

MINUTES OF THE MEETING
NATURAL RESOURCES COMMITTEE
HOUSE OF REPRESENTATIVES
50TH LEGISLATIVE SESSION

The meeting of the Natural Resources Committee was called to order by Chairman Tom Jones on January 21, 1987 at 1:00 p.m. in Room 312 of the State Capitol.

ROLL CALL: All committee members were present with the exception of Reps. Harp and Harper.

HOUSE JOINT RESOLUTION NO. 6: Rep. Ted Schye, District #18, sponsor, gave a brief review of the background of the Resolution. He stated the salt water injection wells are going into the Judith Formation which is not a producing formation, nor an oil producing formation. Wolf Point has one of their city water wells in this formation. They do not use this water well, except in extremely dry times of the year. They can use it if they have to, but it is the same formation the salt water is going into. The intent of this Resolution is to propose Legislation putting into statute, any oil company taking salt water out of the ground, put it back in a producing formation. This is controlled by the EPA, however, Montana statutes have no effects over the EPA. Legislation is coming that would give authority to the state instead of the EPA, if passed. However, this being on an Indian reservation, makes no difference, and the EPA will still have control.

What HJR 6 does is states concerns about the salt water being pumped in these areas, with there not being enough data to actually know what damage it's doing to water quality. We would like the EPA to establish monitoring and data collections on the wells to be sure they are correct on existing wells, and to start postponing adding new wells, until they get this data and can support it. (Exhibit 1).

NO PROPONENTS

NO OPPONENTS

Rep. Simon stated doesn't the resolution pre-judge, without the needed scientific data available.

Rep. Schye stated the reason they are so interested in getting some accurate data, is every day, these injection wells are putting salt water down there, and to continue and justify these wells, there must be sufficient data there.

Rep. Asay asked if presently, there was monitoring of the underground water, and if so, how accurately is this information put together.

Rep. Schye stated there is some monitoring being done by the tribes. They have hired a geologist, but, they too are feeling a budget crunch, and aren't studying the shallow wells as they should, thus, do not have the accurate information.

Rep. Asay referred to the phrase "phasing out" and wondered if the existing wells are definitely "bad news."

Rep. Schye stated in terms of the break of East and West, in the wells to the East, the groundwater is not usable, and to the West, they are using some water for their livestock. The major concern is that they don't keep moving the disposable wells. As far as the East formation is concerned, it is not a producing formation and don't know if the water is backing up or not.

Rep. Roth had questions regarding the amendment and wanted to know what "reasonable time" meant.

Rep. Schye stated this was a question in his mind also. He had some people state two weeks, some say 15 years. He explained when dealing with the EPA, we can't expect to have it in two or three weeks. This Resolution is merely a statement that says what is felt. We'd like to try a six month time limit, but that does not necessarily mean it will happen.

Rep. Schye closed stating this way very important to the people in the Glasgow area that farm on the bench. It is the only water they have and their wells are 700 feet deep. This water is not good to drink, but they do, if necessary. They can't get any water at any other level, and the people are worried. If they are going to keep the wells, they should at least make sure they are tested for contamination, because once the wells are contaminated, they will never be good again.

Hearing closed on HJR 6.

HOUSE BILL NO. 208: Rep. Kelly Addy, District #94, sponsor, stated this was a request from the Department of State Lands. HB 208 deals with transportation costs from the well site to the market on state lands. Under the state oil and gas lease, the lessee assumes all risk in the exploration and drilling for oil, and is required to sell the crude oil in a competitive market at his own expense. Because of poor marketing today, the oil lessees have asked the state for help regarding the transportation costs. The current state lease requires royalty payments "free of costs and reductions" based upon a fair market value price for crude oil. The trucking charge to transport oil from the lease to market is paid by the working interest and is usually temporary awaiting pipeline service to the well. Passage of HB 208 will allow an oil lessee to only pass on a portion of the trucking charges to the state if oil cannot be sold at the wellhead to a purchaser. The trucking charge cost to the state would be based on the state's percentages of royalty ownership times the total trucking cost per barrell. If the cost of trucking oil is \$1.00/barrell, the deduction would be 13c per barrell to the state. The rate charges per mile must be acceptable to the department (Exhibit 2).

PROPONENTS: Dennis Hemmer representing the Department of State Lands distributed testimony (Exhibit 3). He stated their leases presently don't allow for the deduction of transportation charges. This is a fairly recent interpretation and might be inconsistent with the way other individuals have their leases, which is basically in conflict with their state leases. They feel they should be allowed to take a proportional portion of their trucking charges if they have to transport the oil to a market. Mr. Hemmer referred to the fiscal note and stated there is some dispute of about \$11,000. Many of the wells that require transportation to, are stripper wells. The 13c a barrel could actually influence the economics of the well, and out feeling is the \$11,000 is probably about "a wash" in revenue.

Janelle Fallon, Executive Director, Montana Petroleum Association stated these transportation charges were considered to be part of the posted price, and were deducted by operators up until last spring. The DSL in re-reading the statutes, decided it was not in keeping with their statutes, and did not have the authority to do it. MPA supports HB 208 with the suggested amendment.

NO OPPONENTS

Rep. Miles asked Mr. Hemmer why they felt this would be a "fiscal wash?"

Mr. Hemmer stated some wells are right at the economic margin, and as long as the well is producing, the state is making money off these wells, which helps keep those marginal wells up. At the present price of oil, many of those wells have gone into that marginal category.

Rep. Cohen asked Rep. Addy what the price of oil is today.

Janelle Fallon addressed this and stated that as of Monday, the price of oil was \$15.25 a barrel.

Rep. Cohen asked if it was reasonable to suppose that should the price per barrel go up, and the refineries refuse to do their own trucking, and the assistant producers do the trucking, will that leave our state in the business of subsidizing all the oil producers.

Rep. Addy stated that at the kind of return he talked about, \$22 or \$25 a barrel, this would be a very wise business decision for the state to make.

Rep. Cohen asked if Rep. Addy has seen the fiscal note on HB 208.

Rep. Addy stated he had seen it, and commented there was an error in the note, of \$11,000 that Mr. Hemmer mentioned.

Rep. Cohen then objected for the record as to the scheduling of bills of this magnitude without the correct fiscal notes. He feels the leadership should get this under control before some of these decisions are made.

Rep. Meyers asked that assuming the lessees work on the basis of a bid, would this reduce the amount they bid by percentage.

Rep. Addy stated as DSL stated, up until last spring, this method was used to compute the state oil and gas leases. Most of the people that have bid on state land did so under the belief that this is the way, as proposed in HB 208, that the revenue and expenses would be proportioned between the parties. When they got the new interpretation last spring, some people who had already bid on these leases, got a big surprise. DSL would then come in and say, we made a deal with you on the basis of one understanding, and we want to keep our end of the deal.

Dennis Hemmer added that it does not affect the bid. The bid is a bonus bid for the lease and considered an up front payment. Much like a lump sum payment that pays the front end.

Rep. Smith asked if HB 208 is similar to what is done with timber products, whereas the further from point of delivery, the less it is worth and that's what trying to be done here.

Dennis agreed with Rep. Smith stating that in figuring our escalation and de-escalation of timber contracts, this is another factor that is involved.

Rep. Simon asked if the private landowner shares in the transportation costs, similar to asking the state to share in transportation costs.

Janelle Fallon stated yes, there is generally no difference between private and state land in this case.

Rep. Miles referred to the "rate per mile acceptable to the department" and felt this is left "wide open". She wondered if this was to be set by rule, and what is considered an "acceptable rate."

Mr. Hemmer stated the reason for this is it gives DSL protection against potentially exorbitant charges. Each lease is different, and the problems are separate in every situation. We could set them by rule, but if this were the case, an audit of those expenses would be anticipated.

Rep. Cohen wanted to know the cost of transportation.

Dennis Hemmer stated if a transportation cost of \$1.00/barrel, then the transportation charge on the states' share would be 13 cents a barrel.

Rep. Cohen asked Janelle Fallon if the price of oil fluctuates on a daily basis, and what kind of fluctuations have there been.

Ms. Fallon stated this has not been a normal year for oil, however, Montana refineries use to post a monthly price. Because of the daily fluctuations, they now post a price on a day to day basis. Since 1986, the price of oil has dropped 50%, which is considered an extreme fluctuation.

Rep. Raney asked Rep. Addy if this bill is basically concerned with fairness, but also, wondered if we should be concerned with the price of oil.

Rep. Addy stated it's basically saying, "a deal is a deal." The price of oil does not have anything to do with his purpose in carrying the bill.

Hearing closed on HB 208.

EXECUTIVE SESSION

HOUSE JOINT RESOLUTION NO. 6: Rep. Addy moved HJR 6 DO PASS. Rep. Miles moved the amendment suggested by Rep. Schye. Question being called on the amendment, the motion CARRIED unanimously. See Standing Committee Report No. 1. Rep. Addy moved HJR 6 DO PASS AS AMENDED. Question being called, the motion CARRIED unanimously.

HOUSE BILL NO. 154: Rep. Kadas moved HB 154 DO NOT PASS.

DISCUSSION: Reps. Simon, Kadas, Miles, Raney and Addy stated this was a needless bill, due to the fact that a preference had already been defined. It was also felt that in establishing priorities, a specific mechanism should be used for these priorities. This being a two year program only, would be a useless exercise, wasting time and money.

Reps. Peterson, Asay, Grady and Cobb spoke against the Do Not Pass motion, stating they feel the committee should be giving some direction to agriculture, and making clear what priorities do need to be set. Agriculture is the biggest industry in the state, and we need to recognize the need for conserving water and directing funds for these projects.

Rep. Addy moved to TABLE HB 154. Question being called, a roll call vote was taken, the motion carried 10-6.

ADJOURNMENT: Being no further business, the meeting was adjourned at 1:55 p.m.


TOM JONES, CHAIRMAN

DAILY ROLL CALL

NATURAL RESOURCES COMMITTEE

50th LEGISLATIVE SESSION -- 1987

Date Jan 21, 1987

NAME	PRESENT	ABSENT	EXCUSED
TOM JONES, CHAIRMAN	X		
CLYDE SMITH, VICE CHAIRMAN	X		
KELLY ADDY	X		
TOM ASAY	X		
JOHN COBB	X		
BEN COHEN	X		
ED GRADY	X		
JOHN HARP		X	
HAL HARPER		X	
MIKE KADAS	X		
AL MEYERS	X		
JOAN MILES	X		
MARY LOU PETERSON	X		
BOB RANEY	X		
RANDE ROTH	X		
ANGELA RUSSELL	X		
BRUCE SIMON	X		
BILL STRIZICH	X		
STAFF: EQC HUGH ZACKHEIM			

STANDING COMMITTEE REPORT

JANUARY 21

19 87

Mr. Speaker: We, the committee on NATURAL RESOURCES

report HOUSE JOINT RESOLUTION NO. 6

do pass
 do not pass

be concurred in
 be not concurred in

as amended
 statement of intent attached

REP TOM JONES

Chairman

A JOINT RESOLUTION OF THE SENATE AND THE HOUSE OF REPRESENTATIVES OF THE STATE OF MONTANA REQUESTING THE U.S. ENVIRONMENTAL PROTECTION AGENCY, REGION VIII, TO REVISE ITS POLICY CONCERNING UNDERGROUND SALT WATER INJECTION INTO THE JUDITH RIVER FORMATION ON THE FORT PECK RESERVATION AND TO ESTABLISH A MONITORING AND DATA COLLECTION PROGRAM.

1. Page 4, line 3.

Following: "VIII"

Insert: " , and the Montana Congressional Delegation"

FIRST

reading copy (WHITE)
color

ROLL CALL VOTE

NATURAL RESOURCES

COMMITTEE

DATE JAN. 21, 1987 BILL NO. HB 154

NUMBER Time: 1:46 p.m.

NAME	AYE	NAY
TOM JONES, CHAIRMAN		X
CLYDE SMITH, VICE CHAIRMAN	X	
KELLY ADDY	X	
TOM ASAY		X
JOHN COBB		X
BEN COHEN	X	
ED GRADY		X
JOHN HARP		
HAL HARPER		
MIKE KADAS	X	
AL MEYERS		X
JOAN MILES	X	
MARY LOU PETERSON		X
BOB RANEY	X	
RANDE ROTH	X	
ANGELA RUSSELL	X	
BRUCE SIMON	X	
BILL STRIZICH	X	
STAFF: HUGH ZACKHEIM		

TALLY

10 6

Lisa Rontell
Secretary

Tom Jones / Lisa Rontell
Chairman

MOTION: Rep. Addy moved HB 154 be TABLED. Question being
called, a roll call vote was taken. The motion carried 10-6.

~~PROPOSED~~ AMENDMENT TO HJR 6

PASSED

1. Page 4, line 3.

Following: "VIII"

Insert: ";and the Montana Congressional Delegation"

EXHIBIT (2)
DATE 1-21-87
HB. 208 ADDY

BACKGROUND FOR
REPRESENTATIVE KELLY ADDY
HOUSE BILL NO. 208

An act allowing state oil lessees to deduct proportionally the costs of transporting oil to market; and amending section 77-3-432, MCA.

The Department of State Lands administers approximately 8,000 oil and gas leases of which 350 are in producing status. Under the state oil and gas lease, the lessee assumes all risk in the exploration and drilling for oil and is required to sell the crude oil in a competitive and fair market at his own expense. Because of the poor marketing situation today, the oil lessees have asked the state for help regarding transportation costs.

The current state lease requires royalty payments "free of costs and deductions" based upon a fair market value price for crude oil. The industry argues that the price used to compute royalties must reflect the distance from the refinery or pipeline portal where the sale actually occurs. The trucking charge to transport the oil from the lease to market is paid by the working interest and is usually felt to be temporary awaiting pipeline service to the well. The lease language is against industry standards as well as other surrounding states and federal agency practices.

The passage of this bill will allow an oil lessee to only pass on a portion of the trucking charges to the state if oil cannot be sold at the wellhead to a purchaser. The trucking charge cost to the state would be based on the state's percentages of royalty ownership times the total trucking cost per barrel. If the cost of trucking the oil is \$1.00 per barrel, then the deduction would be 13¢ per barrel to the state. The rate charged per mile must be acceptable to the department.

EXHIBIT (3)
DATE 1-21-87
HB 208 ADDY

TESTIMONY ON HOUSE BILL 208

The Department of State Lands supports the passage of House Bill 208 that would allow the deduction of the costs of truck transportation of the state share of oil to market. The Department has 136 oil producing leases of which approximately 50% have their oil transported by truck to a marketing facility. The average cost for transportation is 90¢ per barrel, therefore, the deduction to the state royalty would be approximately 12¢ per barrel.

The passage of this bill will put the State of Montana leases in line with other states such as Wyoming and North Dakota and federal oil leases. By charging the transportation costs to the state share based on the royalty percentage share, the state is being fair to the oil producer who is actually marketing the state oil. The Department feels that clearing up this issue will be an incentive to the producers of oil on state lands and especially the independent and small oil operators based in Montana. The majority of the small oil producers crude is transported by truck.

I would ask your passage of House Bill 208.

VISITOR'S REGISTER

NATURAL RESOURCES

COMMITTEE

BILL(S) HB 208; HJR 6

DATE JANUARY 21, 1987

SPONSOR(S) ADDY; SCHYE

NAME	REPRESENTING	BILL NO.	SUP-PORT	OP-POSE
Dennis Henning	Dept of State Lands	208	✓	
Kelly Blake	Dept. of State Lands	208	✓	
Mark Shapiro	Dept. of State Lands			
Rich. ...				
Donald Mde	CIENEX	208		✓
John ...				
Scott ...				
Bryan Endeik				
Geo. Ochenski	MEIC			

IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR VISITOR'S STATEMENT.
IF YOU HAVE WRITTEN COMMENTS, PLEASE GIVE A COPY TO THE SECRETARY.