

MINUTES OF THE MEETING
ENERGY, EXTRACTION AND CONVERSION SUBCOMMITTEE

February 15, 1977
7:30 p.m.
Room 434
State Capitol Bldg.

Meeting was called to order by Chairman Kessler. Roll was taken and it was noted that all members of the subcommittee were present.

Chairman Kessler stated there were two bills which needed to be considered - HB 561 and HB 553.

Representative Metcalf reported that HB 561 had already been acted upon by the subcommittee to his satisfaction and he felt it was ready to be brought into full committee. All agreed.

Chairman Kessler then stated that there seemed to be some language problems with HB 553 as far as tax laws. A copy of the proposed amendments to HB 553 were passed out. Chairman Kessler pointed out that the amendments proposed were fairly minimal. Basically the proposals were made by the Legislative Council in order to make this bill mesh with existing tax laws. He then called upon Terry Driscoll to explain what the problems are.

Mr. ^{Wheeling} Driscoll referred to that part of the proposed amendment to Section 2, Subpart (b) which reads, "serving at least 1000 natural gas consumers within Montana." Mr. ^{Wheeling} Driscoll stated that in checking he found there were 3 companies totally within the state of Montana that would be excluded from this exemption as they did not have a thousand customers. He felt they should not be excluded because they only had 200 to 300 consumers as they were totally in the state. It was agreed by the subcommittee to recommend that the proposed amendment to Section 2, Subpart (b) of HB 553 be changed to read "distributed by a natural gas distribution system serving solely Montana customers or at least 1000 natural gas consumers within Montana."

Mr. ^{Wheeling} Driscoll then brought up the net ^{profits} tax which now goes to the state. He pointed out that there is a small amount of this money allocated to the University system and to high schools and grade schools. In comparison to the total mill levies, the amount to counties is extremely small; approximately 5 or 6 percent. It is specifically allocated for high school or grade school deficiency funds and cannot go to the general fund. It is recommended exempting from the tax liability the state's share and then giving half to the counties. If you are not going to give the counties a specific percentage they do not want any.

Chairman Kessler pointed out that a full benefits tax meant they would have to go all or nothing. They would have to say sorry to the gas companies or sorry to the counties.

Mr. ^{Wheeling} Driscoll went on to state that in working it out under current tax rates exempting the severance tax completely and 1/2 current net proceeds, that would amount to a reduction of 1.75 per well head or a reduction of 9.75 percent of the well price. That is roughly 17 cents on the 1.75 well head cost. This would mean a tax break of about 18-20 percent.

It was agreed by the subcommittee that this would be a sizeable reduction.

Representative Ernst called for a vote that this be sent to the committee on this basis.

^{Rep.}
Mr. Metcalf seconded.

Mr. ^{Wheeling} Driscoll did some calculating on the estimate of dollars that could be involved in 3-4 years based on Mr. Frisell's redbook on natural gas. Montana has produced approximately 40 billion cubic feet during the past year. It is estimated that in 3-4 years this will increase to 55-65 billion cubic feet. Making the assumption that this increase would be all new gas-- it could be due some to expanding oil wells, shallow wells, etc.-- the total dollars involved at a 15 billion cubic feet increase at \$2.00 per cubic feet is 2.8 million dollars per year. An increase of 25 billion cubic feet would involve 6.3 million dollars.

It was brought up that the Legislative Council recommended that even though these companies receive the tax exemption, they still would like the tax reports and forms normally submitted.

^{Rep.}
Mr. Frates asked when the 3 years started; if it was the day they began drilling or when.

It was clarified that the amendment stated "The 3 year exemption provided by this section shall begin when natural gas from a qualifying well is first placed into a natural gas distribution system." It was also clarified that this exemption applied to drilling commenced after December 31, 1976 but before December 31, 1980.

^{Chairman}
Mr. Kessler then introduced Section 7 which deals with constitutionality. A severability clause was explained and it was agreed by the subcommittee that if part of this act is invalid, all valid parts that are severable from the invalid part remain in effect.

^{Rep.}
Mr. Frates moved that HB 553 with these amendments be sent to full committee.

^{Rep.}
Mr. Cox seconded the motion and it was carried.

Chairman Kessler then asked that the subcommittee work on the Alleuvial Valleys. It was agreed by the subcommittee to wait on this to see what the Senate does with SB 317. It will be heard in the Senate on February 17, and if it is killed there it can be assumed that this would also not make it. It was also agreed to wait on the Load Center Conversion.

Meeting was adjourned.

Respectfully Submitted,



Gerald R. Kessler

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