

MINUTES OF THE MEETING  
TAXATION COMMITTEE  
MONTANA STATE SENATE  
Third Special Session

June 27, 1986

The tenth meeting of the Senate Taxation Committee was called to order by Chairman Thomas E. Towe in Room 325 of the State Capitol at 8:15 am.

ROLL CALL: Senator Hager joined the committee late, all other members were present at roll call.

CONSIDERATION OF SB 23: Senator Tom Keating, Senate District 44, was recognized as the chief sponsor of the bill. He said that SB 23 had been drafted incorrectly and that SB 24 was introduced in its stead. He asked that SB 23 be tabled.

MOTION: Senator Mazurek moved that SB 23 be tabled. The motion carried unanimously.

CONSIDERATION OF SB 24: Senator Tom Keating, Senate District 44, was recognized as chief sponsor of the bill. He began by discussing the constitutional establishment of a permanent trust fund for the coal tax revenue. He said the contributions to that fund now amount to about \$200 million. He said the coal severance tax must be reduced before the markets are lost. He said that the bill would suggest a reduction from 30 to 15 percent, cutting the tax in half. He said that no further dollars would flow into the permanent trust and that the remaining 15 percent would go to those areas already set by law. He said that now was the time to stop the flow of money to the permanent trust.

PROPOSERS

Representative Tom Asay, House District 27, said that he had invited some people from the affected area to speak.

Mr. Larry Salmenson, Sarpy Creek Mine, Westmoreland Resources, said they employed 116 people a year ago and that there are 20 left now. He said he appeared on behalf of people who had lost jobs. The payroll, he said, has gone from about \$80,000 to \$15,000 per week. He said the mine should be shipping 40 million tons of coal now. He said without the bill Morrison Knudson would be gone from Montana.

Mr. Duane Ankney, Local 400, Western Energy, said that jobs are leaving the state. He said that he had worked at every mine in southeastern Montana and that all had safe and healthy working atmospheres. He said that without work he would be forced to go to Wyoming.

Mr. Thomas Rockroach, a Northern Cheyenne and employee of Western Energy, said that without a job all dreams come to an end. He said he had just finished his fourth year working for Western Energy. He said that hopefully the committee would give the bill

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a fair shake so that they could continue the dreams for their families. He said they had put money into savings, been able to purchase land and that no jobs meant a variety of devastating things. He said there would be no opportunity to seek the American way of life. He said that at least he could hunt freely on the reservation, but that many of his fellow employees couldn't. He said that a combined effort should be made to do something about the coal market.

Mr. Craig Nile, United Mine Workers of America, Local 1575, Forsyth, said that he was a machinist for Peabody Coal. He said that he had worked six days a week just a year ago and now was down to four to two days a week. He said that Peabody cannot employ them for much longer. He said that the lay offs and cut backs hurt the mainstreet businesses. He said that a severance tax reduction will help. He said that the Wyoming mines are gearing up as the Montana mines are shutting down.

Mr. Leonard Colt said he felt like an endangered species. He said that coal companies already pay a lot of taxes. He asked who will pay those taxes when the companies go under. He said the loss of revenue was a real concern to local governments.

Mr. Dan K. Stanley, a union steward in the Rosebud mine, said that workers from all over the state come to Colstrip to find jobs. He said they are losing their homes. He said that they appeared before the committee asking to work and to be competitive and to try to keep their jobs.

Ms. Terri L. Austill, Colstrip, an operator laborer, said that she represented those who were sole supporting parents. She needed her job to support her three children and would say yes to the 15 percent coal severance tax reduction if she could get her job back.

Mr. Joe Novasio, said that he had been at the mine for 12 years. He said that they have experienced 140 lay offs. He said that the town would be nothing without mining. He said our people aren't working and that they are the most productive miners in the nation. He said they could move 140 feet of dirt with less impact because they move coal with hearts. He said that he had never seen a day go by that a coal train wasn't loaded until recently.

Mr. Jack Ball, Business Manager, Local 400, at Sarpy Creek and Western Energy, said that his members are in a bad way. He said that they are native Montanans and want to raise their children and have jobs here.

Representative Tom Asay noted for the committee that the plug had been pulled on a local television network because of the lack of dollars. He said that while the bill just came in, many had made a great effort to get here and that they represent many more who could not come.

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Mr. Jim Rugemer, County Commissioner from Big Horn County, said that coal is not being mined because of the severance tax. He said that coal companies are going under. He said that hysteria prevailed when the severance tax was embedded in the constitution. He said that this tax operates as colonization and imperialism. He said that it affects the market price of coal. He said that he didn't know if the bill could work, that it could be too late for it to work. He said the people of Montana should be allowed a chance to vote as they could not do worse.

Representative Asay said that people are losing their homes in Forsyth. He said four were returned to the bank just in the current week. He said two of those were directly related to Colstrip lay offs.

Mr. Jim Mockler, Executive Director of the Montana Coal Council, submitted his testimony in writing (Exhibit 1). He also provided the committee with Exhibits 2, 3 and 4. He supported SB 24.

Mr. Jim Murphy, Western Energy Company Vice President of Marketing and Coal Sales, said that they support the bill and urge its adoption. He said that the bill prevents future strangulation of the industry whose growth had been initially phenomenal. He said that the growth was now 2.6 percent a year as opposed to 62 percent annually in the early years of the industry. He said that it was not coincidental that the coal severance tax had been passed in 1975. He said the severance tax killed the coal industry. He said the severance tax was at 30 percent, the gross proceeds tax at 4.5 percent (in Rosebud County), the resource indemnity trust tax at .5 percent, making approximately a 35 percent state tax. He said that there were two federal taxes in addition to that; 3.5 percent a ton, plus 4.4 percent in black lung tax. He said that made the total tax burden in Montana about 43 percent. He said that adding the federal royalty rate to that would bring the total government imposed tax burden to about 55 percent. He said that the fruit of the labor cannot be taxed at that rate with the expectation that it will sell in the market place. He said there has been a 36 percent workforce lay off and a 23.8 percent drop in coal production.

Mr. Murphy continued saying that Western Energy had done an unparalleled marketing program to develop new markets for Montana coal. He said they had six people contacting over 100 coal users to try to sell Montana coal. Secondly he said that an employment maintenance price discount to existing customers had stimulated some additional consumption. He said that Wyoming is displacing Montana coal. He said that Minnesota once was a good market because of a freight rate advantage, but that had disappeared. He said industry publications explain and prove conclusively that Montana's price advantage has disappeared entirely. He urged the committee to endorse SB 24. He said that a lower tax rate would preserve jobs and markets for Montana coal. He submitted Exhibit 5 to the committee.

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Former Senator Carroll Graham said that the Legislature had waited too long to do something about this problem. He said that he had brought this question up in a five-state conference years ago. He said that Wyoming has about half the tax Montana has. He said that Wyoming state senator Hickey said that is just as Wyoming wanted it. She told him, "You have the tax and we'll get the business." Use of coal has fallen back and it looks like the decline in usage will be permanent. He noted that the shortage of gas and oil had passed. He said that manufacturing use of coal was not so great either. He said that a point has been reached where Montana has to do something. He said that his former Senate district had been going great guns but that now it was losing mines. He said that at one time Wyoming production was less than Montana's, but that now Wyoming production was in excess. He said that Montana production would be completely killed because it was not so highly competitive. He said that he hoped SB 24 was reported out of committee to let the people vote on it. He said that a \$300 million nest egg had already been set aside. He said to hold it at that level and reduce the price so that Montana could sell coal again.

Representative Marian Hanson, House District 100, said that she supported SB 24 for the reasons stated. She said it would keep the coal miners going.

Mr. Dave Goss, Billings Area Chamber of Commerce, said that the increased productivity in the coal mines could be felt in ripple effect through the entire economy.

Mr. Larry Icenogle, project manager for Montana Association of Counties, said the bill is an incentive measure for getting new markets for Montana coal.

Senator Ted Neuman was excused from the committee at this point because he was needed in the House Taxation Committee.

Mr. Icenogle discussed the numbers of primary construction and mining jobs that were created by the coal industry. He said that if a mine were built it would result in 938 primary construction jobs, 300 plus mining jobs and 200 plus permanent jobs. He said that amounted to \$3 billion in terms of tax revenue and permanent income. He said the bill was now needed to make the tax structure competitive.

Mr. Mike Micone, Executive Director of the Western Environmental Trade Association, said that last fall WETA had commissioned a survey by the University of Montana Bureau of Business and Economic Research. He said that survey showed that Montanans do support using natural resources. He said that 93 percent of the respondents supported development. He said that people want the coal mined. He said passage of the bill would be a message of serious business promotion. He urged the committee to support SB 24.

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Ms. Lorna Frank, Montana Farm Bureau, said that they support SB 24.

Mr. Don Ingles, Montana Chamber of Commerce, said that they support SB 24.

Mr. Keith Anderson, Montana Taxpayers Association, said that they support SB 24.

Senator Pat Goodover, a member of the committee, rose to support the bill as a long-time proponent of reduction of the coal severance tax.

Senator Larry Tviet, Senate District 11, said that he supported SB 24.

#### OPPONENTS

Mr. Russ Brown, Northern Plains Resource Council, said that the bill begs the question of competitiveness. He said that the agriculture sector was losing jobs to miners. He said that a serious effort to reclaim mining jobs would involve reform of the Staggers Rail Act. He said that transportation accounts for 60 percent of the delivered price of coal, while the tax only accounts for 10 percent. He said that the bill does not accomplish what the sponsor intended.

Senator Dorothy Eck asked that the hearing be recessed. She said that information comparing Montana and Wyoming rates as they affect the marketability of coal should be provided to the committee.

Senator Larry Fasbender, Director of the Department of Natural Resources and Conservation, said that water bond rating was in part dependent on the money flowing into the coal tax trust. He said it allowed a better rating and a lower interest rate. He said the bonds now have great security and a good rate of return. He said that passage of the bill would adversely affect that.

Mr. Keith Colbo, Director of the Department of Commerce, said that part of the problem with the bill had been outlined by Director Fasbender. He said that the motives of the testimony of the workers was not clear. He said that SB 24 is a paradox in that it was introduced to continue jobs and economic development and yet it cut off in state investment initiative program funding. He said this was an essential part of the competitive economic development program, benefits of which were already clear. He said that 50 applications had come into the program. Forty of those had been approved. He said that meant that \$11.8 million had been loaned to businesses affecting 791 jobs and creating 358 new jobs all across the state. He said the board has acted prudently and showed Montana businesses throughout the state their intention of a supportive business climate.

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Mr. Colbo concluded saying that this was an important method of supporting business that was already approved by the voters and was working well.

Mr. George Oschenski, Montana Environmental Information Center, said that he doesn't know how the bill addresses the current budget crunch for which the special session had been called. He said the coal market was the problem and not the taxation. He said that Montana could subsidize the mining of copper, but that would not change the copper market. He said that the loss of mining jobs was the nature of a boom and bust resource industry. He said that the boom cannot be artificially supported. He said the boom and bust cycle is the very thing the trust is designed to insure against. He said the demand for coal is key and that there should also be straight talk about shipping costs. He noted the geographic distance of Montana coal from its markets.

Mr. Phil Campbell, Montana Education Association, said that they oppose SB 24 in keeping with a long standing policy against reduction in coal severance tax and the coal trust fund. He said this is to protect future generations and education. He also noted that the structure of the bill was confusing.

Mr. Don Judge, Montana AFL-CIO, said that the Montana labor movement continues to be supportive of the severance tax as it has done since the early 1970s. He said that passage of the bill would not insure more coal mining. He noted that a \$300 million nest egg did not look so big when the budget deficit was now \$100 million. He said at that rate the trust would evaporate entirely within six years. He said that allocation changes could be made, but that the tax should not be reduced.

Mr. Blake Wordahl, Executive Director of the Montana Democratic Party, said that the bill would not help provide jobs. He said that better transportation costs, and a better market were the things that would sell coal. He said the effect of reducing the tax on other programs should also be looked at.

Questions from the committee were called for.

In response to a question from Senator Towe, Mr. Murphy, Western Energy Company, said that all the cost is added, the rate of return is added and that price is taxed. He said they start with what the producer is going to get for the product. He suggested that the chairman was looking at the percentages in an inordinate fashion.

Senator Towe said he was surprized that Western Energy could submit that kind of testimony. He said that the committee has been misled and that the actual tax on the coal came to 20 percent of the contract price.

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Senator Towe asked Mr. Murphy if in spite of major efforts to find new markets and the window of opportunity passed during the last regular session no new coal contracts had been let.

Mr. Murphy said that was true. He said there would not be massive new contracts even with a 15 percent severance tax. He noted that in the coal market area the planning was done ten years in advance. He said the point was that a 15 percent reduction would affect existing contracts. He said that many of the existing coal customers are affronted by the window of opportunity which benefits only new customers.

Senator Mazurek asked why this was proposed instead of addressing the tax rate directly. Senator Keating answered that it was being done now because it had to go on the ballot by fall 1986. He said that the Legislature could still put money into the trust by statute if they so desired.

In response to a question from Senator Brown, Mr. Murphy said that there is an eight percent price difference in Wyoming and Montana coal delivered to Minnesota. He said that the statutory rate in Wyoming is 17 percent. He said if the Montana rate were at 20 percent the rate would not be that much different.

In response to questions from Senator Mazurek, Mr. Murphy said that production in Wyoming was 142 million ton last year compared to 104 million ton previously.

Mr. Mockler was recognized and said the effective rate of Wyoming tax is about 17 percent with the combination of the severance tax at 10.5 percent and a county tax of 6.5 percent. He said that two percent of the Wyoming tax would self destruct in this year. He said that Montana coal is taxed at 35 percent of face value.

In response to Senator Mazurek, Mr. Mockler said that Wyoming production was up 16 million ton last year. He said that one or two mines have closed and there have been some lay offs there, but that production and overall employment are up in Wyoming. Exhibits 6, 7 and 8 were submitted at the request of the committee.

In response to a question from Senator Goodover, Mr. Judge, AFL-CIO, said that individual local unions can take positions different from the parent organization and that the testimony he gave is consistent with the AFL-CIO position since the enactment of the tax. He said that these workers should be here and should testify, but that it was nonetheless his job to represent the position of the labor union as a whole.

Senator Eck asked Mr. Murphy to further discuss Wyoming coal. He said that in addition to the lower tax there was also a change in the railroad rates that had impact on the Montana coal market. He said this had shrunk protection that Montana previously enjoyed.

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Senator Eck asked for an update on markets possible for Montana coal. Senator Towe said that the Interim Coal Tax Committee would have updates of this information again in July.

Senator Neuman asked Senator Keating what had happened as a result of the reduced tax on tertiary oil recovery. Senator Keating said that it was on board for implementation when the oil prices dropped and the program became too expensive to recover the oil.

Senator Neuman then noted that it was forces outside the control of the state, and not the Montana tax policy, that dictated what happened. Senator Keating said the whole package must be considered and that competition always dictates prices.

Senator Hirsch asked Director Fasbender how bond security is affected based on the flow into the trust.

Senator Keating closed saying that flow of money for bond security could be uninterrupted. He said that the passage of the bill would bring new wealth into the state. He said that the state badly needs basic industry and not just service industry. He noted that rail transport rates for coal had been recently reduced. He said that the trust was initiated to preserve a legacy for posterity. He said that the reclamation work has been excellent. He said that Montana is not a devastated area. He said damage is not occurring and that the Resource Indemnity Trust insures that. He said the sale price of the coal bears the reclamation cost. He said it was time to put the message to the people and allow the people to vote. He said that 12 years ago they decided this, but that they do not want coal production and the coal industry to go down the drain.

Chairman Towe recessed the committee for 45 minutes.

The committee was reconvened at 11:30 am. Senator Neuman was absent. All other members of the committee were present.

CONSIDERATION OF HB 39: Representative Ray Peck, House District 15, was recognized as chief sponsor of the bill. He stated simply that the bill was part of the Governor's program, that it had a tortuous journey thus far and that it needed to be amended further to align it with HB 30.

#### PROPONENTS

Ms. Louise Moore, Bureau Chief of the Conservation and Renewable Energy Bureau of the Department of Natural Resources, noted the dollar amount on page seven, line 2 needed to be changed from \$140,000 to \$350,000 to be consistent with HB 30 which transfers an additional \$207,000 from the energy account to the general fund. She submitted Exhibit 9 to the committee.

Mr. Russ Brown, Northern Plains Resource Council, said that he

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was not certain of the impact of the amendments, but that NPRC did support the bill.

#### OPPONENTS

None were heard.

Questions from the committee were called for.

In response to a question from Senator Towe, Mr. Larry Fasbender, Director of the Department of Natural Resources, said that the \$600,000 available to retrofit state buildings had been reduced by \$200,000. He said the remaining \$400,000 would do about four to six buildings. He said the amendments made the bill correspond with House actions. He said that in FY 87 about \$800,000 should be available for this purpose. He said that some of the balance would come in from loan repayments. He said that the bill would authorize the Department to spend \$819,000 over and above the \$1.35 million that would go to the general fund. He said the amendment included 50 percent more to the general fund than the Governor had requested.

Senator Neuman rejoined the committee at 11:40 am.

CONSIDERATION OF HB 38: Representative Mel Williams, House District 85, was recognized as chief sponsor of the bill. He said that the bill would put a 12 percent cap on taxation of all properties in Class 15. He said that the current law contains a formula that is between 14 and 14.5 percent. He said this would strengthen the state's position as it would cap rails at the same amount as airlines which are now in a separate class. He said that the airlines legal staff supported that net and gross proceed were within the definition of industrial and commercial property. He said that Burlington Northern was willing to pay the amount of taxes indicated from 1986 through 1991 and that there was not any reason it shouldn't stand. He said the fiscal note addressed what Burlington Northern would pay in the next two years. He said the 12 percent cap would insure fair and equal tax treatment. He said the provisions of the bill address the concerns about court cases. He submitted Exhibit 10 to the committee noting that even with tax breaks BN was still reducing employment within the state.

#### OPPONENTS

Mr. Leo Barry, representing Burlington Northern, said that he did not appear as an opponent of the bill, but to inform the committee of the railroad's position. He said that BN did not want to leave legislators assuming that this would eliminate court action under the 4 Rs act. He said that 8.7 percent of the current tax was paid under protest. He said that the previous settlement with the Governor was not an admission that they owed that amount in taxes.

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Questions from the committee were called for.

Senator Eck asked Mr. Barry about the negotiations. He said that it was not clear with whom the railroad should negotiate. He said the Governor could negotiate on behalf of the administration, but who was to negotiate on behalf of the Legislature? He said perhaps if that could be clarified a settlement could be reached that both parties could agree with. He said that the railroad had already gone beyond what it legally owed in taxes.

Senator Mazurek asked Representative Williams if he would object to the cap being reduced from 12 to 9.75 percent. Representative Williams said, "Yes."

Representative Williams closed calling Leo Barry a "coponent". He said that BN's taxes were not doubled because they had been cut in half by the courts and that the Legislature was just trying to bring it back up to a reasonable rate. He said that it was a difficult class of property and that some equity needed to be insured. He said that full valuation of railroad property remained an important issue. He said that right now they were taxed at 70 to 75 percent of full value.

MOTION: Senator Eck moved that the committee reconsider its action in concurring in HJR 1.

MOTION: Senator McCallum moved as a substitute motion that HB 39 be concurred in.

Senator Towe explained that he wanted to bring HJR 1 back to committee for the purpose of tabling the resolution. Senator McCallum withdrew his motion.

Question was called. Senator Goodover voted no. All other committee members voted yes. The motion to reconsider HJR 1 carried.

MOTION: Senator Eck moved that HJR 1 be tabled. The motion carried unanimously.

MOTION: Senator McCallum moved that HB 39 be amended per Exhibit 11.

The amendment was then discussed by Van Jamison, Department of Natural Resources and Conservation. He said that the Department was required by statute to make loans through financial institutions in the state. He said this would direct the Department in regard to the money accrued by waiting to loan the money. He said the Department would be letting \$924,000 in grants and loans during this fiscal year.

The motion carried unanimously.

MOTION: Senator Goodover moved that HB 39 be concurred in as amended.

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The committee then discussed with Mr. Jamison what the cost would be with the amendment that had been offered on the House floor. The Department should improve public input and guidance, but even without the provision there is Legislative oversight of the work of the committee. There was some discussion of whether a separate report should be drafted for the Legislature.

Senator Mazurek said that in January 1985 every legislator received a pile of reports into which many preparation dollars had been dumped. He said that tied up the otherwise productive time of state employees. He suggested one more report was not necessary.

MOTION: Senator Hirsch moved as a substitute motion that Section 5 be deleted from HB 39.

Senator Goodover resisted the motion because he said that the Legislature doesn't get to see this information even if the Coal Tax Oversight Committee and the Environmental Quality Council did.

Senator Towe said that each legislator would get all the information available to the two above mentioned committees.

Question was called. Senators Goodover, Eck and McCallum voted no. Senator Halligan was absent for the vote. All other committee members voted yes. The motion carried.

Discussion then reverted to the original motion. Mr. Jamison in answering a question from Senator Towe, said that there were not sufficient good applications to use all the money. He said they had the authority to do as they did by the appropriate allocation.

Question was called. Senator Halligan was absent. Senator Goodover voted no. All other committee members voted yes. The motion carried.

FURTHER CONSIDERATION OF HB 39:

MOTION: Senator Brown moved that HB 38 be concurred in. Senator Halligan was absent. All other committee members voted yes. The motion carried unanimously.

FURTHER CONSIDERATION OF SB 24:

MOTION: Senator Goodover moved that SB 24 do pass.

MOTION: Senator Eck moved as a substitute motion that SB 24 do not pass.

Senator Towe supported the motion noting the technical problems with the water bonding program.

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The committee then discussed the probability that the bill would go to the floor for a vote. It was suggested that if the committee reported it without recommendation to the floor the process would be speeded.

Senator Eck withdrew her motion.

MOTION: Senator Hager moved that SB 24 be reported for consideration on Second Reading without recommendation.

The motion carried unanimously.

MOTION: Senator Mazurek moved that SB 13 be taken from the table.

Senator Mazurek explained that his intent was to amend the bill to allow a diversion for one-year only, then to return SB 13 to the table. He said that if the bill should pass he wanted it to be effective for only a year.

Senator Brown asked if the bill would be blasted out of committee.

Senators Mazurek and Towe said that there was no clear intent to blast the bill out, but that a genuine possibility existed.

Question was called. Senators Goodover, McCallum and Hager voted no. All other committee members voted yes. The motion carried.

MOTION: Senator Mazurek moved that SB 13 be amended to divert the funding for one rather than two years.

Senator Goodover voted no. All other members voted yes. The motion carried.

MOTION: Senator Mazurek moved that SB 13 be laid on the table.

MOTION: Senator Eck moved as a substitute motion that SB 13 be further amended on page 2, line 14 following "1987" inserting "for education purposes".

Chairman Towe pointed out technical problems with this amendment. He said that it wouldn't fit as the current changes only reduced a percentage.

Senator Eck withdrew her amendment.

Question was called on the original motion. All members voted yes. The motion carried unanimously.

Chairman Towe adjourned the meeting.

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Chairman

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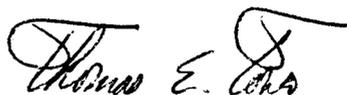
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Chairman

VISITORS' REGISTER

NAME	REPRESENTING	BILL #	Check One	
			Support	Oppose
Dave Depew	MPEA			
Louise Moore	DNRC	HB 39	✓	
Olav Jamison	DNRC	HB 39	✓	
Jim Mockler	Mt. Coal Council	SB 24	✓	
LANNY TENOGLIE	MONTCO	SB 24	✓	
TOM EBERY	NERCO Support	SB 24	✓	
Joe Pugh	Westmoreland Resource	SB 24		
Keith L. Colbo	Dept of Commerce	SB 24		✓
Russ Brown	NPRC	SB 24		✓
Jim Murphy	Western Energy Co	SB 24	✓	
GEORGE OCHENSKI	MT. ENV. INF. CNTR	23/29		<del>X</del>
Terry Spalinger	MT. Econ. Dev. Board	SB 24		
JAN KALGREN	"	✓		
Ken Williams	Western Energy Co	SB 24	✓	
Don Judge	Montana State AFL-CIO	SB 24		✓
Judie Jackson	Mont. Co. Freicians	SB 24	✓	
Don Sigels	Mt. Chamber of Commerce	SB 24	✓	
Don Goss	Billings Chamber of Commerce	SB 24	✓	
Eric Fear	NSA	SB 23		✓
Larry Dastender	DNRC	SB 24 HB 39	✓	✓
Russ Brown	NPRC	HB 39	✓	



SENATE TAXATION

EXHIBIT NO. 1

June 27, 1986

DATE June 27, 1986

BILL NO. SB 24

SB 24

Mr. Chairman, members of the Committee, I am James D. Mockler, Executive Director of the Montana Coal Council. As you are aware, the Montana Coal Council is a trade association representing the producers of virtually all of Montana's coal.

Much has been said over the past ten years about the 30% severance tax, and lest we become more confused by today's rhetoric, let's go back and examine the reasoning for its passage in 1975.

First, a look at the free conference committee report to the Legislature demonstrates in rather plain language that those pushing for the tax knew what the competitive effects would be. That report states in its preamble: "A tax differential between Montana and Wyoming may shift some new contracts to Wyoming." Obviously the intent of the legislation, passed in 1975, is one that has worked marvelously well. The question before you today is whether Montanans, and you as their representatives in government, still wish to continue with the provincialism that prevailed in 1975.

Today supporters of job exports are now saying that there was no intention of limiting the industry's growth and that the tax does not have an affect on our closest competition, Wyoming. The fact is that in 1975 Wyoming produced 23.8 million tons of coal and Montana 22.0 million tons, a difference of 1.8 million tons or 9.2%. Ten years of experience shows that in 1985 Wyoming produced 140.4 million tons while Montana produced 33.1 million

tons, a difference of 107.3 million tons or 424%! Obviously while the Montana production grew by a whopping 11 million tons, Wyoming production increased by over 116 million tons. So much for competition. The facts are plain, only the rhetoric has changed.

The report further states three reasons for the tax: "(a) To preserve or modestly increase the revenues to the general fund; (b) To respond to current social impacts attributable to coal development; and (c) To invest in the future, when new energy technologies reduce our dependence and mining activities may decline."

Today the coal impact counties have little, if any, left to compete for and as early as 1977 the Legislative Fiscal Analyst's report stated: "Our review of counties, incorporated towns and school districts in areas certified as impacted by coal development shows that, with few exceptions, the impacted units have the means to finance the required expenses without state support. The coal area is characterized by some of the lowest mill levies in the state and has been blessed by mushrooming property valuations. This analysis would indicate that the need for state supported local impact grants may be much less than originally anticipated by the Legislature."

Only time will tell when "new technology" will reduce production. I have never seen an explanation of what a "future generation" is, when it starts or who is eligible to participate.

I understand there are a number of coal miners here today and I ask you to consider their future and their children's

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EXHIBIT NO. 1

DATE June 27, 1986

BILL NO. SB 24

future. Ask yourselves honestly if they should not have the option of living their lives and raising their families in Montana. I ask you to also consider those small businesses who rely on supplying the industry, who make their living from these miners dollars and who are also in serious trouble.

The proposal before you will not diminish the funds currently being used by the various entities in the non-trust portion of the severance tax, and in fact the opposite will happen. As we are able to compete, our production will stabilize and hopefully expand, and as that happens the income will obviously increase. Future generations will still have some \$300 million as a remembrance and Montana's jobs, the economy and overall image will be enhanced. Montana will still have the highest severance taxes in the nation for with the addition of the gross proceeds and RITT the tax rate will be 20% vs. Wyoming at the present 17%.

The industry is in serious trouble. We ask you today to honestly address the issue of the 1975 policy of exporting our markets, our jobs and our taxes.

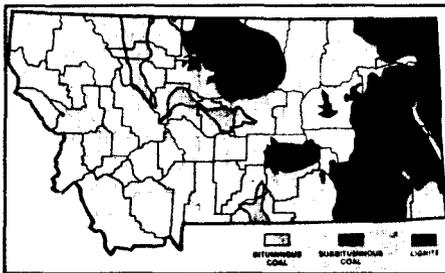
We urge the passage of SB 24 and sinerely thank all those who have afforded us this opportunity.

SENATE TAXATION

EXHIBIT NO. 1

DATE June 27, 1986

BILL NO. SB 24



### Location, Quantity and Quality of Montana Coal

Of the 15 major coal-producing states, Montana ranks first in coal resources and reserves. A 1976 U.S. Geological Survey report lists the state's total identified resources at 291 billion tons. Because of current economic considerations, however, the USGS adjusted that figure to determine a demonstrated reserve base in Montana of 122 billion tons. In addition, technological limitations do not allow for 100 per cent recovery of the reserve base. Therefore, we have further trimmed the recoverable reserve figure to 75 billion tons.

Thick, relatively flat coal beds at depths of less than 300 feet below the surface are particularly suitable for surface mining. Coal beds that dip or lie very deep beneath the surface generally must be extracted through underground mining methods.

State	Reserve base (Billions of Tons)	Rank by Reserve Base	1984 Production (Millions of Tons)	Rank by Production
Montana	120.3	1	33.0	9
Illinois	79.1	2	83.8	5
Wyoming	69.6	3	130.9	3
Kentucky	40.2	4	159.5	1
West Virginia	39.1	5	131.0	2
Pennsylvania	30.0	6	73.3	4
Ohio	18.9	7	39.3	7
Colorado	17.2	8	18.0	12
Texas	13.8	9	41.1	8
Indiana	10.5	10	37.6	8
North Dakota	9.9	11	22.1	11
Utah	6.4	12	12.3	13
Alaska	6.2	13	9	15
Missouri	6.0	14	8.7	14
Alabama	5.2	15	27.1	10

Source: U.S. Energy Information Administration

The energy value of coal is measured in British thermal units (Btu), which is the amount of heat required to raise the temperature of one pound of water by one degree Fahrenheit. One ton of Montana sub-bituminous coal typically is the Btu equivalent of 3½ barrels of oil.

There are four basic kinds of coal:

**Lignite:** This is a low-rank coal which is brown, brownish-black, but rarely black. It is high in moisture, low in heat value, and chokes badly upon drying. It burns readily with a smoky flame.

**Sub-bituminous and Bituminous:** These are harder coals than lignite. They contain a higher percentage of carbon, more Btu's, and less water. They also burn readily, but do not disintegrate as easily as lignite on exposure. These are the most plentiful coals in the United States.

**Anthracite:** This is the hardest and brightest coal type. It is marked by an almost submetallic luster. It is high in fixed carbon and low in volatile hydrocarbons. Although it ignites less readily than lower rank coals, it burns with a short flame which produces much heat and little smoke. It is high in ash.

### Surface Mining and Reclamation

Surface coal mining companies are required by law to reclaim and return mined land to a productive capacity that is equal to or better than before mining occurred.

Reclamation operations take place concurrently with the mining operation. The first step taken is to remove the top soil from an area to be mined, stockpile it and stabilize it with temporary vegetation to prevent erosion.

The initial removal of overburden (the remaining material covering the coal) is called a box cut and the cavity that is left when the coal is removed will receive the overburden from the second cut. In most cases, a dragline is used to lift overburden from a new section and deposit it in the section that has just been mined. To loosen the overburden for the dragline, it is blasted. The coal is fractured in the same way and then removed by large loaders, deposited in coal haulers and transported to the mine storage and loading facility.

Once the dragline has deposited overburden over the mined-out cavity, bulldozers smooth it out and contour it to blend with the surrounding landscape. This process is much like that employed in construction projects. After that, reclamation becomes very similar to any farming operation. The soil is scarified to guard against erosion, top soil is replaced and the area is planted with seed mixtures that are prescribed by the regulatory agency. In some cases, ponderosa pine and other woody plants are part of the approved reclamation plan. Companies may apply a fiber mulch to further protect against erosion and white fertilizer may be used during the early growing seasons, irrigation has not been necessary.

Before any company is permitted to mine, it is required to post a bond sufficient to cover the cost of reclamation if an operator fails with his reclamation efforts. That bond is not released until successful reclamation is verified. Based on precipitation rates in the West, the law dictates that, in no case, can the bond be released sooner than ten years from the date of seeding.

### Royalties

Unlike a tax paid to government on the production of coal or its realized profits, royalties are a monetary payment to the owner of the coal as agreed upon in the terms of pre-mining leases. State and federal government still are major beneficiaries of these payments, however, because a large percentage of the mineral right ownership of coal in Montana has been retained by the federal government, with payments from the coal producing school sections going to the state. In addition, the 1978 federal leasing law mandates that 50 percent of the royalties collected from development of federal leases be returned to the state. Other coal lessors include Indian tribes and private (or fee) owners.

Best Available Figures  
Cumulative Royalty Payments from Montana Surface  
Mining Operations Through December, 1985

Company	Federal	State	Indian	Private	Total
Decker	23,823,216	11,201,685			35,024,901
Knife River	1,950,477			31,269	1,981,746
Peabody	4,080,791			7,383,525	11,464,316
Spring Creek	4,111,043				4,111,043
Western Energy	24,899,267			12,555,420	37,454,687
Westmoreland		1,255,883	21,223,351		22,479,234
<b>Total</b>	<b>\$58,874,794</b>	<b>\$12,457,568</b>	<b>\$21,223,351</b>	<b>\$15,879,223</b>	<b>\$108,434,936</b>

Source: Individual Companies

### Employment and Payroll

Montana's surface mining industry furnishes some of the highest-paying and most-sought-after jobs in the state.

Company	Number of Employees	Estimated Payroll
Decker Coal Co.	460	\$14,930,000
Knife River Coal Mining Co.	17	750,000
Peabody Coal Co.	144	5,358,000
Spring Creek Coal Co.	112	4,335,000
Western Energy Co.	552	17,685,000
Westmoreland Resources	109	711,000
<b>Total</b>	<b>1,394</b>	<b>\$59,000,000</b>

### Production and Value

The following chart shows production for 1975 through 1985. The price per ton at the various sites depends on the quality of coal (heating value, moisture content, sulfur and ash content, etc.) but an average for Calendar Year 1985 was \$9.51 per ton making the value of that coal \$297 million. The price is established by the Department of Revenue after the three state and two federal taxes are deducted. Therefore, it does not reflect the total cost of the coal.

Year	Production (million tons)
1975	22.0
1976	26.2
1977	27.3
1978	26.4
1979	32.5
1980	30.0
1981	33.3
1982	27.8
1983	28.7
1984	33.1
1985	33.1

Source: Workers Comp. Division, Dept. of Labor

Coal Production Estimates in Millions of Tons  
for the Major Montana Coal Mines as of January, 1986

	Actual 1985	1986	1987	1988	1989	1990
Decker Coal	11.3	12.4	13.5	13.6	13.2	14.0
Knife River	2	2	2	2	2	2
Peabody Coal	3.3	3.2	3.2	3.2	3.2	3.2
Spring Creek	2.8	3.2	3.3	3.4	3.5	3.5
Western Energy	12.3	14.0	14.8	15.3	15.3	16.3
Westmoreland	3.1	3.1	3.1	3.8	3.8	3.8
<b>Total</b>	<b>33.0</b>	<b>36.1</b>	<b>38.1</b>	<b>38.5</b>	<b>38.2</b>	<b>40.0</b>

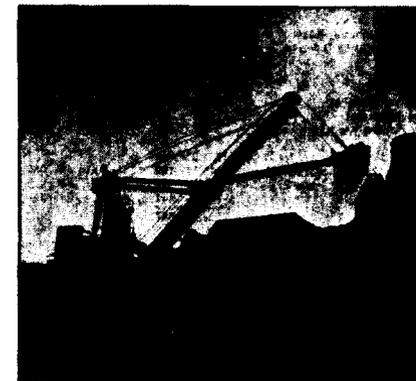
Source: Individual Companies

*This brochure was prepared by the staff of the Montana Coal Council with the assistance of informational sources quoted. The Montana Coal Council is a trade association whose members are involved in the production of coal in Montana. We support realistic state and national environmental and social standards. The Council also recognizes the need for a federal energy policy that will lead to the development of domestic energy sources and reducing this nation's dependence on foreign oil.*

Montana Coal Council  
2301 Colonial Drive  
Helena, MT 59601

Executive Director: James D. Mockler  
Office Manager: Danette M. Warren

# Montana Coal 1986



SENATE TAXATION

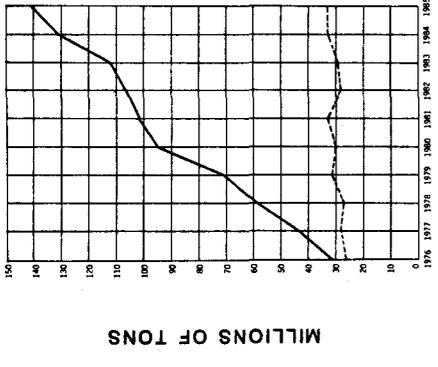
EXHIBIT NO. 2

DATE June 27, 1986

BILL NO. 5824

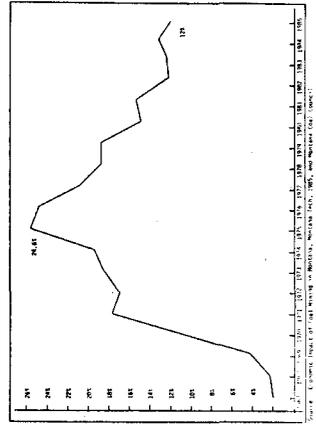
Every ton of Montana coal  
replaces 3½ barrels of  
foreign oil.

# MONTANA - WYOMING COAL PRODUCTION



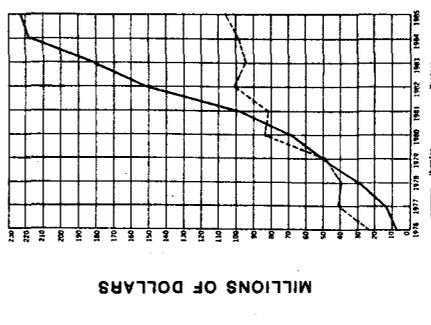
Source: Wyoming - Annual Report of the State Inspector of Mines of Wyoming, 1985  
Montana - Bureau of Coal Production, Bureau of Energy and Minerals, 1985

# MONTANA'S SHARE OF WESTERN COAL PRODUCTION



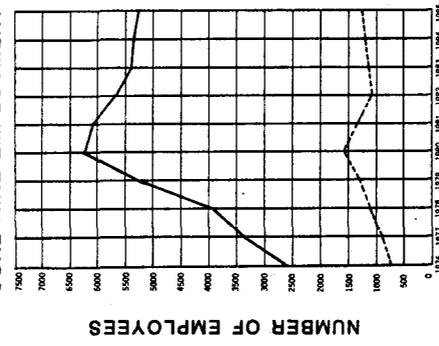
Source: Bureau of Energy and Minerals, Bureau of Energy and Minerals, 1985

# MONTANA - WYOMING COAL PRODUCTION TAXES



Source: Wyoming - Coal Production Tax Collection Report, Wyoming Department of Energy and Natural Resources, 1985  
Montana - Coal Production Tax Collection Report, Montana Department of Energy and Minerals, 1985

# MONTANA - WYOMING COAL MINE EMPLOYMENT



Source: Wyoming - Annual Report of the State Inspector of Mines of Wyoming, 1985  
Montana - National Coal Council and Keystone Coal Industry Manual

## 2. Resource Indemnity Trust Tax - As of 1973, all nonrenewable resource producers have been required to pay this tax which is 0.5 per cent of the gross value of their production.

Fiscal Year	Amount
1973/74	\$ 61,687
1974/75	239,391
1975/76	409,810
1976/77	488,340
1977/78	525,833
1978/79	525,833
1979/80	525,788
1980/81	825,486
1981/82	1,000,195
1982/83	1,862,248
1983/84	1,300,985
1984/85	(195,570)
	\$7,703,274

Source: Montana Dept. of Revenue

## 3. Net (prior to 1976) and Gross Proceeds Taxes - These are additional taxes paid on the value of the coal to support county government in the counties where the mines are located.

County	Year	Amount
Big Horn County	1972-85	\$42,659,711
Decker Coal Company	1981-85	5,200,882
Spring Creek Coal	1973-85	13,322,510
Westmoreland Resources	1973-85	1,569,504
Richland County	1975-85	7,908,847
Kille River Coal	1989-85	29,183,879
Rosebud County	1989-85	\$99,813,332
Peabody Coal Co.	1989-85	
Western Energy Co.	1989-85	

Source: County Treasurers of Big Horn, Richland and Rosebud Counties

## 4. Personal Income Tax - While it is difficult to determine the amount of personal income tax paid to the state by surface mine employees, we have made a general estimate based on an average gross income of \$24,300 per year with two exemptions. Under that formula, the state of Montana would receive more than \$1.9 million annually and the actual amount is probably higher. It may be of interest to note that perhaps as many as 90 per cent of mine employees who work in Montana and pay its state income tax live in Sheridan County, Wyoming, because it is the closest urban center.

## 5. Federal Taxes - In addition to state taxes, Montana surface mining operations pay a tax for abandoned mine reclamation consisting of 10 per cent of the FOB mine price up to a maximum of 10 cents per ton for lignite or 35 cents per ton for all other types of coal. In addition, the state of Montana also collects a tax on the sale of coal. This tax is 10 per cent of the FOB mine price of 50 cents per ton, whichever is less. This tax is levied on the coal producer and is paid by the coal producer. The tax is primarily suffered by underground miners.

## 6. Severance Tax - Prior to 1975, Montana's coal severance tax was based on a cents-per-ton basis. However, the 1975 Legislature enacted the highest severance tax in the nation, which is now based on a percentage of the mine-mouth price of the coal. Although the percentage is tied to the price of the coal, with adjustments to 30 per cent for lignite and 20 per cent for bituminous coal.

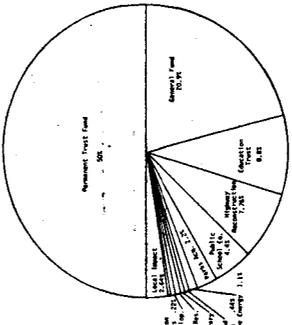
Fiscal Year	Amount
1975/76	\$ 23,985,000
1976/77	35,906,000
1977/78	34,372,000
1978/79	45,989,000
1979/80	75,189,000
1980/81	70,415,000
1981/82	86,197,000
1982/83	80,045,000
1983/84	82,823,000
1984/85	91,749,000
1985/86	84,084,000
	\$707,340,000

(began in FY 77/78)

Category	Amount
Erasmun Fund Allocations 1976 through 1985/86	\$287,808,000
Coal Trust Fund	15,081,539
Energy Research and Development	87,870,598
Impact Earmarked	70,148,125
Trust Fund	41,780,076
Public Schools	4,178,007
Land Planning Acct.	8,935,121
Resource Develop.	15,847,426
Acquisition	2,948,028
Library Districts	1,509,888
Development	1,681,277
Recreation	187,316,694
Trust Fund	15,177,132
Highway Improvement	4,411,000
Shoreline and Areas	4,737,441
Counties	\$707,339,947

quarter of 1985/86 estimated  
Source: Montana Dept. of Revenue

## MONTANA COAL TAX DISTRIBUTION Effective 7-1-86 Source: 15-35-106, MCA





# WESTMORELAND RESOURCES, INC.

2929 3rd Avenue North, Suite 330, P.O. Box 1883, Billings, Montana 59103 (406) 248-7803

June 6, 1986

The Honorable Ted Schwinden  
Governor of Montana  
State Capitol  
Helena, MT 59601

Dear Governor:

A couple of situations have come up recently concerning the Montana coal industry which I thought you ought to be aware of. I am not sure that either of us can do anything about them, but you should at least know about them.

Enclosed is a copy of an article from "Western Coal" concerning a test that Minnesota Power has just completed. I spoke with Jim Marshall, Fuels Engineer for Minnesota Power, to get additional information. Minnesota has or will promulgate new air quality regulations that will require Minnesota Power to reduce the emissions at their Boswell plant to 0.75 pounds sulfur dioxide per million BTUs on an annual basis by 1990. They are currently burning 3 to 4 million tons from Peabody's Big Sky mine at Colstrip. In February, 1986, the coal from Peabody delivered to Boswell averaged 0.91% sulfur and had 2.13 pounds of SO<sub>2</sub> per million BTUs. Minnesota Power can continue to burn Big Sky coal if they add significant amounts of lime to their wet precipitator. According to Jim Marshall this is the most expensive alternative. Western Energy and Westmoreland coal have about 1.5 to 1.6 pounds of SO<sub>2</sub> per million BTUs and are not alternatives to Big Sky coal. The Decker area coal is too high in sodium to burn at Boswell.

Minnesota Power's FERC report for February, 1986 (copy attached) indicates that Rochelle Coal Co. supplied the Boswell plant with 34,600 tons of coal presumably as part of the test. Rochelle Coal is a Wyoming subsidiary of Peabody. The delivered cost of the Rochelle coal was \$1.39 per million BTUs or \$24.20 per ton. The delivered cost of the Big Sky coal was \$1.46 per million BTUs or \$24.95 per ton. Wyoming has a 300 mile freight disadvantage but yet delivered at a cheaper price.

Of more immediate or direct concern to Westmoreland Resources is the situation at Northern States Power Co. (NSP). Currently, NSP is taking Wyoming coal to their King plant in the Twin Cities. We normally supply about 60% of the coal going to this plant. However, NSP, a couple of years ago, purchased 1 to 2 million tons per year from Peabody's Rochelle mine. The Rochelle mine started up last fall. It appears NSP will be using Wyoming coal in their Twin Cities plants delivered by the Chicago Northwestern railroad. The delivered cost of the Rochelle coal to NSP is lower than the delivered cost of Western Energy and Westmoreland coal.

SENATE TAXATION

EXHIBIT NO. 3

DATE June 27, 1986

BILL NO. 8324

Earlier this week, I learned that NSP will be conducting a four week test of Rochelle coal in Sherco Units 1 and 2 starting the middle of June. The Sherco plant is about 60 miles west of Minneapolis and heretofore has burned Western Energy and Westmoreland coal. The Sherco coal is delivered by rail on the Burlington Northern. We had hoped to amend our contract with NSP to extend it beyond 1993 in exchange for a substantial reduction in the price. These negotiations have been put on hold while they test the Wyoming coal at Sherco. We can't say with any certainty that NSP will be willing to resume negotiations.

Through May we have shipped 716,017 tons from our mine compared to 1,255,520 through May, 1985. 1985 was our lowest year insofar as tonnage is concerned. It appears 1986 will be much worse. Meanwhile, we had to lay off 25 hourly employees yesterday, reducing our hourly staff to 25 employees. Last year at this time we had 84 hourly employees.

With the budget problems the State is facing, I am sure these issues are the least of your worries. Nevertheless, I felt you should know.

Sincerely,



C. J. Presley  
President

dln

SENATE TAXATION

EXHIBIT NO. 3

DATE June 27, 1986

BILL NO. SB24

YEAR: 1986  
MONTH: FEBRUARY

WESTMORELAND COAL COMPANY  
NATIONAL COAL MARKETING REPORT  
BY ELECTRIC UTILITY

SUPPLIER INFORMATION

PURCHASE INFORMATION

SUPPLIER	TYPE/SOURCE	SI/DIST/COUNTY	TERMS/ EXPIRES	TONS (000)	BTU/ LB	% SULF	LBSO2/ MMBTU	% ASH	\$/ TON	CENTS/ MMBTU
PEABODY COAL CO.	S/BIG SKY	MT/22/ROSEBUD	C/1293	205.90	8551	.91	2.13	8.30	24.95	145.90
CARTER MINING CO.	S/CABALLO	WY/19/CAMPBELL	S	34.90	8342	.60	1.44	5.70	22.22	133.20
ROCHELLE COAL CO.	S/ROCHELLE	WY/19/CAMPBELL	S	34.60	8693	.37	.85	4.60	24.20	138.20
TOTAL PURCHASES BY UTILITY:				275.40	8542	.80	1.88	7.51	24.51	143.45
				275.40	8542	.80	1.88	7.51	24.51	143.45

\*\*\*\* MINNESOTA POWER & LIGHT \*\*\*\*  
\*\*\* ROSWELL PLANT \*\*\*  
\*\*\* IONIASSET, MN \*\*\*

MINNESOTA POWER & LIGHT

SENATE TAXATION  
EXHIBIT NO. 3  
DATE June 27, 1986  
BILL NO. SB24

**CALIFORNIA EXPORTS REBOUND IN FIRST QUARTER**

Exports from Los Angeles/Long Beach for the first quarter of 1986 totaled 306,832 tons, up substantially from the first quarter of 1985. Last year's total was 190,673 tons, compared to 355,917 in 1984.

For the year 1985, the ports of Los Angeles and Long Beach played a diminished role in the overall U.S. coal export scene.

While U.S. coal exports increased to 92.9 million tons, compared to 81.8 million for 1984, the two California ports saw an actual decline during 1985, down to 1,043,033 tons, as compared to 1,445,360 tons for 1984.

Coal from the two ports went to three countries during 1985, with Korea taking the most followed by Taiwan and Japan.

Eight utility companies were involved in the 1985 exports from the ports: Plateau Mining, Mid-Continent Resources, Kaiser Steel, U.S.S. Ram Exploration, Tower Resources, C.T. Takahashi, Coastal State Energy and Soldier's Creek.

**MP&L CONDUCTS SULFUR TESTS FOR COMPLIANCE COAL**

Preliminary tests indicate that a low-sulfur Wyoming coal performs as well as a high-sulfur Montana coal, according to an official for MINNESOTA POWER & LIGHT, Duluth.

The utility conducted the tests in order to find a coal that will lower sulfur dioxide emissions into compliance with stricter state standards.

**COAL EXPORTS 1985/86**  
(Millions of Short Tons)

	DOC STATISTICS		ACTUAL SHIPMENTS	
	Monthly	Year to Date	Monthly	Year to Date
1985				
Apr	7.1	25.6	7.4	25.6
May	9.2	34.8	10.0	35.6
Jun	7.9	42.7	8.4	44.0
Jul	7.3	50.0	7.4	51.5
Aug	10.4	60.5	9.8	61.2
Sep	8.1	68.6	7.9	69.1
Oct	8.7	77.3	8.6	77.7
Nov	8.1	85.4	8.3	86.1
Dec	7.2	92.6	7.0	92.9
1986				
Jan	5.9	5.9	6.0	6.0
Feb	5.2	11.1	5.1	11.1
Mar	6.1	17.2	6.1	17.2
Apr	Not Yet Available		8.0	25.2

Year-to-date figures may be off by 100,000 tons due to rounding. A 3% upward adjustment may be anticipated in the latest Actual Shipments figure.

● MAY 27, 1986 ●

This report is for the exclusive use of the subscriber as one factor to consider in connection with bidding coal contracts. Information contained herein has been compiled from sources believed to be reliable and accurate. King Publishing Company in no way assumes any part of the user's business risk and shall not be liable for any loss or injury whatsoever resulting from contingencies beyond its control or from negligence.

SENATE TAXATION

EXHIBIT NO. 3

DATE June 27, 1986

BILL NO. SB24

**King's**

# WESTERN COAL

WEEKLY COAL PRICES, TONNAGES, & FACTS IN THE WESTERN COAL MARKET

Attachment #1  
 SERIAL EXHIBITION  
 EXHIBIT NO. 4  
 DATE June 27, 1986  
 BILL NO. SB 24  
 ISSUE NO. 555  
 JUNE 10, 1986

- TX UTILITIES SWITCH TO GAS.P.2
- PETCOKE EXPORTS, MARKETS...P.6-7
- MT, CO PRODUCTION.....P.4
- UTILITY STOCKPILES.....P.8
- UP&L HALTS EMERY PRODUCTION..5
- UTILITY MARKETING GUIDE....P.8-9

**\* \* \* MARKET REPORT \* \* \***

NORTHERN INDIANA PUBLIC SERVICE, Hammond, will reduce deliveries to its R.M. Schahfer plant from COLORADO WESTMORELAND's Orchard Valley mine, Delta County, CO, by 30,000 t/m, according to a utility official.

The mine was sealed June 1 in an effort to extinguish a fire there, but utility officials maintain that they intended to reduce shipments anyway due to an ongoing contractual dispute with Westmoreland.

A NIPSCO official said there are no plans to replace that coal with spot purchases. Specs at Schahfer are 11,000 Btu/lb., 6.0 lbs. SO2/MBtu, and 9.5% ash.

Reported delivered cost to Schahfer in February was 297.9¢/MBtu (\$68.35/ton) for 69,100 tons of 11,472 Btu/lb., 0.4% sulfur, 10% ash coal from Orchard Valley.

\*\*\*

The DEFENSE FUEL SUPPLY CENTER, Alexandria, VA, is seeking bids to supply two military facilities with approximately 25,000 tons of coal. Bids must be received by June 23.

Bids are requested for:

● 92nd Bomb Wing, Fairchild AFB, WA, 7,500 tons of 11,500 Btu/lb., 1.0% sulfur, 8.5% ash, 15% moisture coal. Delivery is by BURLINGTON NORTHERN.

● General Services Administration, Denver, CO, 18,000 tons of 12,000 Btu/lb., 0.8% sulfur, 10% ash, 12% moisture coal. Delivery is by truck. For further details, contact Elaine Glynn at (202) 274-7413.

\*\*\*

MINNESOTA POWER & LIGHT, Duluth, expects to know by mid-July the final results of its March test burn of Powder River Basin coal at its Clay Boswell #4 plant, according to a utility official.

Preliminary results show that Wyoming coal burns as well or better than coal currently used in the plant's boilers and is cheaper to burn as well, he said.

MP&L reported in February that it would test burn at least 120,000 tons from four Powder River Basin mines in effort to find a lower sulfur coal in compliance with tougher state emission standards (WC 537, 2/4/86).

However, concerns about boiler efficiency, cost, and transportation also prompted the test burn. The sulfur consideration has been over-emphasized, he said, adding that the utility's sulfur emissions are

...Continued on Page 3

# WESTERN COAL

Issue No. 555

Page 3

## MARKET REPORT - Continued from Page 1

well within range of standards set by national acid rain legislation.

The Clay Boswell unit is currently supplied under a long-term contract by PEABODY COAL. The reported delivered cost in February from the Big Sky mine, Rosebud County, MT, was 145.9¢/MBtu (\$24.95/ton) for 205,900 tons of 8,551 Btu/lb., 0.9% sulfur, 8% ash coal.

### WP&L CONVERTS PLANT TO GAS TO COMPLY WITH SO2 REGULATIONS

WISCONSIN POWER & LIGHT, Madison, has switched from burning coal to gas at its Blackhawk plant, Beloit, WI. WP&L made the conversion to avoid the cost of meeting the state's new sulfur emissions regulations, a utility official said (WC 552, 5/20/86).

Because Blackhawk burned only 13,000-14,000 tons of coal last year, the conversion will not significantly affect the utility's coal purchases, the official said.

WP&L purchased no coal for the plant last year. Instead, it supplied Blackhawk by transferring to it some contract coal from the Rock River plant.

### PP&L STUDIES POSSIBILITY OF WYOMING PLANT CLOSURES

As dropping oil prices cut into demand for power produced by PACIFIC POWER & LIGHT, Portland, OR, the utility is considering temporarily closing some of its coal-fired power plants in Wyoming.

Meetings on the subject began in late May as part of ongoing cost-cutting moves by the utility. However, reports of plant closures have been over-emphasized, and it may be some weeks before a decision is reached, a PP&L official said.

The utility is the sole or majority owner of all four of the plants that are being considered for temporary closing. Three are in Wyoming: Wyodak near Gillette, Dave Johnston near Glenrock, and Jim Bridger near Rock Springs. Centralia, in Washington, also faces possible shutdown.

In 1985, the utility began selling surplus power in southern California. However, southern California utilities have recently found it more economical to generate their own power from burning oil and gas rather than buying coal-fired power.

Bridger and Dave Johnston are supplied by mines of the same names owned by PP&L subsidiary NERCO COAL CO.

Wyodak is supplied from the Wyodak mine of WYODAK RESOURCES DEVELOPMENT CO. in Campbell County, WY.

### EIA PREDICTS CONSUMPTION AND PRODUCTION INCREASES

Coal consumption in 1986 will increase to 827 million tons, and production will be 909 million tons, according to predictions by the Energy Information Administration.

EIA's short-term outlook predicts domestic coal consumption to increase by about 1% from 1985 figures, while production will climb 3%.

Utility coal consumption in 1986 is expected to reach 703 million tons, up more than 1% from 1985, but still down from predicted yearly growth of 5% from 1985 to 1986.

"Continued growth in domestic coal use is projected to push coal production in the first half of 1987 to 474 million tons, nearly 7% higher than the first-half 1986 level," EIA said.

SENATE TAXATION

EXHIBIT NO. 4

DATE June 27, 1986

RUL NO. 8324

• JUNE 10, 1986 •

# WESTERN COAL

## UTILITY MARKETING GUIDE

MARCH 1986

THE FOLLOWING REPORT SHOWS REPRESENTATIVE COAL RECEIPTS SELECTED BY WESTERN COAL FROM UTILITY REPORTS TO THE FEDERAL ENERGY REGULATORY COMMISSION. PLANT AND SYSTEM TONNAGES ARE TOTALS FOR THE MONTH IN REVIEW. STOCKPILES ARE AT MONTH'S END. "MC" DENOTES NEW OR NEWLY RENEGOTIATED CONTRACT. EXPIRATION DATE GIVEN FOR CONTRACTS EXPIRING WITHIN 24 MONTHS. THE NUMBER IN PARENTHESES ( ) INDICATES THE ISSUE NUMBER OF WESTERN COAL IN WHICH UTILITY WAS LAST REPORTED.

UTILITY/PLANT	AGENT/COMPANY/MINE/COUNTY/STATE	SPOT/DEEP/CONTRACT SURFACE	TONS	BTU/LB	SUB	FUR	ASH	DEL'D
			(000)	(000)				\$/MTU \$/T
<b>ARIZONA PUBLIC SERVICE (552)</b>								
CHOLLA Joseph City, AZ	MCKINLEY/MCKINLEY/MI	C	247.0	9,762	0.5	15	166.0	32.41
SPOT RECEIPTS: NIL CNTR. RECEIPTS: 247T STRIPPILE: 798T								
FOUR CORNERS Fruitland, NM	NAVAJO/SAN JUAN/NM	C	499.1	8,737	0.9	22	102.0	17.82
SPOT RECEIPTS: NIL CNTR. RECEIPTS: 499T STRIPPILE: 628T								
<b>BASIN ELECTRIC POWER CO-OP (551)</b>								
LARABIE RIVER Wheeland, WY	CORDERO/CAMPBELL/WY	C	249.0	8,329	0.4	6	75.9	12.64
	MACKIE/CAMPBELL/WY	C	22.7	8,372	1.4	8	75.9	12.71
	CABALLO/RODVO/CAMPBELL/WY	C	102.7	8,325	0.4	5	75.9	12.64
	RANMIDE/CAMPBELL/WY	C	159.2	8,237	0.4	5	75.9	12.50
SPOT RECEIPTS: NIL CNTR. RECEIPTS: 536T STRIPPILE: 2,646T								

## KANSAS CITY PUBLIC UTILITIES (551)

UTILITY/PLANT	AGENT/COMPANY/MINE/COUNTY/STATE	SPOT/DEEP/CONTRACT SURFACE	TONS	BTU/LB	SUB	FUR	ASH	DEL'D
			(000)	(000)				\$/MTU \$/T
<b>KANSAS CITY PUBLIC UTILITIES (551)</b>								
KAW Kansas City, KS	NO COAL RECEIVED IN MARCH.							
	SPOT RECEIPTS: NIL CNTR. RECEIPTS: 27T							
NEARHAM CREEK Kansas City, KS	NO COAL RECEIVED IN MARCH.							
	SPOT RECEIPTS: NIL CNTR. RECEIPTS: 67T							
QUINDARO Kansas City, KS	NO COAL RECEIVED IN MARCH.							
	SPOT RECEIPTS: NIL CNTR. RECEIPTS: 18T							

## INDEPENDENCE POWER & LIGHT (548)

UTILITY/PLANT	AGENT/COMPANY/MINE/COUNTY/STATE	SPOT/DEEP/CONTRACT SURFACE	TONS	BTU/LB	SUB	FUR	ASH	DEL'D
			(000)	(000)				\$/MTU \$/T
BLUE VALLEY Independence, MO	HOLIDAY/HOWARD/MO	S	0.1	12,036	0.9	14	162.0	394.19
SPOT RECEIPTS: 0.1T CNTR. RECEIPTS: NIL STRIPPILE: 52T								

## DAIRYLAND POWER CO-OP (552)

UTILITY/PLANT	AGENT/COMPANY/MINE/COUNTY/STATE	SPOT/DEEP/CONTRACT SURFACE	TONS	BTU/LB	SUB	FUR	ASH	DEL'D
			(000)	(000)				\$/MTU \$/T
ALMA Alma, WI	BELLE AVR/CAMPBELL/WY	CE	92.7	8,275	0.4	5	201.5	33.35
SPOT RECEIPTS: NIL CNTR. RECEIPTS: 93T STRIPPILE: 185T								
GENOA Genoa, WI	NO COAL RECEIVED IN MARCH.							
	SPOT RECEIPTS: NIL CNTR. RECEIPTS: NIL STRIPPILE: 254T							
STONEMAN Cassville, WI	NO COAL RECEIVED IN MARCH.							
	SPOT RECEIPTS: NIL CNTR. RECEIPTS: NIL STRIPPILE: 27T							

## EMPIRE DISTRICT ELECTRIC (551)

UTILITY/PLANT	AGENT/COMPANY/MINE/COUNTY/STATE	SPOT/DEEP/CONTRACT SURFACE	TONS	BTU/LB	SUB	FUR	ASH	DEL'D
			(000)	(000)				\$/MTU \$/T
ASBURY Asbury, MO	PITTSBURG & MIDWAY/HARTON/MO	C	48.1	10,307	6.3	26	115.5	23.81
	MACKIE CLEMENS/CRAWFORD/KS	S	5.9	11,489	4.3	17	128.6	29.55
SPOT RECEIPTS: 6T CNTR. RECEIPTS: 48T STRIPPILE: 8T								
RIVERTON Riverton, KS	MACKIE CLEMENS/CRAWFORD/KS	S	4.6	11,982	2.4	13	143.2	34.32
	MIDLAND COAL/VERNON/MO	S	8.4	12,165	3.3	11	134.4	32.70
	AMERICAN CENTRAL ENERGY/ROGERS/OK	S	0.4	11,101	3.4	13	146.3	32.48
	ALTERNATE FUELS/CRAWFORD/KS	S	6.2	12,104	2.9	12	128.5	31.11
SPOT RECEIPTS: 19T CNTR. RECEIPTS: NIL STRIPPILE: 30T								

## UTILITY MARKETING GUIDE

MARCH 1986 (Cont'd)

NO COAL RECEIVED IN MARCH.

UTILITY/PLANT	AGENT/COMPANY/MINE/COUNTY/STATE	SPOT/DEEP/CONTRACT SURFACE	TONS	BTU/LB	SUB	FUR	ASH	DEL'D
			(000)	(000)				\$/MTU \$/T
<b>IONA SOUTHERN UTILITIES (552)</b>								
BURLINGTON Burlington, IA	NO COAL RECEIVED IN MARCH.							
	SPOT RECEIPTS: NIL CNTR. RECEIPTS: NIL STRIPPILE: 98T							
OTTUMMA Ottumwa, IA	CORDERO/CAMPBELL/WY	C	161.7	8,307	0.4	6	144.5	24.01
SPOT RECEIPTS: NIL CNTR. RECEIPTS: 162T STRIPPILE: 713T								
<b>KANSAS POWER &amp; LIGHT (552)</b>								
JEFFREY St. Marys, KS	BELLE AVR-EAGLE BUTTE/CAMPBELL/WY	C	791.0	8,274	0.3	5	129.0	21.35
SPOT RECEIPTS: NIL CNTR. RECEIPTS: 791T STRIPPILE: 2,088T								
LAWRENCE Lawrence, KS	SEMINOLE #2/CARBON/WY	C	60.6	10,750	0.7	10	172.1	37.00
SPOT RECEIPTS: NIL CNTR. RECEIPTS: 61T STRIPPILE: 257T								
TECUMSEH Tecumseh, KS	SEMINOLE #2/CARBON/WY	C	25.5	10,749	0.2	10	172.1	37.00
SPOT RECEIPTS: NIL CNTR. RECEIPTS: 20T STRIPPILE: 112T								

## LOWER COLORADO RIVER AUTHORITY (548)

UTILITY/PLANT	AGENT/COMPANY/MINE/COUNTY/STATE	SPOT/DEEP/CONTRACT SURFACE	TONS	BTU/LB	SUB	FUR	ASH	DEL'D
			(000)	(000)				\$/MTU \$/T
<b>LOWER COLORADO RIVER AUTHORITY (548)</b>								
FAYETTE La Grange, TX	EXXON/CABALLO/CAMPBELL/WY	C	224.0	8,459	0.4	6	157.3	26.61
	MICO/BLACK THUNDER/CAMPBELL/WY	C	165.0	8,938	0.3	5	197.7	35.34
	POMELL BERRY/MASTROP/TX	S	9.0	5,866	1.4	14	217.9	25.56
SPOT RECEIPTS: 9T CNTR. RECEIPTS: 389T STRIPPILE: 1,572T								
<b>IONA PUBLIC SERVICE (552)</b>								
MAYNARD Waterloo, IA	NO COAL RECEIVED IN MARCH.							
	SPOT RECEIPTS: NIL CNTR. RECEIPTS: NIL STRIPPILE:							
GEORGE NEAL Salix, IA	ENERGY DEVELOPMENT/CARBON/WY	C	26.8	10,525	0.7	11	150.7	33.41
	ROSEBUD/CARBON/WY	S	54.4	10,999	0.7	8	153.3	33.72
	EXXON/CAMPBELL/WY	C	96.8	8,255	0.3	5	141.6	23.38
SPOT RECEIPTS: NIL CNTR. RECEIPTS: 178T STRIPPILE: 1,138T								

## MINNESOTA POWER (552)

UTILITY/PLANT	AGENT/COMPANY/MINE/COUNTY/STATE	SPOT/DEEP/CONTRACT SURFACE	TONS	BTU/LB	SUB	FUR	ASH	DEL'D
			(000)	(000)				\$/MTU \$/T
CLAY BOSHELL Cobasset, MN	BIG SKY/ROSEBUD/MT	C	281.1	8,641	0.9	8	141.4	24.44
	CORDERO/CAMPBELL/WY	S	34.6	8,291	0.5	6	136.2	22.58
	BLACK THUNDER/CAMPBELL/WY	S	34.6	8,787	0.4	5	134.6	23.65
SPOT RECEIPTS: 69T CNTR. RECEIPTS: 281T STRIPPILE: 1,008T								

UTILITIES INDEX: Number in parentheses ( ) is issue number of WESTERN COAL in which the utility was most recently reported.

AMES (1A) ELEC (553) - ARIZONA ELEC PWR CO-OP (552) - ARIZONA P.S. (555) - ARKANSAS PUL (547) - ASSOC. ELEC CO-OP (550) - BAYERN ELECTRIC PWR (565) - CALUM ELEC PWR (564) - CENTRAL ELEC PWR (M0) (553) - CENTRAL ILLINOIS LIGHT (430) - CENTRAL ELEC (551) - CENTRAL PUL (11) (548) - CO. SPRINGS UTILS (553) - COLORADO-UTE ELEC (553) - COLUMBIA (M0) (593) - COLUMBIAN EDISON (564) - CO-OP PWR ASSN (M0) (554) - DARTMOUTH PWR (555) - DETROIT EDISON (553) - EMPIRE DIST. ELEC (555) - EMPIRE PUBLIC UTILS (553) - GRAND ISLE UTILS (553) - GRAND RIVER DAM AUTH. (553) - GULF STATES UTILS (554) - HASTINGS PWR UTILS (551) - HOUSTON LEP (551) - ILLINOIS PWR (552) - INDEPENDENCE (M0) PAL (555) - IA-MT ELEC (554) - INTERSTATE POWER (551) - IA ELEC LEP (552) - ILLINOIS PWR (555) - KANSAS CITY P.U. (555) - LOWER CO RIVER AUTH. (555) - MINNESOTA PWR (552) - MINNESOTA PWR CO-OP (553) - MISSISSIPPI PWR (554) - MISSOURI P.S. (423) - MONTANA PWR (552) - MONTANA PWR (552) - NEBRASKA PUBLIC PWR (554) - NEVADA PWR (552) - NORTHERN IN P.S. (423) - NORTHERN STATES PWR (549) - OKLAHOMA G&E (549) - OKLAHOMA PUBLIC PWR (552) - OTTER TAIL PWR (549) - PACIFIC PUL (554) - PLAINS ELEC & T (551) - PLATTE RIVER AUTH (552) - PORTLAND GENERAL ELEC (516) - P.S. OF COLORADO (549) - P.S. OF NEW MEXICO (549) - P.S. OF OKLAHOMA (554) - SALT RIVER PROJECT (554) - SAN ANTONIO P.S. (549) - SAN MIGUEL ELEC (550) - SIERRA PACIFIC PWR (550) - SOUTHERN CA EDISON (550) - SOUTHWESTERN P.S. (550) - SPRINGFIELD P.MO UTILS (553) - ST. JOSEPH LEP (550) - SUNFLOWER ELEC CO-OP (554) - TAMPA ELEC (550) - TEXAS MUNICIPAL PWR (M0) UTILS (553) - ST. TERAS UTIL SERVICES (550) - UNION ELECTRIC (554) - UNITED PWR (M0) (551) - UPPER PENINSULA GENERATING (550) - UTAH PAL (550) - WESTERN FARMERS ELEC CO-OP (550) - WISCONSIN ELEC PWR (551) - WISCONSIN PAL (551) - WISCONSIN P.S.(551)

DATE June 27, 1986  
 BILL NO. 8B24  
 BIT NO. 5



Northern States Power Company

414 Nicollet Mall  
Minneapolis, Minnesota 55401  
Telephone (612) 330-5500

February 15, 1985

Mr J D Mockler  
Executive Director  
Montana Coal Council  
2301 Colonial Drive  
Helena, MT 59601

SENATE TAXATION

EXHIBIT NO. 6  
DATE June 27, 1986  
BILL NO. SB24

Dear Jim:

As a result of our numerous conversations regarding coal freight rates from Montana versus Wyoming, I would like to clarify the situation.

First Mr John Hertog, Senior Vice President, Coal & Taconite for the Burlington Northern Railroad, (at the Montana Coal Forum in September, 1984) stated that Burlington Northern's average 1984 coal freight rates from Montana were 1.636 cents per ton mile and from Wyoming 1.655 cents per ton mile.

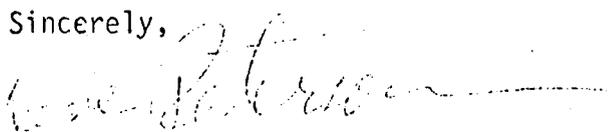
As far as Northern States Power Company is concerned, we have a long-term coal freight contract with the Burlington Northern for coal deliveries from Montana to Sherco and the Twin Cities. We also have a medium term coal freight contract with the Chicago & Northwestern Railroad for deliveries from Wyoming to the Twin Cities. The rates per ton mile are very similar for both contracts. The rates per ton mile are not identical only because the Twin Cities plants require that the trains be split up into two or more segments and they take more time to unload the trains.

Both of these contracts also provide for increases or decreases in rates due to changes in railroad costs to move the coal. There are no other contract mechanisms to change the rates except substantial changes in government regulations which directly effect the cost of moving the coal.

In other words, if the state of Montana were to lower its severance tax the railroad could not absorb the coal cost reduction. Likewise Northern States Power Company could not absorb the savings since we have a fuel clause adjustment which requires all fuel cost savings be passed on to our customers.

I trust that this will help clarify the situation with the state of Montana. If you need anything further, please let me know.

Sincerely,

  
D H Peterson  
Director  
Fuel Supply Department

vf

RECEIVED

FEB 19 1985

MONTANA COAL COUNCIL

# Wisconsin Power & Light Company

Investor-owned Energy

222 West Washington Avenue

P. O. Box 192

Madison, Wisconsin 53701

Phone 608/252-3311

February 19, 1985

Mr. James D. Mockler  
Executive Director  
Montana Coal Council  
2301 Colonial Drive  
Helena, MT 59601

SENATE HEARING  
EXHIBIT NO. 7  
DATE June 27, 1986  
BILL NO. SB24

Dear Jim:

I would like to take this opportunity to restate several points made in a recent discussion that you and I had relative to the Montana coal market.

First of all, contrary to what I perceive as a misleading or misunderstood shipper-carrier market relationship, Wisconsin Power and Light has a standing contract with the Burlington Northern-Milwaukee Road railroads that controls the transportation costs charged by these carriers to Wisconsin Power and Light for transporting Montana coal. These costs are set and can only be adjusted by changes of the RCAF Index as prescribed by the ICC. Any changes in the prices of coal, i.e., elimination of the Montana severance tax, will be a direct savings to the producer and passed on as such to us. The railroads have no access to these savings or to any other cost changes in the fuel market.

In another matter, I would like to confirm that the transportation costs to move Montana coal, Coalstrip (to our Columbia Plant) are less than the costs to move Powder River coal out of Wyoming to the same Columbia Plant.

Sincerely,

  
R. M. Gregory  
Director of Purchase  
and Stores

RMG:ls.1/ss  
850219a

MIDWEST ENERGY RESOURCES COMPANY  
2000 Second Avenue, Detroit, Michigan 48226 (313)963-6156



Superior Midwest Energy Terminal  
P.O. Box 787  
Superior, Wisconsin 54880  
Telephone: (715) 392-9807

February 15, 1985

Mr. James Mockler  
Executive Director  
Montana Coal Council  
2301 Colonial Drive  
Helena, Montana 59601

SENATE  
EXHIBIT NO. 8  
DATE June 27, 1986  
BILL NO. SB.24

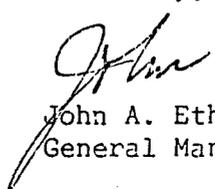
Dear Jim:

You mentioned that there is still some concern that any benefits received from a reduction in the Montana Severance Tax would or could be offset through rate increases by the Burlington Northern.

We, as you know, have a long-term contract with the Burlington Northern and nowhere in our contract are any provisions or implications which would allow the Burlington Northern to increase our rates due to a reduction of severance or any taxes. In conversations that I have had with other shippers, I have found this to be the case in their contracts also.

If any additional information is needed, please get back with me.

Sincerely,

  
John A. Ethen  
General Manager

JAE:tlw  
cc: DCMcDonald

RECEIVED

FEB 19 1985

MONTANA COAL  
COUNCIL  
J. ETC

TESTIMONY FOR HOUSE BILL 39

The Department requested this bill to help offset the general revenue shortfall confronting us. This bill would transfer \$1.143 million to the general fund, would improve the effectiveness of the state buildings energy retrofit portion of the program, and would suspend the grant and loan portion of the program for three years in response to reduced future program funding.

Specifically, this bill does five things:

First, it transfers \$1.143 million from the Alternate Energy and Energy Conservation Research, Development and Demonstration account to the general fund;

Second, it suspends the grant and loan portion of the program for a period of up to three years;

Third, it authorizes DNRC to continue to select buildings and award grants for energy retrofits of state buildings, rather than requiring DNRC to seek legislative approval of every building to be retrofitted;

Fourth, it requires a biennial report to the Legislature on the effectiveness of the grants that are awarded;

And finally, it requires that state building energy retrofit grants be administered according to the state's construction laws.

SENATE TAXATION  
ENR 110 9  
DATE June 27, 1986  
BILL NO. #B39  
6/27

This bill makes a substantial contribution toward balancing the state's budget by transferring \$1 million from the Alternative Energy earmarked account to the general fund on June 30th of this year and an additional \$143,000 during the next fiscal year. The funds will be transferred in two payments to ensure that an adequate cash flow can be maintained in the account.

With reduced severance tax revenues, there is not sufficient revenue to continue all parts of the program and transfer funds to the general fund. The current law requires the Department to give grants for energy retrofits of state buildings as well as grants and loans for renewable energy and energy conservation projects. Section 4 on page 4 of this bill gives the Department the ability to defer awarding grants and loans for alternative energy projects for the next three years, but does not preclude the Department from making an award for an exceptional project.

While there is a need to continue to research, develop, demonstrate and commercialize renewable energy and energy conservation technologies and to have these technologies available when energy costs increase, there is a more immediate need to reduce operating costs of state government by retrofitting state buildings. This provides not only immediate savings to the state budget, but also long-term savings.

Grants were made for state building retrofits for the first time this year. The program is a good one, however, these two changes are proposed to improve the effectiveness of the program. The first change would enable us to

SENATE TAXATION

EXHIBIT NO. 9

DATE June 27, 1986

BILL NO. HB 39

continue to leverage federal funds for grants and the second would provide more accurate information for the legislature to make decisions regarding the impact of grants on agency budgets.

When the program was initiated the Department was to select buildings to be retrofitted for two years and then beginning in 1987 the Legislature would select the buildings.

Requiring the legislature to approve every building to receive an energy retrofit limits the ability of the Department and participating agencies to incorporate energy retrofits with ongoing building maintenance and renovation in a timely and cost effective manner. It also limits the opportunity to leverage federal energy conservation funds that stretch state dollars. Some state buildings, primarily in the university system and state hospitals, are eligible for these federal funds that are awarded on an annual basis according to strict criteria and time schedules. Three of the four buildings that we funded in FY 86 also received federal funds, so that nearly \$100,000 of federal funds were combined with state funds.

Several state agencies told us that one provision of the current law would discourage them from participating in the energy retrofits. That is the provision that their agency budgets would be reduced based on the estimated savings in energy costs. The agencies would have no assurances that the estimated savings would actually be realized. Most buildings do not have individual meters or historic consumption records, which makes it difficult to compare energy usage. Also savings are difficult to predict with any certainty because energy use is influenced by such things as occupant behavior, weather, maintenance and other factors that are difficult to predict.

SENATE TAXATION

EXHIBIT NO. 9

DATE June 27, 1986

BILL NO. HB 39

Section 2 deletes the provision for legislative approval of every building to be given a grant for energy conservation. This section also eliminates the requirement that agency budgets be reduced based on predicted savings. In section 3 the bill requires the Department to report to the legislature on a biennial basis information on individual grant projects and the effectiveness of those projects. This information will be more reliable than predicted energy savings, and the legislature could use this information to reduce energy budgets.

We feel that these changes will accomplish the purpose the legislature intended, will provide an incentive for agency participation and will allow the opportunity to leverage federal funds and to schedule retrofits in conjunction with work planned as regular building maintenance or as part of the long-range building program.

This bill also provides rule-making authority for the Department to implement this bill in section 1 and requires section 3 that grants in state governmental units will be administered in accordance with the state construction laws through the Department of Administration.

This bill will provide over \$1 million in additional revenues to the general fund and will improve the effectiveness of the Alternate Energy Program.

I urge you to pass this bill.

SENATE TAXATION

EXHIBIT NO. 9  
DATE June 27, 1986  
BILL NO. HB39

# BN fires cheap shot at state

If nothing else, BN owes the state of Montana honesty.

But honesty was a bit-and-miss commodity this week when the giant rail conglomerate announced plans to split the duties of its regional headquarters in Billings among other regions.

## GAZETTE OPINION

Pat Hiatte, BN Billings Region corporate communications manager, said in a prepared statement that the dissolution of the Billings region is "part of a continuing trend toward centralization of authority and responsibility on the BN system in the interest of making the railroad more responsive to the needs of its customers."

That rings true.

But during questioning later, Hiatte added that he did not know why the Billings Region was the only one of six BN regions to be eliminated, although he acknowledged the com-

pany's complaints about the Montana business climate.

"I don't think it's any secret of BN's thoughts about the business climate here," he said.

That was the underlying message in the announcement BN dissolves its regional headquarters in the state's largest city, takes 75 white-collar employees out of the work force, gouges a \$3 million hole in Billings' and the state's annual payroll, and then tells Montanans it's all their fault.

That's balderdash.

BN has been cutting back service in Montana and other states for years. A state Commerce Department survey released last December indicates the scope of the cutbacks.

Between 1980 and 1984, BN reduced its workforce by 38 percent in Minnesota, 35 percent in Montana, 34 percent in Iowa, 32 percent in North Dakota, and 24 percent in Idaho. From 1976 to 1985, BN abandoned 672

SENATE TAXATION

EXHIBIT NO. 10  
DATE June 27, 1986  
BILL NO. HB 38

miles of branch lines in Minnesota, 647 in Missouri, 550 in Montana, 527 in Washington, 385 in Illinois, 335 in North Dakota, 329 in Nebraska, 270 in Iowa, 203 in Kansas, 81 in Idaho, and 44 in Colorado.

Since 1976, the railroad has closed 76 stations in Illinois, 53 in Nebraska, 43 in Montana, 31 in Minnesota, 24 in Missouri, and 14 in Texas and Idaho.

Between 1979 and 1985 BN got tax breaks in Montana of about \$20 million as a result of the Four Rs Act and between 1979 and 1984 reduced employment in Montana by 3,000.

Apparently, the business climate is bad everywhere BN operates.

This year has been particularly difficult for Montana with BN's decision to cut 360 workers in Livingston, and to piecemeal Billings regional headquarters out to other regional headquarters.

But to lay the blame for its actions on the people of this state is to add insult to injury.

There has been a concerted effort over the past year in Montana to make the state a more attractive place to do business. When BN lopped off Livingston, the governor and legislative leaders tried to strike a deal with the railroad, but BN had made up its mind years ago.

Efforts are underway to revise the state's archaic tax structure to better fit the demands of today's economy. The state is working hard to diversify its economy.

The decline of agriculture, timber and oil industries in the state have caused Montanans to be more introspective in their approach to business, and the result has been favorable.

But at this crucial point, BN runs out on the people of this state. Apparently, the company views Montana as an inconsequential conduit to haul money through.

Nothing more needs to be said about BN than that.

THURSDAY

PAGE 4A

# OPINION

The Billings Gazette is dedicated to the continued growth of Billings and Montana while recognizing that our unique quality of life must be maintained and preserved.

Wayne E. Schille: Publisher  
Richard J. Wesnick: Editor  
Carl E. Rexroad: Managing Editor  
Gary Svec: Opinion Editor

PROPOSED AMENDMENT  
HOUSE BILL 39  
THIRD READING COPY

1. Page 7, Line 2.  
Strike: "\$143,000"  
Insert: "\$350,000"

Comment: This amendment makes the amount transferred to the general fund consistent with what was transferred in the appropriations bill (HB 30).

SENATE TAXATION

EXHIBIT NO. 11

DATE June 27, 1986

BILL NO. HB 39

*McLellan amendment  
6/27*

Table 2

Renewable Energy and Conservation Program - 1987 Biennium Budget

Balance Available July 1, 1985		\$ 641,238*
Revenue estimate for Fiscal 1986 and 1987		
Coal Tax	\$1,968,728	
Loan Repayments	<u>445,000</u>	
Total Revenue		\$2,413,728
Accruals deobligated at end of FY 86		<u>626,035</u>
Total Funds Available		\$3,681,001
Centralized Services Division Appropriation		[152,753]
Operating Expenses		
Administration	\$ 478,945	
Contracted Services	97,553	
Match for Federal Grants	<u>229,150</u>	
Total Operating Expenses		[305,648]
Grants Awarded to 6/01/86		
State Building	\$ 287,528	
Renewable Energy and Conservation Grants	<u>537,225</u>	
Total Grants Awarded		[924,754]
Balance before reallocation to general fund		\$1,797,346
Transfer of \$1,143,000 in Governor's Issue 3		[1,143,000]
Balance Available for State Building Retrofits in FY 87		\$ 554,346

\*The balance does not include the \$2,000,000 appropriated to science and technology.

SENATE TAXATION  
 EXHIBIT NO. 1  
 DATE June 27, 1986  
 BILL NO. HB39

*TT Landolt  
 after amend McCallen*

ALTERNATIVE ENERGY PROGRAM

	<u>Fiscal Year 1986</u>	<u>Fiscal Year 1987</u> (Before House Action on HB30)	<u>Fiscal Year 1987</u> (After House Action on HB30)
F.T.E.	8.25	6.25	6.25
Personal Services	\$ 215,054	\$ 170,191 <sup>1</sup>	\$ 170,191
General Operating Expenses	57,800	35,900	35,900
Contracted Services	37,553	60,000 <sup>2</sup>	60,000
Program Admin. - Subtotal	\$ 310,407	\$ 266,091	\$ 266,091
State Bldgs Program Grant Awards	\$ 287,528 <sup>3</sup>	\$ 607,759	\$ 400,759
Renewable Energy Grant	390,570 <sup>3</sup>	0	0
Renewable Energy Loan Awards	175,000 <sup>3</sup>	0	0
Match for Federal Programs	<u>77,000</u>	<u>152,150</u>	<u>152,150</u>
Program Total	\$ 1,240,505	\$ 1,026,000	\$ 819,000
Special Appropriation for Centralized Services Division	\$ 106,144	\$ 46,609	\$ 46,609

1/ Salaries are based on the FY87 Pay Matrix.

2/ This \$60,000 would pay for energy studies on state buildings. An EPP request for Exxon funds to perform energy studies on state buildings through the State Energy Conservation Program has been submitted. If the Exxon funds are available, they will be used in lieu of all or part of the Alternative Energy Funds for the energy studies on state buildings.

3/ Grant and loan awards have not been finalized for FY86.

SENATE TAXATION

EXHIBIT NO. 11

DATE June 27, 1986

BILL NO. HB 39

# STANDING COMMITTEE REPORT

JUNE 27,

1986

MR. PRESIDENT

We, your committee on

TAXATION

having had under consideration

HOUSE BILL

No. 39

third

reading copy (

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color

**REVISING STATE GOVERNMENTAL UNITS PORTION OF RENEWABLE ENERGY FUNDS**

Respectfully report as follows: That

HOUSE BILL

No. 39

be amended as follows:

1. Title, lines 16-18.

Following: "FUNDS;" on line 16

Strike: ~~"REQUIRING SUBMISSION OF A RENEWABLE ENERGY AND CONSERVATION PLAN TO EACH GENERAL SESSION OF THE LEGISLATURE"~~

2. Page 5, line 23 through line 20, page 6.

Following: line 22

Strike: Section 3 in its entirety

Re-number: subsequent sections

3. Page 7, line 2.

Following: "1987,"

Strike: "\$143,000"

Insert: "\$330,000"

4. Page 7, line 14.

Following: "Section"

Strike: "SECTIONS"

Insert: "Section"

Following: "is"

Strike: "AND 5 ARE"

Insert: "is"

5. Page 7, line 17.

Following: line 16

Strike: "REVISIONS"

Insert: "Section"

Following: "4"

Strike: "AND 5"

**AND AS SO AMENDED, BE CONCURRED IN**

~~XXXXXX~~  
DO PASS

~~XXXXXX~~  
DO NOT PASS

Senator Thomas E. Towe,

Chairman.

# STANDING COMMITTEE REPORT

JUNE 27 1986

MR. PRESIDENT:

We, your committee on TAXATION

having had under consideration Senate Bill No. 24

first reading copy ( white )  
color

**CONSTITUTIONAL AMENDMENT TO DISCONTINUE THE DEPOSIT OF COAL SEVERANCE TAX COLLECTION IN THE COAL SEVERANCE TAX TRUST**

Respectfully report as follows: That Senate Bill No. 24

**BE PRINTED AND PLACED ON SECOND READING WITHOUT RECOMMENDATION**

~~XXXXX~~

DO PASS

~~XXXXXXXXXX~~

.....  
Senator Thomas E. Towe, Chairman.

# STANDING COMMITTEE REPORT

JUNE 27

19. 86

MR. PRESIDENT

We, your committee

TAXATION

having had under consideration

HOUSE BILL

No. 38

third

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color

## REVISING THE TAX RATE APPLICABLE TO CLASS 15 RAILROAD PROPERTY

Respectfully report as follows: That

HOUSE BILL

No. 38

BE CONCERNED IN

EX-105

EX-105

Senator Thomas E. Towe,

Chairman.

# STANDING COMMITTEE REPORT

JUNE 27, 1986

MR. PRESIDENT

We, your committee on

**TAXATION**

having had under consideration

**SENATE BILL**

No. **13**

first reading copy ( white )  
color

## COAL TAX REVENUE TO GENERAL FUND FROM LOCAL IMPACT AND EDUCATION TRUST FUND

Respectfully report as follows: That

**SENATE BILL**

No. **13**

be amended as follows:

1. Title, line 7.

Following: "FOR"

Strike: "A 3-YEAR PERIOD BEGINNING IN"

2. Title, line 9.

Following: "DATE"

Strike: "AND"

Insert: ", "

3. Title, line 10.

Following: "DATE"

Insert: ", AND A TERMINATION DATE"

4. Page 2, lines 12 and 13.

Following: "260" on line 12

Strike: "5.280"

Insert: "60"

Following: "1987," on line 12

Strike: "13.39 from July 1, 1987, until July 1, 1989,"

5. Page 5, line 24.

Following: "date"

Insert: "--applicability--termination"

6. Page 6, line 1.

Following: page 5, line 25

Strike: "on or after"

Insert: "from"

Following: "1986"

Insert: ", to March 31, 1987"

Following: "."

~~DO PASS~~ Insert: "This act terminates on June 30, 1987."

~~DO NOT PASS~~

AND AS AMENDED BE TABLED IN COMMITTEE

Senator Thomas H. Towe,

Chairman.