

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

February 10, 1987

The meeting of the Revenue Estimating Subcommittee was called to order by Chairman Harp on February 10, 1987, at 11 a.m. in Room 312B of the State Capitol.

ROLL CALL: All members were present with the exception of Rep. Schye, and Sens. Hager, Hirsch, Bishop, Lybeck and Severson, who were absent. Also present were Dave Bohyer, Legislative Council, Terry Johnson, OBPP, and Judy Curtis Waldron, LFA.

DISPOSITION OF COAL SEVERANCE TAX PRICE ESTIMATES: Terry Johnson advised that fourth quarter coal prices were included in averages for estimates. He explained Montana is still under phase-in of federal tax reform and said that as the coal market is soft right now, prices probably won't increase.

Rep. Ellison asked if there were not much chance that an increase in oil prices would affect coal. Terry Johnson replied that is probably correct. He stated that in the case of Decker Coal, the price for CY86 was \$10.95, and did not change much in the last three quarters of that year. He said there may be a small change as the final phase of royalty comes in. (Exhibits #1, 2, 3)

Terry Johnson stated that Peabody Coal is hard to get a handle on right now as there has been a recent drop in prices.

Sen. Neuman asked if Montana would pick up some coal sales if prices were to decrease. Chairman Harp replied that Montana is at its highest level of production since 1981, but prices didn't hold up.

Rep. Williams asked how the "window of opportunity" affected prices. Ken Williams, Western Energy, advised that Commonwealth tonnage is stretched out and is the biggest reason for the drop in Peabody Coal.

Chairman Harp asked if Western Energy production was nearly as large as that of Decker Coal. Ken Williams replied that most of the production in the last part of the fourth quarter is due to demand. He said the tonnage production estimates of the Subcommittee may be a little too optimistic and that

REVENUE ESTIMATING SUBCOMMITTEE

February 10, 1987

Page 2

he anticipates 9.3 million tons in CY87 and 10 million tons in CY88. He added that in a year with adequate water, production could increase.

Madalyn Quinlan, LFA, advised that Peabody supplies coal from that company to get out of its contract. She estimates that 1986 fourth quarter trends will continue and said Peabody had an average variation of price of \$1.50 during the past four quarters.

Sen. Neuman asked if Peabody had the potential for other sales. Madalyn Quinlan responded that Peabody has several other mines in Wyoming.

Terry Johnson commented that the adjustment quarter is usually the first quarter for a company such as Decker. Madalyn Quinlan added that it was her understanding not all companies have adjusted quarters and that will probably not be seen with Peabody.

DISPOSITION OF COAL PRICE ESTIMATES: Rep. Sands made a motion to use \$5.92 for CY87, 88, and 89 coal prices. The motion failed on a tie vote with Sen. Neuman and Reps. Harp and Harrington voting no.

Rep. Williams made a motion to approve \$6.50 for coal prices for CY's 87, 88, and 89.

Sen. Neuman advised the Subcommittee needs to put an inflation factor into its estimates, based on projection of what the national economy will be doing. Sen. Neuman made a substitute motion to approve \$6.25 for CY87, \$6.50 for CY88, and \$6.75 for CY89.

Rep. Williams withdrew his motion to support Sen. Neuman's motion. The motion CARRIED with all members voting aye except Reps. Sands and Ellison.

DISPOSITION OF COAL PRODUCTION ESTIMATES: Terry Johnson advised that production from CY80 through CY85 was 29.8, 33.2, 26.8, 25.8, 30.4, and 31.2 million tons respectively. He explained that all information comes from the coal companies, who know the market, and that the Subcommittee

REVENUE ESTIMATING SUBCOMMITTEE

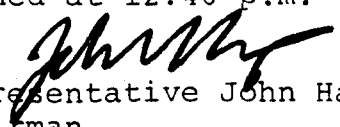
February 10, 1987

Page 3

should probably take the information provided by those companies.

Rep. Sands made a motion to approve 9.3 million tons for CY 87 and 10 million tons for each year for CY88-89 for Western Energy. Due to a shortage of time, Rep. Sands then withdrew his motion until the next meeting.

ADJOURNMENT: There being no further business before the Subcommittee, the meeting was adjourned at 12:40 p.m.


Representative John Harp,
Chairman

DAILY ROLL CALL

HOUSE TAXATION REVENUE ESTIMATING SUBCOMMITTEE

50th LEGISLATIVE SESSION -- 1987

Date 2-10-87

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		✓	

EXHIBIT #1
 2-10-87
 Rev Est Subc

February 4, 1987

MEMO:

TO: House Taxation Subcommittee on Coal Severance
 Tax Reduction bills

FROM: Mr. V.H. Wood

RE: The following information is provided per your request
 to estimate number of jobs related to tonnage increases

INCREASE IN NUMBER OF JOBS DUE TO TONNAGE INCREASES

1. Recent mine layoffs in the Montana, Wyoming and North Dakota region indicates that from about 10 to 80 miners are affected by a one million ton reduction per year at existing mines. The range is dependent upon where the tonnage increment lies in the specific mine design capability.
2. Montana Department of Labor and Industry estimates that total jobs are 2½ times the direct jobs and the direct jobs are valued at \$36,800 per year (1985). Indirect jobs are valued at about \$26,500 per year.
3. The following is based on 40 direct mining jobs for each one million tons of incremental production:

	<u>FY89</u>	<u>FY90</u>	<u>FY91</u>	<u>FY92</u>
Production - million tons				
HB-456	35.7	37.0	38.4	38.5
Present	31.8	31.8	30.8	30.8
Increase	3.9	5.2	7.6	7.7
Number of jobs				
Direct	156	208	304	308
Indirect	234	312	456	462
Total	<u>390</u>	<u>520</u>	<u>760</u>	<u>770</u>
Estimated wages (millions)				
Direct	\$5.7	\$7.7	\$11.2	\$11.3
Indirect	\$6.2	\$8.3	\$12.1	\$12.2
Total	<u>\$11.9</u>	<u>\$16.0</u>	<u>\$23.3</u>	<u>\$23.5</u>

DELIVERED COAL PRICE COMPARISONS
(from FERC reports Jan.-Aug. 1986)

#2
2-19-87
Rev Est Su

Minnesota

Boswell Deliveries

Peabody Big Sky Mine

Average Price: 142.15 ¢/mmBTU
\$24.51/ton

Average BTU: 8622

Average Wyoming Deliveries

Average Price: 135.79 ¢/mmBTU
\$23.16/ton

Average BTU: 8528

142.15

135.79

6.36 cents/mmBTU difference in price. Montana coal has to be 1.0967 per ton cheaper to be equal in price. Therefore, about 1.10 must be taken from the Montana price.

Sherbune Deliveries

Western Energy Company

Average Price: 131.39 ¢/mmBTU
\$22.68/ton

Average BTU: 8630

Rochelle Coal, Wyoming

Average Price: 119.81 ¢/mmbtu
\$20.88/ton

Average BTU: 8754

131.39

119.81

11.67 cents difference in price. Montana coal has to be reduced in price 2.01424 per ton to be equal in price with Wyoming coal.

*Note for Sherbune County Deliveries; More recent reports since August indicate Westmoreland Coal at being only 5.7 cents/mmBTU more expensive than Wyoming Coal; therefore, Westmoreland Coal must be .99cents/ton cheaper to be equal on a cents/mmBTU basis with Wyoming.

Wisconsin

Columbia Wisconsin Power and Light

Western Energy Company

Average Price: 163.28 ¢/mmBTU
\$28.26/ton

Average BTU: 8655

Average Wyoming Deliveries

Average Price: 145.89 ¢/mmBTU
\$25.20/ton

Average BTU: 8642

163.28

145.89

17.89 cents/mmBTU difference in price. Montana coal has to be reduced in price 3.01 per ton to be equal in price to Wyoming Coal.

Table 3

Actual and Projected Demand for Montana Coal
by Mining Firm and Purchaser

Contract Expiration Date	Base Consumption Level	Millions of Tons									
		1985	1986	1987	1988	1989	1990	1991	1992	1993	
Decker Coal Co.		11.50	12.60	13.80	14.50	10.80	10.90	10.50	11.00	11.00	
Commonwealth Edison Co.	3.96										
Detroit Edison Co.	7.92										
Lower Colorado River Authority ¹	1.98										
Knife River Coal Co.		.22	.23	.19	.19	.19	.20	.20	.20	.20	
Holly Sugar Co.	.02	.04	.04	0	0	0	0	0	0	0	
Montana-Dakota Utilities	.20	.18	.19	.19	.19	.20	.20	.20	.20	.20	
Peabody Coal Co.		3.15	3.15	3.15	3.15	3.15	3.15	3.15	3.15	3.15	
Minnesota Power and Light	3.06	3.15	3.15	3.15	3.15	3.15	3.15	3.15	3.15	3.15	
NERCO Coal Co. (Spring Creek)		2.80	3.20	3.20	3.20	3.20	3.20	3.20	3.20	3.20	
Utility Fuels, Inc.	6.99	2.10	2.10	2.10	2.10	2.10	2.10	2.10	2.10	2.10	
Other purchasers	N/A	.70	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	
Western Energy Co.		11.60	10.04	11.13	11.88	11.88	11.50	11.50	11.50	11.50	
Upper Peninsula Generating Co.	.27	.16	.04	.10	.10	.10	.10	.10	.10	.10	
Colstrip 1 and 2	2.07	2.80	2.04	2.20	2.20	2.20	2.20	2.20	2.20	2.20	
Colstrip 3 and 4	5.40	2.15	3.40	4.30	4.30	4.30	4.30	4.30	4.30	4.30	
Lake Superior District Power Co.	.05	.05	.05	.05	.05	.05	.05	.05	.05	.05	
Northern States Power Co.	4.05	4.30	2.65	3.00	3.00	3.00	3.00	3.00	3.00	3.00	
Wisconsin Power & Light Co.	1.77	1.63	1.51	1.60	1.60	1.60	1.60	1.60	1.60	1.60	
Montana Power Co. (Corette)	.63	.51	.35	.38	.38	.38	0	0	0	0	
AEM Co.	N/A	0	0	0	.25	.25	.25	.25	.25	.25	
Westmoreland Resources, Inc.		3.04	2.94	2.99	3.99	3.99	3.99	3.99	3.99	3.99	
Northern States Power Co.	2.61	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	
Dairyland Power Coop.	.45	.45	.50	.50	.50	.50	.50	.50	.50	.50	
Wisconsin Power and Light Co.	.16	.15	.15	.15	.15	.15	.15	.15	.15	.15	
Interstate Power Co.	.27	0	0	0	0	0	0	0	0	0	
Upper Peninsula Generating Co.	.25	.14	.04	.04	.04	.04	.04	.04	.04	.04	
Western Fuels Assoc. (Sherco 3)	N/A	0	0	0	1.00	1.00	1.00	1.00	1.00	1.00	
TOTAL		32.31	32.16	34.46	36.91	33.21	32.94	32.54	33.04	33.04	

49.11

¹No current shipments. Contract in litigation.

N/A denotes not applicable.

NOTES: Most coal contracts stipulate maximum and minimum annual tonnages. Figures presented here represent, for the most part, the midpoint between these limits, and may not precisely reflect tonnages for a particular year.

EXHIBIT #3
2-10-87
Rel Est Subc