MINUTES

MONTANA SENATE
52nd LEGISLATURE - REGULAR SESSION

COMMITTEE ON TAXATION

Call to Order: By Senator Mike Halligan, Chairman, on March 18, 1991, at 8:00 a.m.

ROLL CALL

Members Present:
Mike Halligan, Chairman (D)
Dorothy Eck, Vice Chairman (D)
Robert Brown (R)
Steve Doherty (D)
Delwyn Gage (R)
Francis Koehnke (D)
Gene Thayer (R)
Thomas Towe (D)
Fred Van Valkenburg (D)
Bill Yellowtail (D)

Members Excused:

John Harp (R)

Staff Present: Jeff Martin (Legislative Council).

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

Announcements/Discussion: None

HEARING ON SENATE BILL 450

Presentation and Opening Statement by Sponsor:

Senator Halligan, District 29, said this bill creates equity in taxation for married persons filing jointly. Currently in Montana, couples who file jointly at the federal level and do not file jointly at the state level pay a great deal more in taxes. The bill establishes a separate set of rates and creates some equity between the two filing methods.

Proponents' Testimony:

Walt Kero, Montana Certified Public Accountants, said the bill was jointly drafted by the Department of Revenue and the CPA organization. It is an attempt to adjust the rates between filing jointly and separately to reach revenue neutrality and simplify filing in Montana. Using single taxpayers as a base of one, people who file married joint pay 60% of single rates, people who file married separate pay 1.2 times the single rate, and head of household pays approximately 80% of the single rate. Those percentages were applied to Montana rates and the results were revised by both Mr. Kero and DOR. The final rate structure is incorporated in SB 450.

The driving force behind the bill is simplification. With the adoption of the rates, the number of married separate returns would be reduced by 80,000. It also aligns Montana law with federal law. In Montana passive loss and capital loss rules are complicated and lack guidelines under married filing jointly rules.. There are special incentives in federal law for filing married joint which do not apply in Montana. The overall effect is intended to be revenue neutral, although some taxpayers will pay more and some less. The winners will be those who file married joint and head of household.

Tom Harrison, Montana Society of CPA's, said the Society is interested in three things, economic development, simplification, and quality. Senate Bill 450 represents simplification and should be passed.

Opponents' Testimony:

There were no opponents.

Questions from Committee Members:

Senator Towe asked if this bill represents income splitting. On the federal return under the income splitting provision, the family that files a joint return will get a maximum tax break no matter how they split their income and file separately.

Mr. Kero said this bill would do the same thing. There is a built in penalty for filing separately and an incentive for filing jointly.

Senator Towe asked if that doesn't indicate the bill is different from the federal where the penalty is exactly the same.

Mr. Kero said, at the bottom line, the tax will probably be the same. But the treatment between the top line and the bottom line is vastly different.

Senator Towe asked if the whole purpose of the bill is to discourage couples from filing married separately.

Mr. Kero said that is a "by-product" of the bill. The primary purpose is to simplify filing for taxpayers, CPA's and the Department.

Senator Towe said a similar problem arose in 1975. There are lot of people paying on divided incomes - spouses filing separately with separate incomes - who will have to pay more in order to make the bill revenue neutral. The couples who file separately will have to pay more because they are paying for the benefit received by those couples in which one spouse is not working, but yet they file jointly and get the maximum benefit .

Mr. Kero replied that is true, but it does follow the federal rules by creating incentives for people to file jointly.

Senator Towe said that is exactly what will kill the bill.

Bob Turner said indexing was addressed incorrectly originally, therefore, the amendment was added so that the same rates are in place for two years. The rates are left at $800 on the base of 1980 and indexing proceeds forward each year from that time.

Closing by Sponsor:

Senator Halligan closed saying the bill will provide a revenue neutral change in the rates. He said the simplification will be even more attractive when we see the results of action on the tax reform package.

HEARING ON SENATE BILL 373

Presentation and Opening Statement by Sponsor:

Senator Gage, District 5, sponsor, said the bill addresses conservation of oil and gas production, encourages more investment by Montana residents in oil and gas drilling and production, and offers incentives to non-resident investors to invest in drilling oil and gas wells in Montana.

Senator Gage reviewed the provisions of the bill section by section. Section 1 addresses secondary recovery units formed after the passage of this bill which would be taxed 4% of value. They are taxed at a higher rate because secondary units are more expensive to operate and produce from than primary production units. New oil horizontal wells will also be production taxed at 4%. All tertiary oil production will be taxed at 3%. All stripper oil over 5 barrels would be taxed at 3%. All new wells in the secondary or tertiary units would be taxed at the same level as the rest of the unit after the two year exemption for all new oil or gas. It exempts royalties for individual Indians whose property is held in trust by the federal government and tribal royalties under the Indian Mineral Leasing Act of 1938 from tax. It defines gross taxable value for calculation of state severance tax and local government severance tax.

Section 2 provides for credits and payments for under or over payment of the tax.

Section 3 is clarifying language regarding failure to file a return.

Section 4 clarifies the issuance of warrant for distraint.

Section 5 provides for prior year mills in distribution of the local government severance tax. Senator Gage said a coordinating clause should be written for this section as there other bills addressing this same provision.

Sections 6 and 7 deal with clarification of deficiency assessments and overpayment.

Section 8 establishes the 24 month exemption from state severance tax if oil is less than $33 a barrel to be determined on a lease by lease, quarter by quarter basis.

Section 9 deletes the interim production definition.

Section 10 is a clarification and Section 11 addresses the rates on various production that assessors are to use in assessing the local government severance tax and net proceeds tax (net proceeds being the tax on new production).

Section 12 clarifies the 12 month exemption for net proceeds on new oil .

Sections 13-16 eliminate the term "interim" production.

Section 17 is the applicability to tax years after 12/31/90.

Section 18 makes the bill effective on passage and approval.

<u>Proponents' Testimony:</u>

William W. Ballard, President, Balcron Oil Company, Billings, presented his testimony in support of the bill (Exhibits #1 and #1a).

William H. Tulloch, Tax Manager, Meridian Oil, Fort Worth, Texas, presented his testimony in support of the bill (Exhibit #2).

Jerry Croft, President, Croft Petroleum, Cutbank, presented his testimony in support of the bill (Exhibit #3).

Bill Vaughey, Jr., Havre, presented his testimony in support of the bill (Exhibit #4).

Patrick Montalbin, President, MSR Subsidiary Companies, Cutbank, said his company operates 300 stripper wells in the state. He said he agrees with the previous testimony. His operates a small independent company with an average production of 2.7 to 3 barrels a day per well. This is strictly a numbers game and 100% ownership is necessary if any money is to be made on stripper production. He said the LGST was good for his company. The tax break incentive worked well until the fourth quarter last year when the price rose and they had to pay an increase of $77,000. The price dropped again very quickly and the companies need the incentive replaced. He noted MSR has moved to Texas because of the inconsistency of the tax base in Montana and will not be doing any new drilling until the situation improves. He said the bill will generate income for local governments and schools and place the state in a much better competitive position for new drilling and production.

Ken Williams, Entech Oil Division, said his company has spent $30 million over the past four years in exploration of oil and gas projects in the region. Only $1.5 million was spent in Montana. He said SB 373 sends a strong message to investors and produces. He offered enthusiastic support for the bill.

Mike Stephen, Montana Oil, Gas, and Coal Counties, expressed support for the bill. He said they are interested in horizontal drilling, accelerated payments of LGST, and would be interested in other amendments that may be presented later in the testimony.

Dennis Burr, Montana Taxpayers Association, expressed his agreement with the previous testimony and asked the committee to support the bill.

Forrest Boles, President, Montana Chamber of Commerce, said they are concerned about the economy and the employment climate of the state. He expressed support for the bill.

Doug Abelin, Northern Montana Oil and Gas Association, said this is a good bill and offered his support for it.

Denis Adams, Director, Department of Revenue, said DOR supports the reinstatement of the incentives. He expressed support for the bill.

Janelle Fallon, Montana Petroleum Association, said production has declined 10% per year since 1986. If the decline continues there will be less and less money for schools, few jobs, and worsening economic conditions in eastern Montana. She said the bill is very important to the petroleum industry and the whole state of Montana.

Senator Tveit, District 11, said production is half of what it was when he first came to the legislature. He said the bill reestablishes the incentives and allows Montana to again be competitive in the production and exploration market. This is an important and vigorous industry in the state and should not be taxed away to other states. He noted the horizontal drilling is a most important tool to the industry. When a well is through pumping, 70% of the oil is still in the ground. Approximately 40% can retrieved by secondary and tertiary flushing and pumping. The oil and gas is there, he said. We need to offer the companies the incentive to come back and get it.

Opponents' Testimony:

There were no opponents.

Questions From Committee Members:

Senator Eck asked Mr. Tulloch how much Meridian was affected by the tax holiday.

Mr. Tulloch said since 1989, when the incentives were established, to last fall when they were lost, Meridian had drilled 50 wells in the state and 2 horizontal wells in the Bakken formation. There has been no drilling or exploratory activity since the tax holiday ended and all the plans Meridian has for the state are on hold due to the current tax structure.

Senator Towe expressed concern about defining secondary and tertiary production and the possibility of broadening secondary into regular production. He also questioned the procedures for overseeing horizontal drilling.

Senator Gage said the Board of Oil and Gas Conservation has the best interests of the state at heart and are very vigilant to such possibilities. He felt they would do a very adequate job of overseeing the production levels. The Board keeps a strict eye on all aspects of horizontal drilling, also.

Mr. Tulloch said horizontal drilling entails very detailed measurements. There are industry accepted definitions of linear penetration of a well bore into a formation that begin at a minimum of 150 feet. This drilling is more expensive than straight drilling and is carefully monitored. He said the two year incentives are most necessary as it takes 2-3 years to recover the investment costs of horizontal drilling.

Senator Yellowtail asked if Mr. Meridian could assure him that Meridian would increase production in Montana if the bill passes.

Mr. Tulloch said he could not be that specific because they are looking at many projects planned. However, they have many mineral rights in the state and are prepared to move forward on a number of projects if the right tax climate exists.

Senator Yellowtail asked the same question of Mr. Williams.

Mr. Williams replied he could not be specific without consulting his production people. However, it is very likely they will be investing in Montana as there are a good many more projects "out there" than they have the money to invest in.

Senator Yellowtail said the fiscal note shows a decrease of $8 million over the next biennium. He asked how the $8 million will be recouped.

Mr. Adams replied this is built into the Governor's budget. New production would provide $5 million assuming there are a million barrels of new production each of the two years. As a result of the new production, there will be new jobs, additional personal property taxes, and additional revenue from the drilling activity itself.

Senator Yellowtail asked if the fiscal note could be redone to show that the impact will be neutral.

Mr. Adams said they were unable to come to that conclusion.

Senator Doherty asked Mr. Ballard what he would think about tying the incentive to a reinvestment back into Montana.

Mr. Ballard said his company does that now so it would be fine with him.

Mr. Tulloch said his company "would not be crazy about the idea", but they could live with it.

Senator Doherty asked Mr. Adams if there has been any success nationwide with recapturing lost revenue.

Mr. Adams replied he did not have a lot of nationwide information. He said one thing that is not reflected in the fiscal note, but would have a definite impact, is the holiday in net proceeds for new production is only 12 months. That is money that goes to local governments. Even though there is still a tax holiday of 24 months at the state level, local revenues will increase significantly and they are not reflected in the fiscal note.

Senator Eck asked if the incentives for strippers would bring MSR back into the state.

Mr. Montalbin said the would come back "absolutely". They built the company in Montana from small strippers and they only left because of negative economic conditions. He said they would be more than happy to bring their $1 million back to the state.

He said the backbone of the state is the small independent producer. He committed to bringing $750,000 of drilling development money back to the state this year if the incentives are put back in.

Senator Eck asked Mr. Montalbin if the elimination of the flat tax would be advantageous for him.

He said it would as net proceeds was a better tax for his company. The big problem was disallowing capital expenditures. He said it provides a lower tax base for MSR.

Closing by Sponsor:

Senator Gage said zero means zero. No new production means no new money. The budget is predicated on one million barrels of new production. He said a new fiscal note is needed since he really doesn't know how many barrels will be produced and how much money will be generated.

He noted a great deal of money from oil production goes into the foundation program which benefits all areas of the state, including those counties with no oil or gas. This bill deals with more than the oil and gas operator, there are all the employees and their income tax, support industries, the increased economic benefits to local areas, and agricultural benefits from mineral leases. Big money can be had from big wells in Montana, but most of the production is from stripper wells. He said this is a complicated bill, but it will place Montana in a much better competitive position for oil and gas production dollars.

ADJOURNMENT

Adjournment At: 10:00 a.m.

SENATOR MIKE HALLIGAN, Chairman

BILL D. ROHYANS, Secretary

MH/jdr

ROLL CALL

SENATE TAXATION COMMITTEE

DATE 3/18/91

52nd LEGISLATIVE SESSION

NAME	PRESENT	ABSENT	EXCUSED
SEN. HALLIGAN	X		
SEN. ECK	X		
SEN. BROWN	X		
SEN. DOHERTY	X		
SEN. GAGE	X		
SEN. HARP			X
SEN. KOEHNKE	X		
SEN. THAYER	X		
SEN. TOWE	X		
SEN. VAN VALKENBURG	X		
SEN. YELLOWTAIL	X		

Each day attach to minutes.

DATE 3/18/91

COMMITTEE ON Senate Taxation

VISITORS' REGISTER SB450 SB 373

NAME	REPRESENTING	BILL #	Check One: Support	Check One: Oppose
WM (Bill) VAUGHEY JR	SELF AND INDEP. O&G PRODUCER, HAVRE	SB 373	✓	
Ed Vander Pas	Ed Vander Pas - Oil	SB 373	✓	
Jerome Anderson	Shell Western E&P Inc	SB 373	✓	
Patrick M. Montalban	MSR	SB 373	✓	
WILLIAM H. TULLOCH	MERIDIAN OIL INC	SB 373	✓	
Jerry Croft	Croft Petroleum Co	SB 373	✓	
STEVE PALMBUSH	MSR EXPLORATION	SB 373	✓	
REX MANUEL	GENEX	SB 373	✓	
W.W. BALLARD	BALLCRON	SB 373	✓	
Janelle Fallan	Mt Petroleum	SB 373	✓	
Dennis Burr	Mt. Taxpayers Assoc	SB 450	✓	
Dennis Burr	Mt Taxpayers Assoc	SB ~~450~~ 373	✓	
Danny & Ryan Murphy	CROFT Petroleum Co.	SB ~~373~~	✓	
[illegible] Ballard	Balcron	SB 373	✓	
Gordon Morris	MACo	373		
WALT KOKO	Mt. CPA's	SB 450	✓	
Tom Hamson	Mt. CPA Society	450	✓	
Carl Swanson	Shelby	S-373	✓	
Doug Abelin	N.M. Oil & Gas	SB 373	✓	
J.H. Buck Boles	MT CHAMBER	SB 373 SB 450	✓	
Ward Shanahan	Chevron Corporation	SB 373	✓	
Ken Williams	Entech	SB 373	✓	
JIM PALADICHUK	M.D.U. Resources	SB 373	✓	
Denis Adams	DOR	SB 373	X	
Mike Stephen	Mt Oil Gas & Coal Co.	SB 373	✓	
Gloria Paladichuk	Richland Co. Comm.	SB 373	✓	

(Please leave prepared statement with Secretary)

TAXATION
EXHIBIT NO. 1
DATE 3/18/91
BILL NO. SB 373

SENATE BILL 373

TESTIMONY BY W. W. BALLARD

3-18-91

Senate Bill 373 is a bill that benefits the economy of Montana in several ways:

(1) It provides an incentive for enhanced recovery techniques which are risky and expensive, but which allows recovery of considerably more of the oil in place (as much as 1 to 1.5 times the primary recovery). This is oil that has already been discovered, thereby eliminating the exploratory risk of finding the reserve. Enhanced recovery techniques, when successful, provides additional income to the producers, royalty owners, service companies, local businesses, while also providing tax revenue to state and local governments that would otherwise not be collected.

(2) It provides an incentive to use the most recent development in drilling technology, horizontally drilled holes, in exploration ventures. This technique has been very successful in Texas, Colorado and North Dakota in the last few years, but drilling costs are generally two to three times as much as conventionally drilled holes, thus the need for a special incentive.

(3) It restores the incentive for new reserve exploration lost when oil prices reached $25 per barrel last summer.

(4) It restores the incentive to keep stripper wells producing, which was also lost last summer.

The balance of my testimony will focus on lost incentives.

A bar graph is presented which compares the revenue distribution with the severance tax incentive in place vs. the situation as it exists now. Note that with the incentive in place the loss in severance tax is partially offset by an <u>increase</u> in <u>income tax</u>, and that the reinvestment capital (profit) is increased by $.25 per barrel. A typical Williston Basin well will produce 300,000 barrels over its productive life and at $20 per barrel this will result in an additional $75,000 available for investment in another well. This is a very significant incentive, especially for independent operators in the State.

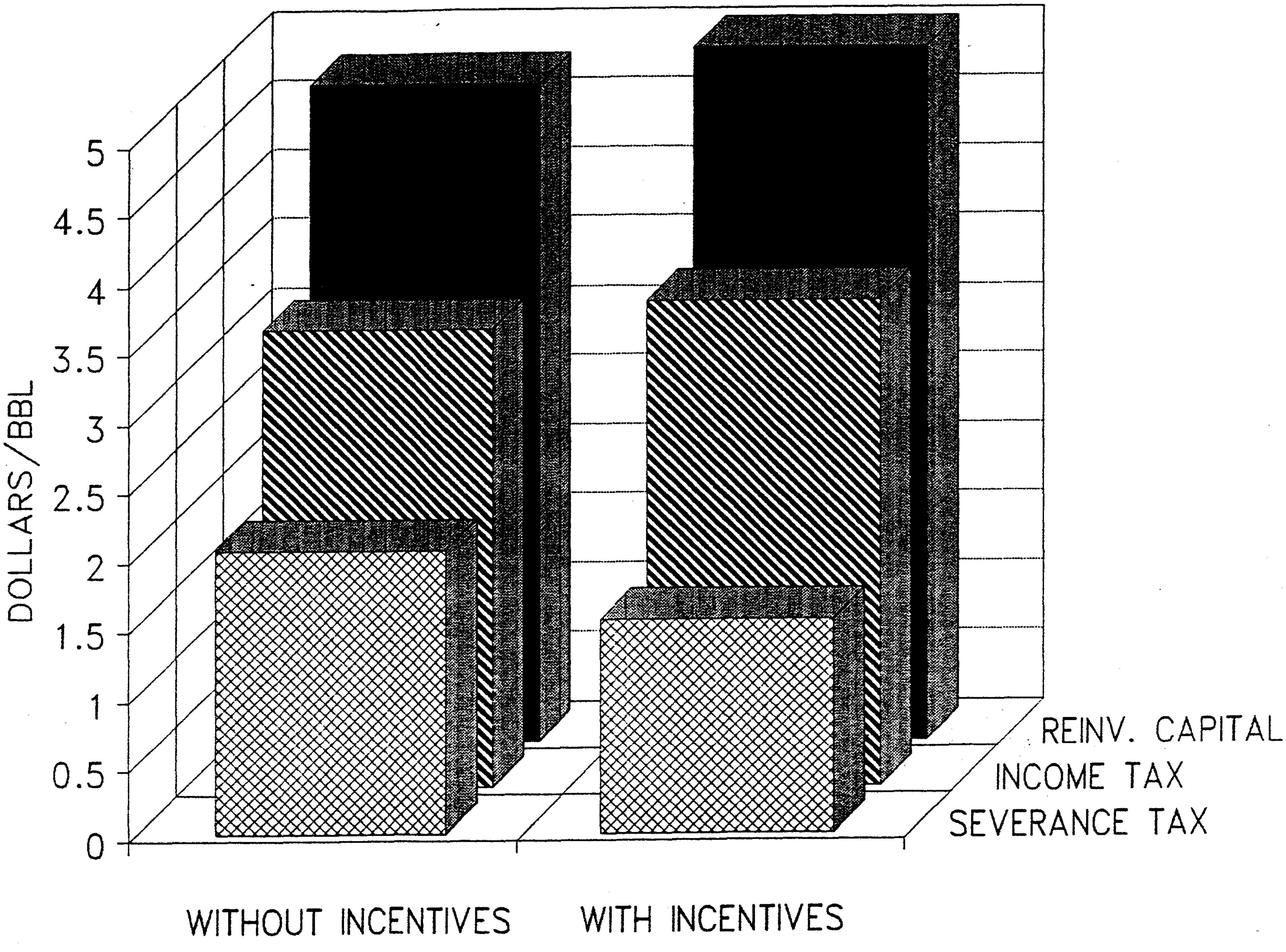
Two other graphs and the table below illustrate the need for reinstatement of the stripper incentive. These illustrations show that the incentives will result in 17 months of additional productive life for an average stripper well and will produce 807 additional barrels of oil. Note on the table that for every $1 cut

EX #1

in taxes, the economy gains $31.60. Montana presently has about 3,000 stripper wells producing and with the incentive that this bill puts in place, 2.4 million barrels of oil will be produced that would otherwise be lost. This will also give an additional $43,524,000 boost to the State's economy.

Senate bill 373 is a major step toward bringing the oil and gas explorationists back to Montana. I urge the committee to pass this important piece of legislation.

WHERE THE MONEY GOES



Ex #1

Ex #1

Average Montana Stripper Well

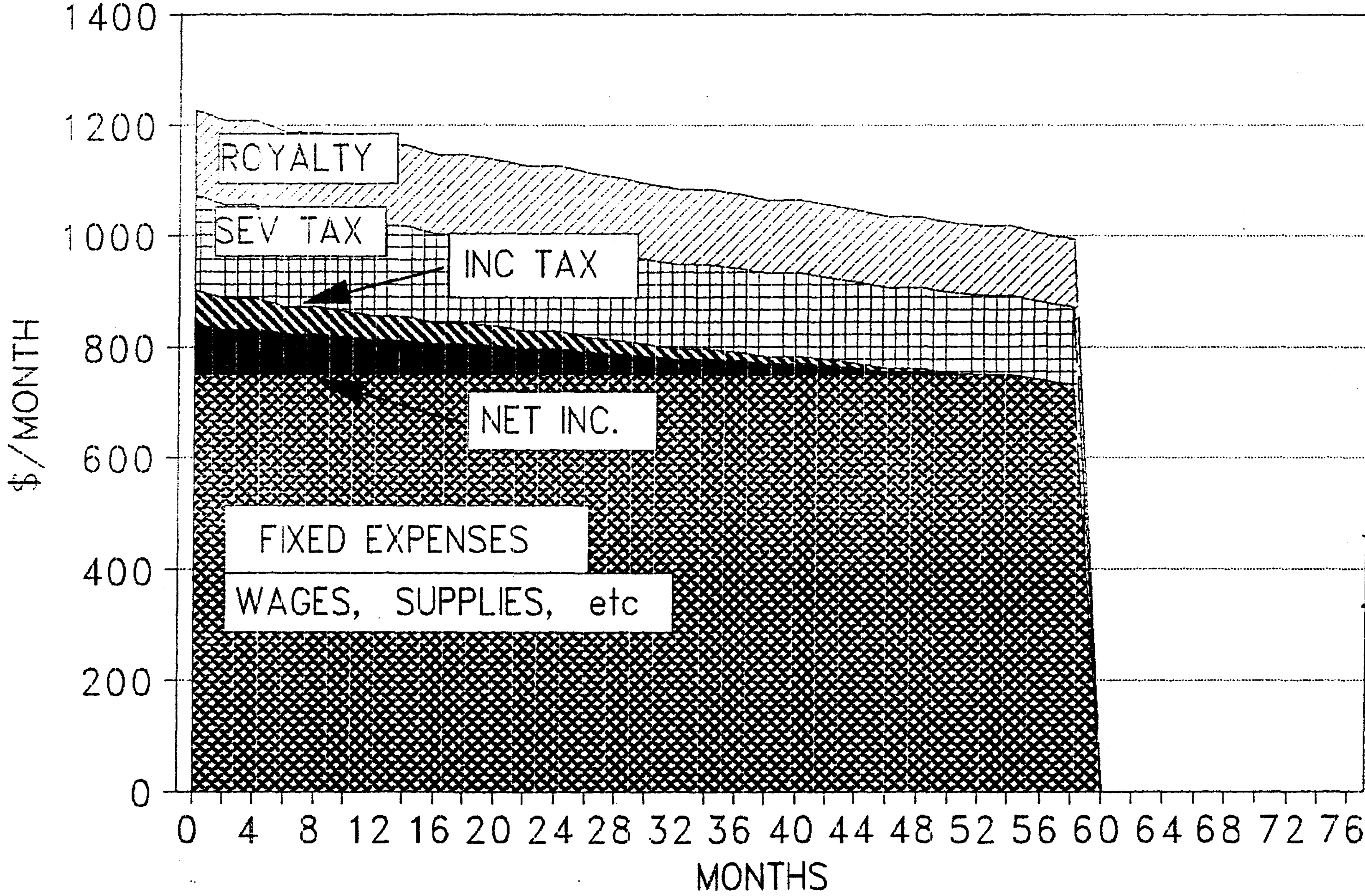
	Current Tax Rate	Proposed Stripper Rate	+/-
Economic Life	58 mos	75 mos	+17 mos
Barrels Produced	3216 bbls	4023 bbls	+807 bbls
Severence Tax Paid	$7,938	$6,407	-$1,531
Income Tax Paid	$888	$1,251	+$363
Property Tax Paid	$2,416	$3,125	+$709
Total Taxes	$11,242	$10,783	-$459

Contributions to State Economy

Landowner Royalty	$8,020	$10,040	+$2,020
Wages	$17,400	$22,500	+$5,100
Utilities	$8,700	$11,250	+$2,550
Supplies, Contractors	$17,600	$22,438	+$4,838
	$51,720	$66,228	+$14,508

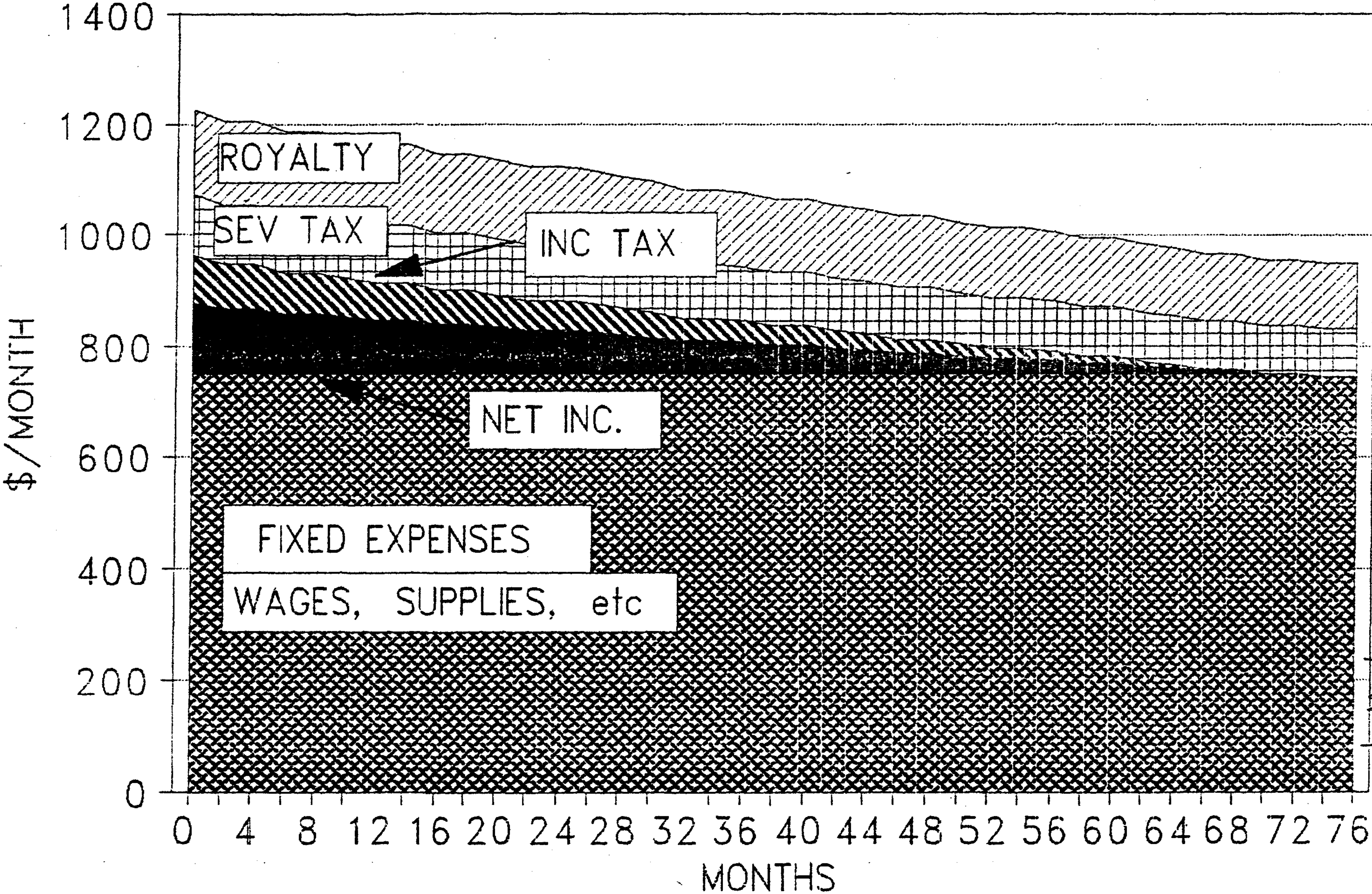
$1 tax cut yields $31.60 boost to economy

AVERAGE STRIPPER WELL
EXISTING TAX RATES



Ex #1

AVERAGE STRIPPER WELL
PROPOSED STRIPPER TAX RATES



Ex #1

Tax
Ex #1
3-18-91
SB 373

Marketing

61. There are approximately 533 service stations in Montana. 91% are self-serve.
62. There are about 300 wholesale bulk plants, terminals and LPG facilities within the state's boundaries.
63. More than 452 million gallons of motor fuel was consumed in Montana in 1989.
64. The average daily consumption of gasoline was 1.24 million gallons in 1989.
65. Petroleum product consumption in Montana averaged approximately 1,267 gallons per capita for a total of over 908 million gallons in 1988.
66. Lead emissions from highway vehicles are about 1% of what they were in 1970.
67. Over 1.31 million barrels of propane were sold within the state in 1988.
68. Estimated employment in petroleum marketing is in excess of 4,400 persons.
69. Over 41.8 billion cubic feet of natural gas were consumed in Montana in 1988.
70. Montanans consumed most of the natural gas produced in the state. Imports came from Canada, Wyoming and North Dakota.
71. From 1978 to 1987, EPA reports that the levels of pollutants in the air were lowered: lead — 88%; sulfur dioxide — 35%; carbon monoxide — 32%; dust, soot and particles — 21%; ozone — 16%, and nitrogen oxides — 12%.
72. Since the mid-1960s, new car emissions of hydrocarbons and carbon moxide have dropped 96% and nitrogen oxides have fallen by 76%.
73. In 1989 Montana had 534,457 licensed drivers.
74. 722,554 vehicles were registered in Montana in 1988.
75. Montana vehicles are driven an average of 12,426 miles per year.
76. Diesel fuel consumption in 1989 was 112,670,000 gallons. Montana ranked 39th in the nation.
77. Montana ranked 42nd in consumption of gasoline in 1989.
78. Montana used 65,000 gallons of gasohol in 1988.
79. Asphalt consumption in 1988 was 1.9 million barrels.

Economics

80. Oil and gas exploration and production paid $66,605,045 in state and local taxes in Montana in 1989.
81. Taxes paid by oil and gas in Montana include: net proceeds, 7% on oil and 12% on natural gas; state severance, 5% on oil and 2.65% on natural gas; resource indemnity trust, .5%; conservation, .2%; corporate license tax, 6.75%, and local property taxes on plant and equipment. The composite rate is one of the highest in the nation.
82. The price of crude oil peaked in 1981, at $34.69 in Montana. The highest price for natural gas was $2.46 in 1984.
83. State severance taxes paid on oil and gas in FY 1989 were $14,959,251. The highest year for severance tax was 1982, at $55,561,131.
84. The total value of crude oil produced in Montana to January 1, 1989, is more than $10.1 billion.
85. Net proceeds taxes on oil and gas go to local governments in producing counties. FY 1989 net proceeds totaled $42,436,534. The highest year for net proceeds payment was 1986, totalling $81,992,355.
86. The market value of oil and gas field equipment in 1989 was $188,431,824, or 5% of the value of all personal property in Montana. Tax payments totaled $4,043,088.
87. State Lands income from royalties, rentals, bonuses and penalties paid by the oil and gas industry were over $18.2 million for the fiscal year 1989. Included in this amount is $6.4 million returned to the state by the federal government for production from federal lands. All income from state and federal lands helps fund Montana public schools.
88. The pump price of gasoline includes a 20 cent per gallon state tax and a 9 cent per gallon federal tax, plus a 1 cent per gallon fee for underground storage tank cleanup.
89. Pipelines paid $9,702,338 in taxes in 1989 and $8,908,015 in 1988.
90. The United States currently imports more than 50% of its crude oil, more than 8.5 billion barrels a day. Imports have increased continually since 1986 and account for about one-third of the nation's overall trade deficit.

Sources of Information

199(act Book National Petroleum News
Ame...an Petro...um Institute
Balcron Oil Co., Billings
CENEX, Laurel Refinery
Con o In..., B ngs Refinery and Pipeline
Exx Co. USA illings Refinery
A History of Montana, Volume II
Merrill G. Burlingame and K. Ross Toole
Mon a Board Oil and Gas Conservation
Mon a Depa ent of Revenue
Mon...a Depa ent of State Lands
Montana Refining, Inc., Great Falls Refinery
Nance Petroleum Corp., Billings
The l and G Producing Industry in Your State,
19 -1989, I pendent Petroleum Association of America

For re infor tion, write or call the Montana Petroleum Ass ation:

2C 11th Av e	P.O. Box 1398
Helena, MT 59601	Billings, MT 59103
(406) 442-7582	(406) 252-3871

The ontana P oleum Association is a division of the Rocky Mountain Oil and Gas Association

90 PETROLEUM FACTS

MONTANA OIL & GAS
75 YEARS
1915-1990

MPA
Montana Petroleum Association
A Division of the Rocky Mountain Oil & Gas Association

General

1. Commercial oil production first began in Montana in 1915, at Elk Basin in Carbon County.
2. The first gas field to be developed in Montana was the Baker-Glendive or Cedar Creek. Gas was discovered in 1912 and marketed in 1915.
3. The first refinery was built at Miles City in 1921, following discovery of the Cat Creek Pool of Petroleum County. Prior to 1921, all refined products were imported from either Wyoming, the Mid-continent or the West Coast by rail or truck.
4. The total taxable value of the state's production of oil and natural gas in 1989 was $421,079,151. Of this, $325,466,630 was crude oil and $95,612,521 was natural gas.
5. Montana ranks 13th in the nation in production of crude oil.
6. Montana ranks 20th in the nation in production of natural gas.
7. Montana, the 4th largest state in the Union in area, contains more than 93 million acres; 47% of which is leased for possible future exploration. Less than 3% has actually been explored.
8. Petroleum accounts for 38% of the total value of all minerals in Montana.
9. Over 500,000 different compounds are made from crude oil and natural gas. Over 3,000 products are manufactured from petroleum.
10. Each day, every American man, woman and child uses, on average: more than 200 cubic feet of natural gas, nearly 3 gallons of oil, more than 18 pounds of coal and almost 9 kilowatt hours of electricity from nuclear, water, geothermal and other sources.
11. More than 7,500 people work for the petroleum industry in Montana, nearly 2,000 of them in oil and gas extraction.
12. Montana receives 50% of federal oil and gas royalties. This money is spent on public education.
13. Montana ranked 43rd in consumption of petroleum products in 1988 at 24,291,000 barrels.
14. The price of oil fell over 50% in 1986, from $25.29 in 1985 to $13.58 in 1986 (Montana prices). This caused an overall decline from which the American petroleum industry has not yet recovered.
15. United States energy consumption returned to moderately high growth rates after the price collapse of 1986. Today, total energy consumed exceeds the previous peak in 1971.
16. Oil represented 42% of all energy consumed in the U.S. in 1989, compared to 45% in 1980. It is expected to maintain this market share.
17. Oil and natural gas combined provide 65% of America's energy.
18. Transportation fuels constitute two-thirds of the oil consumed in the United States.

Drilling

19. A total of 242 wells were drilled in Montana in 1989; of this total, 40 were oil wells, 127 were gas wells, 8 were service, 67 were dry holes.
20. Oil is produced from 300 different pools in Montana.
21. There were 58 "wildcat" wells drilled in 1989—these are wells which seek new fields.
22. Of these wildcats, 38 were dry holes, 12 were gas wells and 8 were oil wells.
23. Montana drilling in 1989 totaled over 718,000 feet of hole; the average depth per well was 2,767 feet.
24. The deepest well drilled to date was a dry hole in Lewis and Clark County, drilled to 17,818 feet in 1989.
25. The deepest producing well in Montana is 13,012 feet.
26. There was an average of 8 rotary rigs operating within the state in 1988. The highest year was 1981, with 81 rigs.
27. Approximate average cost for drilling and equipping oil and gas wells in Montana during 1987 was $43.64 per foot.
28. Total wells drilled in Montana for oil and/or gas to January 1, 1990—29,213.
29. The average cost of drilling an oil well in Montana is $308,014. The average cost of drilling a gas well in Montana is $56,806.
30. A drilling rig will generate more than $750,000 per year in wages and benefits. Other factors involved in drilling—building and cleaning up the site, supplying the rig and other auxiliary services will result in about $1.4 million in payroll from a drilling rig running for a full year.

Pr duct on and Reserves

31. To date, of Montana's 56 counties, 32 have a history of oil and/or gas production.
32. il produc on in Montana has declined about 10 percent ch year ce 1985, due to the worldwide downturn occurring in 1986, and the state's difficulties in competing with other states.
33. ontana e orted 16.2 million barrels of crude in 1989.
34. Montana's production of crude oil was 20,969,292 barrels in 1989.
35. tural gas oduction in Montana in 1989 was 43.1 billion bic feet CF).
36. Stripper oil wells produced 2,411,672 barrels for 13.61% of total production in 1989. (Strippers are wells producing 10 rrels or s per day.)
37. Stripper gas wells produced 15.4 BCF of natural gas for 45.48% of total production in 1989. (Stripper gas wells produce 60 MCF or less per day.)
38. e year o e largest production in the state was 1968 in hich over .3 million barrels of crude oil were produced.
39. There were 4,165 producing oil wells at the end of 1989.
40. oducing s wells totaled 2,023.
41. 99.8% of Montana's oil wells must be pumped, only 0.2% flow under their own pressure.
42. ontana h 3,056 stripper wells on January 1, 1990, producing an rage of 2.18 barrels per day each.
43. The average price of crude oil in Montana per barrel in 1989 was $17.08.
44. e averag rice of natural gas at the well in Montana per ousand c ic feet (MCF) in 1989 was $1.51.
45. The national average wage for oil production workers was $ 1.44 per our in 1988, as compared to $10.17 for all nufactu g industries.
46. The average daily production per well of crude oil in Montana during 1989 was 12.5 barrels, down from a high of 39.1 1968.
47. 5 abandc d wells were taken out of production during 1989.
48. Proven reserves of crude oil as of January 1, 1988 were over 241 million barrels.
49. Proven reserves of natural gas as of the end of 1987 amounted to approximately 30 billion cubic feet. Natural gas liquids proven reserves as of January 1, 1988 stood at approximately 48 million barrels.
50. The number of Montanans employed in the production of crude oil and natural gas during 1988 was 1,938.
51. Total crude oil and product pipelines in Montana add up to over 3,000 miles.
52. This noiseless, non-contaminating and safe transportation system provided full-time employment for about 355 people in 1988.
53. The three major product pipelines serving the state transport an average of over 57,000 barrels of gasoline and 38,000 barrels of distillates per day, with the remainder of the products transported by truck and rail.

Refining — Processing

54. Montana's four refineries refined more than 46.6 million barrels of crude oil in 1989.
55. These refineries produced 1.048 trillion gallons of gasoline, 438.1 million gallons of diesels and jet fuel, and 267.8 million gallons of asphalt.
56. These refineries are located at Billings, Great Falls and Laurel.
57. Approximately 766 people are employed in the state's refineries.
58. About one barrel (42 gallons) of crude oil is required to refine enough gasoline to fill a 20-22 gallon automobile fuel tank.
59. Of the 46.6 million barrels of crude refined in Montana during 1989, 56.66% was from Canada, 35.77% from Wyoming and 9.57% from Montana.
60. Since 1970, America's refineries have reduced air pollution. Of the pollutants in the air, the following amounts come from the nation's 193 refineries: less than 0.6% carbon monoxide, 4% sulfur oxides, 0.3% of the particulates, 4% of the volatile organic compounds and 1% of the nitrogen oxides.

SENATE TAXATION
EXHIBIT NO. 2
DATE 3/18/91
BILL NO. SB 373

PRESENTATION IN SUPPORT OF SENATE BILL 373

to the Senate Taxation Commission

of the 52nd Assembly of the Montana Legislature

March 18, 1991

On Behalf of:

MERIDIAN OIL INC.

Prepared by:

William H. Tulloch
Tax Manager
Meridian Oil Inc.
801 Cherry Street
Fort Worth TX 76102

EX #2

IN SUPPORT OF SENATE BILL 373

This testimony, on behalf of Meridian Oil Inc., is offered in support of SB 373. But the reason for our support goes far beyond the percentage points offered in the way of tax incentives. The real incentive in Senator Gage's bill is in the form of the farsighted view that it presents in recognizing the long-term contributions that a healthy, growing oil and gas industry can make to the economy of Montana.

SB 373 sends a very clear message to our industry. And that message is, "The state of Montana welcomes the oil and gas industry and, to demonstrate the extent of our commitment to this policy, we intend to make the tax policies of this state competitive with any other state."

SB 373 does just that!

A comparative analysis of the tax impact on producing oil and gas properties in various states is shown on the attached Exhibit "A" which reflects current tax policies in most of the major states in which Meridian Oil operates. A more detailed comparison of oil and gas taxation in Montana versus North Dakota is shown on Exhibit "B." This comparison shows the combined rates for state and local taxes imposed on working interest production, and in the case of Montana shows the combined rates currently in effect, as well as the combined rates under SB 373.

As this comparison indicates, under SB 373 the rates proposed for oil and gas stripper production still fall short of the tax treatment accorded stripper production in North Dakota. But the rates proposed by Senator Gage for secondary, tertiary and horizontally completed oil wells plus the tax

Ex. #2

treatment of new wells for an initial period following completion, all actually exceed the tax incentives currently extended to these types of production in North Dakota.

In our opinion, again, Senator Gage has been very perceptive in recognizing that it is production from these types of wells that holds the greatest potential for long-run future returns to the state and local governments in the form of increased tax revenues.

The logical question is, "Do these types of tax incentives have any impact on a producer's decision, as to where he elects to invest his drilling budget? In the case of Meridian Oil, the answer is a resounding, YES! Obviously, a lot of factors are considered in evaluating a new drilling prospect; but, in evaluating the economics of a presumed successful completion effort, we are keenly aware of the tax considerations that will be imposed on the revenue stream.

I refer you, again, to Exhibit "B" and assuming all other considerations involved in a new drilling prospect are equal, and Meridian has the option of drilling a new horizontal oil well in the Bakken Shale Formation in either North Dakota or Montana. Under current tax structures, it is obvious that Meridian would realize tax savings of 0.7 percent for the first 12 months of production, 7.7 percent for the next three months, and 3.7 percent of revenues for the remaining life of this new well in North Dakota, as opposed to having drilled the well in Montana. Assuming this new well averaged 50 barrels a day, at $20 per barrel, had an economic life of 10 years and Meridian Oil owned a .875 working interest, the total savings in taxes to Meridian Oil would be apprximately $112,000. But, at the same

SN #2

time, the total tax revenues collected in North Dakota would exceed $323,000, including taxes on working interest and royalty. Now let's look at the same new horizontal well drilled in Montana, i.e., if the tax rates under SB 373 were in effect. Over the same 10-year life of the well, Meridian would realize tax savings of approximately $32,000 compared to North Dakota; while tax revenues collected in Montana over the life of the well would be in excess of $286,000.

Just as I know that it is not a function of this Legislature to generate savings for Meridian Oil, I am equally aware of the fact that overall tax structures and revenue needs are not the same in Montana as they are in North Dakota.

So the purpose of this comparison is not to convince you that Montana must match North Dakota dollar for dollar in its tax treatment of oil and gas; rather, it is to point out the basic economic considerations that weigh heavily in determining the anticipated return on the substantial investment required to drill a new well.

The point to be made is, that if Montana wants to be competitive in attracting new oil and gas activity then Montana must, at least, be competitive in its treatment of oil and gas activities. And why would Montana not want additional oil and gas production? When new wells represent a relatively long-run source of revenue for state and local governments; when completed wells are minimally disruptive to the surrounding environment; and when oil and gas production places an extremely low level of demand upon governmental services.

Ex #2

Tax incentives do work. They work for oil and gas just as they work for other types of businesses. To emphasize this fact, during the first two years following passage of the tax holidays of 24 months for severance and 12 months for net proceeds on new wells in Montana, Meridian Oil had actively participated in drilling 25 wells each year. These wells (predominately gas) can be expected to generate over $8,064,775 in state and local tax revenues over their expected economic life. This equates to average annual tax revenues $322,591 for the state, counties and schools in Montana. This year, without benefit of these tax incentives, all drilling plans by Meridian Oil for Montana are on hold. While in North Dakota, where the tax incentive for new wells is still in place, Meridian Oil plans to drill as many as 15 new wells (and up to 24 depending on budget allocations) in 1991.

Meridian Oil has a vested interest in Montana, not only because of current operations but also owing to a very strong position in rights to explore for oil and gas throughout the state. Even though our first two attempts at horizontal drilling in Montana's Bakken Formation have not proven commercially successful, we have not given up on this potential source of new oil. But until such times as the tax structure in Montana becomes more competitive with that of other states, those other states will continue to receive first call on the funds we budget for exploration and development. It only makes good economic sense.

Finally, the subject of who is and who is not paying their "fair share" of taxes continues to receive alot of discussion by certain interest groups in Montana, particularly during legislative sessions. From our

Ex 2

perspective at Meridian Oil, a tax burden on gross production revenues of 12.7 percent for oil (new wells) and 15.35 percent for gas (new wells) is extremely high by any measure, and particularly when compared to other oil and gas producing states; this is before adding on the additional burden imposed under the state income tax. In terms of local county and school taxes, as long as a system of property classification exists in Montana, assessing different types of properties at different assessment ratios, there cannot possibly be equity among all taxpayers. Should the time ever come when there is serious consideration given to assessing all property in the state at the same level of assessment, I can assure you that the oil and gas industry will be a willing participant in any such attempt to restructure the local tax system. But, as long as certain types of properties are assessed at less than 4 percent of market value, reappraisals of certain properties are conducted only once every three or five years and any increases in value resulting from reappraisal are phased in over a period of years. Montana will always have a substantial amount of taxable property value that escapes taxation. This, as you know, applies to categories of property other than oil and gas.

In summary, the oil and gas industry would like to forge the kind of mutually beneficial partnership between industry and the state of Montana that exists in other states. The kind of partnership that offers long-term, stable economic opportunities for both parties. We know it works well in other places and there is no reason to believe it cannot work equally well in Montana. We, at Meridian Oil, would like nothing more than to be in a

Ex #2

position to make the kind of contribution in Montana that our aggressive business outlook and technical expertise have enabled us to make in other areas.

With a positive view toward the future, we urge you to work hard for passage of Senate Bill 373 and then allow it enough time to produce the desired result. This issue is certainly important to our company; but in our opinion, it is even more important to the future of Montana. Your decision in this matter carries with it implications for many years to come and I assure you that Meridian Oil is keenly interested in the outcome.

MERIDIAN OIL INC.

STATE TAX COMPARISON

EXHIBIT "A"

TYPE OF TAX	TEXAS	UTAH	COLORADO	OKLAHOMA	NORTH DAKOTA	WYOMING	MONTANA	NEW MEXICO
INCOME (1):	N/A	5%	5.0% - 1ST $50,000 5.2% > $50,000 (AMT REQUIRED)	5.0%	UP TO 4.5% < $8,000 6.0% - NEXT $17,000 7.5% - NEXT $10,000 9.0% - NEXT $20,000 10.5% > $50,000	N/A	6.75%	4.8%-1ST $500,000 6.4%-NEXT $500,000 7.6% > $1,000,000
GENERAL PROPERTY:	OIL/GAS PRODUCTION IS VALUED AT 100% MARKET VALUE OF REMAINING RESERVES USING DCF APPROACH WELL EQUIPMENT IS VALUED AT 100% OF MARKET VALUE	OIL AND GAS PRODUCTION IS ASSESSED AT 400% OF PRIOR YRS. REVENUES x LOCAL LEVY ADJUSTED FOR EXEMPT PRODUCTION WELL EQUIPMENT IS ASSESSED AT ORIGINAL COST LESS DEPRECIATION x LOCAL LEVY	OIL/GAS PRODUCTION IS VALUED AT 87.5% OF SELLING PRICE OF PREV YEARS PRODUCTION EXCLUDING GOVERNMENT ROYALTIES WELL EQUIPMENT IS VALUED AT 29.0% OF REPLACEMENT COST LESS FIRST YR DEPRECIATION	OIL/GAS PRODUCTION IS EXEMPT SHUT-IN WELLS ARE ASSESSED AT 10% OF THE MARKET VALUE OF EQUIPMENT	OIL AND GAS PRODUCTION IS EXEMPT WELL EQUIPMENT IS EXEMPT	OIL/GAS PRODUCTION - 100% OF PREVIOUS YEAR'S VALUE LESS EXEMPT ROYALTIES SURFACE WELL EQUIP. IS ASSESSED AT 11.5% OF ACTUAL VALUE.	NEW OIL PRODUCTION AFTER 7/1/85 ON NON-PRODUCTIVE LEASE TAXED AT 7% OF GROSS VALUE (GAS AT 12%) WELL DRILLED BEFORE 7/1/85 TAXED AT 8.4% OF GROSS VALUE (GAS AT 15.25%) WELL EQUIPMENT IS ASSESSED AT 9% OF MARKET VALUE (DOWN HOLE EQUIPMENT IS NOT TAXED) TIMES LOCAL LEVY.	EQUIPMENT IS ASSESSED AT 33.3% OF 27% OF PRIOR YEARS VALUE LESS EXEMPT ROYALTIES AD VALOREM TAX ON PRODUCTION IS ASSESSED MONTHLY WITH SEVERANCE TAX; RATE VARIES WITH SCHOOL DISTRICT
MERIDIAN EFFECTIVE TAX RATE EXPERIENCE	$.0401/$1.00	$.052/$1.00	$.071/$1.00	$.0003/$1.00	N/A	$.066/$1.00	$.081/$1.00	$.0023/$1.00 - EQUIP $.0129/$1.00 - PROD
SEVERANCE/PRODUCTION (2): GAS	7.5% OF VALUE AT THE WELL EXCEPT TAX ON SWEET/ SOUR GAS SHALL NOT BE LESS THAN `121/1500 OF 1 CENT PER MCF	4% OF VALUE	2.0% - 1ST $25,000 3.0% - NEXT $75,000 4.0% - NEXT $200,000 5.0% > $300,000	7.085% OF VALUE	5.0% OF VALUE	6% OF VALUE	2.65% OF VALUE	3.75% OF VALUE PLUS PRIVILEGE TAX OF 3.15% OF VALUE
OIL	GREATER OF 4.6% OF VALUE OR 4.6 CENTS PER BARREL	4% OF VALUE	2.0% - 1ST $25,000 3.0% - NEXT $75,000 4.0% - NEXT $200,000 5.0% > $300,000	7.085% OF VALUE	6.5% OF VALUE OIL EXTRACTION TAX PLUS 5.0% SEVERANCE TAX	6.0% OF VALUE	5.0% OF VALUE	3.75% OF VALUE PLUS PRIVILEGE TAX OF 3.15% OF VALUE
CONSERVATION: GAS		.2% OF VALUE	.15% OF VALUE	$0.07 PER 1,000 CF LESS 7% OF VALUE OF CASHINGHEAD GAS (MAX TAX OF 1/3 OF VALUE)		.04% OF VALUE	.2% OF VALUE PLUS .5% RITT	18/100 OF 1% OF VALUE (FUND OVER $1 MILLION)
OIL	3/16 OF 1 CENT PER BARREL	.2% OF VALUE	.15% OF VALUE			.04% OF VALUE	.2% OF VALUE PLUS .5% RITT	18/100 OF 1% OF VALUE (FUND OVER $1 MILLION)

MERIDIAN OIL INC.

STATE TAX COMPARISON

EXHIBIT "A"

Ex #2

TYPE OF TAX	TEXAS	UTAH	COLORADO	OKLAHOMA	NORTH DAKOTA	WYOMING	MONTANA	NEW MEXICO
SALES AND USE TAX:								
STATE	6.25%	5 3/32%	3.0%	4.5%	6.0%	3.0%	N/A	5.00%
COUNTY, CITY, MTA, ETC.	2.00%	2%	4.0%	6.0%	1.0%	2.0%	N/A	2.06%
FRANCHISE (3):	$5.25/1000 STOCK-HOLDERS EQUITY IN STATE MINIMUM OF $68	N/A	N/A	$1.25/1000 OF STOCK-HOLDER EQUITY IN THE STATE (MAX. $20,000 PER YEAR; $20,040 ($40 LIC. FEE)	N/A	$100/$1,000,000 ASSETS LOCATED IN THE STATE	N/A	N/A

(1) DOES NOT CONSIDER MINIMUM AMOUNT UNDER $250 PER YEAR
(2) MAJOR EXEMPTIONS:

COLORADO - WELLS WITH 10 OR LESS BPD.
- CREDIT IS ALLOWED AGAINST 87.5% OF ALL AD VALOREM TAXES PAID BASED ON PRODUCTION. (EXCLUDING STRIPPER)

KANSAS - WELLS WITH 2 BPD OR VALUE RECEIVED LESS THAN $81 PER DAY.
- TERTIARY RECOVERY PROJECTS.

LOUISIANA - TERTIARY RECOVERY PROJECTS UNTIL PAYOUT.
- GAS CERTIFIED LOUISIANA ECONOMIC ACCELERATION PROGRAM WELLS. (EXEMPT UNTIL 1990 OR PRICE OF OIL EXCEEDS $29.50)
- NEW FIELDS DISCOVERY EXEMPT FOR 2 YRS FROM DATE OF REGULAR PRODUCTION (FIRST 2 MCF OR 100 BARRELS PER DAY)

MONTANA - GAS WELLS PRODUCING LESS THAN 60,000 MCF PER DAY: FIRST 30,000 MCF - EXEMPT
OVER 30,000 BUT LESS THAN 60,000 - 1.59% OF VALUE

N. DAKOTA - STRIPPER OIL PRODUCTION EXEMPT FROM 6.5% OIL EXTRACTION.
- WELLS DRILLED AND COMPLETED AFTER 4/27/87: FIRST 15 MONTHS PRODUCTION IS EXEMPT FROM 6.5% OIL EXTRACTION TAX, RATE IS 4% THEREAFTER.
- WORKOVERS: FIRST 12 MONTHS OF PRODUCTION IS EXEMPT FROM 6.5% OIL EXTRACTION.
- SECONDARY/TERTIARY PROJECTS TAXED AT 4% RATE ON OIL EXTRACTION PLUS 5% SEVERANCE.

OHIO - FIRST $50,000 OF VALUE.
- FIRST SIX MONTHS PRODUCTION FOR WELLS DRILLED AFTER 1983.

ALABAMA - 4% ON PRODUCTION FROM: ENHANCED RECOVERY PROJECTS AND STRIPPER (25 BARRELS/200,000 MCF PER DAY).
- 6% (FIRST 5 YRS.) ON PRODUCTION FROM: ONSHORE DISCOVERY WELLS, DEVELOPMENT WELLS/OFFSHORE WELLS DEPENDING ON DEPTH.
- 2% ON PRODUCTION FROM: OCCLUDED NATURAL GAS FROM COAL SEAM WELLS UNTIL 6/7/94.

TEXAS - REDUCED RATE (2.3%) AND/OR ABATEMENT FOR TERTIARY RECOVERY PROJECTS AND TIGHT FORMATION PRODUCTION.

WYOMING - STRIPPER OIL AND TERTIARY RECOVERY AT 4% SEVERANCE TAX RATE.

UTAH - STRIPPER OIL AND GAS PRODUCTION IS EXEMPT FROM SEVERANCE TAX.
- NEW WELLS DRILLED AFTER 1/1/84 ARE EXEMPT FROM SEVERANCE TAX FOR FIRST 6 MONTHS OF PRODUCTION.

(3) DOES NOT CONSIDER STATES WITH MINIMUM TAX.

Ex #2

EXHIBIT "B"

OIL and GAS PRODUCTION TAXES on WORKING INTEREST REVENUE (Combined State and Local) NORTH DAKOTA v. MONTANA

(in percentage)

TYPE OF PRODUCTION	NORTH DAKOTA CURRENT	MONTANA CURRENT	MONTANA SB 373
Regular (1)	11.5	14.1	14.1
Secondary	9.0	14.1	8.7
Tertiary	9.0	14.1	6.7
Stripper (< 10 Bpd)			
First 5 Bbls	5.0	10.7	5.7
Over 5 Bbls	5.0	10.7	8.7
Workovers (First 12 months)	5.0	14.1	14.1
Horizontal	11.5	14.1	8.7
New Production (2)			
Initial Period	5.0	5.7	0.7
Following Periods	9.0	12.7	12.7
GAS:			
Regular (1)	5.0	18.6	18.6
Stripper (< 60 Mcfpd)			
First 30 Mcf	5.0	10.7	10.7
Next 30 Mcf	5.0	12.29	12.29
New Production (2)			
Initial Period	5.0	3.35	.7
Following Periods	5.0	15.35	15.35

(1) Regular is defined as wells completed prior to:
4/27/87 in North Dakota; 7/1/85 in Montana

(2) New production and tax incentive periods are defined as:
North Dakota = Well completed after 4/26/87, tax incentive for first 15 months.
Montana = Well completed after 6/30/85, tax incentive for first 24 months for severance tax, first 12 months for local tax.

SENATE TAXATION
EXHIBIT NO. 3
DATE 3/18/91
BILL NO. SB 373

March 16, 1991

Honorable Senator Gage
52nd Legislature
Helena, Mt.

Re: Senate Bill # 373
Revise Taxation of Oil and Gas

Dear Sir:

I have read through your bill. I have very little experience or expertise in the finance of counties or school districts so will not comment of these portions of the bill. I am the president of Croft Petroleum Co., of Cut Bank, and do have some expertise on the production of and exploration for oil and gas in Montana.

The oil and gas industry in this state relies heavily on out of state sources of money for exploration. In order to attract this ouside funding we must compete with the tax treatment on oil and gas production of other states and nations. In this regard it would be nice to point out to potential investors that the state openly seeks investment here by giving tax holidays on the first year or two of production. Not only that but if the well is small the state will decrease it's tax bite. Such things really do not cost the state much money and they go a long way towards reversing the terrible tax image the state has amoung oil and gas companies.

Due to these reasons I support your bill and feel it would benefit the State of Montana and the oil and gas industry.

Sincerely,

Jerry Croft

Jerry Croft

SENATE TAXATION
EXHIBIT NO. 4
DATE 3/18/91
BILL NO. SB 373

W. M. VAUGHEY, JR.

P.O. BOX 46
HAVRE, MONTANA 59501-0046
(406) 265-5421

**TESTIMONY IN SUPPORT OF SB 373,
THE NEW PRODUCTION AND STRIPPER TAX INCENTIVE BILL**

TO BE HEARD BY SENATE TAXATION COMMITTEE MARCH 18, 1991

Dear Mr. Chairman and Members of the Senate Taxation Committee:

My name is Bill Vaughey. I am an independent producer primarily of natural gas. I came to the state in 1968 the result of the discovery the year previous of Tiger Ridge Gas Field, now our state's largest, lying south of Havre and Chinook on the north flank of the Bear Paw Mountains.

Those of us who produce gas in this area and sell that gas to Northern Natural Gas enjoy the unusual situation of having the wellhead taxes we pay on production reimbursed us by the transmission company. Despite that personal situation, I, as several Committee members may remember, was a leader in an effort during the 1985 session to revolutionize the tax environment Montana offers the exploration dollar by passage of two key measures during that session. I'm proud to say that Sen. Mazurek and then Rep. Harp carried one of the two flagship bills that were involved. I took part in this 1985 effort through knowledge that our state, at least since the 1950's, had in every way imaginable discouraged expenditure in Montana of the exploration dollar, 95 cents of which has always come from outside the state. Something needed to be done if Montana was ever to really get in the oil and gas business.

I had my own personal example to look to. In 1978, I saw the need to balance my gas production by using my Montana-gas-generated income to seek oil production, I chose to do so in the state of Alabama, where the total tax burden on production is 8%. This contrasts with the total tax burden on oil in our state of 12.7% <u>if</u> SB 373 is passed by your Committee and ultimately becomes law.

I would submit that it <u>must</u> be passed if Montana is to stay in the oil and gas exploration picture and see its tremendous potential as a large petroleum producer realized.

Again in this connection I can relay a personal story. The result of the pro exploration measures passed during the 1985-87 legislatures, I for the first time ventured outside the Bear Paw Mountain Area to wildcat for oil and gas in Montana. For the first time I utilized investment dollars of oil producers who live outside the state because for the first time I was able to show them a tax environment that at least <u>approached</u> being competitive with other producing states. Initial announcement of that program is described in the attached news article.

Ex #4

Ultimately, in excess of $500,000 was expended in leasing land, purchasing seismic information and then drilling the five wildcats in Teton and Pondera Counties that comprised the program. While sad to say all five wells proved to be dry holes, each potentially could have each discovered a sizeable oil field, and in the meantime every dollar of the half million involved went through the hands of Montana working men and women. That's a small story, but it's an apocryphal one. Despite depressed crude oil prices in 1986 and beyond, my industry was just beginning to respond in large measure to the new tax environment our legislature had passed.

SB 373 merely replaces a measure that has been in place since the '85 session. It will be nothing less than a tragedy for the state if this bill does not ultimately become law. I urge your Committee's support of SB 373.

Sincerely,

Bill Vaughey

W. M. Vaughey, Jr.
Past President of the
Montana Petroleum Association
Member, Northern Montana
Oil & Gas Association

Havre Independent Schedules Exploration On West Flank Of Sweetgrass Arch

Vaughey & Vaughey II, a Havre, Montana firm, has staked four wildcats to test Cretaceous, Jurassic and Mississippian rocks on the west flank of the Sweetgrass Arch in northwest Montana.

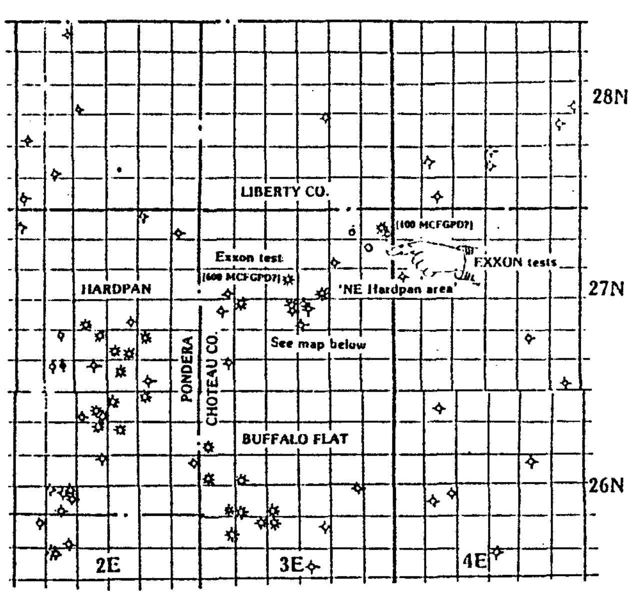
Three and a quarter miles north of Madison production in Pondera Field, Vaughey & Vaughey II will drill a 2800-foot well in c nw se 16-28n-4w, Pondera County. The closest previous drilling is a Madison failure three quarters of a mile to the southeast. There are no reported oil shows there.

Three of the new ventures are in Teton County, 2½ to 4½ miles from the multiple-pay Gypsy Basin Field (Sunburst, Swift, Sawtooth, Madison and Nisku). One will be in ne nw 4-27n-7w, two and a half miles west of the field. Another is about two miles farther west, in nw ne 6-27n-7w. They are projected to 3950 ft and 4150 ft, respectively. Two and a half miles south of Gypsy Basin Field, Vaughey & Vaughey II will drill a 3700-ft Madison test in ne ne 23-27n-7w.

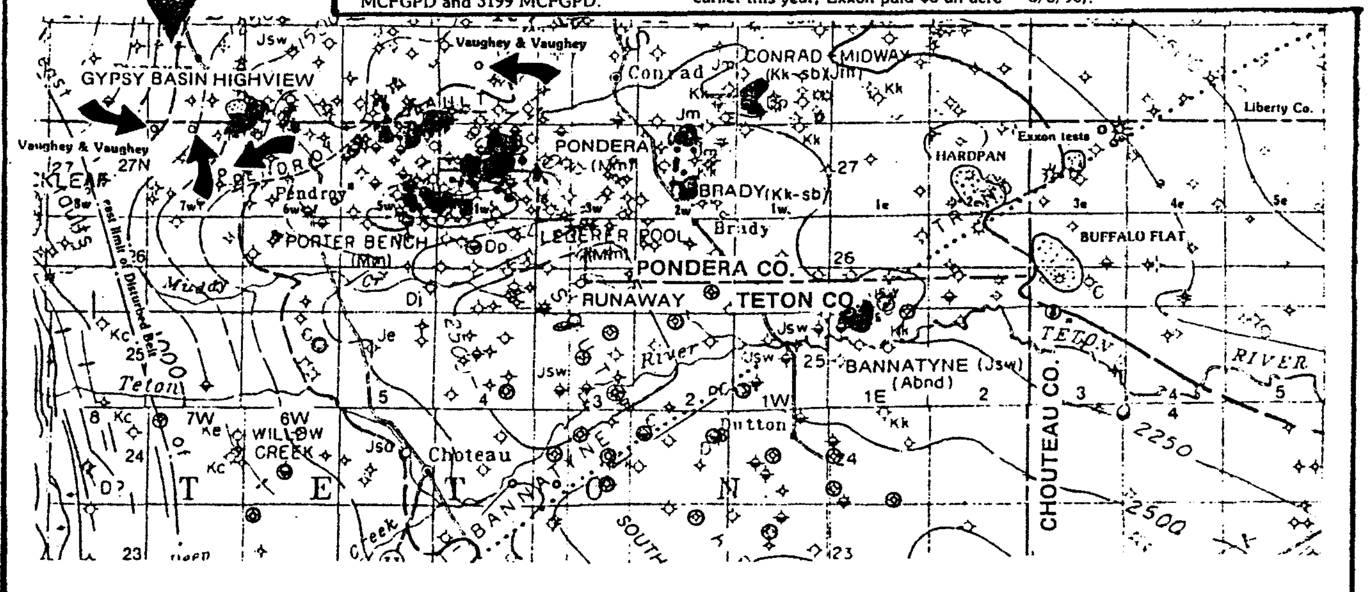
Exxon Begins Development In Montana's Northeast Hardpan Area

Exxon Corp has scheduled two Bow Island gas tests near its discovery well in the 'Northeast Hardpan Area' where the Scapegoat-Bannatyne Trend crosses the east flank of the Sweetgrass Arch in Chouteau County, Montana. The 1 Gollehon Grain, c nw 12-27n-3e, and 1 Hollandsworth, c w½ se 2-27n-3e, are southwest extensions to the 1 Aabak, nw se 1-27n-3e, that was completed late last year (MOJ, 12/28/89). The 1 Aabak is three miles northeast of the East Hardpan area. It was one of two Bow Island gas wells completed in this area last year by Exxon. The other is 1 State B, sw ne 16-27n-3e, in East Hardpan. Exxon has not announced the initial potential of either well. Field sources say the 1 Aabak was tested naturally at a rate in excess of 100,000 cu ft of gas per day. Unofficial reports indicate the 1 State B, flowed 600,000 cu ft of gas per day.

Gas is produced from four Bow Island sands in the Hardpan-Buffalo Flat Area (to the south). The horizon that produces in the East Hardpan area, closest to the Exxon 1 Aabak, is the 1st Bow Island, the upper member, at about 700 ft. Wells in Hardpan Field went on production at 23 MCFGPD to 2000 MCFGPD. Those in Buffalo Flat Field had initial potentials between 141 MCFGPD and 3199 MCFGPD.



At a State Lands oil and gas lease sale earlier this year, Exxon paid $6 an acre for parcels near the 1 Aabak (MOJ, 3/8/90).



Pertinent Quickies, from page 1

5

SENATE TAXATION
EXHIBIT NO. 5
DATE 3/16/91
BILL NO. SB 373

ACTUAL TAXES AS
PERCENTAGE OF MARKET VALUE

1989 (in 000)

CATEGORY	MARKET VALUE	TAXBL VALUE	TAX RATE	TAX	PERCENT OF MARKT VALU
Oil	$ 208,263	$ 208,263	100%	$ 41,201	19.78%
Cattle	548,527	21,941	4%	5,215	.95%
Ag Implement	503,529	55,388	11%	13,271	2.64%
Residential	7,211,869	278,378	3.86%	97.089	1.34%
All Grain	689,961	-0-	-0-	-0-	-0-
Timber	92,000	-0-	-0-	-0-	-0-
Personal Property	3,050,598	269,441	varible	73,473	2.4%

TFK 1-15-91

Keating

Ex #5

Market and Taxable Values for Tax Year 1989 By Property Type

Property Type	Class	1989 Tax rate	1989 Total Market Value	1989 Total Taxable Value	Market Value Within Cities/Towns	Taxable Value Within Cities/Towns
Tillable Irrigated	3	30.000%	46,149,727	13,844,918	110,300	33,090
Tillable Non-Irrigated	3	30.000%	278,373,130	83,511,939	33,317	9,995
Grazing Land	3	30.000%	127,914,973	38,374,492	57,963	17,389
Wild Hay	3	30.000%	18,493,463	5,548,039	9,240	2,772
Timber Land	13	3.840%	170,957,578	6,564,771	47,708	1,832
Exempt Agricultural Land	0	0.000%	0	0	0	0
Exempt Timber Land	0	0.000%	0	0	0	0
Subtotal Ag Land			641,888,871	147,844,159	258,528	65,078
Farmstead 1 Acre	14	3.088%	126,142,584	3,895,283	331,347	10,232
Suburban Tracts Residential	4	3.860%	1,454,494,534	56,143,489	16,564,119	639,375
Suburban Tracts Commercial	4	3.860%	222,920,000	8,604,712	26,043,394	1,005,275
Locally Assessed Co-op Land	5	3.000%	220,100	6,603	31,900	957
Eligible Mining Claims	18	30.000%	31,620	9,486	157	47
Nonproductive Land Under 20 Acres	19	2.000%	5,097,350	101,947	415,500	8,310
Class 20 Out of Production Land	20	3.860%	0	0	0	0
Suburban Tracts - Low Income	4	2.282%	58,245,574	1,329,164	35,586,547	812,085
Exempt Land	0	0.000%	0	0	0	0
City/town Lots Residential	4	3.860%	1,406,203,264	54,279,446	1,268,411,425	48,960,681
City/town Lots Commercial	4	3.860%	919,714,326	35,500,973	884,690,544	34,149,055
Farmstead 1 Acre - Low Income	14	1.902%	1,707,571	32,478	7,834	149
Qualified Golf Courses	4	1.930%	9,519,378	183,724	1,875,648	36,200
Industrial Sites	4	3.860%	72,859,456	2,812,375	18,741,813	723,434
New Industrial Sites	5	3.000%	1,432,533	42,976	12,100	363
R & D Land	5	3.000%	29,200	876	0	0
Subtotal Non-Ag Land			4,278,617,491	162,943,532	2,252,712,328	86,346,163
Impr. on Ag and Timber Land	14	3.088%	1,680,640,738	51,898,186	2,917,681	90,098
Impr. on Disparately Owned Ag Land	4	3.860%	19,215,959	741,736	40,803	1,575
Impr. on Disparately Owned Ag Land	14	3.088%	1,973,769	60,950	2,987,338	92,249
Impr. on Class 20 Out of Production	20	3.860%	0	0	0	0
Impr. on Tracts and Lots - Low Incom	4	2.258%	163,073,428	3,682,198	98,556,820	2,225,413
Exempt Improvements	0	0.000%	0	0	0	0
Impr. on Ag Land - Low Income	14	1.367%	9,099,781	124,394	210,900	2,883
Impr. on Surban Tracts Residential	4	3.860%	2,759,762,487	106,526,832	32,745,259	1,263,967
Impr. on Surban Tracts Commercial	4	3.860%	615,088,653	23,742,422	79,284,870	3,060,396
Locally Assessed Co-op Improvements	5	3.000%	351,800	10,554	67,333	2,020
Impr. on City/Town Lots Residential	4	3.860%	4,452,106,839	171,851,324	3,958,465,337	152,796,762
Impr. on City/Town Lots Commercial	4	3.860%	2,615,208,368	100,947,043	2,451,720,207	94,636,400
Impr. on Rt of Way - Commercial	4	3.860%	19,270,544	743,843	14,971,684	577,907
Impr. on Rt of Way - Residential	4	3.860%	1,091,451	42,130	147,617	5,698
Impr. on Rt of Way - Agricultural	4	3.860%	89,404	3,451	80,622	3,112
Impr. on Hydraulic Power Works	4	3.860%	0	0	0	0
Impr. on Qualified Golf Courses	4	1.930%	22,648,912	437,124	2,895,181	55,877
Impr. on Industrial Sites	4	3.860%	616,154,482	23,783,563	127,932,876	4,938,209
R & D Improvements	5	3.000%	686,567	20,597	9,567	287
Impr. on New Incustrial Sites	5	3.000%	8,497,233	254,917	153,833	4,615
Improved Existing Improvements	4	2.140%	2,455,421	52,546	2,318,318	49,612
R & D Improved Improvements	5	0.600%	998,167	5,989	0	0
Subtotal Improvements			12,988,414,002	484,929,799	6,775,506,246	259,807,080

Estimated Taxes Levied for Tax Year 1989 By Property Type

Property Type	Estimated 1989 Taxes Levied by: State	County	Schools	Cities/ Towns	Total 1989 Taxes Levied
Tillable Irrigated	83,070	979,882	2,278,865	2,816	3,344,633
Tillable Non-Irrigated	501,072	6,025,444	13,672,183	1,122	20,199,821
Grazing Land	230,247	2,703,256	6,074,003	1,744	9,009,249
Wild Hay	33,288	410,345	938,641	236	1,382,511
Timber Land	39,389	528,733	1,304,812	143	1,873,076
Exempt Agricultural Land	0	0	0	0	0
Exempt Timber Land	0	0	0	0	0
Subtotal Ag Land	887,065	10,647,659	24,268,504	6,061	35,809,290
Farmstead 1 Acre	23,372	307,381	715,936	874	1,047,562
Suburban Tracts Residential	336,861	4,799,994	11,156,893	63,781	16,357,529
Suburban Tracts Commercial	51,628	731,315	1,740,984	110,691	2,634,618
Locally Assessed Co-op Land	40	451	1,090	82	1,662
Eligible Mining Claims	57	816	1,484	3	2,360
Nonproductive Land Under 20 Acres	612	8,169	19,007	752	28,539
Class 20 Out of Production Land	0	0	0	0	0
Suburban Tracts - Low Income	7,975	111,295	265,480	81,020	465,770
Exempt Land	0	0	0	0	0
City/town Lots Residential	325,677	4,555,419	11,147,973	4,838,993	20,868,062
City/town Lots Commercial	213,006	2,968,371	7,241,101	3,393,287	13,815,764
Farmstead 1 Acre - Low Income	195	2,497	5,816	9	8,517
Qualified Golf Courses	1,102	15,298	37,407	3,291	57,099
Industrial Sites	16,874	229,668	590,903	69,676	907,121
New Industrial Sites	258	2,641	7,453	52	10,405
R & D Land	5	66	138	0	209
Subtotal Non-Ag Land	977,661	13,733,380	32,931,665	8,562,511	56,205,217
Impr. on Ag and Timber Land	311,389	3,871,157	8,819,515	7,564	13,009,626
Impr. on Disparately Owned Ag Land	4,450	54,297	113,502	181	172,431
Impr. on Disparately Owned Ag Land	366	4,549	11,731	6,003	22,649
Impr. on Class 20 Out of Production	0	0	0	0	0
Impr. on Tracts and Lots - Low Incom	22,093	313,829	745,005	214,802	1,296,729
Exempt Improvements	0	0	0	0	0
Impr. on Ag Land - Low Income	746	9,190	21,428	188	31,552
Impr. on Surban Tracts Residential	639,161	8,952,480	21,478,636	118,829	31,189,106
Impr. on Surban Tracts Commercial	142,455	2,010,269	4,850,039	325,043	7,327,806
Locally Assessed Co-op Improvements	63	510	1,968	176	2,717
Impr. on City/Town Lots Residential	1,031,108	14,540,042	35,610,091	14,718,921	65,900,161
Impr. on City/Town Lots Commercial	605,682	8,516,725	20,964,855	9,412,700	39,499,963
Impr. on Rt of Way - Commercial	4,463	52,759	134,676	60,859	252,758
Impr. on Rt of Way - Residential	253	2,752	7,726	628	11,358
Impr. on Rt of Way - Agricultural	21	334	688	320	1,363
Impr. on Hydraulic Power Works	0	0	0	0	0
Impr. on Qualified Golf Courses	2,623	37,052	92,535	5,519	137,728
Impr. on Industrial Sites	142,701	1,904,049	4,539,868	489,192	7,075,810
R & D Improvements	124	1,542	3,262	36	4,964
Impr. on New Incustrial Sites	1,530	16,205	46,429	441	64,605
Improved Existing Improvements	315	4,534	11,518	4,711	21,077
R & D Improved Improvements	36	449	945	0	1,430
Subtotal Improvements	2,909,579	40,292,724	97,455,417	25,366,112	166,023,832

Ex #5

Market and Taxable Values for Tax Year 1989
By Property Type

Property Type	Class	1989 Tax rate	1989 Total Market Value	1989 Total Taxable Value	Market Value Within Cities/Towns	Taxable Value Within Cities/Towns
Autos, Trucks lt 1 Ton	0	0.000%	0	0	0	0
Motorcycles	0	0.000%	0	0	0	0
Trucks 1 to 1 1/2 Tons	9	13.000%	33,928,046	4,410,646	8,489,685	1,103,659
Trucks over 1 1/2 Tons	8	11.000%	66,873,664	7,356,103	10,384,809	1,142,329
Coal and Ore Haulers	10	16.000%	27,637,594	4,422,015	29,681	4,749
Buses	9	13.000%	1,214,838	157,929	299,800	38,974
Trailers	8	11.000%	44,079,709	4,848,768	7,059,891	776,588
Subtotal Vehicles			173,733,851	21,195,461	26,263,866	3,066,299
Horses	6	4.000%	32,468,550	1,298,742	283,375	11,335
Cattle	6*	4.000%	548,527,500	21,941,100	122,350	4,894
Other Livestock	6	4.000%	2,088,350	83,534	14,700	588
Sheep	6	4.000%	15,424,950	616,998	2,575	103
Swine	6	4.000%	2,764,750	110,590	1,050	42
Subtotal Livestock			601,274,100	24,050,964	424,050	16,962
Ag Implements	8	11.000%	503,528,718	55,388,159	1,025,709	112,828
Tack Equipment	0	11.000%	0	0	0	0
Mobile Homes	12	3.860%	398,883,912	15,396,919	106,078,575	4,094,633
Mobile Homes - Retired and Disabled	12	2.226%	13,167,610	293,111	4,557,862	101,458
Furniture and Fixtures	9	13.000%	329,241,000	42,801,330	262,217,054	34,088,217
Locally Assessed Co-op Pers. Prop.	5	3.000%	18,903,500	567,105	254,067	7,622
Machin. other than Farm, Min., Manuf	8	11.000%	237,412,818	26,115,410	18,573,091	2,043,040
Repair Tools	7	8.000%	40,130,888	3,210,471	20,618,838	1,649,507
Manufacturing Machinery	8	11.000%	693,695,518	76,306,507	65,481,500	7,202,965
New & Expanding Ind- Mach & Eq	8	11.000%	7,030,882	773,397	2,698,164	296,798
Mining Machinery	8	11.000%	11,191,064	1,231,017	219,482	24,143
Oil & Gas Field Equipment	8	11.000%	107,671,936	11,843,913	677,218	74,494
Oil & Gas Flow Lines	10	16.000%	38,530,819	6,164,931	48,963	7,834
Ski Lifts	8	11.000%	4,541,018	499,512	0	0
New Industry - Personal Property	5	3.000%	41,239,033	1,237,171	98,200	2,946
Supplies and Materials	8	11.000%	64,093,827	7,050,321	8,974,618	987,208
All Other Property	10	16.000%	998,981	159,837	559,619	89,539
Rural Telephone Property	7	8.000%	758,538	60,683	0	0
Air and H2O Pollution Control	5	3.000%	499,483,433	14,984,503	19,750,633	592,519
New & Expanding Ind- Air & H2O P C	5	3.000%	593,067	17,792	0	0
All Gasohol Related Property	5	3.000%	18,167	545	0	0
R & D Personal Property	5	3.000%	931,433	27,943	373,533	11,206
Cable TV Systems	10	16.000%	11,761,300	1,881,808	8,066,513	1,290,642
Theatre and Sound Equipment	10	16.000%	784,400	125,504	711,394	113,823
Radio and TV Broadcasting Equip.	10	16.000%	7,974,950	1,275,992	3,859,350	617,496
CB's and Mobile Phones	9	13.000%	1,144,046	148,726	231,377	30,079
Rental Equipment	6	4.000%	6,357,550	254,302	4,682,450	187,298
Rental Equipment	8	11.000%	10,005,945	1,100,654	7,875,864	866,345
Class 20 Out of Production	20	3.860%	0	0	0	0
Failure to Report Penalty	6-10.16	99.990%	523,897	523,845	135,815	135,801
Subtotal Personal Property			3,050,598,251	269,441,408	537,769,886	54,628,441

Estimated Taxes Levied for Tax Year 1989
By Property Type

Property Type	Estimated 1989 Taxes Levied by: State	County	Schools	Cities/Towns	Total 1989 Taxes Levied
Autos, Trucks lt 1 Ton	0	0	0	0	0
Motorcycles	0	0	0	0	0
Trucks 1 to 1 1/2 Tons	26,464	335,304	798,405	106,888	1,267,061
Trucks over 1 1/2 Tons	44,137	566,102	1,346,855	118,495	2,075,588
Coal and Ore Haulers	26,532	246,164	669,066	463	942,224
Buses	948	11,930	27,992	3,553	44,422
Trailers	29,093	377,058	895,911	75,656	1,377,717
Subtotal Vehicles	127,173	1,536,558	3,738,229	305,054	5,707,013
Horses	7,792	97,525	223,166	1,094	329,578
Cattle	131,647	1,564,563	3,518,302	372	5,214,883
Other Livestock	501	6,241	13,661	75	20,478
Sheep	3,702	47,141	90,116	11	140,971
Swine	664	7,977	17,457	2	26,101
Subtotal Livestock	144,306	1,723,448	3,862,703	1,555	5,732,012
Ag Implements	332,329	3,965,322	8,964,983	8,418	13,271,052
Tack Equipment	0	0	0	0	0
Mobile Homes	92,362	1,239,843	2,994,685	390,874	4,717,784
Mobile Homes - Retired and Disabled	1,759	24,422	58,412	9,745	94,338
Furniture and Fixtures	256,808	3,627,769	8,891,556	3,412,610	16,188,743
Locally Assessed Co-op Pers. Prop.	3,403	38,169	88,755	787	131,113
Machin. other than Farm, Min., Manuf	156,692	1,557,022	4,063,576	198,126	5,975,416
Repair Tools	19,263	260,669	625,200	157,174	1,062,305
Manufacturing Machinery	457,839	5,866,754	14,480,327	701,106	21,506,026
New & Expanding Ind- Mach & Eq	4,640	50,823	150,620	35,522	241,605
Mining Machinery	7,386	87,489	223,240	1,934	320,050
Oil & Gas Field Equipment	71,063	706,137	1,591,394	7,113	2,375,708
Oil & Gas Flow Lines	36,990	364,126	800,182	809	1,202,106
Ski Lifts	2,997	39,331	86,295	0	128,623
New Industry - Personal Property	7,423	76,490	220,420	423	304,756
Supplies and Materials	42,302	458,678	1,203,688	95,088	1,799,756
All Other Property	959	12,659	27,147	6,691	47,457
Rural Telephone Property	364	5,570	15,480	0	21,415
Air and H2O Pollution Control	89,907	412,699	1,684,648	48,706	2,235,959
New & Expanding Ind- Air & H2O P C	107	1,225	2,914	0	4,245
All Gasohol Related Property	3	45	89	0	137
R & D Personal Property	168	2,069	4,868	1,403	8,508
Cable TV Systems	11,291	158,031	383,299	126,652	679,273
Theatre and Sound Equipment	753	9,850	24,684	10,335	45,622
Radio and TV Broadcasting Equip.	7,656	109,018	272,353	63,776	452,803
CB's and Mobile Phones	892	9,342	24,811	2,997	38,043
Rental Equipment	1,526	20,936	51,040	18,517	92,018
Rental Equipment	6,604	83,832	206,144	74,728	371,309
Class 20 Out of Production	0	0	0	0	0
Failure to Report Penalty	3,143	42,182	96,951	14,656	156,932
Subtotal Personal Property	1,616,648	19,230,501	47,237,761	5,388,191	73,473,101

Ex #5

Market and Taxable Values for Tax Year 1989
By Property Type

Estimated Taxes Levied for Tax Year 1989
By Property Type

Property Type	Class	1989 Tax rate	1989 Total Market Value	1989 Total Taxable Value	Market Value Within Cities/Towns	Taxable Value Within Cities/Towns	Estimated 1989 Taxes Levied by: State	County	Schools	Cities/ Towns	Total 1989 Taxes Levied
Net Proceeds	1	100.000%	208,262,794	208,262,794	23,946	23,946	1,249,577	12,468,109	27,481,083	2,526	41,201,296
Gross Proceeds of Coal Strip Mines	2	45.000%	273,314,787	122,991,654	0	0	737,950	3,385,561	9,637,451	0	13,760,962
Gross Proceeds of Underground Coal	2	33.300%	0	0	0	0	0	0	0	0	0
Gross Proceeds of Metal Mines	2	3.000%	424,701,100	12,741,033	5,472,300	164,169	76,446	1,019,998	2,756,525	15,993	3,868,963
Subtotal Proceeds			906,278,681	343,995,481	5,496,246	188,115	2,063,973	16,873,669	39,875,060	18,520	58,831,221
Railroads Personal	15	7.920%	53,195,770	4,213,105	4,395,644	348,135	25,279	323,075	807,480	38,460	1,194,293
Gas & Electric Companies Personal	11	12.000%	269,168,842	32,300,261	112,323,767	13,478,852	193,802	2,617,744	6,520,124	1,321,409	10,653,079
Pipelines Personal	11	12.000%	45,806,858	5,496,823	3,412,375	409,485	32,981	391,082	852,220	44,165	1,320,448
Indep. Tele. Companies Persona	7*	8.000%	1,999,638	159,971	593,538	47,483	960	11,490	26,759	4,815	44,024
Rural Co-op companies Personal	5	3.000%	85,362,633	2,560,879	20,411,933	612,358	15,365	177,749	430,914	61,089	685,117
Telecomm. Companies Personal	11	12.000%	251,526,058	30,183,127	178,789,717	21,454,766	181,099	2,448,184	6,054,982	2,078,513	10,762,778
Natural Gas companies Personal	11	12.000%	1,000,000	120,000	497,025	59,643	720	6,209	15,247	5,425	27,600
Electric Companies Personal	11	12.000%	48,533,342	5,824,001	2,542,625	305,115	34,944	321,886	853,528	29,912	1,245,271
Airlines Personal	17	12.000%	3,446,117	413,534	1,695,483	203,458	2,481	35,445	87,662	16,570	142,158
Subtotal Utility Personal Property			760,039,258	81,271,701	324,662,106	36,919,295	487,630	6,332,863	15,653,917	3,600,357	26,074,768
Electric Companies Real	11	12.000%	1,105,729,033	132,687,484	4,421,525	530,583	796,125	3,625,914	14,010,109	54,802	18,486,950
Telecomm. Companies Real	11	12.000%	298,767,250	35,852,070	130,487,358	15,658,483	215,112	2,956,873	7,245,247	1,550,056	11,967,289
Airlines Real	17	12.000%	51,923,233	6,230,788	5,102,625	612,315	37,385	557,511	1,392,029	49,357	2,036,282
Gas & Electric Companies Real	11	12.000%	811,587,058	97,390,447	24,198,717	2,903,846	584,343	4,453,798	13,304,578	304,626	18,647,344
Pipelines Real	11	12.000%	313,846,525	37,661,583	877,183	105,262	225,969	2,211,191	5,934,128	10,601	8,381,890
Railroads Real	15	7.920%	683,804,773	54,157,338	38,953,624	3,085,127	324,944	3,869,609	9,556,568	318,829	14,069,950
Rural Co-op companies Real	5	3.000%	224,231,133	6,726,934	8,864,267	265,928	40,362	473,948	1,133,194	26,087	1,673,590
Indep. Tele. Companies Real	7	8.000%	5,603,075	448,246	55,050	4,404	2,689	36,238	82,794	632	122,353
Natural Gas companies Real	11	12.000%	4,804,617	576,554	680,883	81,706	3,459	43,184	90,980	6,323	143,946
Subtotal Utility Real Property			3,500,296,698	371,731,444	213,641,232	23,247,654	2,230,389	18,228,266	52,749,626	2,321,311	75,529,592
Statewide Total			26,901,141,203	1,907,403,949	10,136,734,489	464,285,087	11,444,424	128,599,068	317,772,881	45,569,672	503,386,045

GREATER RICHLAND COUNTY
Economic Development Corp.

123 West Main, Sidney, Montana 59270 — Telephone: (406) 482-4679

Senator Mike Halligan, Chairman
Senate Taxation Committee
Montana State Legislature
Helena, Montana

Dear Senator Halligan,

Please submit the following testimony into the record, in support of SB 373:

Mr. Chairman and Taxation Committee Members,

My name is Lynnette Hintze, and I work as executive director for the Greater Richland County Economic Development Corporation, which serves Sidney and the surrounding communities in Richland County. Richland County is located in the Williston Oil Basin, and has been the target of much oil and gas exploration in years gone by, particularly in the late 1970s and early 1980s.

Our Corporation feels that SB 373 will help to encourage the oil and gas industry to begin reinvesting in Montana. Poor economic conditions in eastern Montana could be lessened if oil activity picked up again, and this legislation makes a valiant attempt to offer much-needed incentives.

We support the bill's exemption of new production of oil and gas for 24 months, and because there is increased interest in horizontal drilling recently, we particularly support the portions of SB 373 that deal with incentives for secondary recovery projects and horizontally drilled wells.

The State of Montana has been sending mixed signals to the oil industry for years. The time has come to correct past mistakes, offer competitive, luring incentives, and get oil and gas exploration and production going again in Montana.

Please vote Yes for SB373. Thank you.

WITNESS STATEMENT

To be completed by a person testifying or a person who wants their testimony entered into the record.

Dated this 18th day of March, 1991.

Name: Ken Williams

Address: 16 E. Granite (Entech)

Butte, MT

Telephone Number: 782-4233

Representing whom?

Entech

Appearing on which proposal?

SB-373

Do you: Support? ✓ Amend?_____ Oppose?_____

Comments:

oral testimony

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY

WITNESS STATEMENT

To be completed by a person testifying or a person who wants their testimony entered into the record.

Dated this 18 day of MARCH, 1991.

Name: Jerry Croft

Address: Box 1156

Cut BANK, Mt

Telephone Number: 406-873-5547

Representing whom?

Croft Petroleum Co

Appearing on which proposal?

SB 373

Do you: Support? X Amend? _____ Oppose? _____

Comments:

Good - Bill ; Simple to Calculate, administer.

Incentive for oil + gas industry to drill, produce

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY

WITNESS STATEMENT

To be completed by a person testifying or a person who wants their testimony entered into the record.

Dated this 18 day of March, 1991.

Name: WILLIAM W. BALLARD

Address: BOX 20170

BILLINGS

Telephone Number: 259-7860

Representing whom?

BALCRON OIL

Appearing on which proposal?

SB 373

Do you: Support? X Amend? ____ Oppose? ____

Comments:

ORAL & WRITTEN Testimony

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY

WITNESS STATEMENT

To be completed by a person testifying or a person who wants their testimony entered into the record.

Dated this 18TH day of MARCH, 1991.

Name: W M (BILL) VAUGHEY JR

Address: P.O. BOX 46

HAVRE, MT 59501

Telephone Number: (406) 265-5421

Representing whom?

SELF, AN INDEPENDENT OIL & GAS PRODUCER, HAVRE

Appearing on which proposal?

SB 373

Do you: Support? ✓ Amend?_____ Oppose?_____

Comments:

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY

WITNESS STATEMENT

To be completed by a person testifying or a person who wants their testimony entered into the record.

Dated this 18 day of MAR, 1991.

Name: F. H. BUCK BOLES

Address: BOX 1730

HELENA MT

Telephone Number: 442-2405

Representing whom?

MONT. CHAMBER

Appearing on which proposal?

SB-450 (SUP) & SB 373 (SUP)

Do you: Support? X X Amend? ____ Oppose? ____

Comments:

SB-450 - GOOD SIMPLIFICATION FOR MT TAXPAYERS

SB-373 INCENTIVE FOR EXPLORATION & DRILLING IN OIL & GAS INDUSTRY. WE DESPERATELY NEED MORE ACTIVITY IN OIL & GAS INDUSTRY. VERY BASIC TO OUR ECONOMY NOW AND IN FUTURE

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY

WITNESS STATEMENT

To be completed by a person testifying or a person who wants their testimony entered into the record.

Dated this 18 day of MARCH, 1991.

Name: WILLIAM H. TULLOCH

Address: C/o MERIDIAN OIL INC
801 CHERRY ST.
FT. WORTH, TX 76102

Telephone Number: 817/347-2553

Representing whom?

MERIDIAN OIL INC

Appearing on which proposal?

SB 373

Do you: Support? ✓ Amend? ____ Oppose? ____

Comments:

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY

WITNESS STATEMENT

To be completed by a person testifying or a person who wants their testimony entered into the record.

Dated this 18th day of March, 1991.

Name: Walter J. Keko CPA

Address: PO Box 5334

Missoula, Mt. 59806

Telephone Number: 549-4148

Representing whom?

Montana Society of CPA's

Appearing on which proposal?

SB 450

Do you: Support? ✓ Amend? ✓ Oppose? _____

Comments:

Oral Testimony

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY