \$50,000
 Oil-bearing rock study - \$40,000
 Paleontologic preparatory work - \$62,400

Adjustments were made to remove the one-time funding amounts.

Change Group: A	Change Type: G	Change No: 3	Priority:
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97% Optional Budget Savings

As per Governor Dalrymple's request, a 97% budget savings package was created.

Oil & Gas: Travel was reduced by \$364,684. This will cause a reduction of field inspections by 803,154 miles.

Geological Survey: Travel was reduced by \$81,334. This will cause a reduction in performing field inspections for regulatory programs as well as reducing fieldwork for numerous investigative projects that we are involved with across North Dakota.

Change Group: R	Change Type: A	Change No: 1	Priority:
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Inflation and Restoration

Restores \$464,133 in general fund operating expense cuts made by the agency to meet the hold-even budget request and provides an additional \$244,872 for increased state fleet rates.

Change Group: R	Change Type: A	Change No: 2	Priority:
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2 FTE Eng. Tech Field Inspectors

Authorizes \$390,820 from the general fund for 2.00 FTE engineering techs field inspector positions and related operating expenses. The two positions were contingently funded for the 2011-13 biennium upon the trigger of 9,300 wells. The trigger had not been reached by the time of the budget submission. However, the agency is anticipating the trigger will be met in January 2013.

Change Group: R	Change Type: A	Change No: 3	Priority:
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6FTE:Eng Tech-4, Geology-1, Acct/Bud-1

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Authorizes \$930,223 from the general fund for 6.00 new FTE and related operating expenses. The new positions include: 4.00 FTE Engineering Tech positions in the Bismarck office to timely process data submitted to assure compliance with regulations; 1.00 FTE Geology Analyst position to inspect logs and enter log data into database to ensure safety and environmental considerations are not compromised; and 1.00 FTE Account/Budget Specialist position to meet the demands of daily accounting and payroll functions as a result of increased FTE and overall agency workload.

Change Group: R	Change Type: A	Change No: 4	Priority:
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1 FTE Geologist

Provides \$215,251 from the general fund for 1.00 FTE Geology Analyst position to conduct pre-application waste disposal site reviews.

Change Group: R	Change Type: A	Change No: 5	Priority:
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7FTE: PE-3, ET-4, Additional Space

Authorizes \$1,581,449 from the general fund for 7.00 new FTE and related operating expenses including additional office space. The new positions include: 3.00 FTE Petroleum Engineer Field Inspector positions to inspect drilling rigs, witness well plugging, and address future unit activities in order to ensure compliance with regulations; 3.00 FTE Engineering Tech Field Inspectors to perform routine producing well, injection well, and facility inspections; 1.00 FTE Engineering Tech position located in the core library to pull core samples and to conduct field inspections of geothermal facilities in eastern North Dakota.

Change Group: R	Change Type: A	Change No: 6	Priority:
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4FTE: PE-1, ET-1, Admin Assist-2

Authorizes \$534,900 from the general fund for 4.00 new FTE and related operating expenses. The new positions include: 1.00 FTE Petroleum Engineer Production Supervisor to ensure timely and accurate filing and auditing of production data; 1.00 FTE Engineering Tech Measurement Analyst to ensure that oil and gas produced in North Dakota is accurately measured to proper standards; 1.00 FTE Audit/Legal Admin Assistant to assist with production audits and legal administrative documents; 1.0 FTE Filing/Reception Admin Assistant to assist with filing documents and performing receptionist duties.

Change Group: R	Change Type: A	Change No: 7	Priority:
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3FTE: Contingency ET Field Inspectors

Authorizes \$586,230 from the general fund for 3.00 FTE Engineering Tech Field Inspector positions and related operating expenses to perform routine producing well, injection well, and facility inspections. These positions are contingent upon the total number of wells capable of production in the state exceeding 15,000 and requires informing OMB when the trigger is met.

Change Group: R	Change Type: A	Change No: 8	Priority:
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.69 FTE Admin Assistant

Authorizes \$78,159 from special funds for .69 FTE Administrative Assistance to make the .31 FTE position currently authorized into a full-time position. The position will assist the operations of the Industrial Commission administrative office.

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Executive Compensation Package Adjustment

This budget change provides funding for recommended 2013-15 compensation adjustments. Compensation adjustments for each agency were calculated following the recommendations of the Hay Group developed through the 2011 study of the state's classified employee compensation system. Pursuant to those recommendations, compensation adjustments were calculated to provide funding to allow for both performance-based salary adjustments and market-based salary adjustments. This funding allows for increases of 2% to 4% for employees in the first quartile of the pay range and 1% to 2% for those in the second quartile of the range. For employees in the third and fourth quartiles, which are above the market policy position, no market policy increase is funded. Performance-based increases are assumed to be 3% for employees meeting performance standards and up to 5% for employees exceeding performance standards. No performance-based increases are provided for employees that fail to meet performance standards.

Change Group: R	Change Type: B	Change No: 1	Priority:
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Possible Litigation with Fed Agencies

Provides \$1,000,000 in one-time general fund funding for the purpose of defraying expenses associated with possible litigation and other administrative proceedings involving the federal government's efforts to regulate hydraulic fracturing.

Change Group: R	Change Type: B	Change No: 2	Priority:
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Housing Allowance

Provides \$400,000 in one-time funding from the general fund for housing allowances to employees in Williston, Dickinson, and Minot.

Change Group: R	Change Type: B	Change No: 3	Priority:
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Architect Services for Core Library

Provides \$25,000 in one-time funding from the general fund for architectural services to develop a plan for expanding the core library.

Change Group: R	Change Type: B	Change No: 4	Priority:
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Oil Bearing Rocks Study

Provides \$80,000 in one-time general fund dollars to continue the study of oil-bearing rocks to obtain data to be used in the exploration of hydrocarbons.

Change Group: R	Change Type: B	Change No: 5	Priority:
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Temperature Profiles Study

Provides \$50,000 in one-time general fund dollars to perform a study of the thermal structure of the Williston Basin, which is important because oil generation rates increase exponentially with increasing temperature.

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Wide Bed Plotter

Replaces an outdated wide bed plotter with \$5,800 in one-time general fund dollars.