MINUTES OF THE MEETING
TAXATION COMMITTEE
MONTANA STATE SENATE

April 3, 1987

The fifty-seventh meeting of the Senate Taxation Committee was called to order at 8:00 A.M. on April 3, 1987 by Chairman George McCallum in Room 413/415 of the Capitol Building.

ROLL CALL: All committee members were present.

CONSIDERATION OF HB 776: Representative Nathe, House District 19, presented this bill to the committee. The purpose of this bill is two-fold, to encourage all new exploration and to try to extend the life of the stripper wells in the state of Montana. Oil stripper wells in the state of Montana makeup about one-half of the total number of wells in the state and makeup about 10% of the total production. At the bottom of page 6 oil stripper wells were defined as those wells that produce 10 barrels of oil or less a day. In this bill, as amended, all those wells that produce from 0-5 barrels have been exempted from the state's 5% severance tax. From 5-10 barrels they will pay a severance tax of 3%. The gas stripper wells are exempt from 0-30,000 cubic feet a day, 30-60,000 cubic feet will pay at 1.59%, which is 3/5th of the current rate of the severance tax. If the price of oil gets to be $30 a barrel, then the exemption for oil stripper wells will come off. Exemption from the severance tax is two years on new production, unless the price of oil would reach $25 a barrel and then that exemption would come off. This is a bill the oil industry feels is important in order to extend the longevity of the stripper wells of the state of Montana. There was a coordination clause put on in the House that tied the passage of this with the passage of HB 377. He would hope the committee would consider removing that amendment.

PROPONENTS: W. W. Ballard, representing Balcron Oil Company, gave testimony in support of this bill. A copy of his written testimony is attached as Exhibit 1.

Carl Iverson, representing Western Natural Gas Corporation, headquartered in Shelby, gave testimony in support of this bill. He has been around the production of oil and gas for 40-50 years. We need to send a signal to the oil people who might invest some money in Montana, to encourage some money to come into the state. If he has money to spend, he does not invest it in Montana because of the taxes. With the tax structure in this state, we are burdened to the point of no return.

Les Faglemand, representing Canada-American Drilling Fluids, gave testimony in support of this bill. He provides drilling fluid additives to the drilling rigs. The volume of his business is directly related to the number of drilling rigs in the state of Montana. In the early 80's there were 35-40 drilling fluid companies in Montana which employed 300-400 people full time. Now there are only half a dozen left. Wyoming has bright prospects for 1987, with a dramatically increased budget. It is difficult to make money in Montana with the tax structure we have. If drilling starts up, the first thing we will do is take people off the unemployment line and put them to work. His job is on the line if this bill is not passed.

Bill Vaughey, a small explorer for gas and oil and for the last 19 years has been Vice President of the Independent Petroleum Assn. of Mountain States, gave testimony in support of this bill. The IPA represents the little guy who is looking for petroleum in Montana. We believe the oil is there if we will drill for it. We also believe a new tax base will be realized if we drill. HB 776 will go a long way towards getting drilling started in this state, which we badly need.

John Augustine, representing Conoco, gave testimony in support of this bill. He furnished the committee with a packet of information on the impact of low oil prices and state taxes on oil investment, attached as Exhibit 2. He reviewed this information with the committee.

Harold Ude, representing Cenex, gave testimony in support of this bill. We feel this bill provides the oil and gas industry incentives to make significant investments in Montana. By waiving the severance tax on stripper production in the state, we will help lengthen the property life and insure basic industry in Montana.

Jim Benner, North American Resources, gave testimony in support of this bill. We are an oil and gas company that drills in the major producing provinces of the US and Canada. Last year were participated in 55 new drilling wells. In selecting those wells we reviewed somewhere between 200 and 300 drilling prospects, that covered all the major producing states in the US and Canada. As part of that selection 29 of the wells were in the US and only three wells were in Montana. Our corporation is headquartered in Montana. Incentives do work, they caused us to drill wells in Canada. They were the same kind of incentives as we are talking about here. In considering this bill do not think of it as a break for the oil companies but for Montana.

Ward Shanahan, representing Chevron Company, gave testimony in support of this bill. A copy of his written testimony is attached as Exhibit 3.

Stuart Doggett, representing the Montana Chamber of Commerce, gave testimony in support of this bill. Business in communities throughout Montana has suffered in the last few years as a result of the declining oil activities. This severance tax holiday will place Montana in a competitive position.

Don Lee, representing the Montana Oil and Gas Assn., gave testimony in support of this bill. Because of Montana's tax laws, oil companies will not drill in Montana and are just fed up and want to get out. What will happen to our counties when they leave. They pay property tax, use services, provide jobs and money goes to farmers in the form of bonus checks. Some incentives can guarantee there will be some wells drilled in north-central Montana.

Doug Abelin, representing the Montana Oil and Gas Assn., gave testimony in support of this bill. He represents a service company that is an endangered species in this state. He has spent 14 years rebuilding oil tanks. Two years ago 200,000 were closed. Last year 43,000 were closed. Since September he has done nothing. There is nothing happening in our oil fields. Wells in our area are producing at a total loss. They average 1.4 barrels a day per well. They haven't shut them in on the hopes they can survive until something picks up. If we can get this incentive we will have new money and new tax.

Janelle Fallan, Executive Director, Montana Petroleum Association, gave testimony in support of this bill. She furnished the committee with a packet of information in support of this bill, attached as Exhibit 4. The coordination instruction on page 8, line 19 with relation to HB 377, was put on the bill late at night on the House floor. The reason that amendment was put in was because if a sales tax passes there will be significant relief for the oil industry in HB 377. There is no guarantee as to what form HB 377 will take if it does pass this body. She would hope the committee would see fit to remove that amendment.

Jerome Anderson, representing Shell Western E & P Inc., gave testimony in support of this bill. He has great concern with the amendment put on in the House regarding HB 377. HB 377 does provide property tax relief to the extent of cutting tax rates in half, which relief is very limited to the oil industry. HB 377 is so uncertain and it must be passed and approved by referendum. If it is not successful we are the loser all the way across the board.

Kay Foster, representing the Billings Chamber of Commerce, furnished written testimony in support of this bill, attached as Exhibit 5.

OPPONENTS: None.

Lynn Chenoweth, Department of Revenue, gave technical comments concerning this bill. There are some items in the bill they may have some trouble administering based on the wording of the bill. The bill, as currently written on gas stripper wells, does not say how the excess should be treated. The Department would assume that the excess would be taxed at the normal rate of 2.65% but he would suggest an amendment be put in to say that. We also need something in the bill to say how you treat the excess if a well produced more than the exemption requirement. The way the bill currently reads, the exemption for severance tax would not apply to the RIT tax or the license tax. Another concern is in determining the average daily production from a well. The bill currently says to take the total production and divide that by 365 days. The Department would prefer it said to divide that by the number of days of oil production. There is a minor concern with the effective date. They feel it would put the taxpayer and the Department in a bind for the first month. To change the date to April 1, 1987 would alleviate that problem.

QUESTIONS FROM THE COMMITTEE: Senator Mazurek said he is very discouraged with what he is hearing that Montana doesn't do a thing for us. He is discouraged because he thought some pretty good steps were taken and we aren't getting any credit for them. Is the message getting out that we changed the way we tax net proceeds and that the rates have dropped from 6-5%.

Don Lee said there is just such a negative impression of Montana with the taxes, insurance and workers' comp.

Senator Mazurek asked if he was telling people that things are changing. How far do we have to go before we start getting credit, where do we draw the line.

Don Lee said he thought we would start getting credit when net proceeds, severance tax, RIT tax, conservation and personal property is on line with other producing states.

Senator Keating said there was an increase in drilling rigs in the state shortly after the effects of SB 90 became effective. Shortly after that the bottom dropped out of the industry because of the international price of oil. We are getting the message out.

Senator Eck asked the Department of Revenue if they could furnish a fiscal note showing an analysis of the benefits from the unitary, sales tax, property tax and this bill.

Lynn Chenoweth said he could try.

Senator Eck asked Doug Abelin how this tax break would impact with the deep wells.

Doug Abelin said the deep well is not going to get the benefit of this incentive that the shallow well will get.

Senator Mazurek asked Mr. Anderson if anyone had looked at the concerns the Department had.

Jerome Anderson said he would prepare a written response.

Representative Nathe closed.

<u>DISPOSITION OF HB 851</u>: Senator Brown made a motion that HB 851 BE CONCURRED IN.

Senator Mazurek said he understands the need for this. He has some concern with stacking tax breaks. He would like to help but has some concern with double breaks.

Senator Halligan asked if there would be a problem with refunding paid tax money with the timing of the effective date of the act.

Gordon Morris said we would be talking about taxes that have been collected and that would have to be refunded.

Senator Halligan asked what would be the best date to alleviate the refund problem.

Gordon Morris said the effective date should be January 1, 1987.

Greg Groepper said that is the way the bill is written, pertaining to tax years beginning after December 31, 1986. That means property tax year 1987.

Senator Lybeck said we are dealing with a case of fairness in relation to the tax breaks that were granted to the Washington Corporation.

Senator Mazurek said we want to be fair to the Aluminum Plant and also fair to the taxpayers up there. He asked Jack Canavan if he had any ideas on a coordination clause.

Jack Canavan said in looking at HB 377, that doesn't take effect until 1990 and we wouldn't have any effect from that for the next 2-3 years. When looking at the exemption, this bill gives approximately a $1 million tax break, $800,000 to the local community and $200,000 to the state. In 1987/88 we would have to pay $1.2 million in a sales tax.

Senator Hirsch said there are difficult property tax problems statewide in every other major industry. He is trying to get general tax reform, with certain property tax relief for everyone. This is simply a piecemeal approach.

Senator Mazurek said in truth this will have some immediate benefit. With the sales tax, who knows what the voters will do with that. We could sunset this.

Senator Hirsch said the sunset idea is a good one to look at this tax break to make sure they are not down to paying no taxes.

Senator Brown said as a practical matter the sales tax is a long way down the road.

Senator Crippen said we are putting personal property into a different class. Under HB 377 this operation would be one big class at 5% and this bill takes it down to 3%.

Senator Brown's motion carried with Senator Hirsch opposed.

DISPOSITION OF HB 157: Jim Lear said Senator Lybeck would like this bill to be amended so that it will terminate when HB 658, the fee bill, goes into effect. This could be done by inserting "terminates January 1, 1988" on page 5, and by striking "is void" on line 2.

Senator Mazurek said that would allow this bill to go into effect this year and terminate when the fee bill goes on.

Senator Lybeck made a motion to adopt the amendment explained by Jim Lear. The motion carried.

Senator Severson asked how many boats are we talking about.

Greg Groepper said he thinks there are 5 or 6 in the state that are tour boats.

Senator Lybeck made a motion that HB 157 BE CONCURRED IN AS AMENDED. The motion carried with Senator Neuman opposed.

DISPOSITION OF HB 876: Senator Mazurek made a motion that HB 876 BE CONCURRED IN.

Senator Severson said we passed a bill a few days ago on fees on airplanes.

Jim Lear said that bill didn't address commercial airlines.

Senator Neuman asked if these scheduled airlines are taxed on a proration method among the states they service.

Greg Groepper said you require us to treat specially property that is used in more than one county or more than one state. Airplanes come under that. We value those properties under a method called unit value method and apportion that to Montana based on operation.

Senator Hirsch said we are asking the federal government to subsidize those counties in eastern Montana and he thinks this bill would show a good faith effort on the part of the state. The new aircraft would still bring in more dollars than the old ones.

Senator Neuman said we continue to dismantle the property tax base to where we will end up with a sales tax to fund government services.

Senator Mazurek's motion carried with Senator Neuman opposed.

DISPOSITION OF HB 813: Senator Brown made a motion that HB 813 BE CONCURRED IN.

Senator Halligan made a substitute motion to change $20 to $25 and $12 to $15 on line 24, page 2.

The motion carried with Senators Hirsch and Neuman opposed.

Senator Brown made a motion that HB 813 BE CONCURRED IN AS AMENDED. The motion carried with Senators Neuman, Mazurek and Hirsch opposed.

The meeting recessed at 10:05 A.M. to reconvene shortly for consideration of the sales tax issue.

For all intents and purposes, the minutes attached as a special committee to study the sales tax, dated April 3, 1987, 10:10 A.M., shall be considered as a continuation of this hearing.

ah

ROLL CALL

TAXATION COMMITTEE

50th LEGISLATIVE SESSION -- 1987 Date 4-3-87

| NAME | PRESENT | ABSENT | EXCUSED |
|---|---|---|---|
| SENATOR CRIPPEN | ✓ | | |
| SENATOR NEUMAN | ✓ | | |
| SENATOR SEVERSON | ✓ | | |
| SENATOR LYBECK | ✓ | | |
| SENATOR HAGER | ✓ | | |
| SENATOR MAZUREK | ✓ | | |
| SENATOR ECK | ✓ | | |
| SENATOR BROWN | ✓ | | |
| SENATOR HIRSCH | ✓ | | |
| SENATOR BISHOP | ✓ | | |
| SENATOR HALLIGAN, VICE CHAIRMAN | ✓ | | |
| SENATOR McCALLUM, CHAIRMAN | ✓ | | |
| | | | |
| | | | |
| | | | |

Each day attach to minutes.

DATE April 3, 1987

COMMITTEE ON Senate Taxation

VISITORS' REGISTER HB776

| NAME | REPRESENTING | BILL # | Check One Support | Oppo |
|---|---|---|---|---|
| Harold Ude | CENEX | | X | |
| Gregg Abeln | Montana Oil & Gas | 776 | X | |
| Les Englund | CAN-AM Drilling Fluids | | X | |
| Don McLee | Montana Oil & Gas Assoc. | 776 | X | |
| [illegible] | Western Natural Gas | 776 | X | |
| Brian D. Hattel | Western Natural Gas | 776 | X | |
| W.W. Ballard | Balcron | 776 | X | |
| WM VAUGHEY JR | INDEP PET ASSOC MTN STS | 776 | X | |
| WARD SHANAHAN | CHEVRON | 776 | X | |
| Lynn Chenoweth | Dept. of Revenue | | | |
| Janelle Fallan | Mt Petroleum Assoc | 776 | X | |
| Stuart Doggett | Mt. Chamber of Commerce | 776 | X | |

(Please leave prepared statement with Secretary)

TELEPHONE 259-7860
AREA CODE 406

845 12TH STREET WEST
P. O. BOX 20174

# BALCRON OIL COMPANY

BILLINGS, MONTANA 59104

W. W. BALLARD W. R. CRONOBLE

April 3, 1987

Senate Taxation Committee

Geologically speaking, Montana is a tremendous area in which to explore for oil and gas. In the 70 year history of the industry in this state, we have produced 1.2 billion barrels of oil and about 2.2 trillion cubic feet of gas, and this production came from exploration efforts in about 2% of our potentially productive area. Although we have experienced periods of increased activity, Montana has never gone through a true "oil boom" as have other areas with similar potential. Our lack of development is principally due to our taxation policies relative to those of other states and provinces. North Dakota and Wyoming as well as the rest of the producing states in the west, and the province of Alberta, have passed tax incentives during 1987 which are aimed at increasing exploration activity in their area. Unless we do likewise, the Montana independent will again be faced with attempting to bring exploration money into the State under very adverse circumstances.

Montana Oil and Gas Commission statistics show that we have lost 280,346 barrels of oil per month during 1986 as compared to 1985. This loss is due to normal decline and very low drilling activity (see chart). In addition, this year has seen the abandonment of 379 stripper wells for economic reasons. This will be a significant loss to the State in future tax revenue.

HB 776 provides a powerful incentive to create new drilling ventures in the State of Montana, and prevents premature abandonment of stripper wells which provide about 11% of Montana's daily production. (Stripper reserves in Montana are estimated to be 32 million barrels.) New wells will provide tax revenue for most of their productive life under HB 776, certainly a positive fiscal impact, and new drilling also provides new jobs (see table). Saving stripper oil and gas wells will save existing jobs and existing net proceeds revenue. All Montanans will benefit by passage of this bill.

W. W. Ballard

W. W. Ballard

SENATE TAXATION
EXHIBIT NO. 1
DATE 4-3-87
BILL NO. H.B. 776

TELEPHONE 259-7860
AREA CODE 406

845 12TH STREET WEST
P. O. BOX 20174

# BALCRON OIL COMPANY

BILLINGS, MONTANA 59104

W W BALLARD  W R CRONOBLE

## JOBS CREATED BY ONE NEW DRILLING OPERATION

### Drilling Phase

| | |
|---|---|
| Surveyor and rod man | 2 |
| Cat operator | 1 |
| Drilling crew | 13 |
| Water haulers | 2 |
| Geologist | 1 |
| Petroleum engineer | 1 |
| Mud engineer | 1 |
| Loggers | 3 |
| Cementers | 2 |
| Testers | 1 |
| Total | 27 |

### Completion Phase

| | |
|---|---|
| Pipe salesman | 1 |
| Roustabout crew | 4 |
| Petroleum engineer | 1 |
| Cementers | 2 |
| Completion crew | 3 |
| Acid crew | 1 |
| Frac crew | 10 |
| Total | 22 |

### Producing Operations

| | |
|---|---|
| Pumper | 1 |
| Workover crew | 3 |
| Total | 4 |

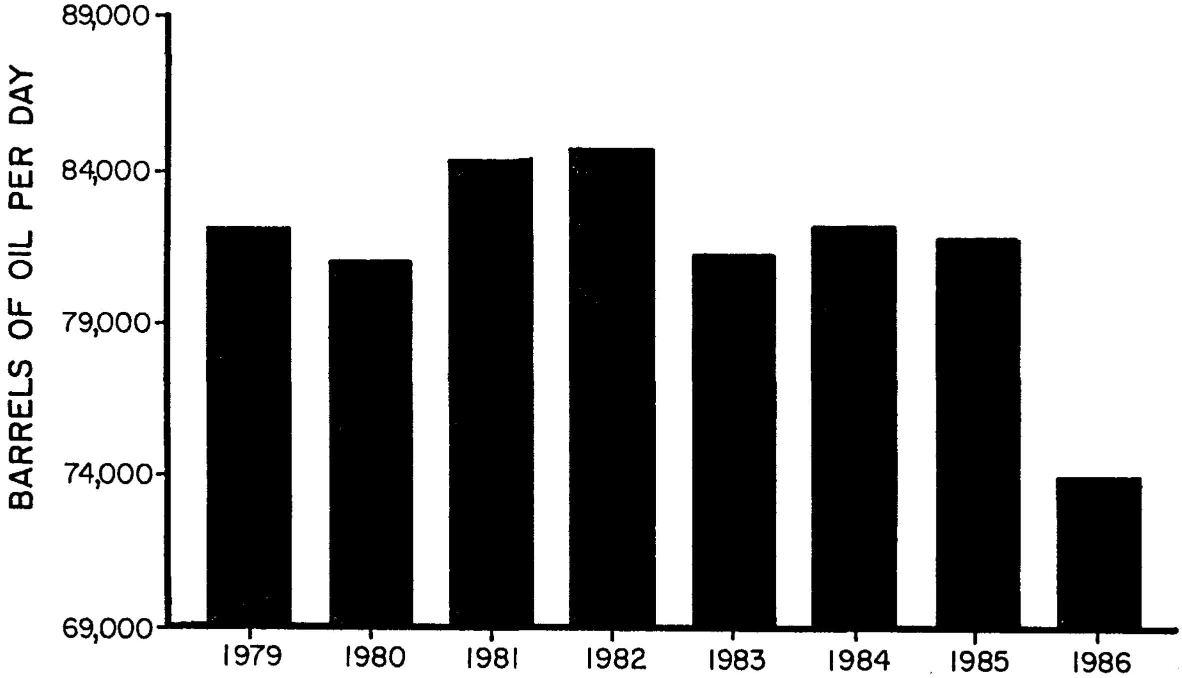
| | |
|---|---|
| Total New Jobs | 53 |

(Above list does not include landmen, geologists, seismic crews, geophysicists, accountants, secretaries, etc. that are involved with developing the prospects and doing the necessary paper work after completion.)

SENATE TAXATION
EXHIBIT NO. 1
DATE 4-3-87
BILL NO. H.B. 776

# STATE OF MONTANA

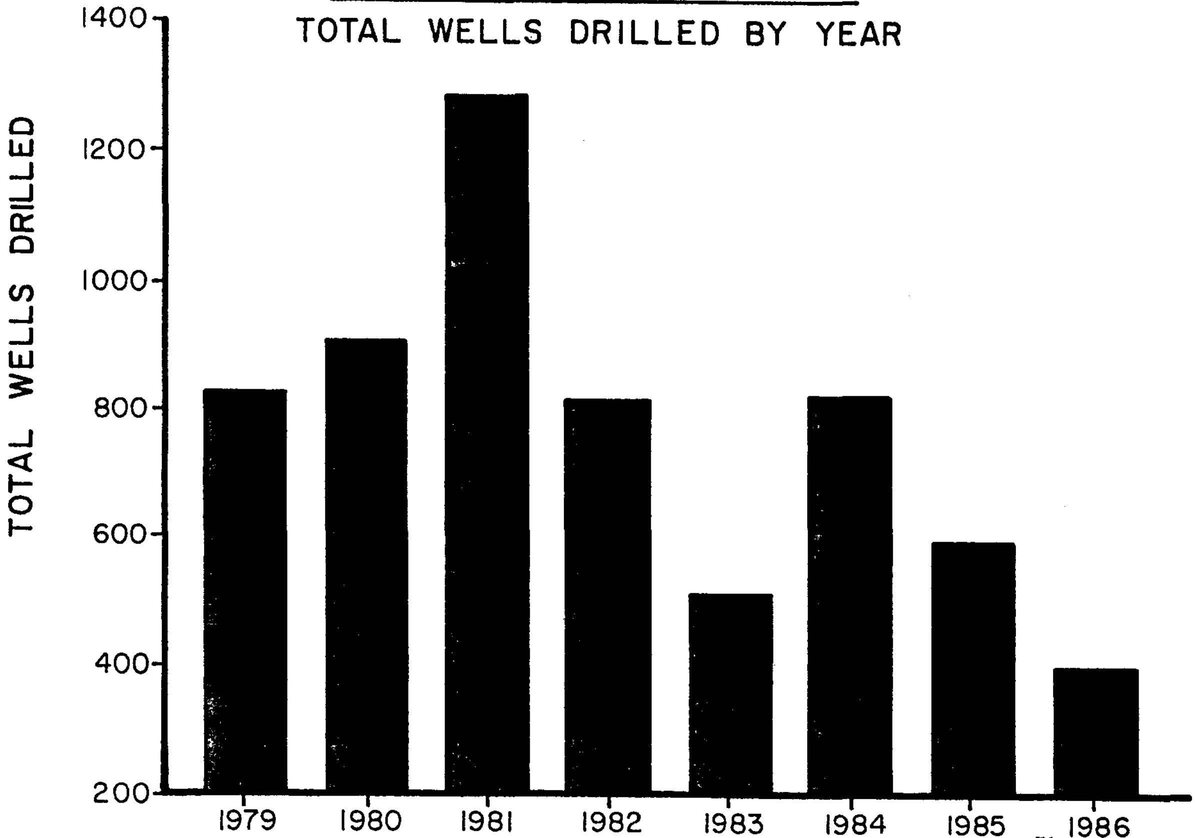
## AVERAGE DAILY PRODUCTION BY YEAR




Montana Oil & Gas Commission Statistics

# STATE OF MONTANA

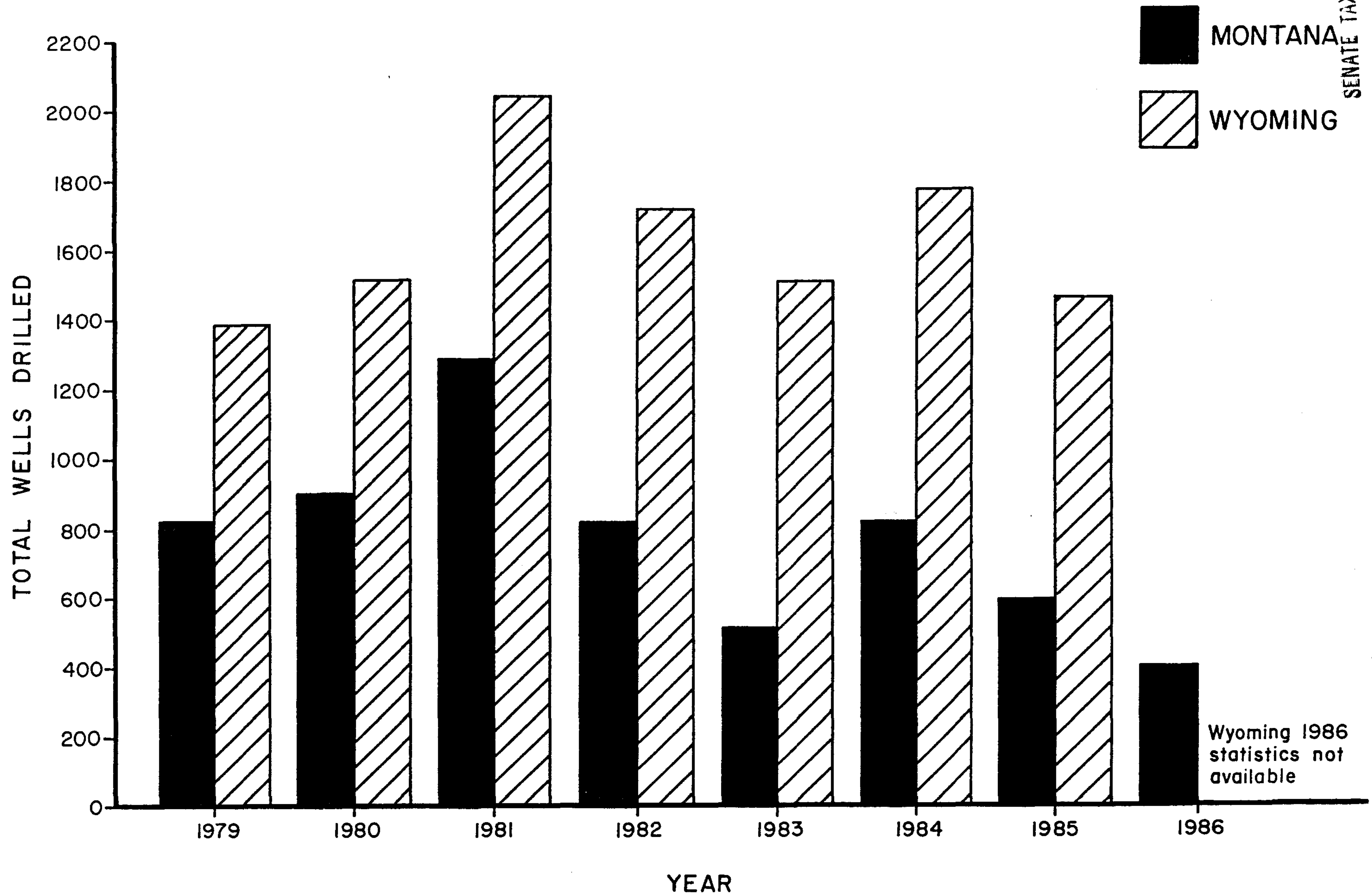
## TOTAL WELLS DRILLED BY YEAR




Montana Oil & Gas Commission Statistics

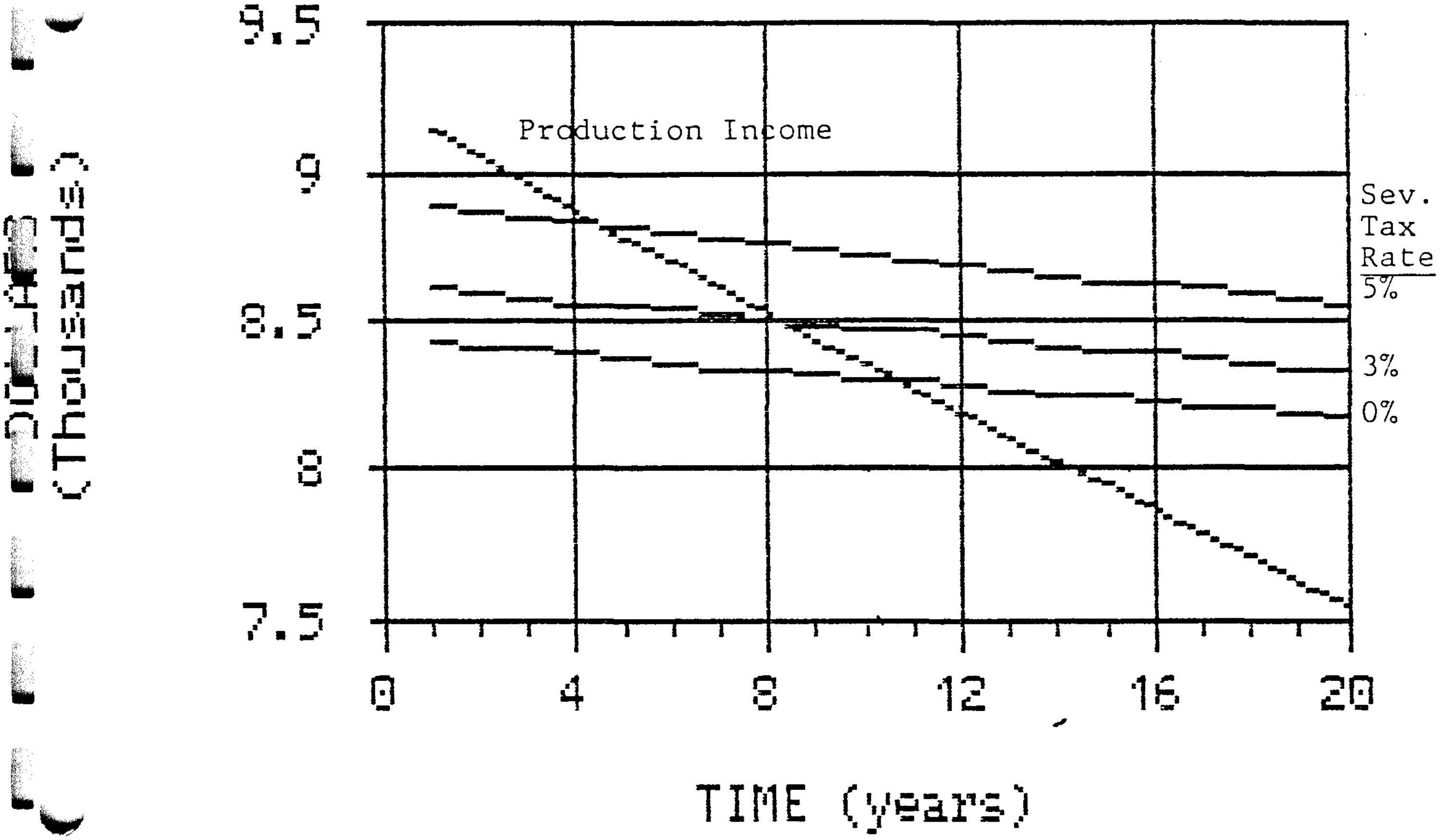
SENATE TAXATION
EXHIBIT NO. 1
DATE 4-3-87
BILL NO. HB [illegible]

## MONTANA and WYOMING
TOTAL WELLS DRILLED BY YEAR



# REVENUE VS. OPERATING COST

## SEVERANCE TAX ANALYSIS




REVENUE VS.TIME ═══ WHATDATA

SENATE TAXATION
EXHIBIT NO. 1
DATE 4-3-87
BILL NO. H.B. 776

# OIL AND GAS PRODUCTION
## ECONOMIC ANALYSIS

FIELD : KEVIN-SUNBURST
WELL : STRIPPER WELLS
COUNTY : TOOLE
STATE : MONTANA

OPERATOR : BALCRON OIL CO.
PROD. ZONE : MADISON
NOTES :

REPORT DAT
24-Feb-87

| | | | | | % PER YEAR | END YEAR | | % PER YEAR |
|---|---|---|---|---|---|---|---|---|
| WI BPD : | 100.000000% | OIL PRICE : | 15.00 ($ per BBL) | ESC. 1 : | 0.00% | 20 | ESC. 2 : | 0.00% |
| NRI BPD : | 100.000000% | GAS PRICE : | 1.50 ($ per MCF) | ESC. 1 : | 0.00% | 20 | ESC. 2 : | 0.00% |
| WI APD : | 100.000000% | OIL PROD. IP : | 1.68 (BPD) | DECL. 1 : | 1.00% | 20 | DECL. 2 : | 0.00% |
| NRI APD : | 100.000000% | GAS PROD. IP : | 0 (MCFPD) | DECL. 1 : | 0.00% | 0 | DECL. 2 : | 0.00% |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| SEV. TAX : | 5.000% | OP.COST : | 7,000.00 ($ PER YEAR) | ESC. 1 : | 0.00% | 20 | ESC. 2 : | 0.00% |
| ADV. TAX : | 15.700% | | | | | | | |
| WPT TAX : | 0.000% | WELL COST : | 0.00 ($) | | | | | |
| WPT BASE PRICE : | 0 | LEASE COST : | 0.00 ($) | | | | | |
| | | G & G COST : | 0.00 ($) | | | | | |
| | | OTHER COST : | ($) | | | | | |
| DISC. RATE FOR NPV : | 10.00% | INITIAL INVESTMENT : | 0.00 ($) | | | | | |

## PRODUCTION SCENARIO

| YEAR | GROSS ANNUAL PROD. | | GROSS CUMM. PROD. | | NRI | NET ANNUAL PROD. | | NET CUMM. PROD. | | P |
|---|---|---|---|---|---|---|---|---|---|---|
| | OIL(BBLS) | GAS(MCF) | OIL(BBLS) | GAS(MCF) | | OIL(BBLS) | GAS(MCF) | OIL(BBLS) | GAS(MCF) | OIL($) |
| 0 | | | | | | | | | | |
| 1 | 610 | 0 | 610 | 0 | 100.00% | 610 | 0 | 610 | 0 | 15.00 |
| 2 | 604 | 0 | 1,214 | 0 | 100.00% | 604 | 0 | 1,214 | 0 | 15.00 |
| 3 | 598 | 0 | 1,812 | 0 | 100.00% | 598 | 0 | 1,812 | 0 | 15.00 |
| 4 | 592 | 0 | 2,404 | 0 | 100.00% | 592 | 0 | 2,404 | 0 | 15.00 |
| 5 | 586 | 0 | 2,990 | 0 | 100.00% | 586 | 0 | 2,990 | 0 | 15.00 |
| 6 | 580 | 0 | 3,570 | 0 | 100.00% | 580 | 0 | 3,570 | 0 | 15.00 |
| 7 | 574 | 0 | 4,145 | 0 | 100.00% | 574 | 0 | 4,145 | 0 | 15.00 |
| 8 | 569 | 0 | 4,714 | 0 | 100.00% | 569 | 0 | 4,714 | 0 | 15.00 |
| 9 | 563 | 0 | 5,277 | 0 | 100.00% | 563 | 0 | 5,277 | 0 | 15.00 |
| 10 | 557 | 0 | 5,834 | 0 | 100.00% | 557 | 0 | 5,834 | 0 | 15.00 |
| 11 | 552 | 0 | 6,386 | 0 | 100.00% | 552 | 0 | 6,386 | 0 | 15.00 |
| 12 | 546 | 0 | 6,932 | 0 | 100.00% | 546 | 0 | 6,932 | 0 | 15.00 |
| 13 | 541 | 0 | 7,473 | 0 | 100.00% | 541 | 0 | 7,473 | 0 | 15.00 |
| 14 | 535 | 0 | 8,008 | 0 | 100.00% | 535 | 0 | 8,008 | 0 | 15.00 |
| 15 | 530 | 0 | 8,538 | 0 | 100.00% | 530 | 0 | 8,538 | 0 | 15.00 |
| 16 | 525 | 0 | 9,063 | 0 | 100.00% | 525 | 0 | 9,063 | 0 | 15.00 |
| 17 | 519 | 0 | 9,582 | 0 | 100.00% | 519 | 0 | 9,582 | 0 | 15.00 |
| 18 | 514 | 0 | 10,097 | 0 | 100.00% | 514 | 0 | 10,097 | 0 | 15.00 |
| 19 | 509 | 0 | 10,606 | 0 | 100.00% | 509 | 0 | 10,606 | 0 | 15.00 |
| 20 | 504 | 0 | 11,110 | 0 | 100.00% | 504 | 0 | 11,110 | 0 | 15.00 |
| TOTALS | 11,110 | 0 | | | | 11,110 | 0 | AVE. PRICE | | $1 |

SENATE TAXATION
EXHIBIT NO. 1
DATE 4-3-87

NET CASH FLOW

| YEAR | NRI INCOME ($) | WI | WI COST ($) | SEVER TAX ($) | AD VAL TAX ($) | WPT TAX ($) | ANNUAL PROFIT ($) | CUMM. PROFIT ($) |
|---|---|---|---|---|---|---|---|---|
| 0 | | | 0.00 | | | | 0.00 | 0.00 |
| 1 | 9,151.93 | 100.00% | (7,000.00) | (457.60) | (1,436.85) | 0.00 | 257.48 | 257.48 |
| 2 | 9,060.41 | 100.00% | (7,000.00) | (453.02) | (1,422.48) | 0.00 | 184.91 | 442.39 |
| 3 | 8,969.81 | 100.00% | (7,000.00) | (448.49) | (1,408.26) | 0.00 | 113.06 | 555.45 |
| 4 | 8,880.11 | 100.00% | (7,000.00) | (444.01) | (1,394.18) | 0.00 | 41.93 | 597.38 |
| 5 | 8,791.31 | 100.00% | (7,000.00) | (439.57) | (1,380.24) | 0.00 | 0.00 | 597.38 |
| 6 | 8,703.40 | 100.00% | (7,000.00) | (435.17) | (1,366.43) | 0.00 | 0.00 | 597.38 |
| 7 | 8,616.36 | 100.00% | (7,000.00) | (430.82) | (1,352.77) | 0.00 | 0.00 | 597.38 |
| 8 | 8,530.20 | 100.00% | (7,000.00) | (426.51) | (1,339.24) | 0.00 | 0.00 | 597.38 |
| 9 | 8,444.90 | 100.00% | (7,000.00) | (422.24) | (1,325.85) | 0.00 | 0.00 | 597.38 |
| 10 | 8,360.45 | 100.00% | (7,000.00) | (418.02) | (1,312.59) | 0.00 | 0.00 | 597.38 |
| 11 | 8,276.84 | 100.00% | (7,000.00) | (413.84) | (1,299.46) | 0.00 | 0.00 | 597.38 |
| 12 | 8,194.08 | 100.00% | (7,000.00) | (409.70) | (1,286.47) | 0.00 | 0.00 | 597.38 |
| 13 | 8,112.13 | 100.00% | (7,000.00) | (405.61) | (1,273.61) | 0.00 | 0.00 | 597.38 |
| 14 | 8,031.01 | 100.00% | (7,000.00) | (401.55) | (1,260.87) | 0.00 | 0.00 | 597.38 |
| 15 | 7,950.70 | 100.00% | (7,000.00) | (397.54) | (1,248.26) | 0.00 | 0.00 | 597.38 |
| 16 | 7,871.20 | 100.00% | (7,000.00) | (393.56) | (1,235.78) | 0.00 | 0.00 | 597.38 |
| 17 | 7,792.48 | 100.00% | (7,000.00) | (389.62) | (1,223.42) | 0.00 | 0.00 | 597.38 |
| 18 | 7,714.56 | 100.00% | (7,000.00) | (385.73) | (1,211.19) | 0.00 | 0.00 | 597.38 |
| 19 | 7,637.41 | 100.00% | (7,000.00) | (381.87) | (1,199.07) | 0.00 | 0.00 | 597.38 |
| 20 | 7,561.04 | 100.00% | (7,000.00) | (378.05) | (1,187.08) | 0.00 | 0.00 | 597.38 |
| TOTALS | $166,650.35 | | ($140,000.00) | ($8,332.52) | ($26,164.10) | $0.00 | $597.38 | |

ECONOMIC SUMMARY

| | |
|---|---|
| INIT. INVEST. = | $0.00 |
| CUM. PROFIT = | $597.38 |
| NPV PROFIT = | |
| ROI = | |
| DISC. ROI = | |
| FINDING COST = | |
| PAY OUT = | |
| PROJECT LIFE = | 4 years |
| RATE OF RETURN = | |

SENATE TAXATION
EXHIBIT NO. 1
DATE 4-3-87
BILL NO. H.B. 776

FIELD : KEVIN-SUNBURST
WELL : STRIPPER WELLS
COUNTY : TOOLE
STATE : MONTANA

OPERATOR : BALCRON OIL CO.
PROD. ZONE : MADISON
NOTES :

REPORT DATE
24-Feb

SENSITIVITY ANALYSIS

| VARIABLE | #1 | #2 | #3 | #4 | #5 | #6 | #7 |
|---|---|---|---|---|---|---|---|
| SEVERANCE TAX | 0.05 | 0.03 | 0 | | | | |
| INIT.INVEST. | $0.00 | $0.00 | $0.00 | | | | |
| CUM.PROFIT | $597.38 | $1,546.92 | $3,769.99 | | | | |
| NPV_PROFIT | | | | | | | |
| ROI | | | | | | | |
| DISC.ROI | | | | | | | |
| FINDING COST | | | | | | | |
| PAY_OUT | | | | | | | |
| PROJ.LIFE | 4 | 7 | 10 | | | | |
| GROSS OIL PROD. | 11,110 | 11,110 | 11,110 | | | | |
| GROSS GAS PROD. | 0 | 0 | 0 | | | | |
| NET OIL PROD. | 11,110 | 11,110 | 11,110 | | | | |
| NET GAS PROD. | 0 | 0 | 0 | | | | |
| AVERAGE PRICE OIL | $15.00 | $15.00 | $15.00 | | | | |
| AVERAGE PRICE GAS | $1.50 | $1.50 | $1.50 | | | | |

SENATE TAXATION
EXHIBIT NO. 1
DATE 4-3-87

CONOCO

# Interoffice Communication

TO: W. David Rossiter

FROM: Thomas R. Jacob

DATE: April 4, 1986

SUBJECT: Impact of Low Oil Prices and State Taxes on Oil Investment

ISSUE

The recent drop in oil prices and possibility of prolonged low price levels threatens to drastically reduce domestic oil and gas investment. To what extent will differences in state tax structure influence investment in such a low-price environment?

CONCLUSION

The impact of lower oil prices on oil investment will be significantly more severe in states which impose high taxes on petroleum production. In contrast to income-based taxes, production taxes such as severance taxes are completely insensitive to either capital investment or operating costs. Because of this it is possible for production tax liabilities to exceed the net revenue from production in marginal operations, forcing premature shutdown or discouraging investment altogether. The recent drastic reduction in oil prices will push many projects down to that marginal status. In this circumstance, the type and level of state taxes will be increasingly important in determining the viability of oil projects and, therefore, the ultimate level of economic dislocation resulting from the price fall.

STUDY RESULTS

To test for differential effects of lower oil prices in various states, a computer model of a hypothetical oil development project was used (see Attachment #1 for detailed assumptions of the model). Project economics were evaluated using production tax rates appropriate for each state. In addition, ad valorem taxes based upon oil production or reserves were used for those states in which Conoco has operating properties. Rates were set at the average effective rate experienced by the company. Because ad valorem taxes tend to vary with costs, in contrast to conventional production taxes, these were assumed to vary with income from the property.

The project was evaluated under two oil price cases. The HIGH PRICE case assumed the price for oil from the project will hold at $25/bbl for three years, and thereafter rise at an assumed 5%

SENATE TAXATION
EXHIBIT NO. 2
DATE 4-3-87
BILL NO. H.B. 776

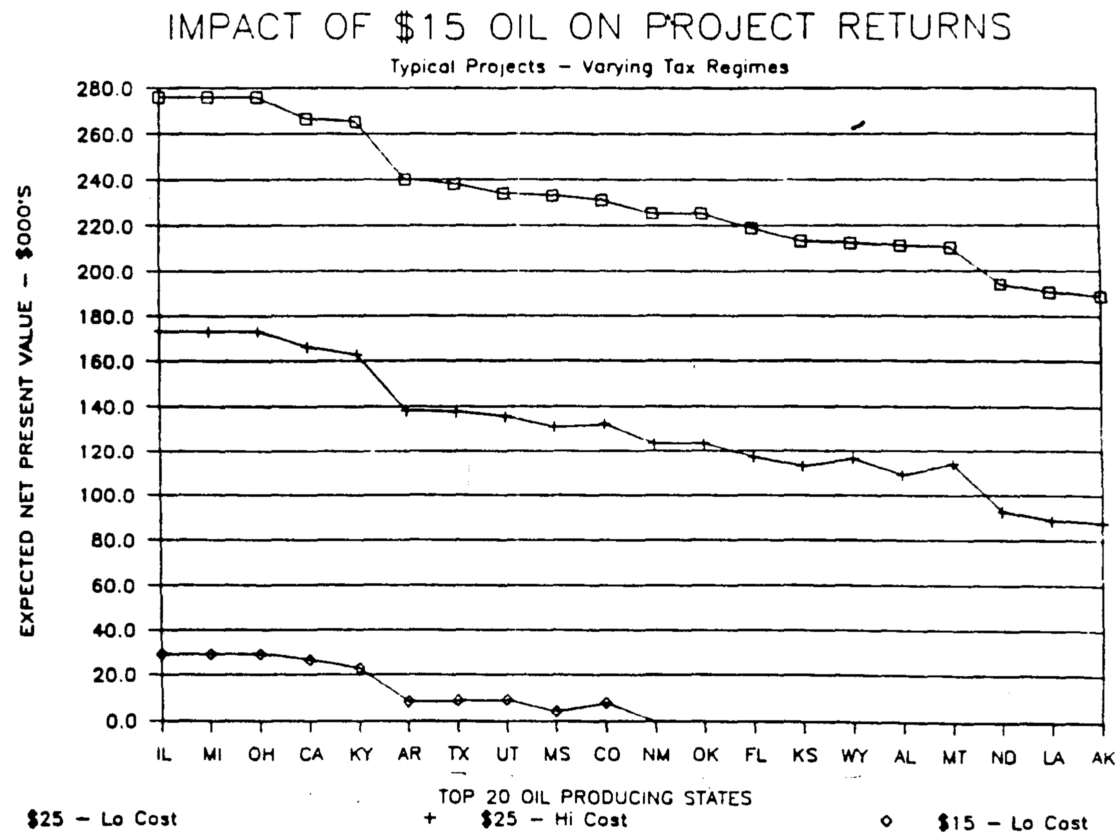
inflation rate. The LOW PRICE case assumed a price of $15/bbl for three years, then rising with inflation.

To test for differential effects of varying cost, the model was run under two cost scenarios. The LOW COST case assumed modest capital investment ($450,000) and operating costs (starting at $30,000/yr). The HIGH COST case assumed higher capital costs ($600,000) and operating costs (beginning at $45,000/yr).

Variation in Project Returns

FIGURE #1 compares graphically the results for the top 20 oil producing states. The states are arrayed in descending order of the project net present value (NPV) under the HIGH PRICE-LOW COST scenario. The NPV reflects the dollar returns estimated for the project, taking into account the cost of capital.

FIGURE # 1




The states where the project is most attractive are Illinois, Michigan and Ohio, which do not apply a severance tax and for which no ad valorem tax assumptions were included. In this tax environment, the net present value return over the life of the project would be $276,000 in the HIGH PRICE-LOW COST case. This represents a 58% internal rate of return (IRR). Even the high

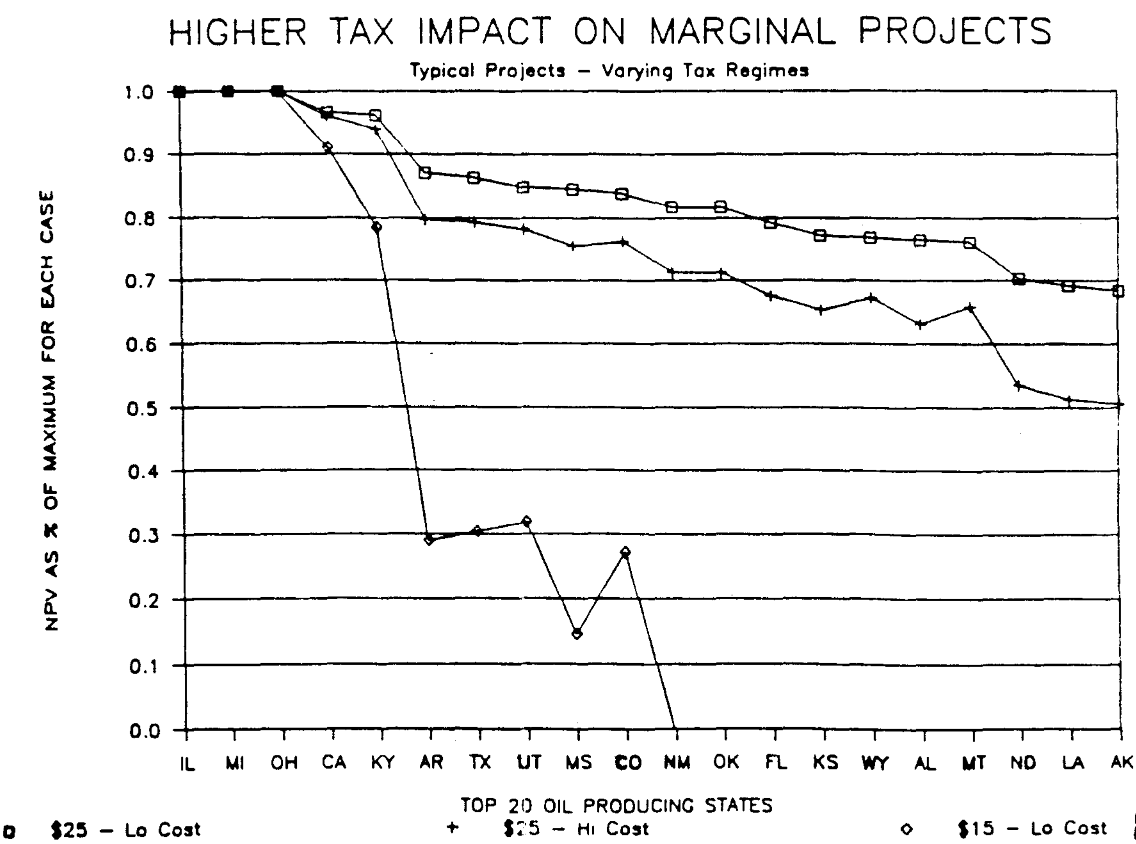
SENATE TAXATION
EXHIBIT NO. 2
DATE 4-3-87

tax states of Alaska and Louisiana show project economics that are clearly very attractive, with net present value returns of $190,000 and IRR's at 42%. Though this may seem high, it must be remembered that this applies only to the project investment. Companies rely upon revenue from such development projects to offset not only costs of the project itself, but also the costs of exploration activities, which yield no direct revenue.

Economics degrade for all states under the HIGH COST scenario, though with yields ranging from $85,000 to $175,000, the investment is still sound. But this picture changes radically under the LOW PRICE assumptions. Even the low-tax states show only marginal returns, at an NPV of $30,000 with IRR's at 20%. Under these marginal conditions, the tax environment becomes more important, as is evidenced by the fact that ten states with higher production taxes drop out of the investment calculation completely. In each one, the after-tax return from the project would not be sufficient to cover the cost of capital. In such a case, the model assumes the investment would not be made and the return is set to "$0". Under the LOW PRICE assumption, the HIGH COST project does not yield positive value under any tax regime.

FIGURE #2 illustrates graphically the increasing importance of state taxes as projects become marginal. The states are arrayed in the same order as Figure #1. In this case, however, the projected NPV of the project for each state is displayed as a percentage of the highest NPV for each scenario.

FIGURE #2




SENATE TAXATION
EXHIBIT NO. 2
DATE 4-3-87
BILL NO. H.B 776

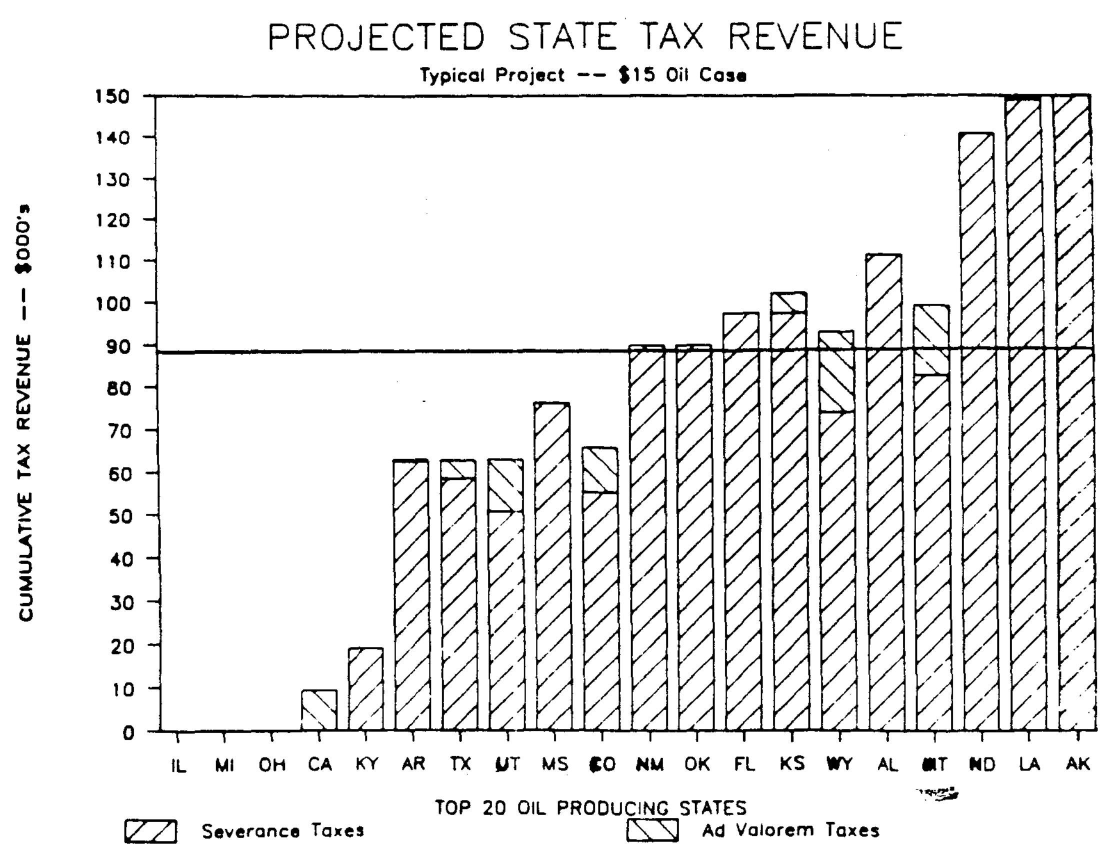
Under the HIGH PRICE-LOW COST scenario all 20 states are within a range of approximately 30%. As economics of the project degrade under the HIGH PRICE-HIGH COST scenario the range expands to the point where the high tax environment of Alaska yields an NPV only half that of the low tax states. Under the LOW PRICE assumptions, the drop off is complete, as the tax regimes in ten states push returns below zero.

The chart also illustrates the differential effect of production taxes versus taxes which are more sensitive to actual income, rather than gross revenue. The states of Arkansas (AR), Texas (TX), Utah (UT), Mississippi (MS) and Colorado (CO) illustrate the point. Though arrayed in descending order of NPV under the HIGH PRICE-LOW COST scenario, the order becomes progressively more distorted. As cost and price erode income, the TX, UT and CO show more favorable returns. This is because a portion of the tax burden in these cases is ad valorem tax, assumed to vary somewhat with income. AR and MS, on the other hand, affect the project solely with production taxes based upon gross revenue.

## The Role of Production Taxes

FIGURE #3 shows the variation in state tax revenue from the project which accounts for the differences in NPV under the LOW PRICE-LOW COST scenario. The states are arrayed in the same order as Figure #1.

FIGURE #3



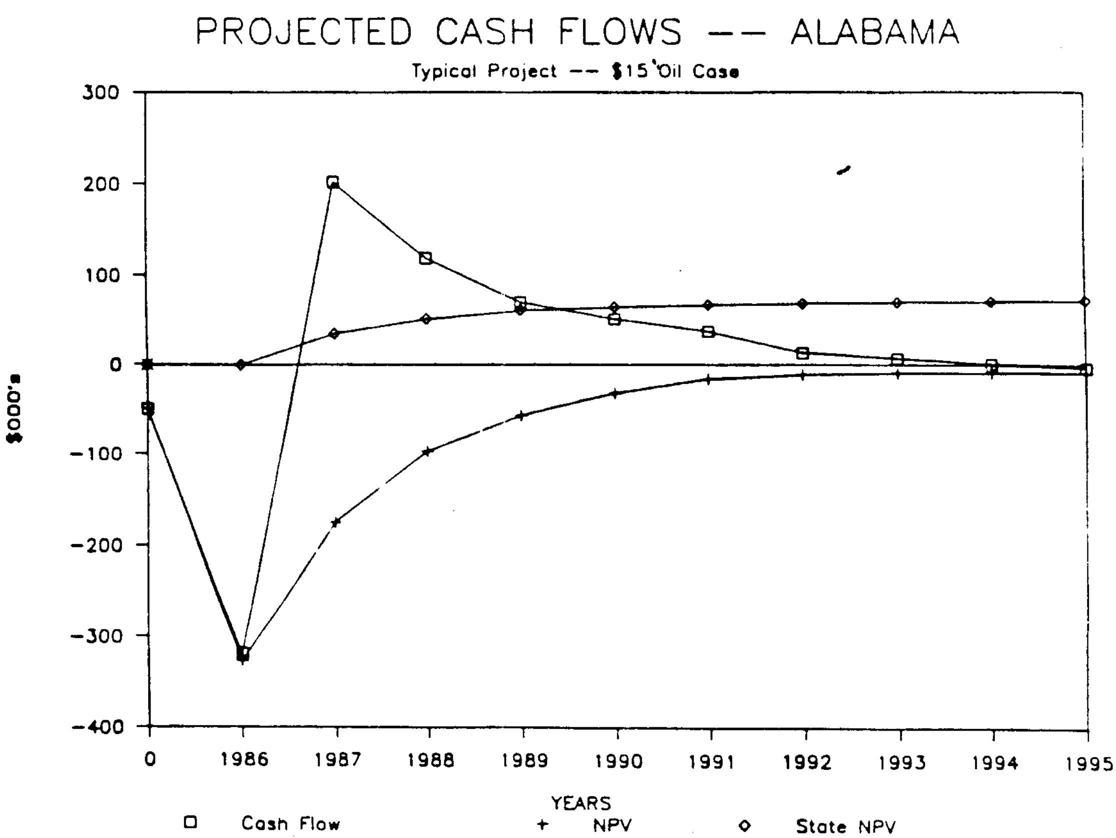

SENATE TAXATION
EXHIBIT NO. 3
DATE 4-3-87
BILL NO. HB 776

It is clear from the chart that the dominant factor in rendering the project marginal or sub-marginal is the production tax. The horizontal line at approximately $90,000 reflects the point at which state taxes capture so much of the revenue that the project actually has negative net present value. In the cases of the ten states with negative NPV, taxes would claim from $90,000 to $150,000, even though the investor would never get a positive return on the project.

Life Cycle Cash Flows

FIGURE #4 uses the example of the Alabama tax regime to show the life cycle of project returns and the cash flows associated with it.

FIGURE #4




The "Project Cash Flow" line shows the high capital expenditures to initiate the project in year "0" (assumed to be beginning of 1986) and through the remainder of 1986. Once the well begins production (1987) the after-tax cash flow becomes positive and

SENATE TAXATION
EXHIBIT NO. 2
DATE 4-3-87
BILL NO. H B 776

NAME: Ward A. Shanahan BILL NO. HB 776

ADDRESS: 301 First National Bank Building, Helena, MT

WHOM DO YOU REPRESENT: Chevron Company

SUPPORT

Good morning. My name is Ward Shanahan, representing Chevron. Thank you for the opportunity to present Chevron's views.

Chevron strongly supports HB 776 and SB 383 - legislation providing for tax holidays for new oil and gas production and tax exemptions for stripper-oil production.

The authors are to be commended for recognizing that economic incentives for oil and gas production are desperately needed during this time of severe depression in the industry. Exploration and development budgets are coming under intense scrutiny and we must allocate our limited financial resources to prospects where the return on investment is the greatest. Reductions in taxes will improve the economics of oil and gas projects in Montana and help ensure that the state remains competitive in attracting investment capital for this industry.

I might also add that our oil and gas industry is very active at the Federal level in seeking incentive legislation that will bolster the nation's productive capacity and help reduce our increasing dependence on foreign oil. By passage of this legislation in Montana, you can help us send a message to Washington that incentives are necessary and that key oil and gas producing states are doing their part by enacting sound energy policies.

Thank you for your consideration.

Respectfully,

Ward A. Shanahan

Ward A. Shanahan
Chevron Company
301 First National Bank Building
P.O. Box 1715
Helena, MT 59624
Tele: (406)442-8560

4257W

SENATE TAXATION
EXHIBIT NO. 3
DATE 4-3-87
BILL NO. H.B. 776

MONTANA PETROLEUM ASSOCIATION
*A Division of the*
*Rocky Mountain Oil and Gas Association*

*Helena Office*
2030 11th Avenue, Suite 23
Helena, Montana 59601
(406) 442-7582

*Billings Office*
The Grand Building, Suite 501
P.O. Box 1398
Billings, Montana 59103
(406) 252-3871

Janelle K. Fallan
Executive Director

**Major Oil Producer:**

1986 Total Property Taxes = $13 million
Personal Property Tax = $420,000

**Small Independent Oil Producer:**

1986 Total Property Taxes = $300,000
Personal Property Tax = 17,000

**Major Gas Producer:**

1986 Total Property Taxes = $3.4 million
Personal Property Tax = $ 11,127

SENATE TAXATION
EXHIBIT NO. 4
DATE 4-3-87
BILL NO. H.B. 776

AMENDMENT TO HB 776

P. 8, line 5
applicability -- ~~CONTINENGENT TERMINATION~~. (1) This act is

P. 8, line 19

~~New section. Section 8. Coordination Instruction. If House Bill No. 377 is passed and approved, this act is void.~~

# MONTANA PETROLEUM INDUSTRY TAXES

Montana imposes four taxes on oil and natural gas:

| FY | SEVERANCE TAX | | NET PROCEEDS TAX | | RESOURCE INDEMNITY TRUST TAX | |
|---|---|---|---|---|---|---|
| | OIL | NATURAL GAS | OIL | NATURAL GAS | OIL | NATURAL GAS |
| 1980 | $10,544,555 | $1,264,025 | $21,011,951 | na | $1,828,947 | $355,054 |
| 1981 | 19,578,172 | 2,116,291 | 28,663,376 | na | 3,328,426 | 419,647 |
| 1982 | 51,073,425 | 2,659,811 | 40,868,506 | na | 5,308,525 | 491,832 |
| 1983 | 45,228,535 | 2,649,726 | 66,160,884 | na | 4,783,438 | 522,396 |
| 1984 | 49,029,017 | 2,797,996 | 65,610,580 | $11,976,791 | 4,279,714 | 589,348 |
| 1985 | 48,789,984 | 2,945,778 | 60,819,000 | 14,220,000 | 4,204,763 | 627,504 |
| 1986 | 34,728,749 | 2,890,666 | 67,220,584 | 14,771,771 | 3,913,955 | 583,961 |

A. Net Proceeds Tax is calculated on gross value of oil, minus all allowable deductions and multiplied by the local mill levy. The 1985 Legislature set 7% maximum on oil and 12% maximum on gas produced after July 1, 1985, from leases which have not produced during the preceding five years. Therefore, the maximum tax rate on "new" production from a previously non-producing lease will be 12.7% on oil and 15.35% on gas.

B. Severance tax is 5% of the gross value of oil and 2.65% of natural gas.

The revenue is allocated as follows:

1) One-third of the oil severance tax to Local Government Block Grant account for distribution to all Montana cities and counties.

2) A portion of the collections is returned to cities and counties in the oil-producing areas to help them in dealing with impacts.

3) The remainder to the state general fund.

The tax rate for incremental oil produced through tertiary recovery after July 1, 1985, is 2.5%.

C. Resource Indemnity Trust Tax is .5% of gross value of all minerals produced. These taxes are placed in a trust fund to "indemnify the state against damage to the environment from the extraction of non-renewable natural resources."

D. Conservation Tax: The Board of Oil and Gas Conservation levies a tax to support its own operations. The tax is .2% of gross value. It yielded $753,000 in FY 1985 and $631,000 in FY 1986.

SENATE TAXATION
EXHIBIT NO. 4
DATE 4-3-87

# MONTANA PETROLEUM TAXES

| TAX | RATE | FY1986 |
|---|---|---|
| **To the state:** | | |
| (1) severance tax | | |
| oil | 5% | $23,152,504 |
| natural gas | 2.65% | 2,890,666 |
| (2) resource indemnity trust tax | .5% | |
| oil | | 3,913,955 |
| natural gas | | 583,961 |
| (3) oil/gas conservation tax | .08%* | 629,287 |
| (4) corporate license tax | 6.75% | 6,553,610** |
| Lease royalty from state lands | | |
| oil | | 4,193,476 |
| natural gas | | 1,248,139 |
| Bonuses and rentals on state lands | | 4,950,779 |
| **To local government:** | | |
| (1) net proceeds tax | | |
| oil | (ave. 7%) | 67,220,584 |
| natural gas | (ave. 12%) | 14,771,771 |
| (2) ad valorem property tax on plant and equipment | 11% | not available |
| (3) one-third of the oil severance tax plus the amount by which any tax collected within a county exceeds collections in the county from the previous year by reason of increased production. | | 11,576,246 |
| oil | | 475,922 |
| gas | | 106,915 |

Does not include: income from federal leases
income taxes on royalty income:
paid by individuals
and corporations

On the average, local governments spend 60% of these funds for education, 8% for city operations, 23% for county operations, and 6% for fire and other special districts. About 3% is returned to the state to support the university system.

*Rate was .08% through FY 1986, raised to .2% in July, 1986
**FY 1985 figure -- FY 1986 not available

SENATE TAXATION
EXHIBIT NO. 4
DATE 4-3-87

MONTANA PETROLEUM ASSOCIATION
*A Division of the*
*Rocky Mountain Oil and Gas Association*

*Helena Office*
2030 11th Avenue, Suite 23
Helena, Montana 59601
(406) 442-7582

*Billings Office*
The Grand Building, Suite 501
P.O. Box 1398
Billings, Montana 59103
(406) 252-3871

Janelle K. Fallan
Executive Director

While California levies a higher state income tax rate than Montana, California levies no severance tax and only its low property tax.

Louisiana levies a higher severance tax on oil than Montana, but exempts oil and gas from property taxation. So does North Dakota.

Oklahoma also levies a higher severance tax than Montana, but the Oklahoma tax is in lieu of all other state and local taxation.

Colorado offers a generous tax credit for the payment of property taxes to local government.

Texas, like Montana, offers no tax credit or exemptions with its severance tax, but unlike Montana, has no corporate income tax.

New Mexico and Utah levy lower taxes across the board.

North Dakota's taxes are not a great deal lower, but there are only two, compared to Montana's four, and no property tax.

The North Dakota House has also approved one measure that would lower the state's overall tax rate from 11.5% to 8.5%, and another for a two-year exemption from the 6.5% extraction tax for all wells drilled in the next two years.

Wyoming has lowered the severance tax to 2% for the next four years for all wildcats drilled in 1987 and 1988.

Information from: "A Comparative Study of State Taxation of Oil and Gas: The Lessons for Montana," Rodney T. Smith, Claremont McKenna College, California. Presented at: "Taxation and the Montana Economy," September 5, 1986.

SENATE TAXATION
EXHIBIT NO. 4
DATE 4-3-87

# 1986

# TAX COMPARISON REPORT

ROCKY MOUNTAIN OIL & GAS
ASSOCIATION

# TAX COMPARISON STUDY
(Estimated Crude Oil)

I. Effective Severance Tax Rates
(Including Severance Conservaton Taxes)
Per $1.00 of Gross Income

| | | |
|---|---|---|
| 1. | Louisiana | $.125 |
| 2. | North Dakota | .115 |
| 3. | Oklahoma | .0708 |
| 4. | Wyoming | .0602 |
| 5. | Montana | .057 - (includes indemnity tax) |
| 6. | Kansas | .0433 |
| 7. | Texas | .047875 |
| 8. | South Dakota | .0474 |
| 9. | Utah | .042 |
| 10. | New Mexico | .0393 |
| 11. | Nebraska | .03 |
| 12. | Colorado | .014 |

II. Effective Property Tax Rates
Per $1.00 of Gross Income

| | | |
|---|---|---|
| 1. | Montana | $.075 |
| 2. | Wyoming | .067 |
| 3. | Colorado | .04 to .11 |
| 4. | New Mexico | .0415 |
| 5. | Utah | .033 to .065 |
| 6. | Kansas | .038 |
| 7. | Texas | .03 |
| 8. | Nebraska | .025 |
| 9. | Louisiana | 0 |
| 10. | North Dakota | 0 |
| 11. | Oklahoma | 0 |
| 12. | South Dakota | 0 |

III. Composite Effective Tax Rate
(Severance, Conservation, and Property Taxes)
Per $1.00 of Gross Income

| | | |
|---|---|---|
| 1. | Montana | $.132 |
| 2. | Wyoming | .125 |
| 3. | Louisiana | .125 |
| 4. | North Dakota | .115 |
| 5. | Kansas | .0973 |
| 6. | New Mexico | .0808 |
| 7. | Utah | .082 |
| 8. | Texas | .0778 |
| 9. | Colorado | .0715 |
| 10. | Oklahoma | .0708 |
| 11. | Nebraska | .055 |
| 12. | South Dakota | .047 |

SENATE TAXATION
EXHIBIT NO. 4
DATE 4-3-87
BILL NO. H.B. 377

# OPINIONS & IMPRESSIONS

Friday, March 6, 1987

## Give oil a break, get production up

**AN IR VIEW**

Simply stated, the oil production picture in Montana is bleak and it's costing the state a bundle of money.

Two bills now in the Legislature, House Bill 776 and Senate Bill 383 would help to remedy that situation.

HB 776, sponsored by Rep. Dennis Nathe, R-Redstone, would grant a severance tax holiday on the first two years of production from new oil and gas wells and there would be no severance tax on stripper wells (oil wells that produce less than 10 barrels of oil a day). SB 383, sponsored by Sen. Del Gage, R-Cut Bank, would grant a holiday from the net proceeds tax on new gas and oil wells for the first two years of production.

Currently, oil producers pay a 5 percent severance tax and a 7 percent net proceeds tax. The Resource Indemnity Trust tax of .5 percent and a conservation tax of .2 percent brings Montana's total tax on oil to 12.7 percent. It should come as no surprise to many Montanans that Montana's tax on oil is the highest in the nation.

Montana Oil and Gas Commission statistics show that we lost 280,316 barrels of oil per month during 1986 as compared to 1985. The chart at left graphically illustrates what this means.

What has caused this dramatic decline?

- A normal decline of oil pumped from wells.
- Low prices in '86 resulted in abandonment of 379 stripper wells.
- A lack of replacement drilling due in part to the low price of oil and Montana's poor tax climate.

Since 1978 Montana has drilled an average of about 800 new wells a year. In 1986 only 318 wells were drilled.

William Ballard, president of Balcron Oil Co. in Billings, independent producer, is an eloquent spokesman for oil interests.

He points out that Montana is a great oil state and is largely untapped. There are roughly 93 million acres of land in Montana. Since 1906 oil producers have drilled 28,000 wells in the state. They say one well evaluates 40 acres. This means that, if you eliminate wilderness areas, mountain peaks, cities and town, etc., only about 2 or 3 percent of Montana's area has been evaluated by drilling.

Ballard bolsters his argument about Montana's potential with an intriguing map.

The map shows Montana, North Dakota, Wyoming and the Canadian provinces to the north.

One can look at the map showing the Powder River Basin and Big Horn Basin which begin in Wyoming and extend into Montana. Those basins in Wyoming are dotted with green, indicating oil fields. The green stops at the Wyoming-Montana border even though the same oil-bearing geology extends into our state. You get the same picture at certain areas of Montana's border with Alberta and Saskatchewan. Again we have the same oil-bearing geology, but we don't have the oil fields.

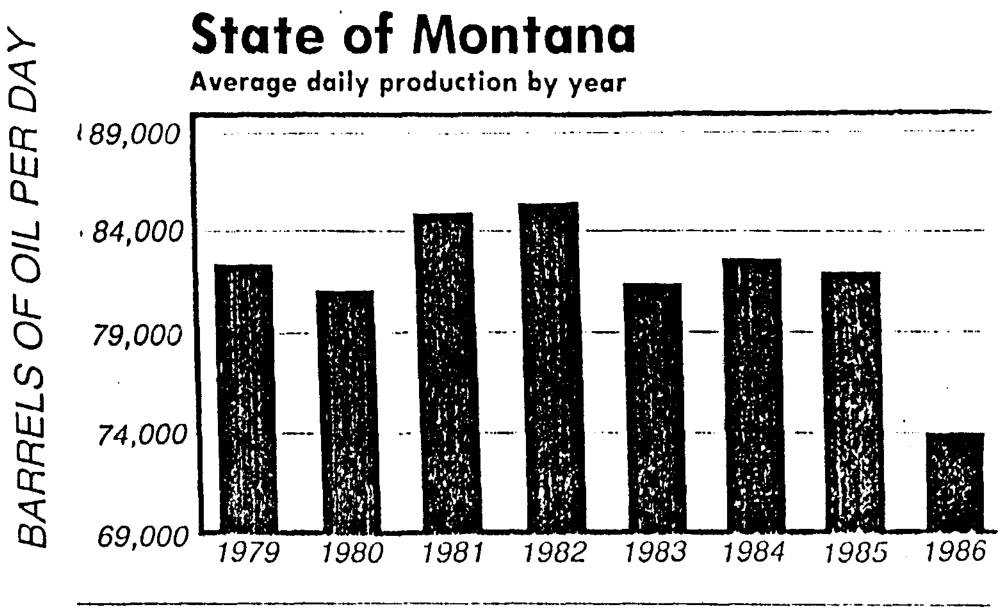
Ballard said he has a commitment from three out-of-state companies that will enable him to drill 70 to 75 wells in Montana if the Legislature grants the tax holidays. Last year his firm drilled a mere 16 wells.

"We won't have an oil boom immediately if these bills become law," Ballard said, "but I certainly expect that the number of wells that will be drilled this year will be double the number drilled last year (if the tax holidays are granted)."

It makes sense to us to grant oil producers the tax holidays they are seeking. The state and local governments aren't going to lose any money because they can't lose what they don't have. On the other hand, increased drilling and production will mean more money a couple of years from now.

North Dakota, Wyoming and most of the other producing state in the West are considering tax incentives during 1987 which are aimed at increasing exploration activity in their areas. Unless Montana follows suit, the Montana's independent producers will continue to be faced with attempting to bring exploration money into the state under very adverse circumstances.

If that should happen, we'll all be losers.




SENATE TAXATION
EXHIBIT NO. 4
DATE 4-3-87
BILL NO. H.B. 776

# NEWS RELEASE

Energy, Mines and Resources Canada    Énergie, Mines et Ressources Canada

87/58
March 25, 1987

## MASSE ANNOUNCES MAJOR ASSISTANCE TO OIL AND GAS INDUSTRY

EDMONTON — The Honourable Marcel Masse, Minister of Energy, Mines and Resources, announced today a major cash incentive program that is expected to substantially boost employment, investment and activity in the oil and gas industry.

The Canadian Exploration and Development Incentive Program will provide approximately $350 million a year in direct assistance to the industry. Beginning April 1, the Government of Canada will provide cash incentives of 33 1/3 per cent of exploration and development expenses anywhere in Canada, up to a maximum of $10 million in spending per company each year.

"The Government of Canada is seriously concerned about the devastating impact of uncertain world oil prices on the oil and gas industry, and on the economy of western Canada in particular. This program will directly increase industry activity and make it more attractive for investors — but most of all, it will put people back to work," Mr. Masse said.

The Minister said the program could lead to over $1 billion of additional investment in the industry and generate up to 20 000 person years of new employment.

Mr. Masse said the program will be particularly helpful to that part of the industry having the most difficulty — the smaller and medium-sized companies, many of them Canadian owned.

"One of the most pressing problems these companies face is raising equity funding to finance activity. An important feature of this program is that it will help companies to issue flow-through shares, thus attracting investors for exploration and development projects," Mr. Masse said.

The Minister said the program was approved after extensive consultation with provincial governments and the industry, and after a wide range of options was examined.

- more -

Canada

SENATE TAXATION
EXHIBIT NO. 4
DATE 4-3-87
BILL NO. H.B. 376

The Minister noted that this program was developed within the framework of the Government's overall western economic development and diversification initiative, headed by The Honourable Don Mazankowski, Deputy Prime Minister.

Mr. Masse said the elimination of the Petroleum and Gas Revenue Tax by the Government of Canada last October, and subsequent provincial royalty adjustments, have helped the industry.

"But more direct and aggressive action is needed to assist the oil and gas industry to further develop the resource potential of this country during this period of uncertainty," he said.

- 30 -

See attached backgrounder for additional information.

For further information, please contact: Debbie Davis
Media Relations Officer
Office of the Minister
Energy, Mines and Resources Canada
(613) 993-5252

87/38 (a)

## BACKGROUNDER

## CANADIAN EXPLORATION AND DEVELOPMENT INCENTIVE PROGRAM (CEDIP)

The Minister of Energy, Mines and Resources announced today a new cash incentive designed to stimulate oil and gas exploration and development activity in Canada. The incentive is expected to cost approximately $350 million per year and will generate an estimated $1 billion in new exploration and development activity.

The incentive is available to any qualified corporation or individual incurring an eligible expense in respect of oil and gas exploration and development activities in Canada. The eligibility of partnerships or other entities is under review.

In general, an expense that is incurred by a qualified applicant in respect of an activity commencing on or after April 1, 1987, will be eligible for an incentive equal to 33 1/3 per cent of eligible expenses. An eligible expense is a Canadian exploration expense (CEE) or a Canadian development expense (CDE), as these terms are used in the Income Tax Act, subject to certain limitations. These limitations will be set out in regulations at a later date. However, for greater certainty, the following expenses will not be eligible:

- expenses incurred by a qualified corporation in excess of $10 million in the year commencing April 1, 1987 (limit on eligibility of expenses incurred by a qualified individual is currently under review);
- expenses that attract an incentive under the Petroleum Incentives Program;
- expenses that are eligible for earned depletion as described in Section 65 of the Income Tax Act;
- exploration expenses that earn the exploration tax credit pursuant to proposed Part XLVI of the Income Tax regulations; and
- any Canadian exploration and development overhead expenses (CEDOE).

Generally, it is proposed that all oil and gas wells spudded, converted or recompleted after March 31, 1987, will be eligible. In addition, the data collection, processing and interpretation of geophysical, geological and geochemical (GEO) programs commenced after March 31, 1987, are intended to be eligible. However, it

SENATE TAXATION
EXHIBIT NO. 4
DATE 4-3-87

is not intended that the acquisition of data for the purposes of trading, selling, licensing or lending will be eligible. The processing of data resulting from a program commenced before April 1, 1987, and any reprocessing or reinterpretation of any data, are also not expected to be eligible.

It is also proposed that certain other expenses, such as expenses that are reimbursable by insurance or expenses that are termination payments or that are payments in respect of property not used, will not be eligible.

Anti-avoidance rules will be developed to ensure that the dollar limitations for both qualified corporations and individuals are not exceeded. For purposes of the $10 million corporate limitation, it will be the corporation issuing flow-through shares that will be the applicant for these incentives. Further, the relevant period is the period when the activity is carried out and not when costs are billed or invoices received.

It is the government's intention that cash incentives under the Program be paid as soon as practicable after the necessary legislation has been passed. To this end, once the exploration or development activity has commenced, the qualified applicant will be entitled to make an early application for incentives on up to 60 per cent of the estimated eligible expenses as evidenced by an authorization for expenditure (AFE). The qualified applicant would, of course, be required to make a final application for the balance of the incentive based on documentation substantiating the actual costs incurred. Further details on the application process are provided in the attached Annex.

To ensure easy access for the applicant, Energy, Mines and Resources will establish an office in Calgary to process applications and provide any other assistance or advice that the applicant may need.

Enabling legislation is expected to be introduced in the current session of Parliament.

It is proposed that consultation with industry will take place on the above items and such other matters as may be required.

Billings
Chamber of Commerce

April 3, 1987

TESTIMONY IN SUPPORT OF HB776

Mr. Chairman and Members of the Committee:

My name is Kay Foster. I appear on behalf of the Billings Chamber of Commerce to urge support of HB776.

All businesses in the Billings area have seen the effects of the loss of oil and gas production in Montana. Of particular concern is the increasing abandonment of stripper wells which produce less than 10 barrels per day. The operating costs of these wells do not drop just because the oil prices drop... they simply become unprofitable. We feel that the severance tax holiday proposed on the first 24 months of production is a positive step this legislature can take to encourage increased production and place Montana in a competitive position with neighboring states.

It should also be noted that the Governor's Transition Task Force created last summer to develop an economic development strategy for the state has recommended a tax holiday on oil and gas recovery as one of four specific tax incentives which this legislature should adopt. As a member of that task force and of the Billings business community I urge your passage of this bill.

SENATE TAXATION
EXHIBIT NO. 5
DATE 4-3-87
BILL NO. H.B. 776

**Billings Chamber of Commerce** • P.O. Box 2519 • Billings, Montana 59103 • 406-245-4111

# STANDING COMMITTEE REPORT

April 3 19 87

MR. PRESIDENT

We, your committee on SENATE TAXATION

having had under consideration HOUSE BILL No. 157

third reading copy ( blue )
color

MERCER (LYBECK)

TRANSFER TOUR BOATS FROM CLASS 16 TO CLASS 5 AND TAX AT 3% OF MARKET VALUE

Respectfully report as follows: That HOUSE BILL No. 157

be amended as follows:

1. Page 5, lines 2 and 3.
Following: "ACT" on line 2
Strike: "IS VOID"
Insert: "terminates January 1, 1983"

AND AS AMENDED

BE CONCURRED IN

~~DO PASS~~

~~DO NOT PASS~~

SENATOR GEORGE McCALLUM, Chairman.

# STANDING COMMITTEE REPORT

April 3 19 87

MR. PRESIDENT

We, your committee on SENATE TAXATION

having had under consideration HOUSE BILL No. 851

third reading copy ( blue )
color

HARP (BROWN)

TRANSFER ELECTROLYTIC ORE-REDUCTION MACHINERY AND
EQUIPMENT TO CLASS 5

Respectfully report as follows: That HOUSE BILL No. 851

BE CONCURRED IN

~~DO PASS~~

~~DO NOT PASS~~

SENATOR GEORGE McCALLUM, Chairman.

# STANDING COMMITTEE REPORT

April 3 1987

MR. PRESIDENT

We, your committee on SENATE TAXATION

having had under consideration HOUSE BILL No. 813

third reading copy ( blue )
color

COHEN (BROWN)

SETTING FEE IN LIEU OF TAXES ON 3-WHEEL AND 4-WHEEL OFF-ROAD VEHICLES

Respectfully report as follows: That HOUSE BILL No. 813

be amended as follows:

1. Page 2, line 24.
Strike: "$20"
Insert: "$25"
Strike: "$12"
Insert: "$15"

AND AS AMENDED
BE CONCURRED IN

~~DO PASS~~

~~DO NOT PASS~~

SENATOR GEORGE McCALLUM, Chairman.

# STANDING COMMITTEE REPORT

April 3 1937

MR. PRESIDENT

We, your committee on SENATE TAXATION

having had under consideration HOUSE BILL No. 376

third reading copy ( blue )
color

RAMIREZ (ECK)

VALUING NEW AIRCRAFT AND EQUIPMENT ACQUIRED BY CERTAIN SCHEDULED AIRLINES

Respectfully report as follows: That HOUSE BILL No. 376

BE CONCURRED IN

~~DO PASS~~

~~DO NOT PASS~~

SENATOR GEORGE McCALLUM, Chairman.