

February 2, 1977

The Natural Resources subcommittee on Extraction and Conversion met on February 2, 1977, at 8 a.m. in room 437 with Chairman Kessler presiding and all members present. The meeting was to gain input from the coal and utility companies, using the subcommittee's proposals.

Jim Mochler, Montana Coal Council, said of proposal 2 he wasn't sure what it says "unsuitable"; what criteria are you asking for? He said federal policy did lay down guide lines--regular law of Wyo., N.Dak., and Utah. The guidelines are there. He said when you look at coal ownership patterns 88% of coal is federal. Absolutely no more leasing--can't do without having federal coal. Proposal 5 -- he supported the wording "economically" rather than "technically". He asked if they could expect any company to mine at a loss. He said the Berkley Pit is 1000 feet deep and technically they are mining it--are they expected to go after seams that deep. Is Western Energy expected to mine through coal seams to get to other coal that is economical below--where do they pile the other? Proposal 6 he had no argument with. Proposal 7--I don't know the basis of alluvial valley floors being considered--I thought this was a committee charged with energy policy--few of the proposals are on energy. Alluvial valley floors would include the Powder River Valley floor; much of the fee coal was in valley floors due to the early homesteaders. If you are going to exclude them they have the right to protection of their property. The legislature will have to address compensation for them for the property rights you are taking away from them. Solution mining--don't know as I buy that. If you can conserve energy--have no argument there.

WARD SHANAHAN, Dreyer Bros., will submit written information on these points, but will comment on a few points. Proposal 13--develop a policy that makes mining a crime. An analogy--produce beef that only people in Montana will eat. My way of life as concerned to the people that are in the other ways of life--you are curtailing substantially the mining industry--tend to make a religion of this--think of people's livelihoods--everybody in Montana is not involved in agriculture. We have a stake in this, too. Small mining is really a thing of the past--a small man can't engage in it. Uranium mining is a no, no--solution mining--what has been done to find out about solution mining in the two years it has been in effect. Talk is that we don't like nuclear mining--urge consideration of some logic there. Proposal 15--conversion of Montana industries to coal. That company is going to have to go to Utah to buy coal. How does Montana coal industries benefit? Proposal 12--20% lignite tax, 30% on bituminous--Dreyer Bros. is in the process of changing coal to fertilizer. There are two lignite processing plants in Montana--one in Sydney. Lignite is a low energy fuel and won't be shipped out of state. Major portion of Montana coal fields are lignite fields. The Sierra Club with the Cheyenne Indians have made a Class I classification to further curtail units 3 and 4. It is not located on the reservation. If the application is successful I would say 90% of the bituminous coal will be adversely affected. So there are some things here that threaten to shut down the coal industry in Montana altogether--only one or two bidding now. These are serious questions that involve peoples property.

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GENE PHILLIPS, Pacific Power and Light, I've sent to my company for an analysis by persons with expertise in this area--hope to get some comments back. Proposal 2 and 3 run together is not realistic, we have an application for extending the Decker Mine and there are some small federal coal leases adjacent which would make it a logical mining unit. On selective denial--technologically feasible--suppose there are six seams of coal 1200 feet deep. The quality of coal varies substantially. The sulphur contained could vary--could be mined technologically but not marketable. Noncompliance coal unless you have subscribers--what will you do with. Agree with Mr. Mockler on alluvial valley floors. Proposal 9--we do some exploration for uranium in Wyoming. Proposal 11--heat loss--what kind of transmission loss involved in that kind of process. Proposal 12 and 15 are substantially inconsistent in encouraging shift to the use of coal. We have long term contracts for coal that we had before the severance tax. We are required to develop our coal in advance of when we had planned to do it--we had thought of using ourselves but are now forced to go into the national market. Energy conservation--we developed an energy conservation program and will make a copy available to the committee when we get ahold of it. Load center--we operate in six western states. Our system is completely interconnected in those states and energy moves into Montana from these states. We are a region--integrated on energy and proposal 13 is not realistic. We are investigating a power plant site in three different sites in Wyoming. One is in Sheridan--coal would come from Spring Creek--artificially dislocating a plant because of adverse conditions.

BILL COLDIRON, Montana Power. Energy policy should include some outline of how the energy needs are going to be met for the next 10, 15, 25 years -- from a company that has a legal obligation. Furnish some guidelines of how to get these needs not how not to meet them. If we fail to furnish energy to those people that are looking to us we will have a situation like in the East. We have lived with all the environmental laws of Montana and we will continue to do so. What are we going to do about furnishing in 1980<sup>+</sup>. I have just seen some preliminary figures. Last year, 1976, the residential grew 5%, commercial 6%, industrial customers 11% due partly to the wood products coming back after being in a depressed side. We have enough gas now available to serve the needs of our customers through 1985 and residential and commercial customers several years beyond that. I see only one item, proposal 8, that is directed toward meeting the future energy needs. There are two bills that make tax incentives for those that look for gas. Wyoming and Canada have less tax than we do. If people have money to invest in gas will go to one of those ~~places~~ two places. MDU services gas in eastern part of state are now in a curtailment program when they will curtail the average number of new users. During the average year there are 1150, roughly in that area--next year they are going to take only 830--so roughly 300-325 new houses, assuming building keeps on the average, that are going to go electricity. This is above and beyond anything we had projected and will throw an extra burden on the electric side of the business.

You might look around you to see what else might happen if we don't have enough electricity. Shortage beginning in 1979--this electricity shortage is going to occur and there is nothing we can do about it. The plants are not being built. Bonneville Power projects that we will have an electrical shortage next year. We will be scrambling for every bit of electricity we can get. Encourage the building of new plants to provide the needed electricity. We can live with environmental regulations and we have been. We have an obligation to the new families.

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JIM MOCHLER. Export only policy, if it wasn't so serious, would only be amusing. The Billings plant is converting energy from oil that comes from other states--what would be the economical situation in Billings and Laurel if 20 years ago when these plants were built we had this policy. There is no one that is going to put a plant in Montana for Montana's needs only as we don't have the economical base.

WARD SHANAHAN. Montana is not the only state that is playing this game. Washington is holding up the building of a pipeline that would furnish oil to these plants.

BILL COLDIRON. Such a law would be unconstitutional. Building a little plant would be the most expensive electricity we could get. If you want lower rates you better watch what you do.

GENE PHILLIPS. We have been forecasting for sometime that our hydro resources are not going to be what they should be. We have a slide program we would be happy to present showing where we are with respect to hydro power.

BILL STERNHAGEN, Anaconda Co., We are not in the field of extraction or conversion. To say anything is to stick our noses into some else's business. Proposals are negative--some words that are not in our vocabulary--against positive action. Instances really doesn't face the issues that are confronting human beings in Montana. Anaconda Co. has taken energy and produced jobs with it. We need energy. We have environment laws and we stick to them, and those that don't have been getting fined recently. We would like to encourage proper development of energy and if it comes to a question of what we do within our facility on conservation of gas we could tell what we have been doing.

REP. FRATES. As the biggest consumer of energy--what have you done about conversion and changing from gas to electricity. MR. STERNHAGEN. A 29% decrease in our natural gas consumption. We are doing what we can to convert. If we can't get electricity our conversion won't be worth too much. Taking a negative attitude toward a coal gasification plant doesn't make much sense. He introduced Mr. FRANK BECKMAN, in charge of these matters. Line plants looking toward conversion to coal--anyway that we can produce energy and still keep our economy clean.

FRATES. Are you involved in uranium mining in Montana? STERNHAGEN. no

COLDIRON. If all the people in Montana do what the Anaconda Co has done on conservation it would help solve the problem.

STERNHAGEN. Rate design--who will pay the cost--if you are looking at rate design be careful. Cost of service is the only way you have of looking at cost right--not life line rate--it would help small families and not the larger lower income families.

DON ALLEN, Montana Petroleum Assoc. Concur with many of the statements made earlier. Along with the fact that Montana has the highest tax structure they have a lot of other little things that are deterrents to coming to Montana. So many dollars go elsewhere. Montana ranks low on desirability of area. Rental fees are higher. After you hit a production on other lands the rental drops and only the production tax is there--not on Montana state lands--the rental tax continues. It is not a big deterrent but it makes a difference. There is a bill coming on natural gas from EQC, HB 553 which is part of the energy package. We hope to get some amendments but in favor of the idea. I would like to draw your attention

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to proposal 8. There is no bill in to encourage oil. Supplies of crude oil is low. We have a meeting setup with Bill Christianson's office to try to push ways to expedite trading crude with Canada. April and May we will have shortage of crude oil in Billings. Just that service alone will amount to 22 million a year. Where does everyone in Montana get their products and other states, too. We cannot cut off all these other people. There will be problems as the year goes on. Plan to bring 90 day supply from Wyoming which will help alleviate problems for awhile. Many places have not been searched for oil yet. The East might end up with all the natural gas because the policies have been lacking and the votes will be there. 60% of those looking for oil and gas left that particular endeavor. There is a program to go to a 15% increase in efficiency of the refineries. Smart business to conserve on energy. We would encourage the legislature to encourage the people to conserve energy. You talk about alternate energy forms but have the next 10-20 years--we will have to use what we have. Exploration of oil and gas should be encouraged--very minor impacts as far as the environment is concerned.

REP. HARPER informed the group that the committee was seriously seeking the best way for the state of Montana to approach the extraction and conversion question.

MOCHLER. NBC news mentioned a proposal that the US enter into a crash program for developing coal gasification. I think a good example is Tenneco Coal--which is thinking of building a plant in North Dakota or Montana. I think it would make a tremendous difference if they go a mile across the border, ship Montana's coal across, and Montana would get the pollution and not have the tax base. We are afraid in the industry--we don't want the federal government to control our industry.

PHILLIPS. He said smaller companies because of the capital investment involved must go in with other companies to build a large conversion plant. He said small plants are not as economical--so if the policy said small plants it would be an artificial restraint on the whole northwest region that is interconnected.

SHANAHAN. He said lignite would only be developed at the mine mouth because of its low BTU, it contains mud and water, it is not economical to ship. He said for a use like theirs they can utilize the water it contains, also.

ALLEN. In reply to a question about the water needed for conversion, said if lignite is used the consumption is relatively low--will vary from one area to another--the subbituminous will take more water. COLDIRON. 9000 acre feet annually.

FRATES. Could you use the McKay coal that you are leaving in the ground now?

COLDIRON. It would be the 1980s before you could even get a plant. You have this kind of a problem, if these go, you couldn't cut off all your gas supply and take all your gas from coal gasification plants. The only feasible way a plant can be built is to build to sell most of the gas out of state. One thing SNG would cost between 3.50 and 4.00. Our present cost is a little less than half of that.

Mochler. As far as gas goes--you can put a price on it for 50 cents and you won't have any gas. Gasification has been working in Germany for years; the process does work and can be done--depends on whether you want the gas. I would hate to see any government function say that it won't work, and it

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should be left to the private sector.

PHILLIPS. Doing work on solar homes--in Oregon--active in that area.

Chairman Kessler said the next meeting would be Friday morning at 8. Meeting adjourned at 9:50 a.m.

Respectfully submitted,

  
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Gerald Kessler

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