

MINUTES

MONTANA HOUSE OF REPRESENTATIVES 52nd LEGISLATURE - REGULAR SESSION

COMMITTEE ON INCOME/SEVERANCE TAX

Call to Order: By CHAIR BOB REAM, on February 6, 1991, at 8:00 am.

ROLL CALL

Members Present:

Rep. Bob Ream, Chair (D)
Rep. Jim Elliott (D)
Rep. Mike Foster (R)
Rep. Marian Hanson (R)
Rep. Jim Madison (D)
Rep. Bea McCarthy (D)
Rep. Tom Nelson (R)
Rep. Bob Raney (D)

Members Excused: Rep. Bob Gilbert (R)

Members Absent: Rep. Barry Stang (D)

Staff Present: Lisa Fairman, Committee Secretary

Please Note: These are summary minutes. Testimony and discussion are paraphrased and condensed.

Announcements/Discussion:

CHAIR REAM announced John Ethen, President of Mid West Energy, is here to share his perspective on severance tax and the coal industry.

Informational Presentation:

Mr. Ethen presented an overview on his company, Mid West Energy. EXHIBIT 1. He shared his perspective on the coal market. Mr. Ethen stated the reduction of Montana's severance tax resulted in an increase in production, thereby accomplishing the intent of lowering the severance tax. He said his company is interested in Montana's coal because it is closer and therefore cheaper. Any changes to increase the severance tax will make Montana coal less competitive. Montana's coal is not as desirable as other coal. There are risks involved with purchasing and using coal with high sulfur and sodium contents. While these aspects can be dealt with, the buyer wants a price reduction for taking the risks. Montana needs to lower the

severance tax and coal prices to be competitive. Montana has a unique escape clause in contracts which is appealing to buyers. The East Coast, where the coal market is located, is accustomed to low severance taxes. The perception exists that Montana has a high severance tax of 30%. Even though this has been reduced the perception still exists. A problem with marketing Montana coal is the fluctuating nature of the severance tax rate. The coal market is a very competitive arena and very price sensitive. Montana coal may need to be more than \$.01/ton cheaper to be competitive.

Discussion:

REP. BOB RANEY stated in order to make decisions about severance taxes it is necessary to know the selling price of Montana's coal. He asked Mr. Ethen to respond truthfully to this. Mr. Ethen stated he could not divulge the information due to contract confidentiality. He said the most expensive costs are the transportation costs. By being closer, Montana coal could be more desirable than Wyoming coal. The low sulfur content of some Montana coal is not significant to the market in terms of alleviating acid rain. Montana needs to find other ways to be more competitive. REP. MIKE FOSTER asked what is the boiler tolerance to blended coals. Mr. Ethen responded it is an uncharted area. The blends are variable and appears to depend on the individual operator. Environmental and economic considerations may initiate burning of western coal.

REP. MARIAN HANSEN asked what is the status of the Tongue River Railroad. Mr. Ethen stated he did not know. He added if the railroad did commence the effects on marketing Montana coal could be positive. REP. BEA MCCARTHY inquired what is the escape clause. Mr. Ethen replied the clause is unique to Montana. If the severance tax adversely changes, the producer has the option of absorbing costs, or the consumer has the option of absorbing costs, or the consumer can walk away from the contract.

REP. JIM ELLIOTT commented a considerable amount of Montana's revenue comes from coal severance tax. As a result of a decrease in severance tax, there has been a decrease in revenue. Part of the agreement to lower the severance tax was that the coal industry would produce and buy more coal. There is no incentive to lower the severance tax anymore since the coal companies aren't holding to their part of the "agreement". Mr. Ethen responded a higher tax won't sell more coal but rather would sell less. A higher tax is a major risk for Montana. CHAIR REAM stated the allowed deductions makes Montana's effected tax rate similar to Wyoming's. A severance tax price war with Wyoming is very likely. The affects would be very detrimental. REP. RANEY commented a University of Montana study indicated the rate of severance tax does not impact the marketing of coal. He asked Mr. Ethen why the committee should believe him when he has no facts. Mr. Ethen replied every component is important. The perception is a higher severance tax is undesirable and makes the coal less marketable.

HOUSE INCOME/SEVERANCE TAX COMMITTEE

February 6, 1991

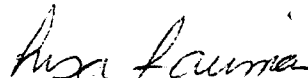
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ADJOURNMENT

Adjournment: 9:05 am.



BOB REAM, Chair



LISA FAIRMAN, Secretary

BR/lf

HOUSE OF REPRESENTATIVES

INCOME/SEVERANCE TAX SUBCOMMITTEE

ROLL CALL

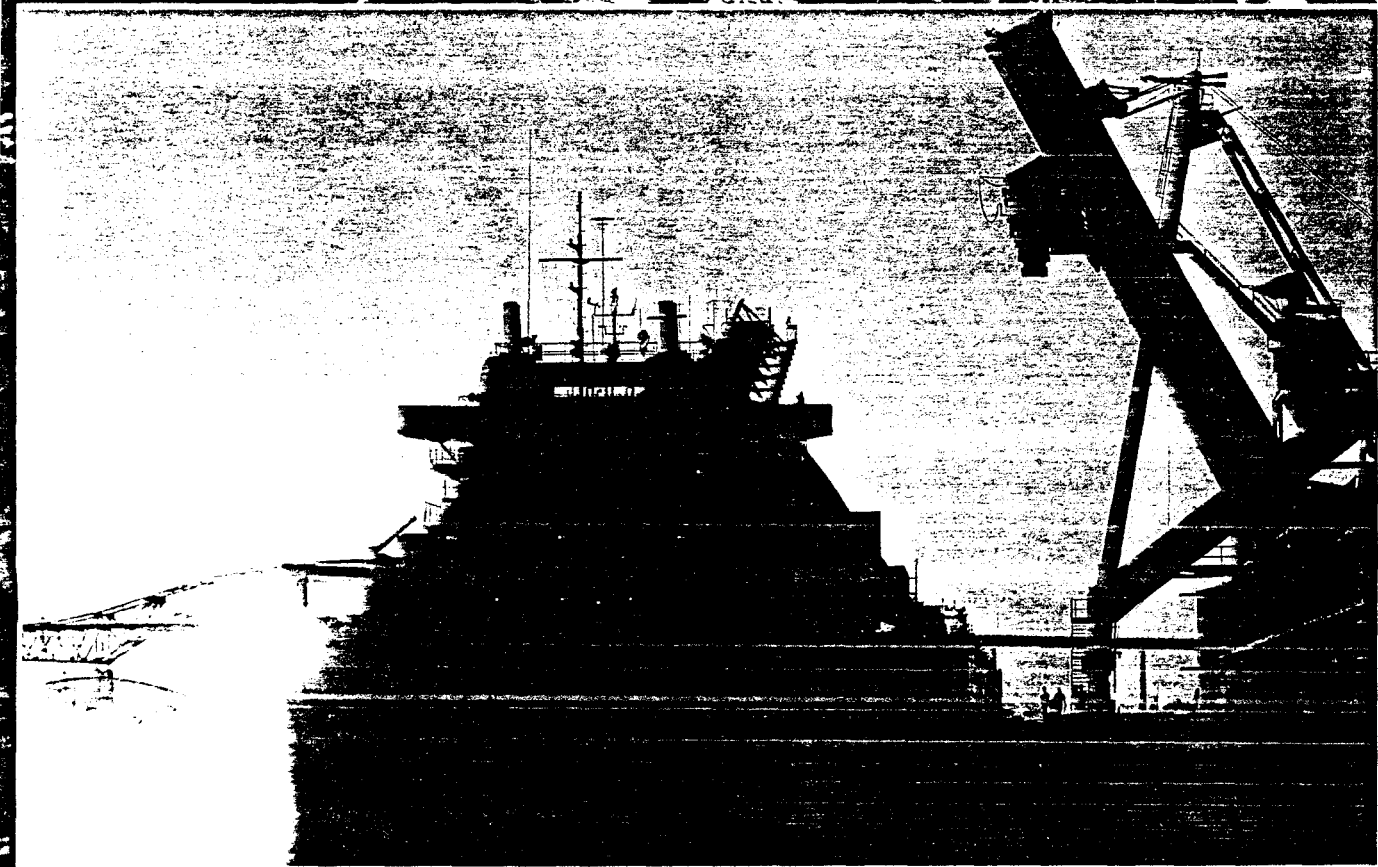
DATE

2-6-91

NAME	PRESENT	ABSENT	EXCUSED
REP. JIM ELLIOTT	X		
REP. MIKE FOSTER	X		
REP. BOB GILBERT		MM	X
REP. MARIAN HANSON	X		
REP. BEA MCCARTHY	X		
REP. JIM MADISON	X		
REP. TOM NELSON	X		
REP. BOB RANEY	X		
REP. BOB REAM, VICE-CHAIR	X		
REP. BARRY STANG		X	
REP. DAN HARRINGTON, CHAIR			

EXHIBIT 1
2-10-91
informational
presentation
Income Statement

LOW COST, HIGH QUALITY COMPLIANCE COAL



VENTURE FUELS

NERCO COAL SALES CO. / MIDWEST ENERGY RESOURCES CO.

**HOUSE OF REPRESENTATIVES
VISITOR'S REGISTER**

TAXATION - Income/Net. Res. Sub COMMITTEE BILL NO. _____

DATE 4-5-91 SPONSOR(S) INFORMATIONAL MEETING

PLEASE PRINT

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NAME AND ADDRESS	REPRESENTING	SUPPORT	OPPOSE
<i>Wenier Adam</i>	<i>DOR</i>		
<i>Guy Heath</i>	<i>Mid West Energy</i>		
<i>JOHN ETHER</i>	<i>" " "</i>		
<i>Samantha Sanchez</i>	<i>MAPP</i>		

PLEASE LEAVE PREPARED TESTIMONY WITH SECRETARY. WITNESS STATEMENT FORMS ARE AVAILABLE IF YOU CARE TO SUBMIT WRITTEN TESTIMONY.