

MINUTES OF THE MEETING
REVENUE ESTIMATING SUBCOMMITTEE OF THE TAXATION COMMITTEE
50TH LEGISLATIVE SESSION
HOUSE OF REPRESENTATIVES

January 21, 1987

The meeting of the Revenue Estimating Subcommittee was called to order by Chairman Harp on January 21, 1987 at 11:30 a.m. in Room 312B of the State Capitol.

ROLL CALL: All members were present with the exception of Sen. Hirsch, who was absent. Also present were Dave Bohyer, Legislative Council, Terry Johnson, OBPP, Madalyn Quinlan, and Judy Curtis Waldron, LFA.

DISCUSSION OF COAL SEVERANCE TAX: Jim Mockler, Montana Coal Council, provided subcommittee members with copies of coal prices from the last quarter reported (Exhibit#1). Mr. Mockler explained that the prices need to be updated and that this information could be obtained from the OBPP. He said 90% of Westmoreland Coal is in trust and is not available for expenditure. Mr. Mockler added that current law reflects a total tax of about \$79 million.

Mr. Mockler explained that Kiewit Mining is actually Decker Coal Company, and that one furrow equals 4 million tons. He advised that Decker Coal production will actually be 2.6 million tons instead of the projected 6.6 million tons.

Rep. Harp asked what happened within the past few days to change tonnage estimates from 26.4 million tons to 28.8 million. Mr. Mockler replied that a new order had been received for 7 million tons, but he was not aware of any other tonnage that could be picked up.

Sen. Newman asked if some companies were trying to get out of purchase contracts. Mr. Mockler advised that litigation is pending between a Colorado company that cancelled a contract with Decker Coal. He added that many contracts now contain reopen clauses, and that Canadian Hydro power is a problem.

Sen. Neuman asked for the current prices of Wyoming coal. Mr. Mockler replied it is in the range of \$4.50 per ton.

Madalyn Quinlan, Analyst, LFA, stated that the 1985 incentive tax provided a 20% tax for new production above 1984 base prices. She said the 1987 estimates are based on 1986 production (Exhibit #2-FY tax credit). Ms. Quinlan told the

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Subcommittee that prices are estimated to be much lower than they have been in the past, partly due to a shift in production away from Decker Coal and partly due to royalties. She said the coal incentive credit is lower in 1989 because it only applies to two years of incremental production and could only continue to be obtained through contracts for new production.

Rep. Sands asked Terry Johnson, OBPP, to explain the difference between LFA and OBPP estimates for coal tax incentive credit. Terry Johnson explained that the difference is in Decker Coal Company assumptions for its production forecasts. He said the OBPP used 9.9 million tons for CY 87, 88, and 89, while production was 12.1 million tons in CY 86.

Mr. Johnson provided copies of assumptions based on current law (Exhibit #3), and said page 2 of the assumptions is a graphic representation of the revenue impact of coal. He explained that he used three variables, contract sales prices, production, and incentive credits, in arriving at OBPP assumptions. Mr. Johnson said coal companies will provide general information and that he was told prices should remain stable or decrease.

Mr. Johnson stated that the 1983 Legislature allowed a royalty deduction, which will be fully phased in this year (1987). He said the key point is that the coal companies contacted revised their estimates a few weeks later. Mr. Johnson explained that the incentive credit depends upon production assumption levels, and when arriving at a total tax, the incentive credit tax is deducted, to obtain revenue. He added that both the OBPP and the LFA assumed that protested portions would remain so throughout the biennium.

Mr. Johnson said oil forecasts are high because REAC (Revenue Estimating Advisory Council) didn't take the decline in coal production into consideration. He advised the Subcommittee that there is \$20 million in principal and \$4 million in interest in escrow for Crow Tribal coal.

Rep. Harp asked what the difference was in production assumptions for Decker Coal. Terry Johnson replied the key element is that a lot is happening in the coal market and changes can take place quickly. He said assumptions can be affected by subcommittee changes within the period of a month.

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Rep. Harp asked Terry Johnson for his personal opinion. Mr. Johnson replied that there is insufficient data to support a drop in production right now.

Rep. Sands asked if the Subcommittee were to agree with the LFA on production assumptions, it would also have to agree with the LFA on price assumptions. Terry Johnson replied that the Subcommittee could approve production assumptions and not price assumptions, as stated by the LFA, as average contract sales prices will change with production assumptions company by company.

ADJOURNMENT: There being no further business before the Subcommittee, the meeting was adjourned at 1 p.m.


Representative John Harp,
Chairman

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1-21-87
Rev Est Sube

MONTANA COAL COUNCIL

408-442-8223 2301 COLONIAL DRIVE · HELENA, MONTANA 59601

January 21, 1987

Rep. John Harp, Chairman
Revenue Estimating Committee
Capitol Station
Helena, MT 59620

Dear Representative Harp:

Following are the 1987 coal production estimates and projected severance tax collections as of January 21, 1987.

	<u>1987 Tonnage (millions)</u>	<u>Contract⁽¹⁾ Sales Price</u>	<u>Severance Tax</u>
Decker Coal Co.	9.9	11.22	\$33,323,400
Peabody Coal Co.	2.8	7.49	6,291,600
Spring Creek Coal	4.9	10.16	14,935,200
Western Energy	9.3	7.63	21,287,700
Westmoreland ⁽²⁾	1.7	6.66	3,396,600
Knife River ⁽³⁾	.2	10.09	403,600
	<hr/> 28.8		<hr/> \$79,638,100

- (1) Contract sales price is mine price as of last quarter as furnished by the Governor's Budget Office.
- (2) Part of Westmoreland's tax is paid into escrow due to Crow Tribe vs. State of Montana litigation.
- (3) Knife River production is at 20% severance tax rate.

Rep. John Harp
January 21, 1987
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1988 production will be up slightly with the addition of .7 million tons for Western Energy when Colstrip 4 is refired and .5 million tons for Westmoreland. Spring Creek will decrease .3 million tons.

These estimates are made with the assumption that there will be no changes made in either the permanent severance tax or temporary "window" rates.

Sincerely,



James D. Mockler
Executive Director

JDM:dmw

Enc.

WESTERN ENERGY COMPANY

GENERAL OFFICE: 16 East Granite, Butte, Montana 59701
(406) 723-5441



January 19, 1987

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

Dear Jim:

Per your request I am providing you with our latest estimate of coal production for 1987 and 1988.

Last fall we had estimated production for 1987 to be 11 million tons. However, since that time events have forced a revision downward to 9.3 million tons.

As you know, Colstrip Unit Number Four went down in December. Our latest estimates anticipate Unit 4 returning to service by June 1. Should that schedule be met, production from Unit 4 would be 700,000 to 750,000 tons less than the fall estimate. In addition, we have received notification of further reductions in our Midwest deliveries bringing our 1987 production estimates to 9.3 million tons. 1988 deliveries are estimated to be 10 million tons.

Sincerely,

A handwritten signature in cursive script that reads "Kenneth L. Williams". The signature is written in dark ink and is positioned above the typed name.

Kenneth L. Williams
Manager, Government Affairs

KLW:dmw



NERCO COAL CORP.
1949 SUGARLAND DRIVE
SHERIDAN, WY 82801-1210
TELECOPIER (307) 672-0906
TELEPHONE (307) 672-0451

January 19, 1987

Mr. Jim Mockler
Montana Coal Council
2301 Colonial Drive
Helena, MT 59601

Dear Jim:

The current production estimates for 1987 and 1988 from Spring Creek Coal are as follows:

1987	4.9 million tons
1988	4.6 million tons

These estimates include all utility and industrial customers.

Please let me know if you need additional information.

Sincerely yours,

A handwritten signature in dark ink, appearing to read 'J.R.' with a stylized flourish.

J.R. McPherson
Manager, Government and Public Affairs

JRM:cjh

Enclosure

Kiewit Mining & Engineering Co.

P.O. Box 3049
Sheridan, Wyoming 82801
(307) 672-3401

January 15, 1987

Jim Mockler
Montana Coal Council
2301 Colonial Drive
Helena, MT 59601

Re: Decker-Commonwealth Deferral Agreement

Dear Jim:

As I explained in our earlier phone conversation, last week we signed a deferral agreement with Commonwealth Edison. This agreement affects total tonnages to be shipped from our Decker operations in 1987.

Based on present agreements our 1987 Decker production will be:

Detroit Edison	6,480,000
Commonwealth Edison	2,639,000
Big Horn	<u>800,000</u>

TOTAL TONNAGE TO BE SHIPPED IN 1987 9,919,000

If you have any questions give me a call.

Sincerely,

KIEWIT MINING & ENGINEERING CO.



Sam Scott

SS/sab

cc: Leonard Skretteberg
Dean Skalla
Dieter Petz



WESTMORELAND RESOURCES, INC.

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

January 15, 1987

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

Dear Jim:

You have asked that I furnish you an estimate of our coal production for 1987 and 1988. Based on current information, I estimate that the production from our Absaloka mine will be 1,700,000 tons in 1987 and 2,200,000 tons in 1988.

Sincerely,

A handwritten signature in cursive script that reads 'C. J. Presley'. The signature is written in dark ink and is positioned above the typed name.

C. J. Presley
President

jp

21-Jan-87
 Office of the Legislative Fiscal Analyst
 21-Jan-87

EXHIBIT # 2
 DATE 1-21-87
 Rev Est Subc

Coal Severance Tax Forecasts and Assumptions

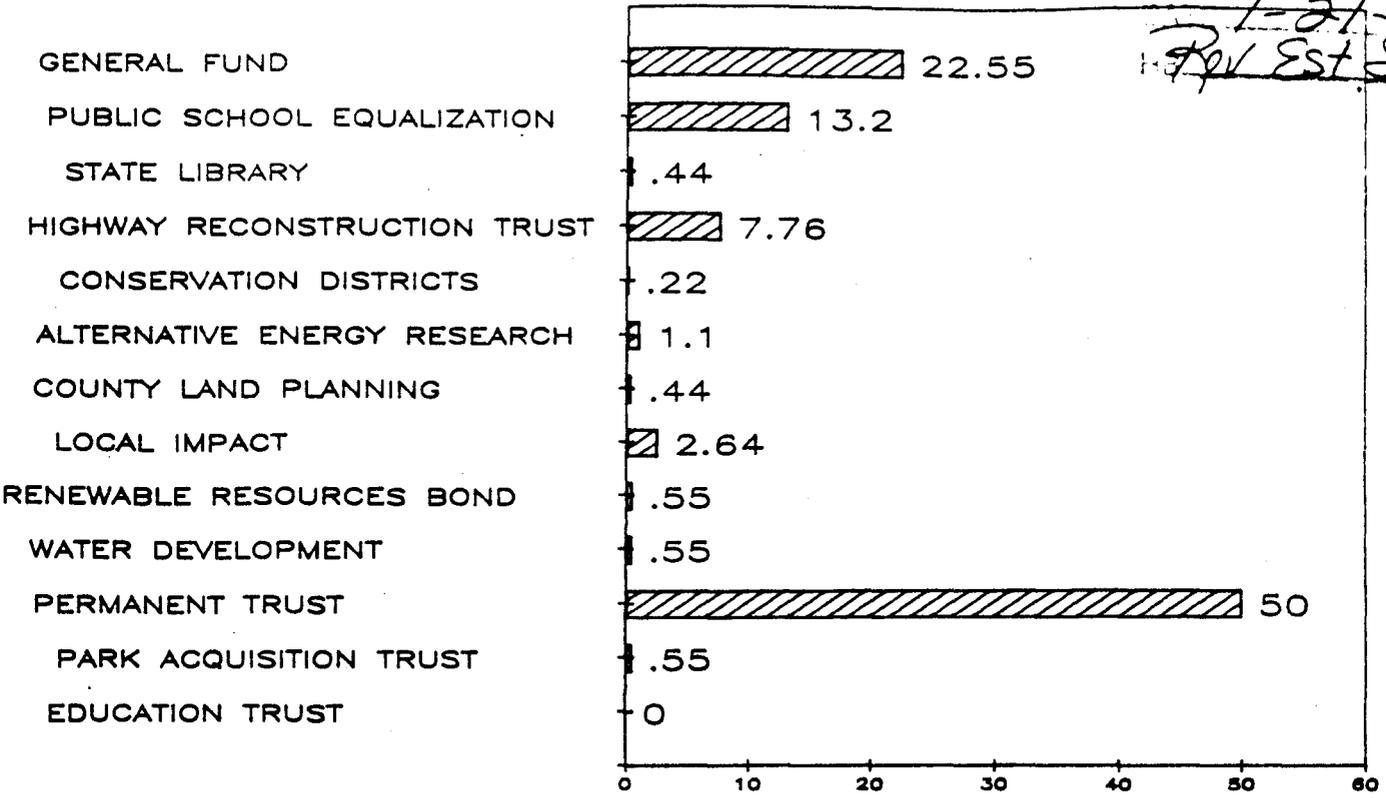
	1986	1987	1988	1989
GENERAL FUND REVENUE FROM COAL SEVERANCE TAX				
LFA	\$20,001,598	\$17,515,000	\$10,555,000	\$11,076,000
Executive	\$20,001,598	\$17,855,000	\$12,846,000	\$13,367,000
Difference	\$0	(\$340,000)	(\$2,291,000)	(\$2,291,000)
Fiscal Year Production (Tons)				
LFA	31,114,000	30,227,000	27,959,000	27,978,000
Executive	31,114,000	29,412,000	30,205,000	30,849,000
Difference	31,114,000	815,000	(2,246,000)	(2,871,000)
Calendar Year Production (Tons)				
LFA	31,019,000	28,012,000	27,979,000	27,974,000
Executive	30,682,000	30,000,000	31,000,000	30,316,000
Difference	337,000	(1,988,000)	(3,021,000)	(2,342,000)
Industry				
Fiscal Year Price	\$9.070	\$8.510	\$7.880	\$8.150
LFA	\$9.070	\$9.165	\$8.968	\$9.047
Executive	\$9.070	\$9.165	\$8.968	\$9.047
Difference	\$9.070	(\$0.655)	(\$1.088)	(\$0.897)
Calendar Year Price				
LFA	\$8.654	\$7.780	\$8.000	\$9.126
Executive	\$9.171	\$8.985	\$9.019	\$9.126
Difference	(\$0.517)	(\$1.205)	(\$1.019)	
Industry				
Coal Tax Incentive Credit				
Fiscal Year Claimed		\$1,225,701	\$1,291,628	\$398,938
LFA		\$1,477,000	\$2,399,000	\$1,663,000
Executive		\$1,477,000	\$2,399,000	\$1,663,000
Difference		(\$251,299)	(\$1,107,372)	(\$1,264,062)

EX 511-21
REC

COAL SEVERANCE TAX DISTRIBUTION

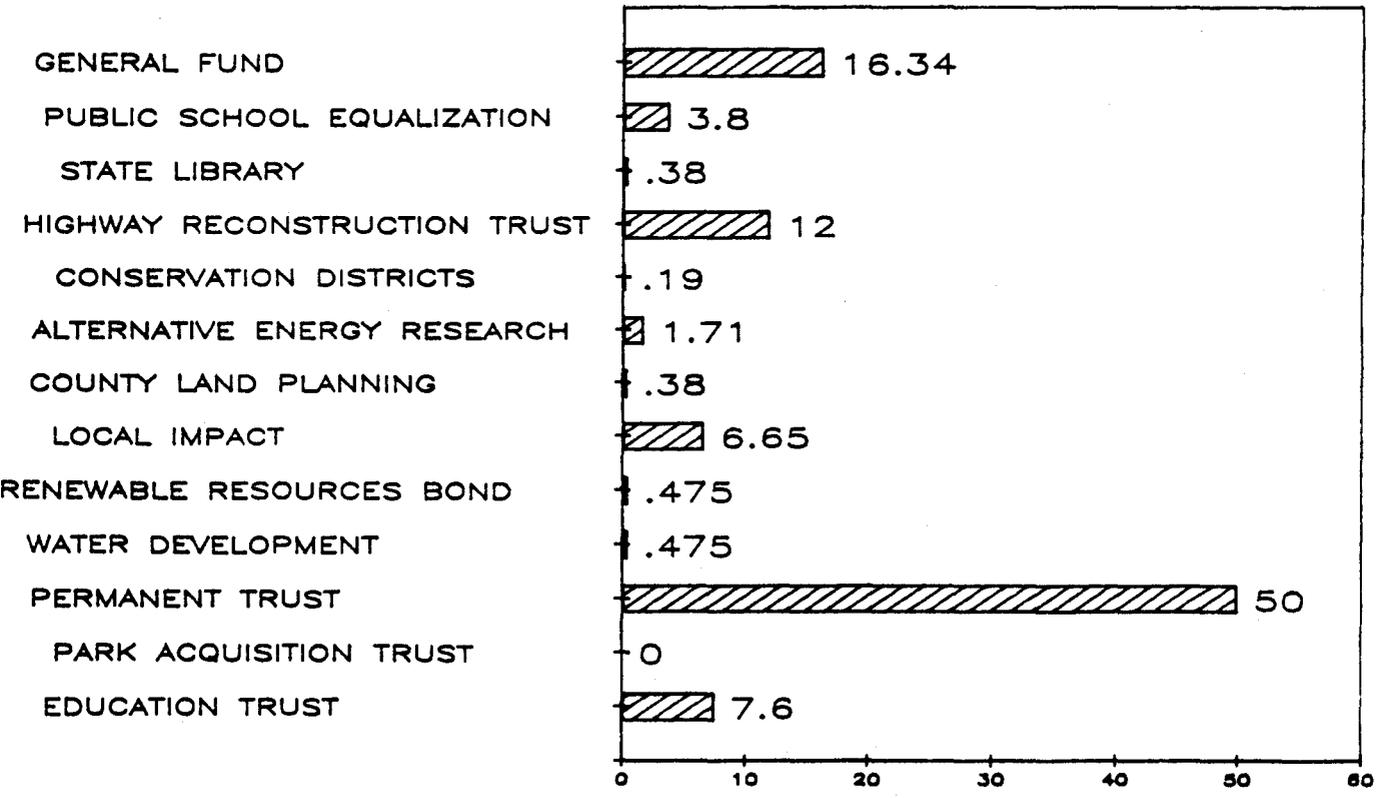
DISTRIBUTION FORMULA FOR FY 87 - #3

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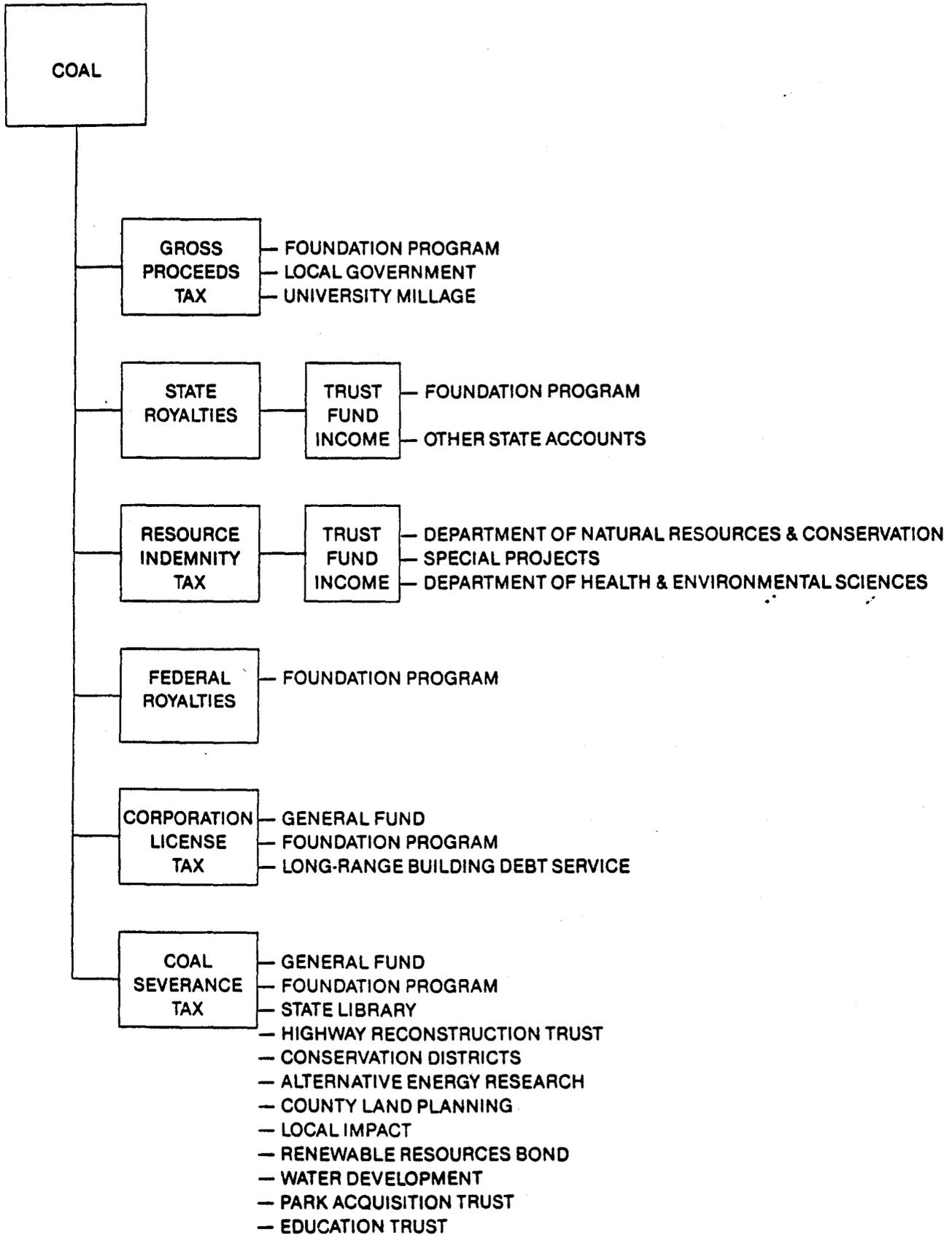


COAL SEVERANCE TAX DISTRIBUTION

DISTRIBUTION FORMULA FOR FY 88 & 89

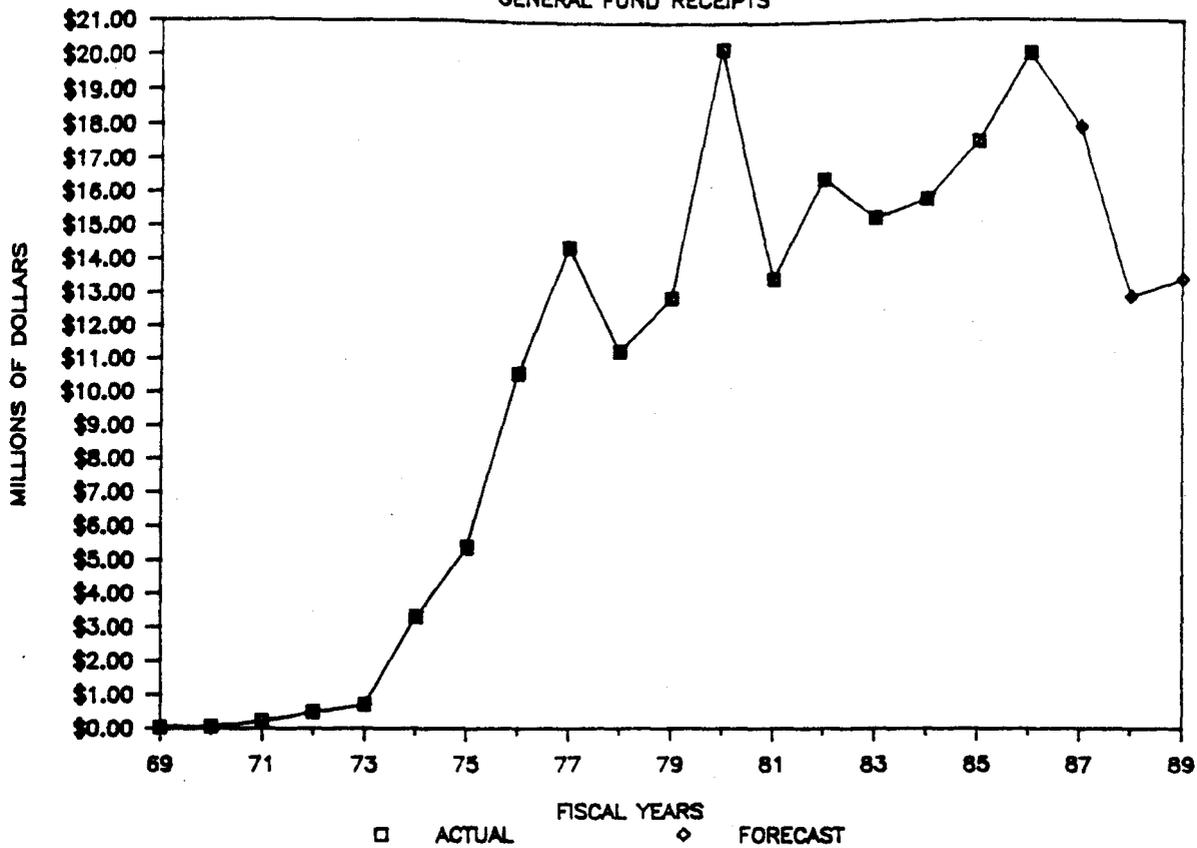


**GRAPHIC REPRESENTATION OF REVENUE IMPACT
COAL**



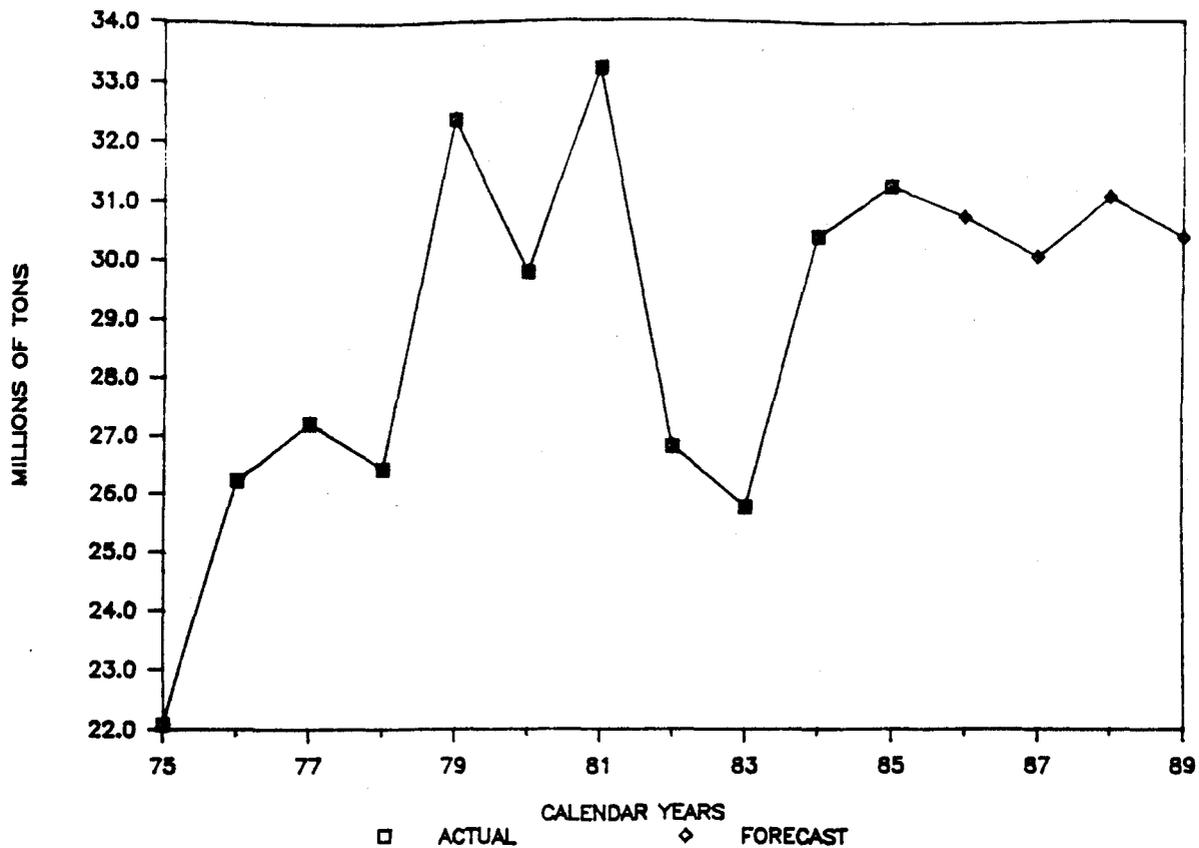
COAL SEVERANCE TAX

GENERAL FUND RECEIPTS



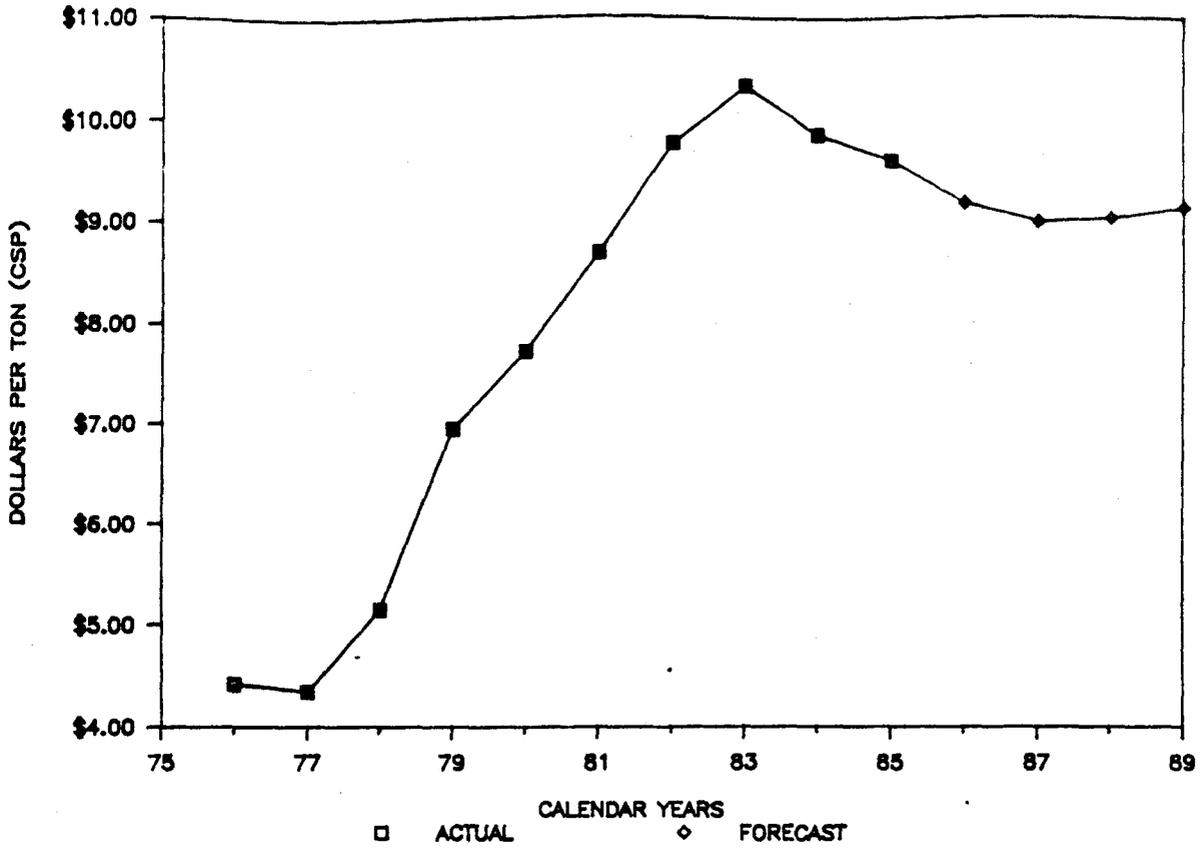
YR	GF RECEIPTS	PERCENT CHANGE
A 69	0.019106	
A 70	0.050300	163.27%
A 71	0.212056	321.58%
A 72	0.483434	127.97%
A 73	0.694213	43.60%
A 74	3.315416	377.58%
A 75	5.395415	62.74%
A 76	10.586335	96.21%
A 77	14.362422	35.67%
A 78	11.241695	-21.73%
A 79	12.806813	13.92%
A 80	20.222579	57.90%
A 81	13.378906	-33.84%
A 82	16.375541	22.40%
A 83	15.208581	-7.13%
A 84	15.736468	3.47%
A 85	17.432283	10.78%
A 86	20.001598	14.74%
F 87	17.855432	-10.73%
F 88	12.845732	-28.06%
F 89	13.367081	4.06%

MONTANA COAL PRODUCTION



	TOTAL TONS CY - PROTESTED	PERCENT CHANGE	TOTAL TONS
A 69	NA		NA
A 70	NA	NA	NA
A 71	NA	NA	NA
A 72	NA	NA	NA
A 73	NA	NA	NA
A 74	NA	NA	NA
A 75	22.076	NA	22.076
A 76	26.226	18.80%	26.226
A 77	27.205	3.73%	27.205
A 78	26.418	-2.89%	26.418
A 79	32.350	22.45%	32.350
A 80	29.752	-8.03%	29.752
A 81	33.188	11.55%	33.188
A 82	26.815	-19.20%	27.768
A 83	25.785	-3.84%	28.609
A 84	30.359	17.74%	32.848
A 85	31.213	2.81%	33.187
F 86	30.682	-1.70%	32.065
F 87	30.000	-2.22%	31.161
F 88	31.000	3.33%	32.782
F 89	30.316	-2.21%	32.098

MONTANA COAL PRICES



	AVE. CSP CY - PROTESTED	PERCENT CHANGE	AVERAGE CSP
A 69	NA		NA
A 70	NA	NA	NA
A 71	NA	NA	NA
A 72	NA	NA	NA
A 73	NA	NA	NA
A 74	NA	NA	NA
A 75	NA	NA	NA
A 76	4.415	NA	4.415
A 77	4.344	-1.61%	4.344
A 78	5.154	18.65%	5.154
A 79	6.951	34.87%	6.951
A 80	7.724	11.12%	7.724
A 81	8.686	12.45%	8.686
A 82	9.758	12.34%	9.673
A 83	10.332	5.88%	10.065
A 84	9.846	-4.70%	9.650
A 85	9.592	-2.58%	9.464
F 86	9.171	-4.39%	9.085
F 87	8.985	-2.03%	8.907
F 88	9.019	0.38%	8.899
F 89	9.126	1.19%	9.004