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

January 19, 1987

The meeting of the Revenue Estimating Subcommittee was called to order by Chairman Harp on January 19, 1987, at 12 noon in Room 117 of the State Capitol.

ROLL CALL: All members were present with the exception of Reps. Ellison and Harrington, and Sens. Hager, Lybeck, Hirsch, and Severson. Also present were Dave Bohyer, Legislative Council, Terry Johnson, OBPP, and Judy Curtis Waldron, LFA.

REPORT ON OIL SEVERANCE TAX: Janelle Fallan, Executive Director, Montana Petroleum Association, told the Subcommittee all information related to them is from public documents and that she is not privy to any inside information.

Ms. Fallan spoke from Exhibit #1, and mentioned the severe winter in Europe which is causing oil prices to rise right now. She explained that a letter from Jerry McCracken, Manager, Western Tax Regions, Shell Oil, (dated 10-86), indicates projections through 1989, which still stand.

Rep. Sands asked what year maximum production was experienced. Ms. Fallan replied it was 40 million barrels in 1968.

Chairman Harp asked if production in Montana would be affected if there were an increase in price of $5-6 per barrel within the next few months. Ms. Fallan replied that production will be a while coming back because the companies have severely cut back exploration. She said some serious questions have been raised as to how much new production we will see.

Sen. Newman asked Ms. Fallan if she could outline Montana factors contributing to inflated oil production in the state, such as asphalt highways. He asked if production were affected only by national factors. Ms. Fallan replied that Montana has a challenging geology and that there are no wells in the overthrust in the state.

Rep. Williams asked Ms. Fallan if she disagreed with industry projections of $20 million in 1986, $23 million in 1987, $25 million in 1988, and $24 million in 1989. Ms. Fallan replied she didn't see too much difference, adding that if one said $16 million and another $23 million that would be a significant difference.

Rep. Sands asked how the pricing system for oil works. Ms. Fallan replied that part of what Rep. Sands is requesting is closely-held corporate secrets. She said the Montana Refining Company in Great Falls used to send out postings daily, adding that refineries use their own formulas based upon crude oil, transportation, and other factors.

Sen. Newman asked what percentage of oil pumped in Montana is consumed in the State. Ms. Fallan replied she didn't know, as much oil leaves the state via the pipeline. She commented that a lot of oil refined in the state comes from Canada, indicating that it mostly depends upon where the pipeline comes from. Jerome Anderson, commented that it also depends upon the grade of crude.

Chairman Harp asked how many wells in Montana are abandoned. Ms. Fallan replied that one year ago, that figure was 4,800.

Chairman Harp asked how many wells were started in 1986. Ms. Fallan replied that she would get those figures for the Subcommittee, and said that in July, 1986, the figure was zero for two weeks.

<u>OBPP AND LFA REPORTS ON OIL SEVERANCE TAX:</u> Terry Johnson provided subcommittee members with copies of Exhibit #2, outlining distribution of oil severance tax funds. He said two-thirds goes to the general fund and one-third goes to local government block grants.

Mr. Johnson said the OBPP (1) well-head prices; (2) production (general trends based on study of the interstate oil compact commission); and (3) tax rates. He said 3rd quarter prices are anticipated to be low, and that the 4th quarter is expected to pick up, with an average price of $13.73 for CY86.

Mr. Johnson told the Subcommittee that in 1986, production was a little over 20 million barrels for the first three quarters (third quarter production is 5.6 million barrels). He said the OBPP forecast of 27 million barrels appears to be high and that the LFA forecast is also high. He commented that average prices are in the $15-16 range for crude oil, adding that oil prices peaked at $34 per barrel in 1981 and have been going down since then.

Sen. Neuman asked what the average tax is per well. Mr. Johnson replied that amount is set by DNRC to run the Gas and Oil Commission. He said the figure was just raised to .008% per barrel.

Mr. Johnson advised that it is easy to be swayed by the current situation, but he believes the Subcommittee needs to look at what may happen two years from now. He stated he felt comfortable with OBPP assumptions, adding that could change with OPEC changes. Mr. Johnson said there will eventually be a point where excess oil will no longer be on the market.

Judy Curtis Waldron provided subcommittee members with copies of Exhibit #3, a comparison sheet. She said the LFA anticipates a 20% price rise or an average price of $29 per barrel for FY88-89. Ms. Curtis advised the Subcommittee that LFA projections are for declines of 7.3% in FY87, 4.3% in FY88 and 1.5% in FY89.

Ms. Curtis Waldron stated her concern that all the numbers projected might be too high. She said the third quarter of 1986 is 12.5% lower than that same quarter in 1985, and that the decline is accelerating, while LFA forecasts assumed smaller declines. Ms. Curtis added that the oil severance tax on production returns to the counties if there is increased production from one year to another.

Rep. Sands asked if the decline were dramatic in view of the fact that no new wells were started for two weeks in July, 1986. Ms. Curtis replied that the LFA felt it originally captured the rate of decline, but that it now appeared to be larger than originally thought.

NATURAL GAS TAX: Chairman Harp advised the Subcommittee that Natural Gas Tax would be discussed on Wednesday, January 21, 1987.

TOTAL PERSONAL INCOME: Chairman Harp asked if there would be any problem with combining total personal income and non-farm income. Ms. Curtis replied it would show more revenue. Mr. Johnson stated that 1987-88 estimates would not change, but that 1989 estimates would change slightly.

Chairman Harp commented there is a need to identify how much of the total is personal income and how much is non-farm income. He stated that if no subcommittee member disagreed the Subcommittee would use OBPP figures.

LONG TERM INTEREST RATES: Terry Johnson reported recalculated rates of 7.98% for FY87, 8.46% for FY88, and 9.21% for FY89.

Judy Curtis Waldron reported rates of 8.62% for FY87, 9.55% for FY88, and 10.24% for FY89.

Chairman Harp said he would feel more comfortable with the lower rates proposed by the OBPP.

Rep. Schye made a motion that the Subcommittee accept the new, revised OBPP long term interest rates figures. The motion CARRIED unanimously.

ADJOURNMENT: There being no further business before the Subcommittee, the meeting was adjourned at 1:10 p.m.

Representative John Harp
Chairman

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DAILY ROLL CALL

HOUSE TAXATION REVENUE ESTIMATING SUBCOMMITTEE

50th LEGISLATIVE SESSION -- 1987

Date 1/19/87

NAME	PRESENT	ABSENT	EXCUSED
REP. HARP	✓		
REP. ELLISON			
REP. HARRINGTON			
REP. SANDS	✓		
REP. SCHYE	✓		
REP. WILLIAMS	✓		
SEN. NEUMAN	✓		
SEN. BISHOP	✓		
SEN. HAGER			
SEN. HIRSCH			
SEN. LYBECK			
SEN. SEVERSON			

CS-30

X L
-1-7-87
/ Sev Tax

EXHIBIT #1
DATE 1-19-87
HB Rev Est Subc

MONTANA PETROLEUM ASSOCIATION

A Division of the
Rocky Mountain Oil and Gas Association

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Executive Director

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Comments to
Revenue Estimating Committee
Montana Legislature
January 19, 1987

Presented by Janelle Fallan
Executive Director, Montana Petroleum Association

Before I begin to discuss any data on price projections, I would like to state that all the information I will present to you is from published documents. My comments will reflect industry projections that have been discussed publicly and not any sort of "inside information," nor the opinion of any one company.

The price of crude oil is up somewhat, following the December agreements of the Organization of Petroleum Exporting Countries. The target price OPEC is now attempting to achieve is $18 per barrel. A severe winter in Europe is contributing to prices greater than $18. As the weather improves, and if OPEC members do not honor their commitment, the price may soften.

The benchmark price in the United States is for West Texas Intermediate Crude. The Montana posted price is generally $1-$3 less. For this reason, it is the opinion of industry analysts that $15 a barrel for crude oil continues to be a reasonable estimate through CY 1987. A 5% inflation factor would bring the price to $15.75 for 1988 and about $16.55 for 1989. As of today, the posted price at Montana Refining Company in Great Falls is $15.25.

The last time I appeared before this group, in June, 1986, the price had not yet bottomed out. It was as low as $8 for some Central Montana crude last summer. The industry feeling now is that the price has reached its low point. Further, with some adherence of OPEC members to their latest agreement, the industry will not experience the wild price swings in 1987 that it underwent in 1986.

Production declined drastically in Montana in 1986. Early figures show 1986 production at 27,045,000 barrels, the lowest level since 1956. Improvement in production will depend not only on price in 1987, but also on price stability and political decisions to be made this session.

I have attached material from J.G. McCracken, chairman of the Tax Committee of the Montana Petroleum Association and Manager of the Western Tax Region of Shell Oil Co. As you may be aware, Shell is the single largest producer of crude oil in Montana. Mr. McCracken's comments of October 22 were based on the assumption that OPEC would reach some sort of agreement in 1986 and still stand.

OCT ~~ 1986

Shell Oil Company

Western Tax Region

P.O. Box 2099
Houston, Texas 77252

October 22, 1986

Janelle Fallen
Executive Director
Montana Petroleum Association

Subject: Update on pricing and production premises for the Revenue Estimating Advisory Panel

Attached is some material that reflect revisions in the subject estimates provided to the council earlier in the year. I still feel very comfortable with the estimate at around $16.50 (West Texas Intermediate) for calendar year 1986 thru calendar year 1987. My initial estimates presented to the panel were premised primarily on a Chase Econometrics model published in the spring of 1986. Attached are two current articles that further support this price level. One is from the October issue of Petroleum Outlook by John S. Herold, a noted petroleum industry analyst and a second article by Shell's President, John F. Bookout, as recently interviewed in the October issue of Forbes magazine. Note that Herold's article also supports a gas price at about $2.00 per MCF in the short-term.

There appears to be a further tendency at this point in time toward a firming or possibly a slight increase in price levels which should therefore produce an average around $16.00 to $16.50 for the calendar year. For 1987, I see a more stable price climate that hopefully will not experience the dramatic ups and downs that occured in 1986. Also enclosed is a June 30, 1986 article from the Oil & Gas Journal that addresses the quality, gravity and transportation adjustments, which indicates how the West Texas Intermediate price is adjusted to about 15.00 in Montana.

My production estimates have been revised moderately downward to reflect what I feel is actually occuring as a result of the shut-in of marginal wells. Also note that rate of the conservation tax has been revised to its current level of 2/10 of 1% percent of gross value.

Western Oil and Gas Association

TO PROPERTY TAX COMMITTEE

FOR YOUR INFORMATION

Date 9/29/

James T. McCutcheon
MANAGER, TAX & STATISTICS DEPARTMENT

What's ahead for oil prices

To operate in the oil business as in any other you need a working hypothesis on the course of future prices. Never has this been harder, the supply/demand equation being almost secondary to the question of whether OPEC can put an effective lid on production. Here is Shell's working hypothesis, according to John Bookout.

"The call on OPEC [demand for OPEC oil] is the key parameter we watch." Bookout agrees with FORBES that as demand for oil rises again, the additional supplies must come from OPEC countries ("We are living off our capital," FORBES, *Sept. 22*). He goes on:

A gas pump in Dallas
How cheap, for how long?

"At the current [OPEC production] rate of around 17 million barrels a day, prices tend to be volatile but low. We've seen those swings in the market recently. It's a prodigious job to get together on a 16.5-million-barrel quota. I suspect that as oil reaches an equilibrium price, individual OPEC countries won't be able to resist cutting little deals and putting more oil on the market.

"So I see a sort of roller coaster around $15 a barrel over the next couple of years or so. I've told our people, 'Do your economics on the basis of $15.'

"Once the call on OPEC reaches around 20 million barrels a day, it should be easier for OPEC to agree on quotas. We would therefore expect more price stability, if prices stay in a moderate range, $17 to $22. With time, the demand for OPEC oil should rise to 25 million to 30 million barrels a day. At that level, OPEC's in a strong position to force real price increases."

Okay, but when will OPEC be back in the driver's seat? What's Bookout's time frame?

"It shouldn't be too long before we reach that first milestone, 20 million barrels. If Free World demand grows at 1% to 2% per year, and U.S. production declines 2% to 2.5% per year, we might reach it as early as the end of 1987 to, say, mid-1989. These are reasonably modest assumptions, so mid-1989 is probably about the latest time.

"But if there's a strong response to lower oil prices [i.e., big increases in consumption] and strong Free World GNP growth, then demand might grow at 3% to 4% a year. If so, we might get real upward pressure on oil prices in the 1988-89 period.

"We're not planning our business on that earlier date, though, and I'll probably have all kinds of energy experts on my back for even suggesting it."

That's John Bookout's script: wide swings around a $15 price for a year or two, edging up to $20 and above by 1989—possibly earlier if the world economy strengthens and oil users get careless again. After that? If Bookout is right, OPEC will be dictating its terms again in the early or mid-1990s.—T.M.

Feel free to contact me at any time at Area Code 713-241-1675, if there are any questions regarding the data contained in this communication.

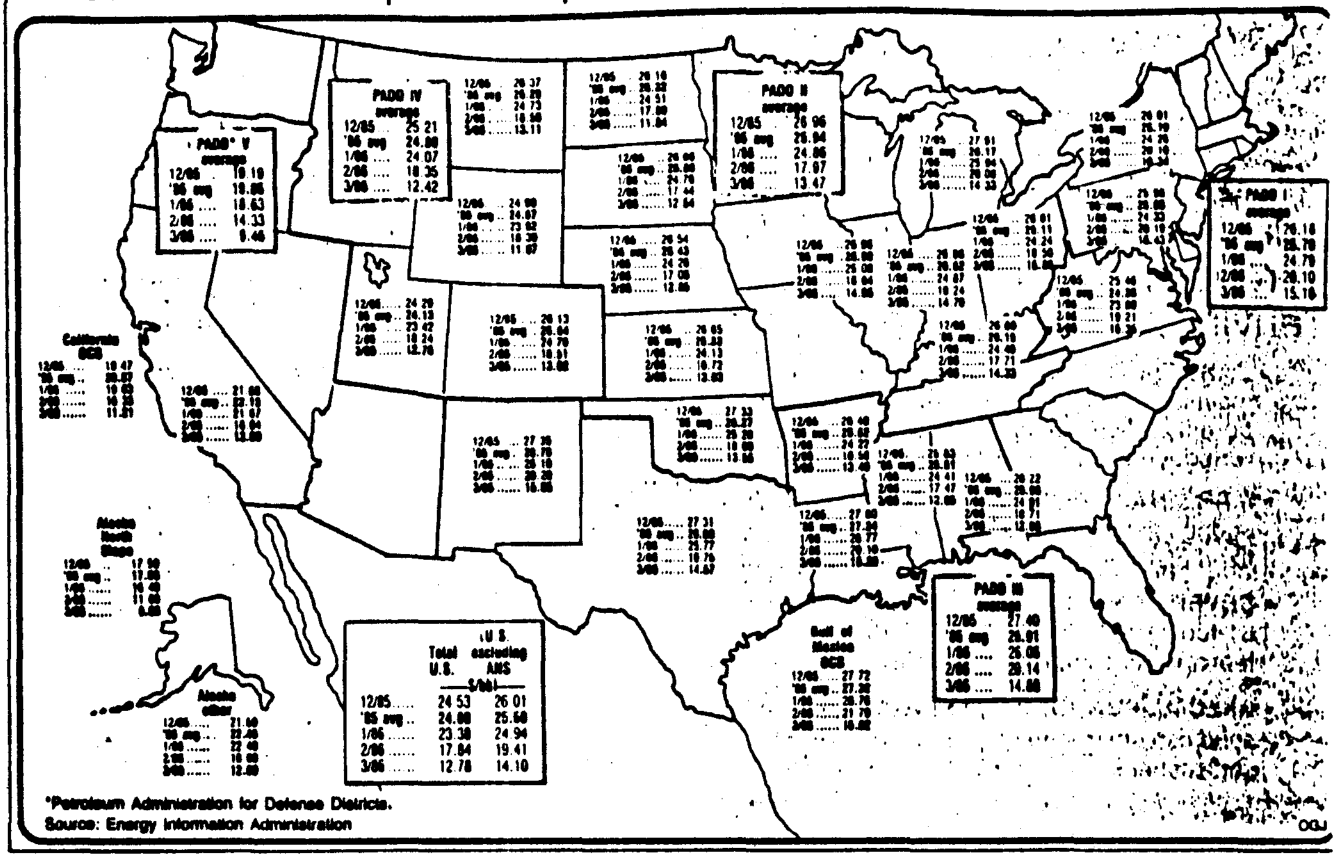
Sincerely,

Jerry G. McCracken, Manager
Western Tax Region

JGM:ls

Enclosure

A look at the crude price collapse across the U.S.



*Petroleum Administration for Defense Districts.
Source: Energy Information Administration

Oil price collapse takes shape in U.S. statistics

The crude oil price drop of December 1985 through March 1986 is beginning to take specific shape in published U.S. statistics.

While the market collapse was under way, futures transactions provided the best indications of immediate price movements. Price reports from the physical market take longer to come to light and be worked into regional averages.

According to the federal Energy Information Administration (EIA), the first purchase price of domestic crude oil averaged $12.78/bbl during March 1986, the month during which prices bottomed. That average was down from February's $17.84/bbl, January's $23.38/bbl, and a 1985 average of $24.08/bbl (see map).

Excluding Alaska North Slope crude, U.S. prices averaged $14.10/bbl in March, $19.41/bbl in February, $24.94/bbl in January, and $25.60/bbl in 1985.

In the U.S. and Canada, producers and royalty owners have asked regulatory bodies to prop up the price of domestic crude. So far, no agency has taken action.

Producers also are concerned about gravity differentials that remain as large as they were when top posted prices were $38/bbl. For example, Independent Petroleum Association of Mountain States (Ipams) says small volumes of Big Horn basin asphaltic crude are being sold for less than $5/bbl directly into a purchaser's pipeline even though heavier crudes seem to be in great demand.

Crude prices. The March average price of $14.10/bbl for Lower 48 crude was the lowest in about 6 years and 45.8% below the December 1985 price.

EIA says the U.S. crude price exclusive of Alaskan North Slope crude averaged $9.56/bbl in 1978, $13.01/bbl in 1979, and $22.65/bbl in 1980. The average peaked at $33.71/bbl in 1981 before declining every year through 1985.

Due to transportation and other costs, the first purchase prices are lower than refiner acquisition costs.

During March, the refiner acquisition cost of domestic and imported crude averaged $14.87/bbl, dow 44.5% from March 1985's $26.7 bbl.

The cost of domestic crude alon averaged $15.11/bbl, and importec oil alone cost $14.21/bbl.

The lowest crude cost reported was an average $14.08/bbl that major refiners reported paying for imported crude during the month.

The prices of lower grade crud fell by larger percentages. At $6.9 bbl, the March price of 28° gravi Alaskan North Slope crude w 60.1% lower than December $17.50/bbl.

California crude prices durin March hadn't fully responded to con petition from large volumes of Ala kan crude landed in California. Th price of oil from California onsho and state waters averaged $12.90/b in March, down 40.5% from Decer ber's level.

Wyoming's March average first pu chase price of $11.97/bbl was do 52.1% from December. The only lo er reported state average in the Low 48 east of California is South Dakota

$11.84/bbl.

EIA estimates March prices of foreign crude imported to the U.S. fob Indonesia at $13.18/bbl, Mexico $11.54/bbl, Nigeria $16.18/bbl, and Venezuela $10.39/bbl.

The March price of crude imported to the U.S. from the Organization of Petroleum Exporting Countries averaged $12.50/bbl, down 46.2% from December.

Deductions. Gravity penalties and transportation deductions eat away at the field price of crude.

Gravity deductions from the posting for 40° gravity oil were standard at 2¢/degree of gravity for many years.

During the early 1980s, refiner/purchasers phased in deductions of as much as 1.5¢/0.1° of gravity and have retained them for many grades of crude even though posted prices have declined more than 50%.

That scale brings the price of 25° gravity oil, for example, to $11.75/bbl when the posted price for 40° gravity is $14/bbl.

Under the 1.5¢/0.1° of gravity deduction, a producer of 30° gravity oil receives 77% of the 40° gravity posted price at $13/bbl compared with 95% of the top posting at $30/bbl.

A producer of 20° gravity oil receives 70% of the 40° gravity posted price at $10/bbl compared with 90% of the top posting at $30/bbl.

Stated another way, when the posted price of 40° gravity oil falls to $13/bbl from $30/bbl, a drop of 56.6%, the posting for 30° gravity oil drops 59.6%, and 20° gravity oil falls 63%.

Wyoming and Montana sour crudes are subject to deductions of 3-7¢/0.1° of gravity. For example, Amoco Production Co.'s deductions for Wyoming and Montana sour are 3¢/0.1° of gravity from 34° to 20° gravity and 7¢/0.1° of gravity below the level of 20° gravity.

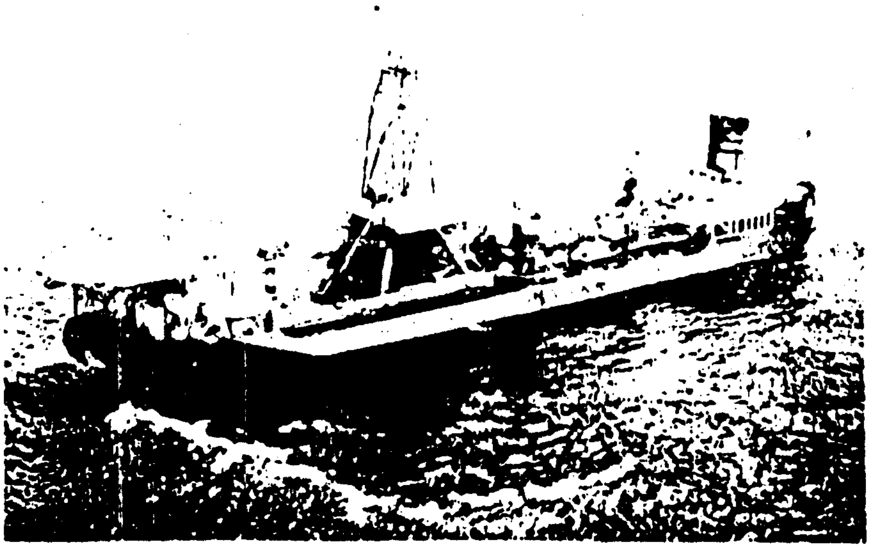
Ipams' crude oil committee recommended a resolution to its executive committee that calls present differentials "inequitable and arbitrary," says Kenneth Wonstolen, executive director.

The resolution asks that crude purchasers/refiners examine different methods for gravity adjustments that bear a more equitable relationship to the value of the crude.

Transportation charges also cut into field prices.

Sun Refining & Marketing Co.'s June 4 crude oil price bulletin lists a 40¢/bbl deduction for pipeline connected purchases.

Sun deducts for trucked purchases on a sliding scale basis that ranges from 45¢/bbl for up to 10 miles to a pipeline reception facility to $1.25/bbl at 46-50 miles. •



Floating production and testing vessel, with accommodations for 60, will use associated gas to run its gas turbines and generate electricity.

New vessel ready for Oseberg field work

A Norwegian consortium has taken delivery of a dynamically positioned floating oil production and testing vessel that will be chartered by Norsk Hydro AS for use in the Norwegian North Sea's Oseberg oil field.

Nippon Kokan K.K. (NKK) built the 640 ft vessel for the K/S Petrojarl I AS consortium at NKK's Tsurumi Works in Japan.

The consortium is composed of Ocean Transport Inc. Det Nordenfjeldske Dampskibsselskab, K/S PTS Invest AS, and K/S Petro Invest I AS. Golar-Nor Offshore AS, London, will operate the ship.

NKK calls the ship the world's first deepwater oil production and testing system not based on conversion of another vessel. It can operate in water as shallow as 330 ft or as deep as 2,130 ft. Oseberg field is in 345 ft of water about 87 miles west of Bergen.

The ship, Petrojarl I, has a production capacity of 30,000 b/d and can store nearly 190,000 bbl of crude. Norsk Hydro will use shuttle tankers to move the crude to shore when early production begins this August (OGJ, Apr. 14, p. 58).

Besides its dynamic positioning capability, the vessel uses eight anchors and a turret mooring system to maintain its position. •

Supreme Court to rule on Texaco bond

The U.S. Supreme Court has agreed to decide whether Texaco Inc. must post a $12 billion bond while appealing a judgment Pennzoil Co. won last year.

The justices will review a ruling by the second U.S. Circuit Court of Appeals in New York City that Texaco need not post the bond.

Texas law required that the bond be posted while Texaco appealed a $10.5 billion Texas judgment by a jury that found it interfered with Pennzoil's deal to buy 42% of Getty Oil Co. Texaco subsequently bought Getty for $10.1 billion.

Texaco is appealing the jury verdict in Texas state court, and the appeals court may issue a decision this fall. Whatever the outcome, it is likely to be appealed to the Texas Supreme Court.

In the meantime, Texaco sued in New York federal court, claiming that the large bond could force it into bankruptcy and thus deprive it of its right to appeal.

The federal court agreed and required Texaco to post a $1 billion bond. The three judge appeals court unanimously upheld that decision Feb. 20 (OGJ, Mar. 3, p. 42).

The U.S. Supreme Court will not debate the size of the bond itself but

STATE OF MONTANA
CRUDE PRICE IMPACT ON PRODUCTION TAXES
(M$)

	1986					1987				
$/BBL	25	20	18	15	10	25	20	18	15	10
SEVERANCE TAX @ $0.05	$34,625.0	$27,700.0	$24,930.0	$20,775.0	$13,850.0	$32,500.0	$26,000.0	$23,400.0	$19,500.0	$13,000.0
R.I.T.T. @ $0.005	$3,462.5	$2,770.0	$2,493.0	$2,077.5	$1,385.0	$3,250.0	$2,600.0	$2,340.0	$1,950.0	$1,300.0
CONSERVATION TAX @ $0.002 (MAXIMUM RATE)	$1,385.0	$1,108.0	$997.2	$831.0	$554.0	$1,300.0	$1,040.0	$936.0	$780.0	$520.0
GROSS VALUE OF OIL	$692,500.0	$554,000.0	$498,600.0	$415,500.0	$277,000.0	$650,000.0	$520,000.0	$468,000.0	$390,000.0	$260,000.0
TOTAL EST. OIL REVENUE TO STATE OF MONTANA	$39,472.5	$31,578.0	$28,420.2	$23,683.5	$15,789.0	$37,050.0	$29,640.0	$26,676.0	$22,230.0	$14,820.0

GAS DATA
(M$)

	1986	1987
SEVERANCE TAX @ $0.0265	$2,559.9	$2,504.3
R.I.T.T. @ $0.005	$483.0	$472.5
CONSERVATION TAX @ $0.002 (MAXIMUM RATE)	$193.2	$189.0
GROSS VALUE OF GAS*	$96,600.0	$94,500.0
TOTAL EST. GAS REVENUE TO STATE OF MONTANA	$3,236.1	$3,165.8
GRAND TOTAL-EST. REVENUES TO STATE OF MONTANA	$26,919.6	$25,395.8
	==========	==========

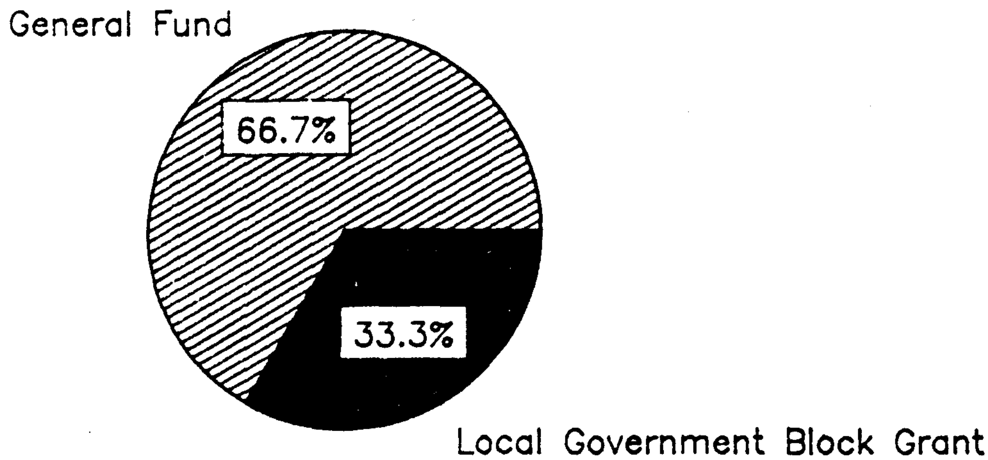
*ESTIMATE BASED ON CURRENT AVERAGE REALIZED VALUE OF $2.10/MCF

x2
.19-87

EXHIBIT #2
DATE 1-19-87
HB Rev Est Sub

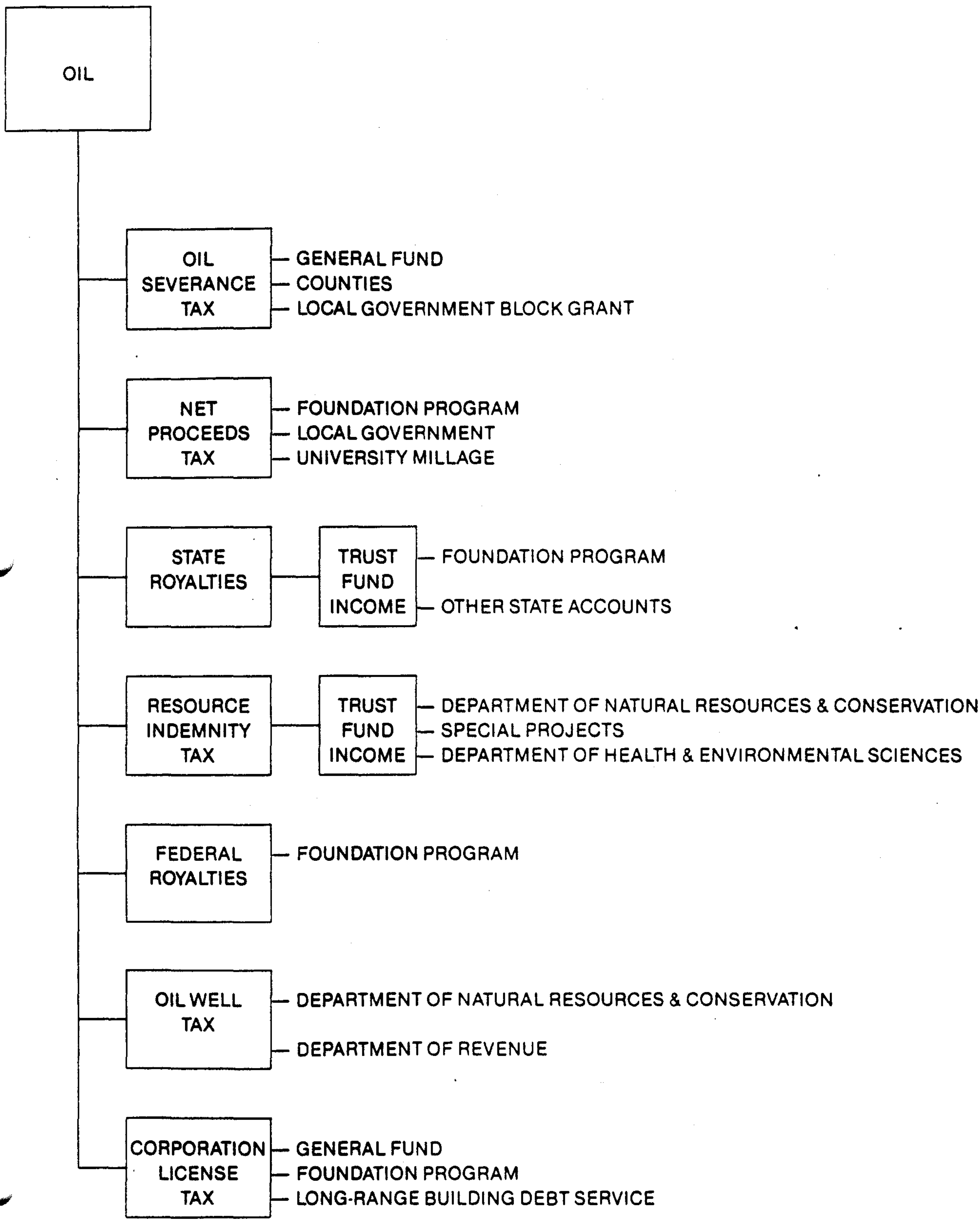
OIL SEVERANCE TAX

DISTRIBUTION FORMULA

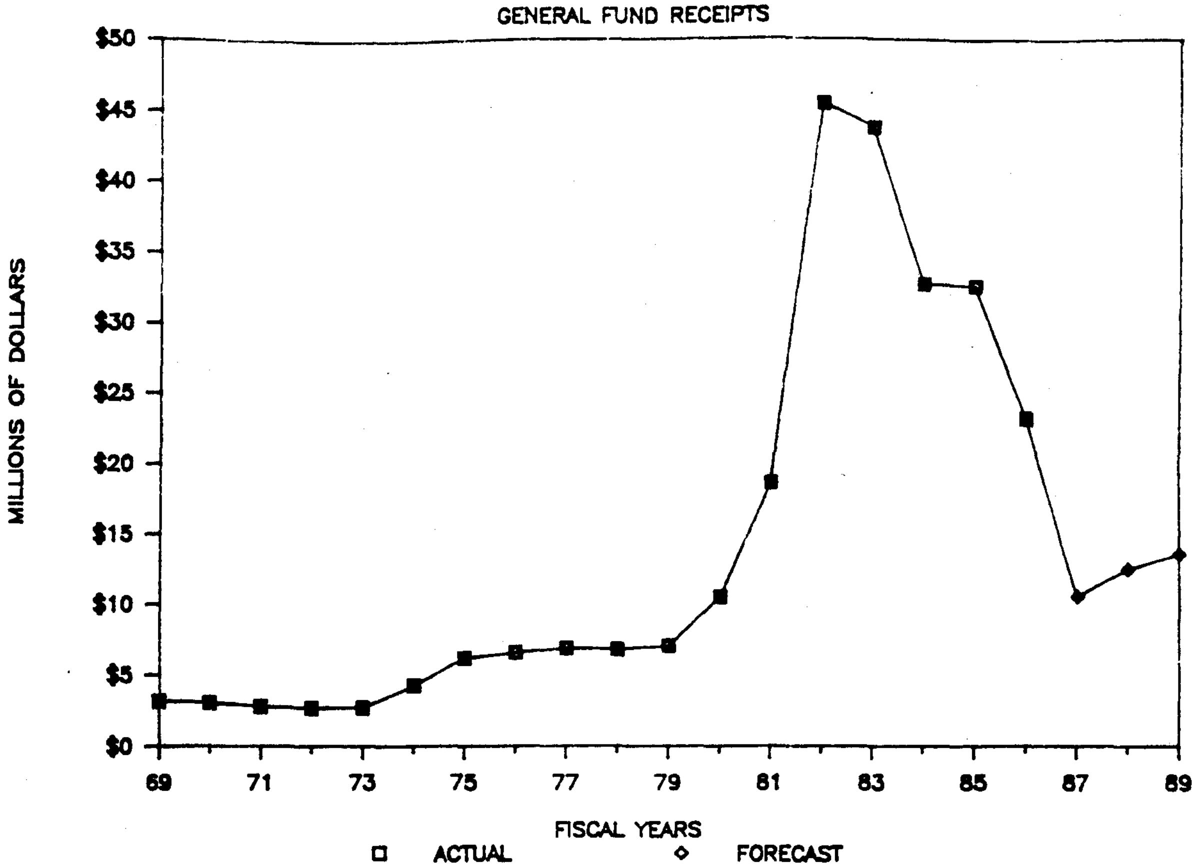


County portion is deducted from the General Fund.

GRAPHIC REPRESENTATION OF REVENUE IMPACT
OIL

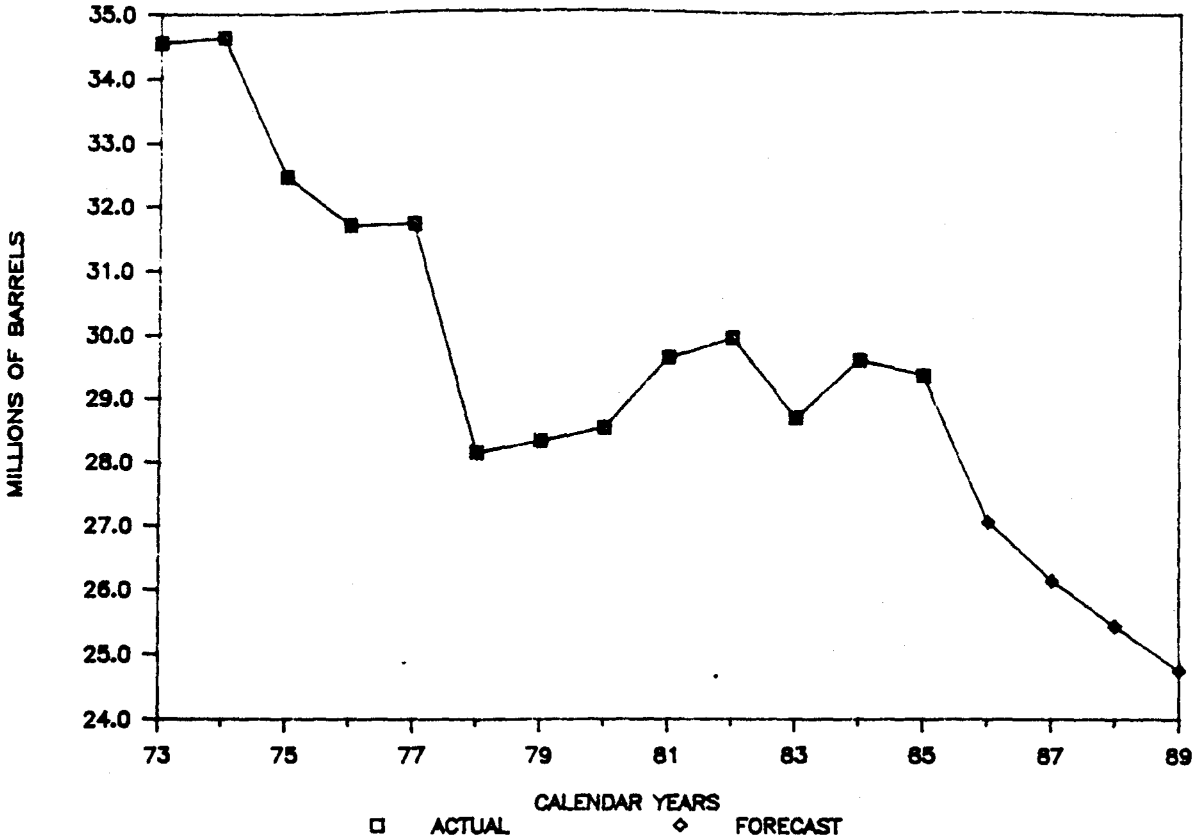


OIL SEVERANCE TAX

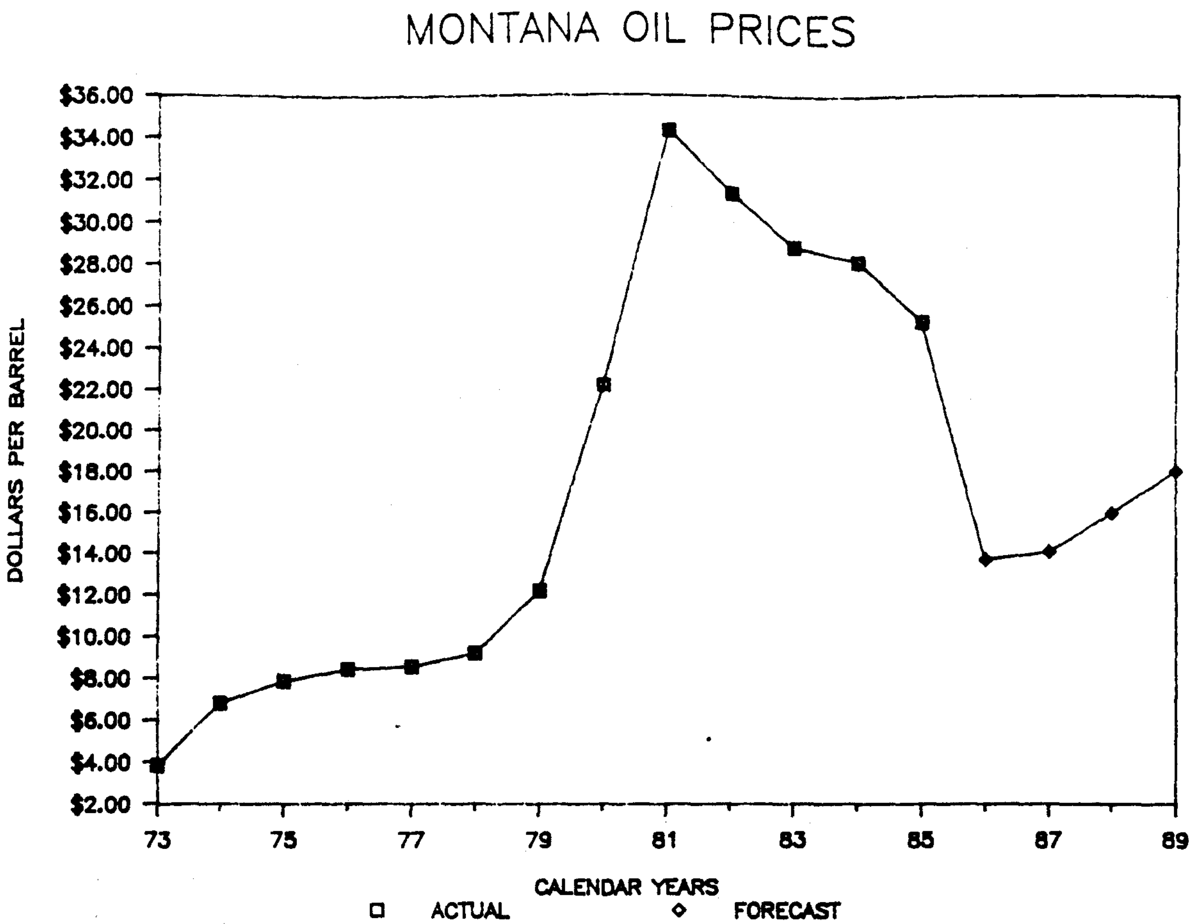


	YR	GF RECEIPTS	PERCENT CHANGE
A	69	3.157007	
A	70	3.038492	-3.75%
A	71	2.766963	-8.94%
A	72	2.668316	-3.57%
A	73	2.692453	0.90%
A	74	4.255716	58.06%
A	75	6.179984	45.22%
A	76	6.563569	6.21%
A	77	6.884010	4.88%
A	78	6.808100	-1.10%
A	79	7.056573	3.65%
A	80	10.544555	49.43%
A	81	18.654469	76.91%
A	82	45.473425	143.77%
A	83	43.787960	-3.71%
A	84	32.686014	-25.35%
A	85	32.526656	-0.49%
A	86	23.152504	-28.82%
F	87	10.571511	-54.34%
F	88	12.538940	18.61%
F	89	13.583691	8.33%

MONTANA OIL PRODUCTION



	YR	TOTAL BARRELS	PERCENT CHANGE
A	69	NA	
A	70	NA	NA
A	71	NA	NA
A	72	NA	NA
A	73	34.558131	NA
A	74	34.628537	0.20%
A	75	32.460164	-6.26%
A	76	31.697509	-2.35%
A	77	31.724600	0.09%
A	78	28.164329	-11.22%
A	79	28.336851	0.61%
A	80	28.539286	0.71%
A	81	29.639232	3.85%
A	82	29.943981	1.03%
A	83	28.694597	-4.17%
A	84	29.601607	3.16%
A	85	29.351588	-0.84%
F	86	27.045363	-7.86%
F	87	26.135650	-3.36%
F	88	25.437081	-2.67%
F	89	24.747953	-2.71%



YR	AVERAGE PRICE	PERCENT CHANGE
A 69	NA	
A 70	NA	NA
A 71	NA	NA
A 72	NA	NA
A 73	3.843000	NA
A 74	6.814000	77.31%
A 75	7.845000	15.13%
A 76	8.411000	7.21%
A 77	8.582000	2.03%
A 78	9.253000	7.82%
A 79	12.279000	32.70%
A 80	22.250000	81.20%
A 81	34.317000	54.23%
A 82	31.311000	-8.76%
A 83	28.804000	-8.01%
A 84	28.066000	-2.56%
A 85	25.214000	-10.16%
F 86	13.734381	-45.53%
F 87	14.117053	2.79%
F 88	16.000000	13.34%
F 89	18.000000	12.50%

[...]ON BASIN
[...]nd DAKOTAS
[...] should be addressed to: P.O. Box [...], Montana 59101.
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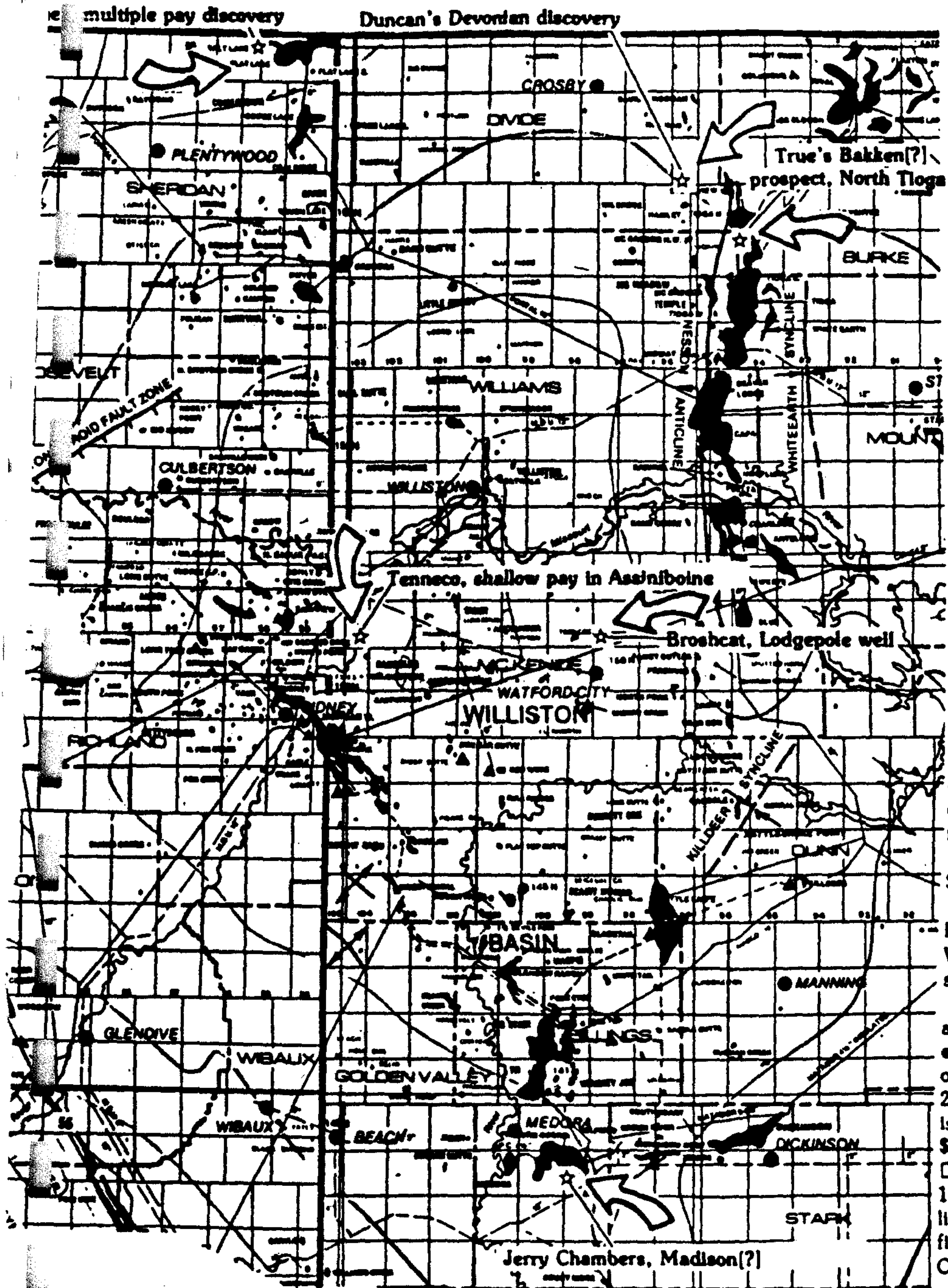
[...]Prospects Await Final Completion



OIL PRICES INCREASE

Domestic crude oil prices are improving in response to the OPEC accord on production limitations.

Oil futures sold for more than $18 per barrel on the New York Merchantile Exchange and the spot market price nudged the $18 mark.

Late last week posted prices in the Northern Plains states jumped $1.25 per barrel bringing the total increase in the past month to more than $2 per barrel.

Recent bulletins from refiners list contract purchase prices up to $16.75 per barrel in some sectors of the country. West Texas Intermediate, the U.S. crude benchmark went to $16.50/bbl last week. Top prices in the Rocky Mountain Region are $16.25 to $16.50 per barrel.

☐ **WILLISTON BASIN:** Effective December 29, 1986, Amoco Production is paying $15.65 per barrel for 40 degree gravity to 44.5° gravity "sweet" crude. "Fryburg-Medora" flat price is $14.50 per bbl.

Murphy Oil lists Williston Basin Sweet at $15.90 per bbl and Williston Basin Sour at $14.40, effective December 30.

Both purchasers deduct two cents per barrel for each one degree gravity below 40 on the sweet crude. Murphy's sour crude reduction schedule is four cents per barrel for each degree below 40.

These purchasers listed Williston Basin sweet at $14.40 per bbl in mid-December.

☐ ***WYOMING/SOUTHERN MONTANA:*** *Effective* December 29, Amoco is paying $16.25 per bbl for Wyoming Sweet crude at 40°. Murphy lists the same price for sweet crude (effective Dec. 30).

Amoco shows Wyoming and Montana Sour crude at $16 per bbl with a two to four cent reduction for each degree between 34 and 40 degrees. Deductions of two cents per 0.1° is applied to crudes rated from 20 to 34 degrees. For example, 27.6° gravity crude is penalized $1.44, yielding a wellhead price of $14.56.

☐ **SWEETGRASS ARCH:** Effective January 1, 1987, Montana Refining Company at Great Falls lists $15.25 per barrel for 40° gravity crude from fields in Glacier, Liberty, Pondera, Teton and Toole Counties.

This is $1.25 per bbl higher than the price posted two weeks earlier.

The early November, 1986, price was $13.

Gravity deductions of $0.015 per barrel is applied for each one tenth degree gravity below 40.

In all the above cases, trucking or transportation costs to designated receiving facilities may be deducted from the purchase price.

[.]NDUSTRY IN TROUBLE

M[..]tana and the Williston Basin were down [...] compared to 1985. The prices paid for [...]uisition were down more than 50%. And, [...] ind[..]y is split about "fifty-fifty" on a plan to [...]rvi[...].

19[..] will also be the year that members of the [i]ndustry began to polarize on the issue of [go]vernment intervention, in the form of an import [...] on crude oil.

Th[.] source of the carnage is the ability of [for]eign producers to out-produce demand, the economic structure. But, it's either at the expense of the industry or to its advantage. This has been the most catastrophic period in the history of the petroleum industry and the events of the past 12 months have shaped the course of the domestic exploration and production mechanism forever.

Continued on page 2

RIG COUNT

as reported [...]

Montana Oil Journal
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Ex3
1-19-87
Oil Sev Tax

EXHIBIT #3
DATE 1-19-87
HB Rev Est Sub

OFFICE OF THE LEGISLATIVE FISCAL ANALYST
Oil Tax Forecasts and Assumptions

	1986	1987	1988	1989
GENERAL FUND REVENUE FROM THE OIL SEVERANCE TAX				
LFA		$10,456,000	$12,701,000	$12,052,000
Executive		$10,572,000	$12,539,000	$13,584,000
Difference		($116,000)	$162,000	($1,532,000)
FY PRODUCTION(BARRELS)				
LFA		26,798,000	25,655,000	25,271,000
Executive		26,822,000	25,964,000	25,268,000
Difference		(24,000)	(309,000)	3,000
CY PRODUCTION(BARRELS)				
LFA	27,144,000	25,787,000	25,271,000	
Executive	27,045,000	26,136,000	25,437,000	24,748,000
Difference	99,000	(349,000)	(166,000)	
Industry				
FY PRICE				
LFA		$12.240	$15.000	$15.000
Executive		$12.356	$14.799	$16.480
Difference		($0.116)	$0.201	($1.480)
CY PRICE				
LFA	$13.640	$14.650	$15.000	
Executive	$13.734	$14.117	$16.000	$18.000
Difference	($0.094)	$0.533	($1.000)	
Industry				
FY INCREASED COUNTY PRODUCTION(BARRELS)				
LFA			195,000	778,000
Executive			350,000	350,000
Difference			(155,000)	428,000