



WESTERN DAKOTA ENERGY ASSOCIATION

February 7, 2023

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Testimony of:

Geoff Simon, Lobbyist #144

in support of HB 1286 – Remove the Oil Tax Trigger
House Finance and Taxation Committee

Chairman Headland and Committee members:

On behalf of the city, county and school district members of the Western Dakota Energy Association (WDEA), we wish to express our support for HB 1286 which would remove the trigger that raises the extraction tax rate when oil prices exceed a pre-set target price.

Our members receive no revenue share from extraction taxes, the lion's share of which are deposited in buckets that include the Legacy Fund, Resources Trust Fund, Common Schools Trust Fund, Foundation Aid Stabilization Fund and the General Fund. Hence, an increase in the extraction tax has no direct upside for our members in the oil-producing counties, but there is a serious downside at a time when North Dakota's oil producers are competing for capital investment with other oil plays that enjoy a more friendly winter climate.

I would call to your attention p. 2 of my testimony, a column written by WDEA President Trudy Ruland, that provides a wonderful analogy between the cost of producing a bushel of wheat to the investment required by the oil industry to produce a barrel of oil. Both ag and oil are subject to the whims of commodity prices which can fluctuate wildly from year to year, which means both can have highly profitable years, but both can also experience low prices and have years where they barely break even or experience a significant loss.

So why should North Dakota have a high-price trigger for the state's oil producers, which deliver more than half the state's general fund tax revenue, when there is no similar tax trigger on ag commodities when North Dakota farmers realize "windfall profits?" The answer should be obvious. Windfall profit taxes, a.k.a. high-price triggers, are unfair, and the existence of the trigger in North Dakota serves as a disincentive for industry investment.

State oil tax policy must be competitive with plays in other oil-producing states, but this trigger hanging over the heads of the industry has the opposite effect. WDEA urges the House Finance and Taxation Committee to give HB 1286 a strong Do Pass recommendation to remove this high-tax cloud hanging over our state's oil industry and would-be investors.

Thank you for the opportunity to testify on this important topic. Please see p. 2.

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From the Desk of the Western Dakota Energy Association's President



Trudy Ruland
President
Western Dakota Energy Association

What a difference a month can make! When we last visited in March, calving was going well but the extreme drought was still with us. As we were sorting off pairs to relocate in another yard, we were noting older mamas that would be the first to go if it didn't rain and wondering how long our hay would last if the pastures had no grass.

Then April happened and the extreme drought was broken by several extreme spring blizzards. For those of us who make a living outside, these storms created dangerous conditions with long, hard days of work. We were fortunate as we lost only a few calves and only went without electricity for a little over a day. Then, in the summer, the moisture from the storms set us up with greener pastures and decent crops.

Moisture and hard work are only part of the inputs we need to produce commodities like cattle and crops on the prairie. It has been said before that ranching / farming is a lifestyle, as it's difficult to make a living by it.

To illustrate, let's look at one acre of cropland put into spring wheat on our ranch this season.

This is the cost of investment per acre before any sale of wheat: rent \$45, burn down chemical \$25, seed \$20, seed treatment \$2, fuel \$15, fertilizer \$120, in-crop weed control \$45, crop insurance \$5, all added up for a total of \$277. This doesn't even factor in the more difficult numbers to calculate, such as the cost of equipment, maintenance, repairs, and grain storage. Have you priced a tractor lately? Ouch!

We seeded about 300 acres of wheat this year and our average production for spring wheat is approximately 40 bushels

Howdy from the Ruland Ranch!



Even the cattle at Ruland Ranch don't know what to make of the weather. Photo Credit: Trudy Ruland

per acre. At the current price of about \$8.00 per bushel, the revenue for that acre is \$320 or \$96,000 for all the wheat. If we add barley, peas, soybeans, hay, and calves – WOW! – it looks like a windfall for the year.

But you also need to remember that we've already spent more than \$83,000 to get that crop of wheat, which leaves just \$13,000 for two annual salaries! And there are no guarantees because prices change.

Today the price of crude oil is about \$100 per barrel and an average Bakken well produces about 70 barrels of oil per day, equalling up to \$7,000 per day. That's nearly \$2.6 million a year for one well! That's definitely a windfall, right?

But what is a 'windfall' exactly? According to Investopedia, 'windfall profits are large, unexpected gains resulting from lucky circumstances. Such profits are generally well above historical norms.'

Are you still thinking that oil is seeing a windfall? After all, the oil doesn't just jump out of the ground. In 2022, the average Bakken well cost more than \$7.7 million just to get into production and the average operating cost is \$13,000 per month.

Someone once told me that when you farm or ranch, you need to plan to lose money for three years, break even for three, make a little for three, and having one really good year to make up for all the others. This is also true for the oil industry in North Dakota, where several Bakken producers filed for bankruptcy during COVID-19 due to the low oil prices. In many ways, the industry needs high oil

prices to pay down the record debt from the last five years of poor oil prices.

Ultimately, the ag industry needs the oil industry. Diesel technology is still the most efficient provider of the horsepower and long working hours needed by our tractors and combines. And the rest of y'all need us both. Hamburger on a bun, anyone? 🍔

ABOUT THE WDEA

The Western Dakota Energy Association (WDEA) is the trusted and unified voice for the betterment of the citizens of North Dakota and WDEA membership.

WDEA'S 2022 EXECUTIVE COMMITTEE SERVES WESTERN NORTH DAKOTA

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