

Catching up with Ed Schafer

Recently I had the opportunity to sit down with former Secretary of the USDA, North Dakota Governor and current Continental Resources board of director Ed Schafer. I typically sit down with the



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former governor two or three times a year for an update with everything happening in his retirement years.

"It's busy times, and there's always so much to do you never have to worry about filling up the calendar," Schafer said. "I am such a fortunate recipient of North Dakota's wonder in natural resources because I get to work in the energy and agriculture fields."

Part of Schafer's myriad of roles is traveling the country speaking on energy and agriculture policy. In addition to being an energy and agriculture expert, Schafer sits on several corporate boards and is involved in an environmental project on the East Coast. If that wasn't enough, Schafer said he is getting involved in a new endeavor with the National Governors' Association National Transportation Coalition, "a governors' group pursuing funding for national transportation trust fund."

"It seems to run out of money like everything else," Schafer said. "The importance of infrastructure development in states is very important and we are engaging governors in that effort to bring funding to the highway trust fund."

After a few minutes of personal and professional updates, the conversation veered towards energy, more specifically pad drilling or "eco-pads."

"Pad drilling is great, Continental Resources calls them eco-pads, and they are eco-pads" Schafer said. "When you look at the ecology of extraction and everything that goes into it, it allows production to be more efficient."

Schafer pointed out that the energy industry often "gets a bad rap" in regards to environmental issues and concerns. However, Schafer believes the advancements in technology, corporate empowerment and dedication to environmental stewardship, will allow oil and gas to continue in North Dakota.

"The Minneapolis Federal Reserve Board took all their members out to the Bakken," Schafer said. "They were kind of

blown away at the attention to safety and environment that the oil companies do. And those eco-pads, or pad drilling, allow you to put a number of holes, say 10, in the same spot."

Schafer continued with examples of how that one advancement in oil extraction reduces the burden on Mother Nature and infrastructure.

"You lessen the truck traffic and centralize the drilling," Schafer said. "Where you used to have 10 holes all over the country side with trucks and everything else making their way there, you now have one location. These types of changes in the industry have huge reductions on environmental issues and also allows the oil companies to reduce the cost of drilling."

Schafer then said the words "operational phase" for the third time in our conversation. Based on his linguistic framework of our conversation, it is clear the industry is past the exploration phase and into the operational phase of the cyclical pattern of oil extraction.

"The pad drilling reduces the cost of drilling, but so does the fact that we are in the operational phase," Schafer said.

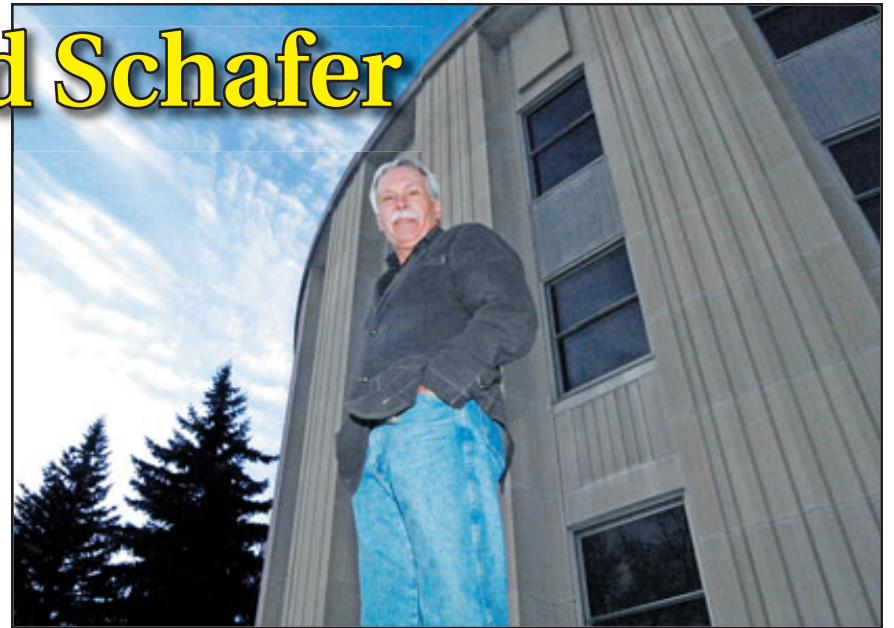
"We have higher costs than many states and we have to stay competitive. Oil companies are going to extract where it is the most cost effective."

— Former governor Ed Schafer

"Things slow down a little bit, you start paying attention to costs, you start paying attention to things you put off before because the activity was just so strong."

The conversation then took a turn towards the volatility of the industry and whether North Dakota could sustain a price drop in oil. This was nothing more than history mixed with speculation. Great content for talk radio, just not appropriate for print. It was everything from the historical drop in the '70s to the current \$100 hover, however, the fact of the matter is the majority of the economy is dependent on oil and gas and the price of crude oil plays a major role.

"One of my concerns in all of this is we (North Dakota) have built such a dependence on revenue from the oil industry — 35 percent of our state budget comes from oil revenues," Schafer said. "And not only oil revenues but the oil activ-



MIKE McCLEARY/Tribune

Former Gov. Ed Schafer stands in front of the legislative wing at the state Capitol in Bismarck on Jan. 26, 2011 before beginning "Fix the Tax Townhall Meetings" around the North Dakota. Schafer was touting state tax rate relief for oil companies and mineral rights owners on behalf of the nonprofit organization Invest In North Dakota.

ity produces sales tax, vehicle tax, license fees and we have huge amounts coming in and should that activity slow or even stop, we would have a problem."

Schafer's experience in the state capital and working through the good and bad economies, created an intuitive vibe as his comments seemed to paint a picture that industries are cyclical and there is a history of oil in the state. Schafer alluded to both should be examined by current officials so overbuilding or improper planning isn't happening in case the cycle trends down.

"I think the point, you are never going to have enough money or all the money in the world," Schafer said. "So now that you have a good amount of money coming in, what are the priorities? What are important to your state and local community? If you can't have it all, do what's important first. Instead of trying to do it all and saying we don't have enough money."

Schafer predicts this type of ideology will become a trend or "movement" in western North Dakota. His belief is mayors, local and county officials will start to become more proactive with setting priorities and working with state bonds due to the industry's volatility.

Then a shift in context happened in the conversation. In basic terms the subject became government's increasing encroachment on small business. This was something that I could tell had the former governor's attention.

"The legislature's efforts are to solve problems," Schafer said. "Sometimes when you have a surplus, legislatures—and governors — will say let's solve the problem with tax money. But instead of encouraging the private sector we put tax dollars in, and one of the perfect examples

of where I think North Dakota is making a mistake and competing with the private sector is in the water delivery."

Specifically Schafer is referring to the Western Area Water supply which he believes "is clearly in competition with the private sector." Schafer then provided several general examples of how government directed programs can allow communities to build facilities for upwards of a third the cost it would take private industry to build.

"When a community can build a water supply project for one third of the price of the private sector, then go in and compete against them too, well that just isn't right," Schafer said. We have to be careful in North Dakota when we have enough money so where legislators don't use government solution to continually solve problems instead of encouraging the private sector. Our country and state were built on private sector investments with government encouragement."

The example of water wasn't the only government-sponsored competition discussed. Industry encroachment through public university systems was also brought up with examples of catering departments purchasing state-of-the-art equipment every couple of years, new technologies and deep marketing budgets put the private sector at serious disadvantages.

The interview began to wind down and like many great philosophical discussions, it ended back where it all begins.

"I think it is important to look at where and how this play started in North Dakota," Schafer said. "In the mid 1990s

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