

**BEFORE THE PUBLIC SERVICE COMMISSION**

**STATE OF NORTH DAKOTA**

**CASE NO. \_\_\_\_\_**

**IN THE MATTER OF THE APPLICATION OF  
SADDLE BUTTE PIPELINE LLC, FOR A  
CERTIFICATE OF PUBLIC CONVENIENCE  
AND NECESSITY FOR ITS SADDLE BUTTE  
NATURAL GAS AND CRUDE OIL  
GATHERING SYSTEM LOCATED IN  
MCKENZIE AND DUNN COUNTIES, NORTH  
DAKOTA.**

**APPLICATION OF SADDLE BUTTE PIPELINE LLC**

Saddle Butte Pipeline LLC (“Saddle Butte” or “Applicant”), pursuant to the provisions of Chapter 49-03.1 of the North Dakota Century Code, makes application to the North Dakota Public Service Commission (“Commission”) for a Certificate of Public Convenience and Necessity for its Saddle Butte Natural Gas and Crude Oil Gathering System (the “Saddle Butte Gathering System”).

In support of this application, Saddle Butte states as follows:

1.

Saddle Butte is a limited liability company organized and existing under the laws of the state of Delaware, with its principal office located at 1910 Main Avenue, Durango, Colorado 81301, and is authorized to do business in the State of North Dakota.

2.

Saddle Butte plans to construct, own and operate the Saddle Butte Gathering System, which will ultimately consist of approximately 1,592 miles of pipeline and other facilities to be used for the

gathering, processing, and transport of crude oil, produced water, and natural gas on and around the Fort Berthold Reservation located in McKenzie and Dunn Counties, North Dakota.

3.

The Saddle Butte Gathering System will consist of five segments of pipelines.

- a. The first segment will consist of approximately 620 miles of 3 inch to 6 inch diameter pipelines to gather crude oil and natural gas from each individual wellhead to central compression facilities that will deliver the oil and gas products into the main gathering segments described below as segments two, three, and four.
- b. The second segment will consist of approximately 100 miles of 4 inch to 6 inch steel pipelines (lateral pipelines) that will gather natural gas and crude oil from the central compression facilities into the main system trunklines, described as segment three, below.
- c. The third segment consist of approximately 95 miles of 6 inch to 16 inch diameter steel pipelines (trunklines) designed to transfer crude oil and natural gas from the lateral pipelines (segment 2 above) to one central transfer location near BIA Route 30 near the border of the Fort Berthold Reservation.
- d. The fourth segment will consist of approximately 30 miles of 8 inch to 16 inch diameter steel pipelines designed to transfer natural gas and crude oil from the trunkline transfer point on the Fort Berthold Reservation near County Road 53 off of the Reservation and across undeveloped areas of McKenzie County to

the Northern Border interstate gas transmission pipeline near its intersection with State Highway 85 approximately 7 miles south of Watford City, North Dakota.

e. The fifth segment will consist of approximately 750 miles of 3 inch to 16 inch diameter water pipelines designed to transfer produced water from each wellhead to central water re-injection wells.

4.

The system will be constructed in phases over several years, connecting wells as they are drilled in the project area. The location, length, sizing, and timing of the pipelines will be dependent upon the final location and number of wells that are ultimately drilled on the lands in the project area.

5.

The Saddle Butte Gathering System will also require up to two processing facilities: a main gas processing facility and a crude oil stabilization and transfer facility. The main gas processing facility, which will process and condition gas to meet quality specifications required for delivery into an existing pipeline for final transport or sale, will be located near the intersection of State Highway 85 and the Northern Border interstate pipeline. Saddle Butte plans for the completed facility to be able to gather and process up to approximately 70 million cubic feet per day (“MMcfd”), installed over time in plant capacity increments of approximately 15 MMcfd. The crude oil stabilization and transfer facility will be used to stabilize and prepare crude oil for transportation in long haul vehicles or crude oil pipelines as capacity is available.

6.

Included in this application is a map of the proposed Saddle Butte Gathering System, which depicts the area in North Dakota that the proposed system will serve. *See* Exhibit A; Appendix at Tab 1.

7.

Saddle Butte seeks authorization to construct, own and operate the Saddle Butte Gathering System in order to fulfill a need for a means to safely and efficiently recover and transport crude oil and natural gas from wellhead to market.

8.

At the present time, oil is transported from the very small number of wells by truck, utilizing the inadequate roadway system on the Fort Berthold Reservation. With resource development expected to increase dramatically in the near future, and the potential for over 700 wells to be drilled over time, road damage, safety concerns and impact to the environment have led the Three Affiliated Tribes (the "Tribe") and the Bureau of Indian Affairs ("BIA") to request a comprehensive pipeline solution to transportation of well products, thereby mitigating impacts to the Tribal Lands.

9.

Currently, there is no infrastructure to allow the recovery of natural gas produced from the wells, and all of this valuable natural gas is being burned at the wellhead. This is an unacceptable situation from an environmental and economic standpoint, and a pipeline system is needed to recover the gas. Substantial economic loss to the Tribe and its individual members, as well as the well producers, will occur until the natural gas product can be captured and delivered to market.

10.

Each well also produces water that must be transported from the well and disposed of into injection wells. Currently transportation of water is also being done by truck. The water gathering system proposed by Saddle Butte would allow producers to transport the produced water to their central water injection wells, further eliminating the concerns of the Tribe.

11.

The gathering system proposed by Saddle Butte will provide a solution to each and all of these issues, on a comprehensive basis and across the entire geographic area of the project bounded by the physical barriers of Lake Sakakawea and the Missouri River, and the Little Missouri River area.

12.

Saddle Butte has assembled a very experienced management team with the specific expertise and resources to design, construct, own, and operate the Saddle Butte Gathering System. Saddle Butte was recently formed with the sole mission of developing this comprehensive gathering and processing system for all of the producers in the Fort Berthold area, and this team is dedicated to ensuring that this project is completed in an efficient and timely manner. Contractors with extensive experience working in North Dakota and on similar types of gathering and processing systems have been retained to assist Saddle Butte in all aspects of the project. The Saddle Butte team has nearly 130 years of industry experience in the design, construction and operation of pipeline systems and processing plants, including development and management of “greenfield” projects that are very similar to this specific project. The team’s experience also includes extensive pipeline and plant projects on Tribal Lands, and construction and operations in arctic-type conditions.

13.

Included in this application is a certified copy of Saddle Butte's Certificate of Formation. *See Exhibit B; Appendix at Tab 2.*

14.

Included in this application is a Certificate of Good Standing from the Delaware Secretary of State indicating Saddle Butte is authorized to do business in the state of Delaware. *See Exhibit C; Appendix at Tab 3.*

15.

Included in this application is a Certificate of Good Standing from the North Dakota Secretary of State indicating Saddle Butte is authorized to do business in the state of North Dakota. *See Exhibit D; Appendix at Tab 4.*

16.

Saddle Butte has been funded through private equity investment bankers, and commitment for the funding of the Saddle Butte Gathering System has been completed. Attached are financial statements, which set forth detailed financial information for Saddle Butte. *See Exhibit E; Appendix at Tab 5.*

17.

Representatives of both the BIA and the Tribe have stated that a single comprehensive pipeline system is desired to address the gathering, processing, and transporting needs on and around the Fort Berthold Reservation. Based upon knowledge and belief, there are no other pipelines, existing or planned, that provide the service of gathering, processing, and transporting crude oil, natural gas, and water from all operators located on the Fort Berthold Reservation west of Lake

Sakakawea in McKenzie and Dunn Counties, North Dakota that would be provided by the comprehensive Saddle Butte Gathering System.

18.

The Saddle Butte Gathering System will provide the most cost-effective means of gathering, processing and transferring crude oil and natural gas from oil and gas well sites on and around the Fort Berthold Reservation in McKenzie and Dunn Counties, North Dakota since it will eliminate the need for multiple and duplicative infrastructure to be constructed and operated by individual producers. It will be designed to handle the production of all wells from all producers on a non-discriminatory basis, and will be expanded as necessary to accommodate future drilling activity. There are no existing pipeline systems that could meet the demand for gathering, processing and transferring crude oil and natural gas that the Saddle Butte Gathering System will satisfy.

19.

Based upon the foregoing, Saddle Butte is of the opinion that: (1) there is currently and will be in the future a need for the service Saddle Butte will provide with the Saddle Butte Gathering System; (2) Saddle Butte is fit and has the ability to provide this needed service; (3) since no other public utility provides this service, Saddle Butte's service will not have any adverse effect upon other pipeline carriers for hire; (4) the proposed service is adequate or Saddle Butte will alter its system to provide adequate service; and (5) Saddle Butte has the technical, financial and managerial ability to provide the services for which it seeks approval from the Commission.

**WHEREFORE**, Saddle Butte requests that its application be noticed for an opportunity for hearing as provided by Chapter 49-03.1 of the North Dakota Century Code and the rules and regulations of the Commission and that thereafter the Commission enter its order granting the relief



Subscribed and sworn to before me this 25th day of November, 2008.



A handwritten signature in blue ink, appearing to read "Lynette Entzi-Odden".

Notary Public  
Burleigh County, North Dakota  
My Commission Expires:



STATE of DELAWARE  
LIMITED LIABILITY COMPANY  
CERTIFICATE of FORMATION

First: The name of the limited liability company is Saddle Butte Pipeline LLC

Second: The address of its registered office in the State of Delaware is 1209 Orange St. in the City of Wilmington  
Zip code 19801. The name of its Registered agent at such address is The Corporation Trust Company

Third: (Use this paragraph only if the company is to have a specific effective date of dissolution: "The latest date on which the limited liability company is to dissolve is \_\_\_\_\_")

Fourth: (Insert any other matters the members determine to include herein.)

The Registered Agent is located in New Castle County.

In Witness Whereof, the undersigned have executed this Certificate of Formation this  
30th day of May \_\_\_\_\_ 2008 .

By: Jack E. Vaughn  
Authorized Person (s)

Name: Jack E. Vaughn

State of Delaware  
Secretary of State  
Division of Corporations  
Delivered 01:10 PM 05/30/2008  
FILED 01:10 PM 05/30/2008  
SRV 080638320 - 4554677 FILE

EXHIBIT B

# Delaware

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## *The First State*

I, HARRIET SMITH WINDSOR, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY "SADDLE BUTTE PIPELINE LLC" IS DULY FORMED UNDER THE LAWS OF THE STATE OF DELAWARE AND IS IN GOOD STANDING AND HAS A LEGAL EXISTENCE SO FAR AS THE RECORDS OF THIS OFFICE SHOW, AS OF THE TWENTIETH DAY OF NOVEMBER, A.D. 2008.

AND I DO HEREBY FURTHER CERTIFY THAT THE SAID "SADDLE BUTTE PIPELINE LLC" WAS FORMED ON THE THIRTIETH DAY OF MAY, A.D. 2008.

AND I DO HEREBY FURTHER CERTIFY THAT THE ANNUAL TAXES HAVE NOT BEEN ASSESSED TO DATE.

4554677 8300

081131826



*Harriet Smith Windsor*  
Harriet Smith Windsor, Secretary of State  
AUTHENTICATION: 6977992

DATE: 11-20-08

# EXHIBIT C

# *State of North Dakota*

## SECRETARY OF STATE



### CERTIFICATE OF GOOD STANDING OF

SADDLE BUTTE PIPELINE LLC

The undersigned, as Secretary of State of the State of North Dakota, hereby certifies that SADDLE BUTTE PIPELINE LLC, a FOREIGN LIMITED LIABILITY COMPANY, authorized to transact business in the State of North Dakota on July 7, 2008, and according to the records of this office as of this date, has paid all fees due this office as required by North Dakota statutes governing a FOREIGN LIMITED LIABILITY COMPANY.

ACCORDINGLY the undersigned, as such Secretary of State, and by virtue of the authority vested in him by law, hereby issues this Certificate of Good Standing to

SADDLE BUTTE PIPELINE LLC

Issued: November 17, 2008

A handwritten signature in black ink, reading "Alvin A. Jaeger".

Alvin A. Jaeger  
Secretary of State

# EXHIBIT D

**SADDLE BUTTE PIPELINE, LLC AND CONSOLIDATED ENTITIES**  
**BALANCE SHEET**  
OCTOBER 31, 2008  
UNAUDITED

**ASSETS**

**CURRENT ASSETS:**

Cash and cash equivalents	\$ 22,612,693
Prepaid expenses and other current assets (see Note 1)	30,287
<b>Total Current Assets</b>	22,642,980

**PIPELINE AND PLANT EQUIPMENT:**

Pipeline and plant assets	298,987
<b>Total Oil and Gas Properties</b>	298,987

**OTHER ASSETS (net of depreciation):**

Furniture, fixtures and equipment	41,688
<b>Total Other Assets</b>	41,688

<b>TOTAL ASSETS</b>	\$ 22,983,655
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**LIABILITIES AND MEMBERS' EQUITY**

**CURRENT LIABILITIES:**

Accounts payable	\$ (79,750)
<b>Total Current Liabilities</b>	(79,750)

**MEMBERS' EQUITY (see Schedule 1):**

Contributed capital	(23,000,000)
Retained deficit	96,095
<b>Total Members' Equity</b>	(22,903,905)

<b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>	\$ (22,983,655)
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**EXHIBIT E**



**SADDLE BUTTE PIPELINE, LLC AND CONSOLIDATED ENTITIES**  
**STATEMENT OF CASH FLOWS**  
FOR THE FIVE MONTH PERIOD ENDED OCTOBER 31, 2008

UNAUDITED

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Net loss	(96,095)
Items not affecting cash:	
Depreciation, depletion & amortization	2,200
Changes in operating assets and liabilities:	
Prepaid expenses/deposits	(30,287)
Accounts payable	79,751
<b>Total Cash Flow from Operating Activities</b>	<u>(44,431)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Additions to oil & gas properties	(298,987)
Additions to other property/equipment	(43,889)
<b>Total Cash Flow from Investing Activities</b>	<u>(342,876)</u>

**CASH FLOWS FROM FINANCING ACTIVITIES:**

Yorktown & management contributions	23,000,000
<b>Total Cash Flows from Financing Activities</b>	<u>23,000,000</u>

**NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS** 22,612,693

**CASH AND CASH EQUIVALENTS, beginning of period** 0

**CASH AND CASH EQUIVALENTS, end of period** \$ 22,612,693

**SADDLE BUTTE PIPELINE, LLC AND CONSOLIDATED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
OCTOBER 31, 2008

UNAUDITED

Note 1. Consists of prepaid insurance.

SCHEDULE I

SADDLE BUTTE PIPELINE, LLC AND CONSOLIDATED ENTITIES  
 STATEMENT OF MEMBERS' EQUITY  
 OCTOBER 31, 2008

UNAUDITED

	Additional Paid in Capital	Accumulated Deficit	Total
<b>BEGINNING BALANCE</b>	\$ -	\$ -	\$ -
Contributions	23,000,000		23,000,000
Net loss		(96,095)	(96,095)
<b>Balance, October 31, 2008</b>	<u>\$ 23,000,000</u>	<u>\$ (96,095)</u>	<u>\$ 22,903,905</u>

SCHEDULE 2

**SADDLE BUTTE PIPELINE, LLC AND CONSOLIDATED ENTITIES**  
**SUMMARIZED STATEMENT OF G & A EXPENSES**  
FOR THE FIVE MONTH PERIOD ENDED OCTOBER 31, 2008

UNAUDITED

**GENERAL AND ADMINISTRATIVE EXPENSES:**

Management fees	\$	(129,835)
Salary & wages		(83,605)
Legal		(31,417)
Insurance		(12,500)
Other		(3,755)
<b>Total General and Administrative Expenses</b>	<b>\$</b>	<b><u>(261,112)</u></b>