**MINUTES**

**MONTANA SENATE**
**53rd LEGISLATURE - SPECIAL SESSION**

**COMMITTEE ON TAXATION**

**Call to Order:** By Senator Halligan, Chair, on December 2, 1993, at 8:16 a.m.

**ROLL CALL**

**Members Present:**
Sen. Mike Halligan, Chair (D)
Sen. Dorothy Eck, Vice Chair (D)
Sen. Bob Brown (R)
Sen. Steve Doherty (D)
Sen. Delwyn Gage (R)
Sen. Lorents Grosfield (R)
Sen. John Harp (R)
Sen. Spook Stang (D)
Sen. Tom Towe (D)
Sen. Fred Van Valkenburg (D)
Sen. Bill Yellowtail (D)

**Members Excused:** None.

**Members Absent:** None.

**Staff Present:** Jeff Martin, Legislative Council
Beth Satre, Committee Secretary

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

**Committee Business Summary:**
Hearing: SB 4, SB 18
Executive Action: SB 4

**HEARING ON SB 4**

Opening Statement by Sponsor:

**Senator Towe, Senate District 36**, noted that SB 4 had been requested by The Office of Budget and Programming Planning(BPP), the Departments of Commerce(DOC) and Revenue(DOR). To help explain the substance of SB 4, he passed out a chart of the Coal Severance Tax Income Flow (Exhibit #1) and said SB 4 addressed an interpretation error of legislation he had sponsored involving the Treasure State Endowment Fund. He explained that SB 4 had four major purposes. **Senator Towe** said the original intent of the legislation was to provide that fifty percent of the Treasure

State Endowment Fund be immediately transferred to the permanent trust fund. According to **Senator Towe,** the current statute can be understood to require that the money be held in the Treasure State Endowment Fund an entire year before it is transferred, an interpretation which substantially reduces the interest income on that money. He said SB 4 would clarify the statute and provide that fifty percent of the money go directly to the permanent trust fund and the other fifty percent go to the Treasure State Endowment Fund.

**Senator Towe** said the second purpose of SB 4 was to stipulate specifically that any money left after the available funds completed the coal severance tax income cycle be deposited into the permanent trust fund. He stated the Legislature had intended that any excess funds would flow directly into the permanent trust fund, but the statute did not clearly reflect that legislative intent. He noted that, as a result, the auditors have determined that those funds should be deposited into the Coal Tax Bond Fund and repeat the entire cycle.

Thirdly, **Senator Towe** explained that SB 4 addressed a concern about the Clean Coal Technology Demonstration Fund which was established in order to obtain a federal grant from clean coal technology. He noted that Montana had not received that specific grant but the authorization "had been kept on the books" in case another opportunity presented itself to the State. He said SB 4 would retain the authorization for the fund but provide that the money could be kept in the permanent trust fund and invested long-term. According to **Senator Towe**, without SB 4 the money would have to be moved into a separate account and could only be invested short-term or an arbitrage problem would arise. He explained that SB 4 would effectively allow the state to earn $2.1 million more in interest, and would provide about $1.5-$2 million in "damage control" by eliminating the need for a different account.

Lastly, **Senator Towe** said SB 4 would allow the transfer of monies into the Treasure State Endowment Fund to occur on a monthly instead of annual basis. He noted DOR could easily make those transfers every month and added it made sense to establish the statutory requirement that the money be deposited monthly instead of annually or "from time to time". He then handed out a set of amendments and explained that they would clarify SB 4 in accordance to his previous statements (Exhibit #2).

**Proponents' Testimony:**

Steve Bender, Office of Budget Planning and Programming, handed out a summary of the four primary purposes of SB 4 addresses (Exhibit #3). He "briefly reiterated" those purposes and declared himself willing to answer any questions from the Committee.

**Opponents' Testimony**:

None.

**Questions From Committee Members and Responses**:

None.

**Closing by Sponsor**:

Senator Towe closed the hearing on SB 4.

## EXECUTIVE ACTION ON SB 4

**Motion/Vote**:

Senator Towe MOVED TO AMEND SB 4 (Exhibit #2). The MOTION CARRIED UNANIMOUSLY.

**Motion/Vote**:

Senator Towe MOVED SB 4 DO PASS AS AMENDED. The MOTION CARRIED UNANIMOUSLY.

## HEARING ON SB 18

Before opening the hearing on SB 18, **Chair Halligan** turned the Committee over to **Vice-Chair Eck** who established an 80 minute limit for testimony presented on SB 18. She stated the time would be equally divided between opponents and proponents.

**Opening Statement by Sponsor**:

**Senator Halligan, Senate District 29,** said his attendance at the recent National Conference of State Legislators (NCSL) and his experience on the Taxation Committee had caused his involvement with SB 18. He stated having witnessed the adoption of various incentives over the past 13 years and having those incentives placed in a national context by discussion at the NCSL made him realize it was time to reassess the tax incentives which Montana has granted to date. He explained that at the NCSL legislators from across the nation had expressed both their extreme displeasure that the current competition between states had created a condition of economic warfare between states and their extreme frustration with the relationship of cost and benefits the states actually receive as a result of some incentives.

According to **Senator Halligan**, week-long discussion and deliberation at the NCSL resulted in a general agreement about those elements of tax incentive policies which were most effective and which would reduce the possibility of unfair competition between states. He then sketched out five NCSL criteria for tax incentives: 1. General tax incentives do not work but targeted incentives do; 2. Incentives should not be given for activity already taking place; 3. In order to achieve a "level playing field" for existing businesses, environmental or other regulatory breaks should not be given to industry; 4. So that their effectiveness can be periodically evaluated, incentive policies should incorporate strict audit requirements and require legislative review; and 5. Incentives should be granted which provide jobs with higher than average weekly wages and health benefits, not retail and minimum wage positions.

**Senator Halligan** informed the Committee that SB 18 had been drafted in accordance with the NCSL criteria. He said the tax policy contained in SB 18 was specifically targeted to provide incentive for horizontal construction and secondary and tertiary production. He noted SB 18 would only provide incentives in those cases where new drilling, new economic investment, and new production occur. He added SB 18 would not grant any environmental or regulatory breaks to the oil industry. **Senator Halligan** stressed that very strict audit requirements including a sunset provision were built into SB 18. He stated the sunset provision would require that the incentives be legislatively review and their effectiveness judged. According to **Senator Halligan,** too many states have adopted incentives and never measured their effectiveness because neither the criteria nor the legislation necessary to effect such review were present. He noted that many of the jobs SB 18 would help to create would pay higher than average wages.

**Senator Halligan** admitted that SB 18 would require the Legislature to trust the oil industry to a certain extent. He emphasized, however, that SB 18 would establish stricter requirements with which the industry would have to comply. He distributed copies of the fiscal note for SB 18 (Exhibit #4) and informed the Committee that some technical adjustments would be necessary to SB 18 since natural gas had inadvertently been included in its body.

**Proponents' Testimony**:

**Stan Kaleczyc, Helena Lawyer representing Meridian Oil Company,** stated that Meridian Oil was a strong advocate of SB 18 and had representatives at the hearing primarily as resources for the Committee. He introduced the following Meridian representatives who could answer questions for committee members: **Perry Pearce, Director of State Governmental Relations; Bill Tulloch, Advelorem Tax Manager; Brent Smolik, Regional Engineer.**

**Mr. Kaleczyc** "briefly" reviewed the proposal contained in SB 18 to provide a common basis for the ensuing discussion. He informed the Committee that oil production and, given stabile oil prices, the revenue Montana receives from that production was currently declining at the annual rate of seven percent. He said since the discovery of a new major oil field in Montana was unlikely, "the best way to slow down that decline rate is to provide incentives for new and more expensive technology", which SB 18 would do.

According to **Mr. Kaleczyc**, the incentives SB 18 would provide are two-fold: the current 12 month holiday from local net proceeds tax enjoyed by both horizontal and vertical drilling would be extended to 18 months for horizontal drilling only; and the state severance tax rate and local government severance or net proceeds tax rate, which ever applies to the well, would be reduced for new secondary and tertiary oil production. He explained that enhanced recovery projects have ongoing expenses and actually become more expensive the later into its life a project is. **Mr. Kaleczyc** emphasized that SB 18 demonstrated "sensitivity" to the current fiscal crisis in Montana and would have no impact on either current revenues or on future revenues from wells that have already been drilled. He assured the Committee that SB 18 provided an incentive only for "new dollars that are put into the ground": i.e., new production and new incremental production on secondary and tertiary projects. He distributed three handouts (Exhibits #5,#6, and #7) and alluded to the potential advantages Montana would receive if the incentives in SB 18 were adopted. According to **Mr. Kaleczyc,** Meridian and Shell Oil companies have proposed to drill 138 new wells at a cost of $140 million over the next five years. He noted that over the life of those wells, which in some instances will extend to 2032, Montana would receive approximately $122 million in revenue through state severance tax, royalty payments to the state and local government taxation.

**Stan Kaleczyc** identified and answered three questions about the effects of SB 18 which frequently came up in his discussions on the proposal. He said the first question dealt with the relationship of horizontal drilling, secondary and tertiary production, and the incentives contained in SB 18. **Mr. Kaleczyc** noted the answer was twofold and dependent upon the nature of the horizontal well. He explained, if the horizontal well is drilled for primary production, under SB 18 the only incentive connected to the production of that well would be an 18 month tax holiday, but if the horizontal well is drilled for enhancing secondary production, any incremental production resulting from that well would receive an 18 month holiday and thereafter be taxed at the incentive lower rates. **Mr. Kaleczyc** said the second question was "will this happen anyway without incentives?". He noted he could only answer that question for Meridian oil which has been conducting some pilot well activity in eastern Montana since 1988. He said even though Meridian knows there is oil in the ground, it has been unable to economically justify pursuing those production project on a larger scale, an unfortunate situation which SB 18 could possibly rectify. The third question **Mr. Kaleczyc** identified was "is SB 18 a sure thing?". He stated the oil industry was a risky business and three primary factors will affect the influence of SB 18 on industry: the price of oil, the production of the wells that are drilled, and the projects' economics. According to **Mr. Kaleczyc**, the incentives contained in SB 18 would provide industry with a "little bit of cushion" to help ameliorate the up and down "blips" experienced with the price of oil over a typical year. He noted, however, SB 18 could do little to improve the situation if the wells do not produce. He said because of the tight economics on the projects Meridian has mapped out, SB 18's incentives are a significant component in making the projects economically justifiable.

**Brent Smolik, Regional Engineer, Meridian Oil, Inc.,** said he was responsible for the planning and implementation of all oil and gas activity in the Rockies including those projects in Montana. He then spoke using prepared testimony (Exhibit #7). He emphasized that not only are horizontal wells two to three times more expensive to drill than horizontal wells, but the problems associated with horizontal wells are also about one-third more costly. He then outlined some of the projects Meridian anticipates in Montana in order to give the Committee a sense of their "marginal nature". **Mr. Smolik** urged the Committee to pass SB 18 because Meridian believed that the incentives contained therein would serve to induce new, significant capital spending in Montana and would ultimately result in increased production and increased revenues for the State without having any effect on current revenues.

**Jerome Anderson, Helena Lawyer representing Shell Western Exploration and Production, Inc.,** introduced **Rich Hansen, Manager of External Affairs based in Houston** and **R.E. Sheffield, Western Asset Technical Manger for Shell Western E&P, Inc.**

**R.E. Sheffield, Manager, Western Asset Technical Manager, Shell Wester E&P, Inc.,** spoke from written testimony and visuals (Exhibits #8a, and #8b). He stated he was responsible for the technical review and budget preparation for all projects that Shell Western E&P completes in Montana.

**Gail Abercrombie, Executive Director, MPA,** described the MPA membership as ranging from independent companies to the major corporations. She directed the Committee's attention to a packet of letters from numerous oil and gas producers with activities in Montana (Exhibit #9). She reviewed some statements in support of SB 18 contained in those letters.

**David Johnson, President, MPA,** spoke from written testimony in support of SB 18 (Exhibit #9a).

**Bill Vaughey**, introduced himself as a small independent explorer for oil and gas with offices in Havre the last 25 years. He informed the Committee he had served a 2.5 year term as MPA president in the "early 1980s". He said he was an enthusiastic proponent of SB 18 because he was convinced the incentives would work and Shell and Meridian would drill the wells they have tentatively scheduled for 1994 and beyond. He said he was convinced those wells would result in increased level of production which would yield a higher amount of tax revenue for the State. He noted the State needs the money.

Speaking on behalf of the 31 counties which form the Montana Oil Gas and Coal Association (MOGCA), **Sue Olson, Musselshell County Commissioner and Chair, MOGCA Board,** expressed support for SB 18. She stated the counties have suffered through many years of decline in oil production and have seen the local government severance tax revenue shrink every year. She said SB 18 would promote increased oil activity in the counties and would be a major tax benefit both to local communities and to the State. She noted that horizontal drilling and secondary and tertiary recovery projects are expensive endeavors. She stated even though the incentives contained in SB 18 would reduce taxation on new production in order to help companies recover more of their costs, the counties "have only to gain from SB 18". According to **Ms. Olson**, "additional cost to the oil companies shows up as additional jobs in our counties, more property and income taxes being paid and increase in business in our communities". She also noted that enhanced recovery procedures help recover more oil from wells producing very little oil. Reducing the percentages, she said, would encourage oil companies to recover more oil in these fields instead of plugging the wells, bringing in additional revenues to the local communities and the state. **Ms. Olson** expressed the counties' concern that existing production might be reduced with the drilling of horizontal wells within an established field. She noted, however, that those concerns had been abated with the statement of intent contained in SB 18. She also stated that the counties expected to receive the same percentage of the incremental portion as they are currently receiving.

**Dennis Iverson, Northern Montana Oil and Gas Association (NMOGA),** explained that his was an organization in the Shelby and Cutbank area which was established primarily by small independent oil and gas producers. He stated, however, that a large percentage of NMOGA dues-paying members have nothing directly to do with the oil and gas industry but represent other businesses and interests in the area. He explained those people are involved in NMOGA because they not only realize that the economic impact of oil and gas in their respective areas is very important, but also recognize the importance of a diversified local economy and tax base. He stated virtually all sectors in the Shelby and Cutbank area support SB 18 "very strongly". **Mr. Iverson** noted that oil and gas are no longer as important a part of the revenue mix as it was in the late 1970s, but added that SB 18 "provides the opportunity to begin to recapture some of that market share and tax revenue" in a way that primarily involves existing oil fields and thereby makes good environmental policy. He stated SB 18 was "clearly good tax policy...[and] excellent public policy".

**James Tutwiler, Montana Chamber of Commerce (MCC),** and **Montana Taxpayers Association (MTA),** stated that both the associations he represented supported SB 18 because it clearly attached incentives to project incentives and because it provided a fair and favorable way for business and the oil industry to be more competitive in Montana. He added that SB 18 had the potential to enhance state revenues, would provide incentives for an economic activity which would create secondary jobs, and would benefit everybody in Montana.

**Rick Hill, Governor's Office,** stated that Governor Racicot was an "enthusiastic supporter of SB 18" and believed that providing incentives for horizontal drilling will result in the regeneration of production, tax base and communities. He stated the plan contained in SB 18 "makes economic sense for Montana because it will create jobs and will also increase tax revenues". According to **Mr. Hill,** Governor Racicot believes that SB 18 is "a win-win proposal"; the taxpayers of Montana will win, the industry will win, and the people whose jobs will be created will win.

**Senator Tveit, Senate District 11,** said SB 18 was a "pretty positive piece of legislation" which contained no loopholes for industry. Because the incentives would apply only to new production, he stated SB 18 would represent no revenue loss to the counties. He also noted it was important to recognize the globality of the oil industry; the US imports over 50 percent of it oil and, according to **Senator Towe**, Montana and other states should be partners in bringing more oil revenue into the nation. He said SB 18 was a long-term approach and stated that it was time for Montana to start looking ahead into its future and the future of its educational system.

**Rocky Gorder, Owner, B&G Roustabout Service**, introduced himself as a 16 year resident of Sidney, Montana and said his company currently employs seven people in Montana and 12 in North Dakota. He stated he had seen the oil boom of the late 1970s and the subsequent rapid decline of oil production in Montana. He noted that 75 percent of his business had been in Montana and 25 percent in North Dakota during many of those years but currently only 35 percent of his business was in Montana. He stated those jobs are going to North Dakota; time after time he had seen companies choose to drill in North Dakota rather than in Montana. He stated the adoption of SB 18 would change that trend and provide for more jobs and more revenue for the state and counties.

**Dave Cramer, Dave's Hot Oil Service, Sidney,** said he once employed two people in addition to himself but since his business has declined about 50 percent in the last few years, he now did all the work. He noted he also served on the board of trustees at the Sidney school. He stated SB 18 would work and as a result help his business, the oil industry, and the school system as much as any other possible alternative.

**John Pigg, HR.P. Oil Properties,** introduced himself as a long-time independent land man in Richland County. He said many changes have taken place since the end of the oil boom in 1981; many of his clients either were forced to merge with another company or went out of business, and over 450,000 people employed in the oil industry lost their jobs since 1981. He noted that those people who are still working have seen their salaries decrease while their workloads increase. He stated that SB 18 would create an increase in oil and gas activity and leasing, his business, which would generate income for land owners who spend most of their money in the local economies. He said it was necessary to show the industry that Montana wants to attract business and to be competitive with our neighboring states, a message that would be delivered by the incentives contained in SB 18. He expressed his believe that horizontal drilling would benefit Montana's entire economy as it had done in other producing states. He stated if Meridian and Shell were successful in drilling horizontal wells and increasing incremental production in secondary and tertiary projects, other companies would follow.

**Peggy Trenk, Western Environmental Trade Association (WETA),** said WETA supported SB 18 for all of the previously stated reasons. She added that WETA also viewed SB 18 as a means to create a partnership between local governments, the State, and industry to produce a necessary product and do so "while allowing industry to walk a little lighter on the land".

**Robert Marquiss, Updike Brothers Wells Servicing Company,** expressed his belief that SB 18 would help the oil industry. He stated Updikes had six oil-well servicing rigs in 1986, but currently have only four. He expressed his hope that new well production would allow the Updikes to expand again.

**Senator Bruski-Maus, Senate District 12,** noted her district encompasses Dawson, Fallon, Carter and Powder River counties which have all been suffering from economic decline ever since the oil bust. She stated SB 18 would benefit her district's economy, not only from taxes but also from increased business within the area. She concluded SB 18 was a win-win piece of legislation.

**Everett Mitchell, Mitchell's Oil Field Service, Baker, Montana,** said his company employs approximately 48 people out of Baker and Sidney and "is very much in favor of SB 18".

**Gloria Paladichuk, Richland County Commissioner,** stated that the **Board of Richland County Commissioners** would like to go on record as unanimously supporting SB 18.

**Don Rieger, Chairman, Fallon County Commission,** stated his county would be benefit from SB 18. He stated the Fallon County Commission also wanted to go on the record in support of SB 18.

**Don Franz, President, Franz Construction, Inc, Sidney, Montana,** said he owned an oil-servicing company. He expressed his strong support for SB 18 and informed the Committee that 70 percent of his work was currently in North Dakota and 30 percent in Montana. He said much of his work in Montana was on the reclamation of plugged and abandoned wells, and noted SB 18 would make it possible for some of those wells to continue to produce oil.

**Opponents' Testimony:**

**Representative David Ewer, House District 45,** stated SB 18 was not appropriate legislation for a session in which significant cuts would be made in State support for human services and education. He asked the Committee to consider what the public's response would be if the Legislature gave a tax break to corporate oil while making those cuts which would seriously reduce vital services. He asked the Committee whether the proponents of SB 18 had presented any truly compelling reason why this issue could not wait for the next regular session.

Aside from questioning its appropriateness, **Representative Ewer** expressed concern about the provisions in SB 18. He stated that the historical record shows that tax incentives allowed by government to increase production in Montana clearly do not work. As examples he cited past State policy in the areas of coal, oil and canola oil. He argued that market price actually determines supply and demand, not Montana's tax policies. **Representative Ewer** noted that SB 18 did not demand any commitment from the oil companies even though the tax incentives it would grant were "iron-clad". He suggested that Montana should stop relying on faith and make part of the incentive package retroactive; let the oil companies "do their activity and when they have proven their record reimburse them some money". He stated he lent money for a living and always made sure that any contract he entered into had "iron-clad" guarantees on both sides. **Representative Ewer** also informed the Committee that an expert he had consulted acknowledged that these new improved methods of drilling oil may expedite the production of oil. He stated that conversation along with a letter received from the office of the North Dakota State Tax Commissioner made him concerned about the 18 month holiday SB 18 would grant for new horizontally drilled wells. He read from that letter that "approximately 60 percent of the [horizontally drilled] wells were low producers, (i.e., 10 barrels or less of average daily production) either initially or by the time the 15-month exempt period expired" .

**Questions From Committee Members and Responses:**

**Senator Towe** noted that much of the oil companies' testimony emphasized how the enactment of SB 18 would increase oil production, cause $141 million to be invested in the drilling of 138 new wells, and bring another $122 million to local communities in taxes and other benefits over the next 30 years. He stated that the local communities had been so informed and had obviously believed the oil companies since they had attended the hearing and spoken in support of SB 18. He said **Jerome Anderson**

had testified in 1985, that if the Legislature would give the oil companies a break on tertiary recovery, that action would result in major carbon dioxide (CO2) injections in eastern Montana which would be accompanies by large investments and new activity. **Senator Towe** asked **Mr. Anderson** how much new production and economic activity had actually resulted from the break on tertiary recovery which the Legislature granted in 1985.

**Jerome Anderson** responded that he specifically remembered the 1985 legislation and congratulated **Senator Towe** for supporting the measure. He explained that the proposed program consisted of a gasflood operation in eastern Montana and required the construction of a pipeline from southwestern Wyoming into northeastern Montana and northwestern North Dakota to service a number of projects. He stated the project would have involved an investment of about $275 million in eastern Montana. **Mr. Anderson** stated that when that program was presented to the Legislature the price of oil was around $30/barrel but immediately dropped after the termination of the Arab Oil Embargo. He said in 1983, the Legislature had been clearly informed that the economics were dependent upon an oil price of about $27/barrel. He said by 1986 the price of oil in Montana was down to about $12/barrel, a price which has remained constant with only a short "blip" in 1990 during the Gulf War. He stated oil has not been at a high enough price for a long enough period to justify an expenditure of $275 million. He noted, however, that if the price of oil would go back up and a pipeline could be built, Shell would go ahead with the plan, since the company had run a successful pilot project.

After establishing that the price of oil had already dropped approximately $3/barrel since the provisions in SB 18 had first been presented to a legislative Committee, **Senator Towe** asked if **Mr. Anderson** thought that the oil companies proposed investment would still occur. **Mr. Anderson** stated if oil prices "sink clear down to the bottom", nothing would happen. He asked that **R.E. Sheffield** have the opportunity to address the question.

**Mr. Sheffield** reminded the Committee that the historical price of crude, with some "blips up and down", had consistently ranged between $15 and $20/barrel in today's dollars. He stated Shell believed the price will stay in that range over the long-run, and added that for the projects that are being proposed in conjunction with SB 18, a long-term view is required. He noted Shell's interpretation was that current oil prices were an aberration which would drive some production out of the market and cause demand to, once again, catch up with supply.

**Senator Towe** asked whether Shell would make its projected investments if the price did remain at current levels. **Mr. Sheffield** stated Shell would make that investment.

**Senator Towe** asked if that would be the case even at $12/barrel. **Mr. Sheffield** responded that Montana mix crude was penalized because of asphaltene content, so the crude produced at Cedar Creek Anticline was being sold for $12.50/barrel in October. He emphasized that the projected projects in Montana are currently on the "bubble", and the tax incentive can make up the difference in slight fluctuations in crude prices. He noted that rate was another variable. He said the chart of possible Shell projects he had referred to in his testimony were not only in Montana; the clear money makers are in the Gulf of Mexico or west Texas, not in Montana. He stated the companies could not provide any iron-clad guarantees because there was no guarantee that the wells which would cost $1 million apiece would tap into significant reserves or economic production rates.

**Senator Towe** said he had asked **Mr. Sheffield** whether Shell was prepared to "put the company's money where its mouth was" during the Revenue Oversight Committee meeting when the proposal was first present. He passed out a transcription of those comments to the Committee (Exhibit #10) and inquired whether **Mr. Sheffield** had anything further to add. **Mr. Sheffield** responded that **Senator Towe** had proposed that the companies be required to refund the tax incentives they received if they did follow through on their stated goals. He informed the committee that Shell and Meridian would only not "follow through with the projects as described", because they were losing money. He stated it did not make sense that the companies would have to pay more taxes because they lost money and had to terminate the development. He appealed to **Senator Towe's** "basic sense of fairness".

**Senator Towe** said **Senator Halligan** had made the valid point that tax incentives are most effective if they are pinpointed. He added a good example of that was "the window of opportunity" accorded to coal. He stated the same principal could be applied to the situation under discussion; SB 18 could be amended to stipulate a certain number of new wells or a certain amount of investment was necessary or the incentive would not be present. He asked if that would be more effective as a state policy. **Mr. Sheffield** replied the Legislature would need to resolve that issue. He stated that oil was a risky proposition and, although there were no guarantees, the economics of these projects really depended upon the having the incentives in SB 18.

**Jerome Anderson** commented that the oil and gas industry could not be fairly compared to the coal industry; the circumstances, the possible uses, and the market situation of the two industries are totally different. He added that the issue which prompted the "window of opportunity" legislation was vastly different.

**Senator Towe** distributed the letter from the North Dakota Office of State Tax Commissioner (Exhibit #11) and said the letter indicated that most of the oil produced by horizontally drilled wells in North Dakota had been taken out of the wells within the first 15 months. He cited the 18 month holiday SB 18 would grant for new horizontal wells and asked industry representatives if that provision had been placed in SB 18 in order to circumvent taxation on the majority of the oil production from such wells. **Stan Kaleczyc** responded that was not the intent of SB 18, and noted that, although he had not seen the letter, it seemed to indicate that a number of the wells were low producers. He stated that data would indicate that those wells had never produced at the level the company anticipated. He stated that those bad economics actually demonstrated the inherent risk of the oil industry. Addressing the more general proposition that such wells tended to deplete quickly, **Mr. Kaleczyc** stated that was not the case; a company would spend over $1 million to drill a horizontal well and could not expect to recover that investment within the first 18 months or 3 years of production on that well.

**Brent Smolik** contributed more specific information about the payout and the return. He agreed that some wells have a steep decline in production and said a specific geological formation characteristically displays that tendency when it was "somewhat naturally fractured". He added, however, the economics of a well cannot be based upon the economics specific to the first 18 months of production. He stated the project Meridian had identified in eastern Montana would "very clearly" have about a 20 year life, hopefully longer. He stated if Meridian really thought that the well production would be depleted in the first 18 months, it would not be able to afford the projects.

**Mr. Sheffield** referred committee members to a cumulative production chart for Meridian's wells (Exhibit #12). He noted that the chart tracked months on production and barrels of oil produced and showed that of the ultimate recovery of at least 150,000 barrels of oil, the chart showed that in 18 months only about 70,000 of those had been recovered. He stated there was no economic possibility that Shell would drill wells that produce for 18 months and then "cut and run" to get out of paying taxes to the state. He explained the extension from 12 to 18 months merely makes drilling those wells more attractive because the company gets to recover its capital investment more quickly.

**Senator Eck** asked if there were wells that did have very large production levels which tapered off dramatically after the first 15 months. **Mr. Sheffield** responded that Austin Chalk wells drilled around San Antonio, Texas were notorious for paying out while they were being drilled, he added that area has a naturally fractured reservoir. He stated the rock formations in eastern Montana are not naturally fractured, and the oil companies are dealing with a variation in porosity which means that the decline function is much flatter for a very long time. **Mr. Smolik** added that Meridian has never been able to put a project into full scale development in areas where wells do exhibit that kind of a decline because "they never came anywhere near to paying out". He alluded to a 230,000 acre position in the Austin Chalk that Meridian had never been able to develop. He concluded that some wells play out in months, but they were not pertinent to the discussion because the company would not be developing such areas into a project.

**Senator Towe** said he had a 20 page list from the North Dakota Office of State Tax Commissioner of renditions of oil well producers in the state of North Dakota. He picked #72, a Meridian oil well, and noted that 11 months after it went into production it was only producing about one-fourth the amount of oil it had at first. **Mr. Smolik** asked if **Senator Towe** had the cumulative production from that well over that period, because he suspected that well was in an area which Meridian had not further developed. **Senator Towe** responded 17,311. **Mr. Smolik** said such wells in North Dakota typically cost about $1-$1.3 million to drill, and added that he could almost assure the Committee that Meridian did not develop the area beyond the first couple of wells given that cumulative production level. He reiterated that Meridian was not hoping to develop projects in Montana which have a rapid decline rate after an 18 month period. Instead, he said, the projects Meridian considered worth pursuing are long-life, low permeability reservoirs that have been identified.

**Senator Towe** submitted that page of the list for the record (Exhibit #13). He stated that glancing through the list, it becomes obvious that the bulk of production from many wells was gone after the first 12 months. He stated he had strong reservations that Montana should be extending its tax holiday on horizontal wells to 18 months, because, in effect, that extra six month holiday becomes quite a substantial holiday on oil production. **Mr. Sheffield** referred again to the cumulative production curve, which shows that those wells only produce a fraction of their total production in the first 18 months (Exhibit #12). **Jerome Anderson** pointed out that a well which yielded only 17,000 barrels would not come close to recovering its cost. He said even if the price of that oil goes up to $40/barrel, the company would only recover about $340,000. He stated when that sum is compared to $1.5 million in cost, it becomes clear that it makes no sense to go into that kind of a project and spend three the amount of money that will be recovered.

**Senator Doherty** asked **Mr. Anderson** what the composite effective tax rates on crude oil for Montana, Wyoming and North Dakota were. **Mr. Anderson** replied that Montana's composite effective tax rate was 12.7 percent, Wyoming's 12.5 percent, and North Dakota's 11.5 percent.

**Senator Doherty** asked **Stan Kaleczyc** if Montana's tax rate were dropped to 11.5 percent for Meridian and everything else were equal, would Montana be as competitive as the other states, aside from Colorado, with which Meridian does business. **Stan Kaleczyk** said he understood that the incentive package in SB 18 would put Montana's effective rate approximately equal to North Dakota's rate. He noted that more important, however, was the question whether SB 18 would make the Montana projects competitive within Meridian, i.e. economically viable compared to Meridian's other options. He stated the incentives in SB 18 would make those projects competitive within Meridian so that Meridian's management could justify putting the investment dollars in Montana.

**Senator Doherty** asked **Senator Halligan** why SB 18 would grant the Board of Oil and Gas Conservation (BOGC) rule-making authority and remove it from the Department of Revenue (DOR). **Senator Halligan** responded he did not know.

**Senator Doherty** asked that someone explain the reason for the shifting authority. He also asked that a DOR representative explain how many people were currently doing this work and a BOGC representative explain how many new people it would be necessary to hire in order to assume the additional authority. **Tom Richmond, BOGC,** stated the BOGC could not afford to hire anyone. **Van Charlton, DOR,** stated DOR did not envision hiring any new employees if SB 18 were approved.

**Senator Doherty** noted that DOR was going to lose some responsibilities, but that the BOGC would be gaining some. He asked how many new employees the BOGC would need to shoulder the additional responsibilities they would gain if SB 18 were adopted. **Mr. Richmond** said SB 18 contained two primary parts, regulating horizontal drilling and determining the increment of new oil produced to the existing declining rate. He stated the horizontal drilling would have no effect on BOGC because it already deals with horizontal drilling on a periodic basis and has the necessary rules in place. He stated determining what oil production should be taxed at the lower incentive rate would involve both the staff and the board. He stated SB 18 would establish the increments as a part of a public hearing which would require "some up-front staff work" before the public hearing and before the presentation to the board after the public hearings. **Mr. Richmond** agreed that SB 18 would require a substantial amount of staff work depending upon how many projects were proposed. He noted if BOGC only had to evaluate Shell's and Meridian's projects, it might disrupt the staff's workload for a period of time but could probably be dealt with in a fairly normal manner. He stated, however, if BOGC is faced with several projects every hearing, it would represent a larger problem.

**Senator Doherty** asked that a representative of the Governor's office explain the public policy reasons for taking a tax determination away from DOR and assigning it to the BOGC which has not been known as a regulatory body that may not be captured by the industry that it regulates. **Mr. Hill** responded he could not answer that question, but would be happy to provide the information at a later time.

**Senator Doherty** noted one of the criteria for targeted incentives intoned by **Senator Halligan** was the creation of good paying jobs that also provide health benefits. He asked that both the independents and the major oil companies identify what kind of health benefits they provide for their employees. **Mr. Sheffield** replied that Shell provided its employees with several health insurance options, and added that all Shell employees are covered by "a comprehensive, very competitive health insurance program". He noted the roustabouts that work Shell wells are employed by the independent companies. **Robert Marquiss** stated that Updikes furnished its employees with a hospital insurance policy, which did not include their spouses. He noted his company's employees are also covered by a life insurance policy after they had been with Updikes for six months. **Brent Smolik** stated that Meridian Oil had a quite comprehensive medical plan with a number of different options. He said there was almost no monthly cost to the employee. He added that all employees: hourly/salary; exempt/non-exempt; field workers/office workers were covered by the same policy.

**Senator Doherty** asked how many of the people filling the projected 350 new jobs created by SB 18 would be covered by health insurance. **Mr. Smolik** said he was not qualified to answer that question. He noted, however, that many of those new jobs would be in support industries like trucking, restaurants, and hotels.

**Senator Gage** corrected a statement made by **Senator Towe** who had indicated that 60 percent of the oil had been produced in those properties in the first 12 month period. **Senator Gage** noted that what the letter actually stated was significantly different -- that 60 percent of the wells were low producers, either initially or by the time that the 15 month period expired. He asked **Robert Marquiss** if different kinds of service equipment was needed for horizontal wells. **Mr. Marquiss** replied yes.

**Senator Gage** asked if that equipment would be run by the regular rig crew. **Mr. Marquiss** responded that instead of running a three man crew it would require a four-man crew.

**Senator Gage** asked how the incentives contained in SB 18 would apply in a case where an oil company decides to drill twice as many wells in an area as it had previously planned. **Mr. Sheffield** replied that the key point was that it can be definitely ascertained what a field will do if no more new wells or new well developments are drilled. He explained that established wells have a seven to eight percent annual decline rate and well-known methods exist whereby the future production of those wells can be predicted based upon their current production rates. As a result, **Mr. Sheffield** noted a person can look at the total production from a field, and project that decline rate. He stated any difference between the projected decline rate and actual production can be attributed to enhanced recovery projects, and only that incremental extra production would be taxed at the lower rate.

**Senator Gage** noted that the company would have to justify to the satisfaction of BOGC that the oil production it was attributing to enhanced recovery projects was actually correct. **Mr. Sheffield** agreed, but reiterated that there were very excepted formulas whereby those rates could be accurately calculated.

**Senator Gage** asked if the BOGC agreed. **Mr. Richmond** responded that was how he understood SB 18; the change in the waterflood pattern or an infield drilling program or some other expansion would result in an increment and that increment would get the tax break. He noted, however, that some projects like a thermal project could go directly into a tertiary recovery process without any primary production. According to **Mr. Richmond**, then all the production would qualify for the lower rates. He said that exists as a possibility in Montana.

**Senator Gage** noted that was current law. **Mr. Richmond** replied it was current law as it applied to tertiary production.

**Senator Gage** commented that the reason the rule-making would go to BOGC was because that was where the expertise on production projections would be located. He stated DOR probably did not have that expertise and cautioned that lack would pose a problem because it could easily create a tendency to rely very heavily on information from the oil companies.

**Senator Harp** asked **R.E. Sheffield** to put up his "hurdle rate" chart (Exhibit #12). He asked what rate of return Shell would consider "profitable" on an investment of $1.5 million. **Mr. Sheffield** said the goal for return on investments stated in the annual report was 12 percent. He added, however, that percentage needed to account for the risk of all drills, including those that were not profitable.

**Senator Yellowtail** asked **Senator Halligan** why it was necessary to deal with SB 18 during this special session of the Legislature. **Senator Halligan** responded the oil companies were in the process of planning their investment decisions for the next five years; a year from now when the regular session could take up this issue, the general plan will have been developed and those investment funds will have been allocated for the next five years. He stated the opportunity is now and the price of oil is relatively stabile. He emphasized that SB 18 was not an attempt to take existing revenues and actually offered Montana a chance to develop a certain stability in oil production and its concomitant revenues. **Senator Halligan** stated SB 18 represented a proactive approach to the current financial problems in the State; by providing incentives for new recovery techniques, SB 18 could add extended life to existing oil fields and some stability in oil production and revenues that would ameliorate Montana's financial situation and reduce the need to cut the State's budget.

**Senator Yellowtail** stated that he was "tantalized" by the prospect alluded to earlier that SB 18 would create 350 new jobs. **Senator Yellowtail** noted that if the Legislature were truly going to evaluate the effectiveness of the incentives in SB 18 as suggested by **Senator Halligan** and the sunset provision in SB 18, empirical benchmarks by which to judge whether the incentives are working and worth continuing would be necessary. He asked that **Stan Kaleczyc** "nail down" his earlier generalizations by defining the method of analysis used to arrive at those numbers and by enumerating the sectors, locations etc. of those prospective jobs. **Stan Kalezyck** responded that Meridian had conducted a survey of people who provide direct services to drill rigs after the Revenue Oversight Committee members had requested the same information. He said that survey determined that for each operating drill rig, the equivalent of 44 full time employees (FTEs) worked either directly on the rig or provided direct services to that rig with a payroll of approximately $140,000 per month. He said Meridian's projected drilling program of about 110 wells drilled over five years would employ approximately two drilling rigs, and 88 FTEs, working full time for five years. **Mr. Kaleczyc** stated according to estimates from the University of Montana Business School and other estimates from the industry, every direct job associated with a drilling rig will create an additional three to four jobs in the community. He noted those jobs are usually connected to parts of the service industry. He stated the presentation he had made used the multiplier of four on the 88 direct jobs which would amount to approximately 350 secondary jobs at the local level. **Mr. Kaleczyc** noted that it would be difficult to measure and define those additional secondary jobs and suggested that the well count would be the best measurement of the incentive's effectiveness. He added that the actual capital investment could serve as a helpful secondary benchmark.

**Senator Yellowtail** said that part of the allure of any legislation like SB 18 was the very public argument that it would produce 350 jobs. He stated that, in the interest of accountability, the Legislature needed to be able to identify the success or failure of the incentives by some empirical means at some point in the future when it reevaluated this measure. He asked **Stan Kaleczyc** if he agreed. **Mr. Kaleczyc** stated he did not object to any empirical figures that could be developed in the future whether by the Legislature or a Committee of the Legislature or the private sector. He said he was not an economist and did not know how the Legislature would measure the secondary employment attributable to the drilling activity.

**Senator Yellowtail** asked if **Stan Kalezyck** would agree that the Committee should dismiss that projection if he could not offer some means by which the Committee might empirically evaluate that outcome at some point years hence. **Mr. Kalezyck** responded he had not said that it could not be measured, just that he did not know how. He stated that obviously someone from the University of Montana has a method of measurement and therefore that projection should not be taken lightly.

**Senator Yellowtail** invited the lobbyists to approach the Committee with the methodology to specify this projection and with a proposed methodology by which the Committee might evaluate the legitimacy or the effectiveness of that projecting. He asked that his invitation be placed on the record.

**Senator Towe** referred to the projections that the companies had provided the Committee which reflected the combined Meridian and Shell oil projects (Exhibit #5, page 6). He calculated 80 percent of those projections for the Committee's information (Exhibit #14). He noted that implicit in all testimony and very specific in some was the idea that SB 18 was a means of generating new revenue and in no way affect existing revenue. He noted that SB 18 was written in such a way that if horizontal drilling is certified by BOGC as such, there would be an 18 month holiday instead of the 12 month holiday specified in current law. He asked if the companies would be applying for this holiday only regarding brand new wells or if extensions of existing wells would also apply. **Stan Kalezyck** verified that **Senator Towe** was referring to a situation in which an existing vertical well bore would be converted to a horizontal well. He stated in such cases the oil industry's intent was that the 18 month holiday would only be on the production increment which can be attributed to the new drilling. He explained that if a well which was producing 40 barrels as a vertical well, was made over into a horizontal well and produced 100 barrels, then the holiday would apply only to the increment of 60 barrels.

**Senator Towe** noted that the language in SB 18 did not reflect that intent. **Stan Kalezyck** stated that an amendment should then be drafted and adopted to clarify that intent. **Mr. Anderson** agreed that the specific intent of SB 18 was not to affect existing revenue.

**Senator Towe** asked if the oil companies would use the incentives contained in SB 18 to implement enhanced recovery measures on wells which are presently decent primary or secondary producers in order to reduce their taxes on that production. He noted the incremental decrease would be a substantial amount for the rest of that well. **Mr. Sheffield** responded that current tax rates would apply to the existing production which would continue to decline. He stated the only portion taxed at a lower rate would be any incremental production resulting from enhanced recovery that exceeded the normal decline.

**Senator Towe** asked if the BOGC would determine what the old production would have been. **Mr. Sheffield** replied that the companies would work with the BOGC. He reiterated that well-known and well-accepted methods existed for predicting continuing production and the normal rate of decline.

**Senator Towe** asked if it was the oil companies' intent in SB 18 that horizontal drilling would be classified as either secondary or tertiary methods. **Mr. Sheffield** responded most of the horizontal wells that Shell would drill would be in the company's well-developed waterflood. He added, however, any horizontal wells drilled in areas that are not currently developed would be primary wells.

**Senator Towe** asked if the oil companies intended to have any horizontal wells classified as secondary or tertiary wells. **Jerome Anderson** replied it was not the specific intent because horizontal wells could be primary, secondary or tertiary. **Stan Kalezyck** added that the horizontal wells Meridian would be drilling would be for both primary and secondary production.

**Senator Towe** noted he was trying to address the lack of clarity in SB 18. He stated that on pages seven and eight the definition of tertiary included the phrase "any other method approved of by BOGC as a tertiary recovery method". Both **Stan Kalezyck** and **Jerome Anderson** informed **Senator Towe** that the language he had cited was in existing law, and SB 18 would simply place it in a different section of the codes.

**Senator Towe** asked if the language referring to secondary production on page 19 was also in existing law. **Mr. Anderson** replied "no". **Senator Towe** asked if the oil companies intended that BOGC would have the authority to classify anything they wanted as a secondary recovery method. He asked what was to prevent oil companies from having primary recovery classified as secondary recovery by virtue of its being a horizontal well. **Tom Richmond** admitted the language "whatever the BOGC might find to be a secondary recovery method" might be a little loose. He added, however, that horizontal drilling is a completion technique whereas the terms secondary and tertiary referred to recovery techniques. He also said that anything BOGC would approve as secondary or tertiary recovery would be done on a project by project basis, not a well by well basis.

**Senator Towe** asked **Mr. Richmond** to clarify his use of the term "completion". **Mr. Richmond** replied "completion" indicated the way in which a well was actually constructed, not the way it is recovering the product.

**Senator Towe** asked **Mr. Richmond** if, in order to ensure that there would be absolutely no decrease in existing tax, the BOGC would have to evaluate the normal expected production of every single well with secondary or tertiary recovery methods in order to determine the existing and the incremental production for tax purposes. **Mr. Richmond** replied yes.

**Senator Towe** asked if that would not be a substantial burden. **Mr. Richmond** replied he was less concerned about Shell and Meridian projects because BOGC has kept decline curves on their projects, and has existing data which makes the decline easy to project. He stated the projects which have small numbers of wells on which BOGC has less established data concern him the most.

**Senator Towe** noted that given the great and recent fluctuation in oil prices over the last couple of weeks, the total tax obviously was not very significant in the overall scheme of investment decisions. **Mr. Sheffield** reiterated that Shell believes that historically the price of oil has remained within the band of $15-$20/barrel. He also noted that when the price of oil changes, it changes everywhere, but the tax structure does not unless the Legislature acts upon it. He stated that when oil companies look at their competitive opportunities "it is the tax structure which could encourage [them] to go one place or another".

**Senator Towe** asked if Shell had also gone to North Dakota to ask for a reduction in taxes. **Mr. Sheffield** replied no.

**Senator Doherty** asked how the production of a well was measured as it comes out of the ground. **Brent Smolik** replied that there were a number of different ways to physically gauge the amount of oil, but there was no gauge like those on a gas tank. He noted the simplest way would be to lower a tape from the top of the tank and measure the level each day. He said there are turbine-type meters which can be floated through a pipeline which record the number of barrels passing by that meter.

**Senator Doherty** asked if the production of each well were gauged and recorded on a daily basis. **Mr. Smolik** replied it would depend upon the volume of the well; if the well produced a small volume it would not be necessary to gauge it every day. **Mr. Sheffield** added that there are very carefully calibrated measuring devises that are proven monthly and used at transfer points to provide a double check on the well counts. He noted that all the production that goes through that transfer point are allocated to the wells based on well tests, and those gauges are very important because both the buyer and seller of oil have a very keen interest the accuracy of the measurements. He stated a very tight control is kept on production.

**Senator Doherty** asked if the fine-tuning takes place at the collection place rather than at each individual well. **Mr. Sheffield** replied that each individual well was also measured by well tests. He noted the measurements at the transfer point function much like balancing a checkbook; the sum of the well tests are checked against the total amount at the transfer point. He noted any necessary corrections are allocated back to the individual wells.

**Senator Doherty** asked that a "well test" be defined. **Mr. Sheffield** replied a well test was when the oil from a well went through a special separator instead of into a mass aggregate tank. He explained those separators have gauges which measure the volume of oil for a specified amount of time like 12 hours. He said that measurement would be extrapolated into a daily and monthly rate which would then be allocated back to that specific well from the total production of the field.

**Senator Doherty** asked how often well-tests were carried out. **Mr.**

**Sheffield** replied the frequency depended upon the volume of production; in some cases well tests are done once a month, some cases two or three times a month.

**Senator Doherty** remarked that there would be an extreme need for accuracy if the Legislature were to grant different tax rates for incremental production, or if one well would be taxed at a lower rate and another at a higher. **Mr. Sheffield** understood **Senator Doherty's** point, but noted he was making it more complicated then necessary. He explained BOGC would only need to look at a field's total production since the production of the entire unit had been determined. He said anything above the established very easily projectable decline rate would be the incremental production attributable to either horizontal wells or enhanced recovery projects. He stated the oil companies would have a keen interest in having accurate numbers, and he was certain that there would be a lot of cross-checks.

**Senator Van Valkenburg** asked **Mr. Richmond** to describe the BOGC. **Mr. Richmond** said that the Board has seven members who are appointed by the Governor for staggered four year terms, four of which expire in general election years and three in the off year. He said of the seven members, three are required by statute to be oil industry members with experience in oil and gas production, two are at-large public members, one must be a land owner with minerals and one must be a landowner without minerals. He stated that one of those seven members must be an attorney.

**Senator Van Valkenburg** asked **Mr. Richmond** to outline how the BOGC viewed its role with respect to the protection of the public interest. He asked that **Mr. Richmond** concentrate particularly on how that would apply to the implementation of SB 18. **Mr. Richmond** replied that the BOGC is charged with three basic functions: the conservation of resources, the prevention of waste, and the protection of relevant rights. He explained BOGC must ensure that each person owning interest in oil and gas gets their fair share of the returns from oil and gas productions. He noted that BOGC also has other administrative duties and obligations. **Mr. Richmond** said that the public's interest also was part of BOGC's "relevant rights" function; he stated the public has an interest and that BOGC sees itself as having an obligation to protect the public's interest. Addressing the implementation of SB 18, **Mr. Richmond** stated "fairly substantial" rule-making would be required, and BOGC would be asked to do some things it has not done before, like determining the increment. He added, however, those new responsibilities were "not entirely alien" to BOGC or its staff. He explained BOGC has for many years plotted the production of each secondary recovery unit and calculated the reserves in each of the major fields in Montana. He stated BOGC collects data in connection with DOR on volume, values, and public status for people who might want to use any of that information.

**Senator Van Valkenburg** commented that most of the questions and concerns about SB 18 centered around the issue of the credibility of the industry in terms of its living within the stated objectives and the promises of future economic benefits to the state of Montana. He asked if BOGC sees that it has a role with respect to representing and carrying out the public interest and making sure that the industry abides by not only the letter but also the spirit of those objectives and proposals as well as functioning as a liaison between the industry and the Legislature. **Tom Richmond** said BOGC would see itself as playing an important role in the process and providing technical expertise which was not available in other parts of state government. He noted that technical expertise would be used to determine that the methods used and presented to BOGC are reasonable, follow ordinary uses of engineering and geology, and are supported by the data available. He stated that all of BOGC's meetings were open to the public, and all testimony would be given under oath by qualified experts and presented to the board as such. He said that BOGC staff and geologists would have some direct input in the BOGC decisions based on their technical merit. He reiterated, BOGC "sees itself as a public body whose purpose is to best serve the public".

**Senator Van Valkenburg** noted BOGC interpreted its role as not just serving the industry. **Tom Richmond** replied "he would hope not".

**Senator Doherty** asked **Mr. Richmond** how he would react if SB 18 were amended to leave the primary responsibility for tax regulation with DOR and give BOGC the important technical consultation role. He asked also if **Mr. Richmond** were aware of any other instance where BOGC or any other commission in Montana Government impart tax rates on the industry it is charged with regulating. **Mr. Richmond** replied BOGC determines the tax rates for its conservation taxes, which, he added, are set at the maximum. He said BOGC would be willing to cooperate no matter how the Committee decided to set the responsibilities. He stated, however, there needed to be technical expertise on oil and gas and certainly on reservoiring and geology represented. He said DOR did not assert that they possess that kind of expertise, nor, he assumed, did they want to develop it. **Mr. Richmond** noted he did not want to have to develop any additional expertise on tax. He informed the Committee that one advantage of having BOGC do much of the work, was that it has an established public hearing process in which everyone participates: not just the bureaucrats, not just the industry. He noted he assumed that SB 18 would provide that BOGC adopt rules in consultation with DOR, and said he would "take that at face value". He said DOR should have a representative who attends the hearings on these projects and participates.

**Senator Eck** noted that **Mr. Richmond** had said that BOGC did not have enough money to carry out the additional requirements they would receive under SB 18. She asked if he would recommend that the Committee find some method whereby the industry could pay the costs. **Mr. Richmond** replied the industry would probably say they already pay the costs, and that was true. They do pay the bills.

**Senator Eck** said the Committee had talked previously about not allowing permits if a department did not have adequate staff to carry out the necessary responsibilities. She stated the available alternatives would be either not issuing the permits or making sure that somehow state agencies and commissioners have the expertise and staff necessary to do a credible job. **Mr. Richmond** noted that in such situations a state entity would need to realigning its responsibilities to assume the new workload with whatever staff it had. He said that perhaps the best thing that could happen is that BOGC is "simply overloaded with all of these fine projects" since the State then could probably afford more staff. He stated, however, he was not sure that BOGC would be overloaded and that staff could certainly do some of the projects without any real disruption in the ability to do BOGC's other work.

**Senator Eck** said the thing that concerned her most about SB 18 was that the Legislature was in a special session with a tight schedule. She stated that economic development is truly important to consider, but noted that the Legislature has already been confronted with proposals that would decimate the University System which was considered to be probably the highest priority to Montana's future economic developmental by "most everyone" who has evaluated the situation. She mentioned that the Legislature was not addressing the concerns people had raised about the demise of small business, but had consented to review a complicated new proposal from an "an industry with tremendous clout that has been able to get the Governor's ear". She conceded waiting until the next session might not be a good idea, but asked why the proposal in SB 18 was not submitted to the Legislature nine months ago. **Stan Kalezyck** responded that Meridian's Montana projects had not "come to the top of the barrel" for consideration a year ago, largely because the company did not have as many dollars available for capital investment as was being projected for 1994. He added that Meridian was not internally ready to address and develop a five year program for its Montana fields a year ago. **Mr. Kaleczyc** explained that he had received a call from the company in July which had advised him that the engineering department had been considering Montana projects, but that they were not economic. He stated the special session presented a "serendipitous" chance for the Legislature to revue and adopt tax incentives which would make those projects economic and adopt the only proposal in the session which created at least the possibility of generating a modest amount of new revenue in the near-term.

**Senator Towe** said that in the Revenue Oversight Committee **Bill Tulloch, Meridian Oil** was asked whether any other states had a special provision for horizontal drilling to which he responded "no". He asked if anyone else would like to comment. **Mr.**

**Tulloch** commented he still did not know of any state which had a specific provision for horizontal drilling in their statute. He added, however, a number of states had various types of incentive packages which included horizontal drilling.

**Senator Towe** said he did not want to create a situation in which the oil companies would use the provision on horizontal drilling in Montana statute as a means to pressure other states into granting similar provisions. He asked if the Committee should not instead look for another means to provide a comparable incentive. **Mr. Tulloch** asked for clarification. **Senator Towe** replied he was not sure there was a good answer to his question. He noted, however, if the Committee were serious about granting an incentive, it might be more appropriate to design a statutory provision similar to what other states have done instead of placing a specific provision for horizontal drilling into Montana's statute.

After being recognized, **Perry Pearce, Director of State Government Affairs, Meridian Oil,** stated Louisiana and Oklahoma both have incentive provisions specific to horizontal wells. He explained that Louisiana has a lower severance tax rate on horizontal wells which is in place until the horizontal well recovers 2.5 times of the total investment in drilling the well and Oklahoma grants an exemption for any well drilled prior to July 1, 1994 that stays in place until the horizontal well reaches payback or 24 months, whichever occurs first. He stated both of the provisions are much more complicated that simply granting an 18 month holiday because they would require a regulatory agency to determine the amount of investment in the well and how much is returned in production sales. He noted also that the tax reduction period would vary along with recovery rates from wells. **Mr. Tulloch** said he had a copy of a report summary which was going to be presented to the Energy Council later in December and he offered to try any get copies of the Louisiana and Oklahoma statutes.

**Mr. Sheffield** added that Montana and California are the only two states in which Shell has a "ready to go project" involving the drilling of horizontal wells. He said he did not believe that California had any particular incentive. He stated, however, that Shell's involvement with SB 18 could be attributed to the fact that the extra incentives are necessary to be sure that Shell's proposed project in Montana would be economic, more attractive, and able to "beat out" the other competing alternatives for Shell's capital investments

**Closing by Sponsor**:

In closing **Senator Halligan** addressed the appropriateness of SB 18 to the special session. He noted that **Representative Ewer** brought up the probable severe cuts in human services and education and stated that while he rarely voted for those kinds of cuts and might not vote for them this session, it was necessary for the Committee and the Legislature to "be proactive and look at the future". He stated SB 18 offered Montana the possibility of new production and revenue while protecting its current revenue base. He reminded the Committee that SB 18 was constructed to reflect each of the criteria the NCSL had identified as necessary for responsible and effective tax incentives and stated there were specific ways in which the industry's "track record" could be empirically tracked and submitted for legislative review. He mentioned that perhaps the Revenue Oversight Committee could receive regular reports from BOGC containing the drill count, attributable employment, the amount of capital investment, etc.

**Senator Halligan** expressed his wish that banks truly had reciprocal "iron-clad" contracts. He noted, however, that bank contracts usually stipulate something along the lines "if you have 100 percent collateral, they will loan you the money". He reminded the Committee that the banks would not loan the ethanol industry any money unless the Legislature approved the industry's incentive. He stated the people testifying on behalf of SB 18 were not going to make promises they could not keep and nothing was absolute in the oil business. He reiterated, however, that SB 18 would allow the Legislature to establish benchmarks and thereby empirically follow the industry's activity in order to determine whether the incentives work in the available window of opportunity.

**Senator Halligan** stated that SB 18 provided an opportunity to attain some economic stability for the people in eastern Montana as well as prevent further environmental damage by continuing activity in existing fields. He noted by extending the life of those fields, SB 18 would create not only the primary but also the derivative jobs to which the people from eastern and northeastern Montana had attested. He said SB 18 would not affect the budget cuts the Legislature currently faced, but would put a proactive policy in place that might make it unnecessary to make those difficult decisions in the future. He concluded by saying that he would welcome a discussion of amendments which could provide the empirical basis by which to evaluate the incentives or establish BOGC's appropriate role in the process.

After resuming the chair, **Chair Halligan** announced that the Committee would hold hearings on a two bills and take action on SB 18 the following day while industry representatives were still in town. He urged those committee members who were considering amendments to have those amendments drafted for the next meeting.

## ADJOURNMENT

**Adjournment:** 11:03 a.m.

SENATOR MIKE HALLIGAN, Chair

BETH E. SATRE, Secretary

MH/bs

# ROLL CALL

SENATE COMMITTEE TAXATION DATE 2 December 1993

| NAME | PRESENT | ABSENT | EXCUSED |
| --- | --- | --- | --- |
| Sen. Halligan, Chair | X | | |
| Sen. Eck, Vice Chair | X | | |
| Sen. Brown | X | | |
| Sen. Doherty | X | | |
| Sen. Gage | X | | |
| Sen. Grosfield | X | | |
| Sen. Harp | X | | |
| Sen. Stang | X | | |
| Sen. Towe | X | | |
| Sen. Van Valkenburg | X | | |
| Sen. Yellowtail | X | | |
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FC8

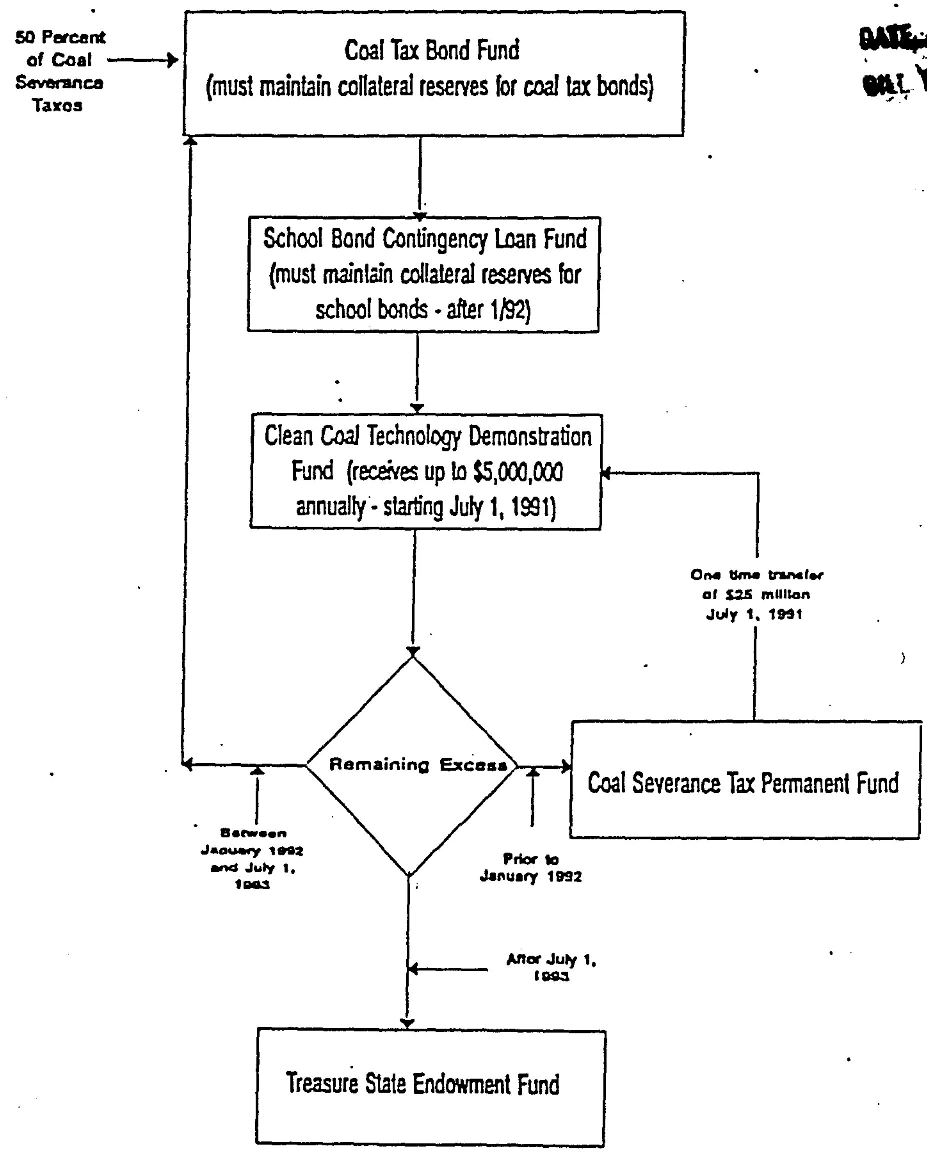
Attach to each day's minutes

This law was amended by Chapter 722, Laws of 1991, and by Chapters 3 and 12, Special Session Laws of January 1992. The figure below shows how the law has changed.

**Figure 1**

Coal Severance Tax Income Flow as of June 30, 1992

SENATE TAXATION
EXHIBIT NO. #1
DATE 12/2/93
BILL NO. SB 4




Source: Compiled by the Office of the Legislative Auditor from state law.

**Amendments to SB 4, as Introduced**
**Office of Budget and Program Planning**
**Prepared by Steve Bender**
**December 1, 1993**

SENATE [illegible]
EXHIBIT NO. #2
DATE 12/2/93
BILL NO. SB 4

1. Page 2, Line 7.
   Following: "determine"
   Insert: "as of July of each year"

2. Page 2, Lines 9 and 10
   Strike: "on the next two ensuing semiannual payment dates"
   Following: "fund"
   Insert: "during the next twelve months"

3. Page 2, Line 11.
   Following: "."
   Insert: "Amounts in the coal severance tax bond fund in excess of such amount must be transferred from the fund in accordance with subsections (3) through (6)."

4. Page 3, Line 11.
   Following: "transfer"
   Insert: "quarterly"

5. Page 3, Lines 22 and 23.
   Strike: "<u>quarterly</u>"
   Insert: "monthly"
   Following: "transfer"
   Insert: "from the treasure state endowment fund"

6. Page 3, Line 24 and Page 4, Line 1.
   Strike: "interest"

7. Page 4, Line 10.
   Strike: section 2 in it entirety
   Renumber subsequent sections.

8. Page 4, Lines 16 and 17.
   Strike: "37,100,000"
   Following: "shall"
   Insert: "upon passage and approval"
   Following: "permanent fund"
   Insert: "the cash balance of the account as of July 1, 1993 in excess of the amount to be retained as required by section (2), including all funds now held or required to be transferred to the clean coal technology demonstration fund. Nothing contained herein shall affect the authorizations contained in Chapter 722, Laws of 1991 but all prior allocations shall revert to the coal severance tax permanent fund until the clean coal technology program is ready to exercise the authorizations granted in Chapter 722, Laws of 1991"

Steve Bender

SENATE TAXATION
EXHIBIT NO. 3
DATE 12/2/93
BILL NO. SB 4

Explanation of SB 4, Introduced Version

The purpose of SB 4 is fourfold:

1) It directs the state treasurer to transfer excess funds that have accumulated in the coal severance tax bond fund from January 1991 though June 30, 1993 to the permanent trust. The earning potential of amounts held in the bond fund are limited because it is an arbitrage fund. As a result, the Board of Investments (BOI) has had to invest the accumulated amounts in STIP. Transferring the funds to the permanent trust will allow BOI to reinvest the funds in long-term securities at a substantially higher yield.

The amounts have accumulated in the bond fund because Chapter 12, Laws of January 1992 Special Session deleted the phrase "and any remaining amount to the coal severance tax permanent fund" from 17-5-703, MCA, thereby preventing the flow through the clean coal demonstration fund to the permanent fund. Audit findings of OLA forced the DOR to reverse previous deposits to the trust and prevented future transfers to the permanent trust.

2) It prevents the movement of $10 million of coal severance tax bond funds and $25 million of permanent trust principle to the clean coal demonstration fund as required by Chapter 722, Laws of 1991. This mandatory allocation was later made optional by Chapter 515, Laws of 1993 but the Office of the Legislative Auditor insists these amendments do not override Chapter 722.

Investment authority of funds in the clean coal account is limited to specified clean coal projects. No authority exists for other investments, including general investments for the benefit of the general fund.

ROC's revenue estimates assume this $35 million will remain in the permanent trust. If the amounts are moved to the clean coal account, the revenue estimate will need to be reduced.

3) It changes the allocation of deposits between the treasure state endowment fund and the permanent trust. Representations and financial calculations assumed there would be a 50/50 split between the accounts as funds flow into the accounts, rather than the one year lag on the distribution to the permanent trust contained in law. This change increases in the investable balance of the permanent trust by approximately $10 million in both years of the biennium.

4) It changes the movement of earnings from the treasure state endowment fund to the special revenue account. Under current law, the amounts are not to be distributed until the end of the fiscal year. As amended, the earnings will be distributed and available for use as they are earned.

STATE OF MONTANA - FISCAL NOTE
Form BD-15
In compliance with a written request, there is hereby submitted a Fiscal Note for SB0018, as introduced.

ESCRIPTION OF PROPOSED LEGISLATION:

n act providing reduced net proceeds tax rates and reduced severance tax rates on the incremental production of oil from nhanced recovery projects that begin after December 31, 1993, and before January 1, 2003; exempting from net proceeds axation for a period of 18 months the production of oil from horizontally completed wells; requiring that the Board of Oil nd Gas Conservation approve enhanced recovery projects in order for the projects to qualify for the reduced tax rates; and roviding for an immediate effective date and an applicability date.

SSUMPTIONS:

. The data necessary to determine the impact of the proposed legislation is not available (MDOR).

SENATE TAXATION
EXHIBIT NO. 4
DATE December 2, 1993
SB 18

ISCAL IMPACT:

xpenditures:

he proposed legislation will not have a significant impact on Department expenditures.

evenues:

et proceeds and severance tax revenues from *existing production* will not be impacted by the proposed legislation.

FFECT ON LOCAL REVENUES:

he local government impact from net proceeds tax revenues cannot be determined given the available information.

ONG-RANGE EFFECTS OF PROPOSED LEGISLATION:

mpacts to future revenues will depend upon the amount of new production resulting from the proposed tax incentives.

ECHNICAL NOTE:

he title of the bill states that oil production from horizontal wells is exempt from the net proceeds tax for the first 18 onths of production. The proposed legislation exempts both oil *and* natural gas production from the net proceeds tax for he first 18 months of production from horizontally drilled wells.

NOT FOR DISTRIBUTION

Dave Lewis 12-1
DAVE LEWIS, BUDGET DIRECTOR DATE
Office of Budget and Program Planning

Mike Halligan
MIKE HALLIGAN, PRIMARY SPONSOR DATE
Fiscal Note for SB0018, as introduced

SENATE TAXATION
EXHIBIT NO. 5
DATE December 2, 1993
BILL NO. SB 18

# Proposed Incentives

# To Attract Capital Investment

# In Montana

# For

# New Drilling And

# Enhanced Oil Production

## MONTANA TOTAL CRUDE OIL PRODUCTION

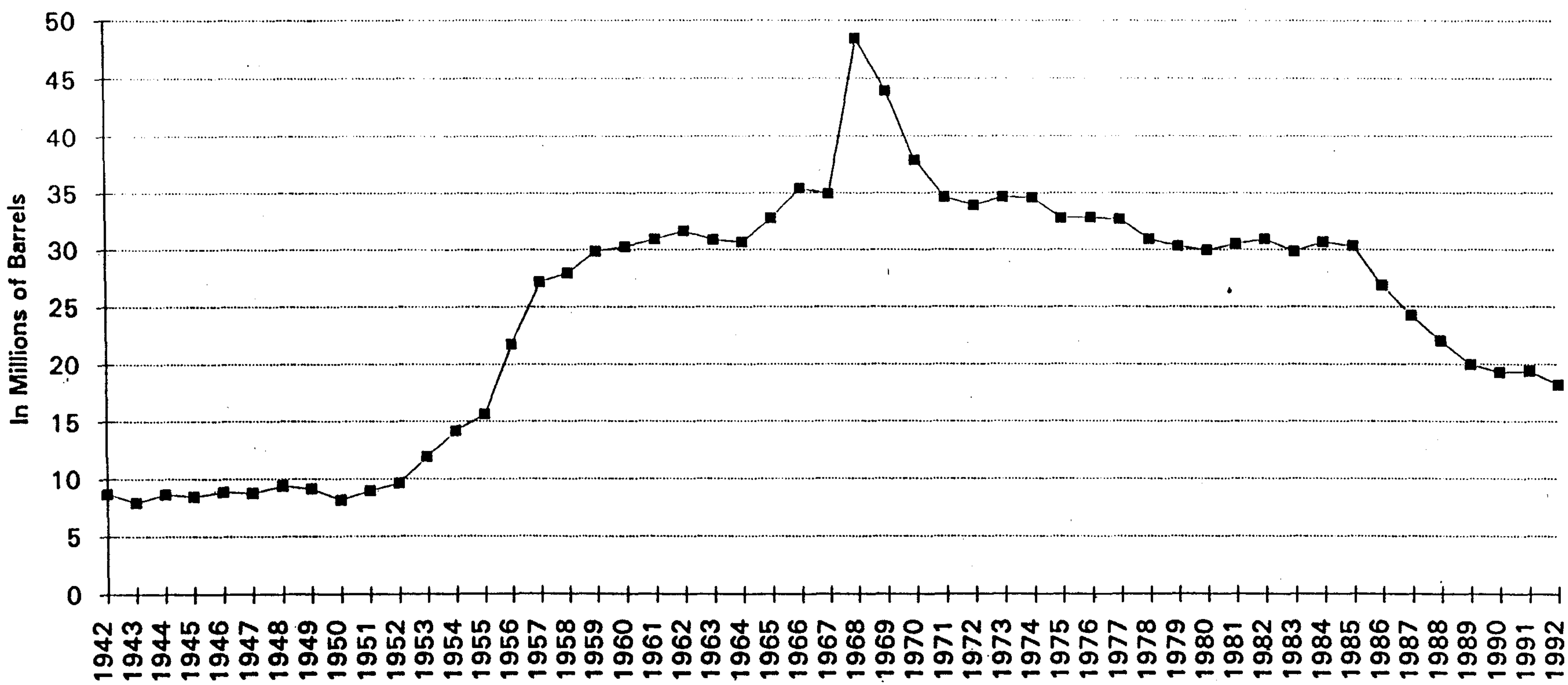
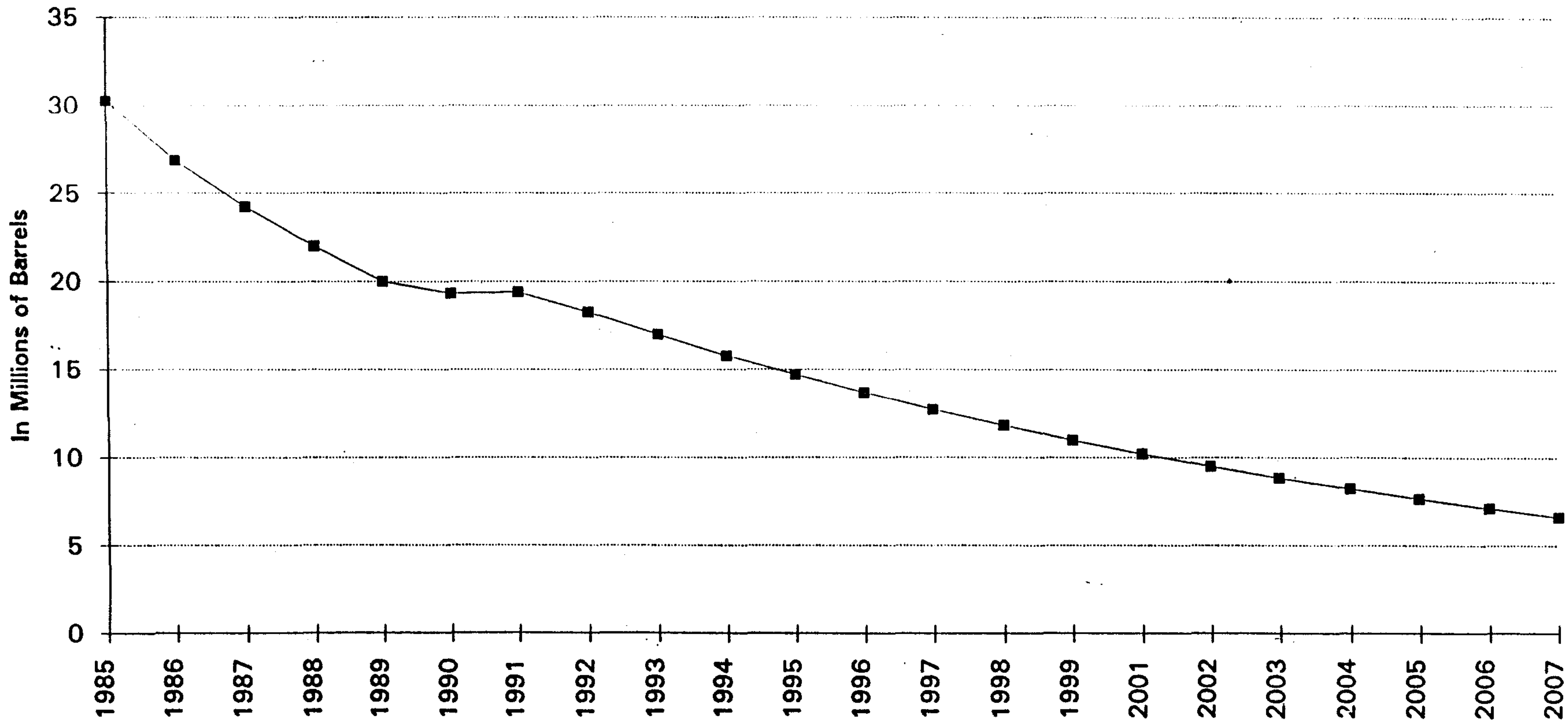


EXHIBIT 5
12-2-93
SB 18

# MONTANA OIL PRODUCTION DECLINE PROJECTION



# A PROPOSAL FOR MONTANA

- An extension of the current Net Proceeds Tax holiday from 12 to 18 months for horizontal well production from wells drilled after January 1, 1994. This incentive would encourage the drilling of these very expensive and risky wells. New vertical wells drilled after January 1, 1994, would continue to receive the current 12 month holiday.

- A reduction in the Local Government Severance Tax rate or the Net Proceeds Tax, whichever is applicable from 8.4% or 7%, respectively, to 5.0% on the incremental increase in production from new or expanded secondary recovery projects effective January 1, 1994, and a reduction in the State Severance Tax from 5.0% to 3.0% on this production.

- A reduction in the Local Government Severance Tax rate or the Net Proceeds Tax rate, whichever is applicable, from 5.0% or 7%, respectively, to 3.30% on the incremental increase in production from new or expanded tertiary recovery projects effective January 1, 1994, and a reduction in the State Severance Tax from 2.5% to 2.0% on this production.

EXHIBIT 5
12-2-93
SB 18

**Montana tax rates on OIL production:**

| | **From wells drilled prior to July 1, 1985** | | **From wells drilled after to July 1, 1985** | |
|---|---|---|---|---|
| | **CURRENT** | **PROPOSED** | **CURRENT** | **PROPOSED** |
| Severance | 5.00% | 5.00% | 5.00% | 5.00% |
| Secondary | 5.00% | 3.00% * | 5.00% | 3.00% * |
| Tertiary | 2.50% | 2.00% * | 2.50% | 2.00% * |
| RITT | 0.50% | 0.50% | 0.50% | 0.50% |
| Privilege & License | 0.20% | 0.20% | 0.20% | 0.20% |
| LGST | 8.40% | 8.40% | | |
| Secondary | 8.40% | 5.00% * | | |
| Tertiary | 5.00% | 3.30% * | | |
| Strippers | 5.00% | 5.00% | | |
| Non-working int. | 12.50% | 12.50% | | |
| Net Proceeds ** | | | 7.00% | 7.00% |
| Secondary | | | 7.00% | 5.00% * |
| Tertiary | | | 7.00% | 3.30% * |
| TOTALS (working int.) | | | | |
| Oil: Regular | 14.10% | 14.10% | 12.70% | 12.70% |
| Secondary | 14.10% | 8.70% * | 12.70% | 8.70% * |
| Tertiary | 8.20% | 6.00% * | 10.20% | 6.00% * |
| Stripper | 10.70% | 10.70% | 12.70% | 12.70% |
| All new wells: | | | | |
| First 12 months of production, total rate: | | | 5.70% | 5.70% |
| Subsequent production, total tax rate: | | | 12.70% | 12.70% |
| New horizontal wells | | | | |
| Months 13-18 of production, total rate: | | | 12.70% | 5.70% * |
| Subsequent production, total tax rate: | | | 12.70% | 12.70% |

Tribal royalties are exempt from taxation.

This chart does NOT include the various 7% surtax approved by the 1992 special session. The surtax applies to state severance, LGST, RITT and privilege and license taxes for one year of production. The production year and tax year varies with each tax.

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* Denotes change from current

** The net proceeds tax on post-1985 wells is actually a flat rate on gross, but is still codified as net proceeds. New wells receive holiday from net proceeds tax for initial production as follows:

a. first 12 months for conventional vertical completions
b. first 18 months for horizontal completions

# MONTANA

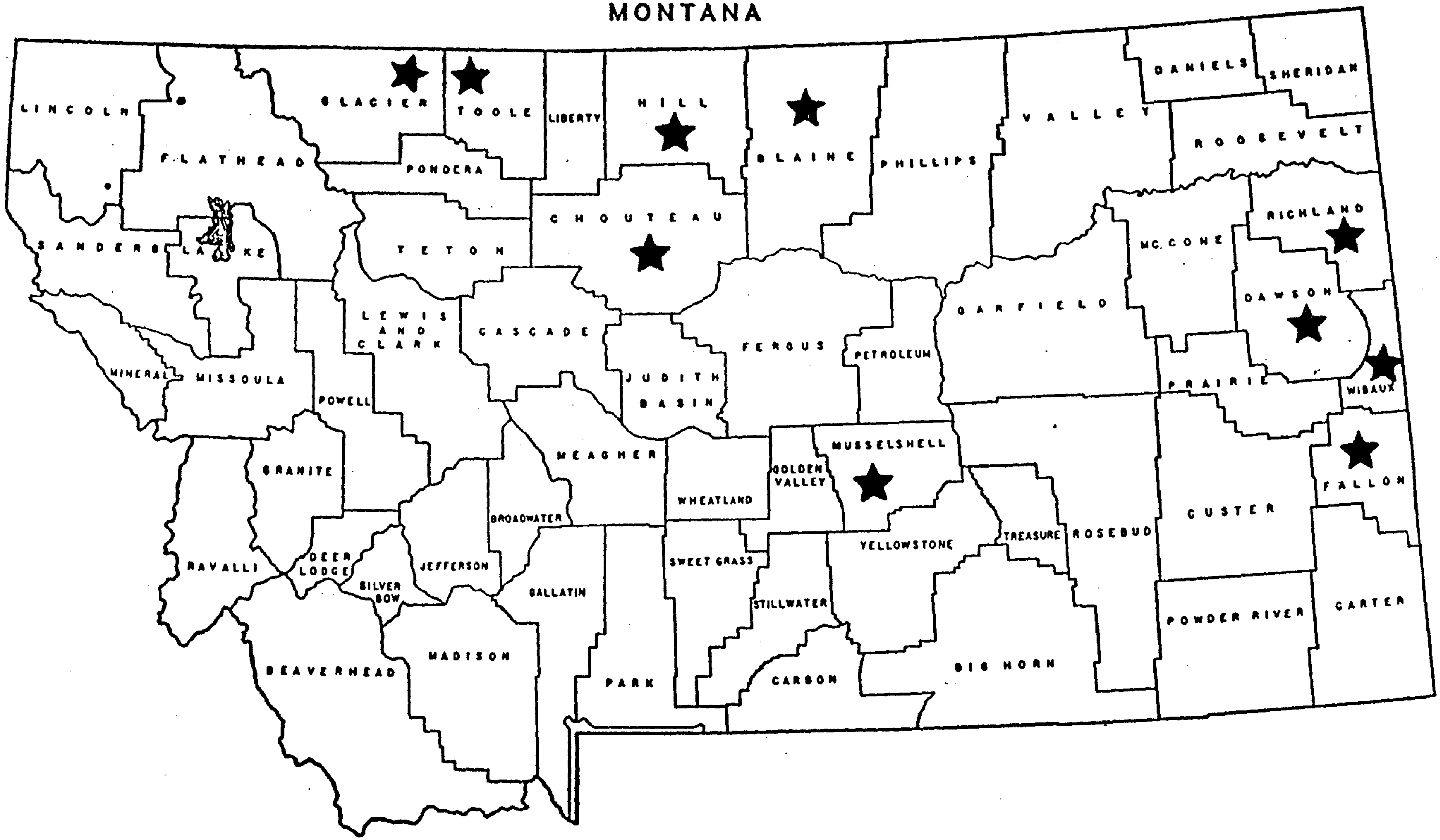

LINCOLN
FLATHEAD
GLACIER
TOOLE
LIBERTY
HILL
BLAINE
PHILLIPS
VALLEY
DANIELS
SHERIDAN
ROOSEVELT
PONDERA
SANDERS
LAKE
TETON
CHOUTEAU
RICHLAND
MC CONE
GARFIELD
DAWSON
LEWIS AND CLARK
CASCADE
FERGUS
PETROLEUM
MINERAL
MISSOULA
JUDITH BASIN
PRAIRIE
WIBAUX
POWELL
MEAGHER
MUSSELSHELL
GRANITE
GOLDEN VALLEY
WHEATLAND
FALLON
CUSTER
BROADWATER
TREASURE
ROSEBUD
DEER LODGE
RAVALLI
JEFFERSON
SWEET GRASS
YELLOWSTONE
SILVER BOW
GALLATIN
STILLWATER
POWDER RIVER
CARTER
MADISON
BEAVERHEAD
BIG HORN
CARBON
PARK

EXHIBIT 5
12-2-93
SB 18

COMBINED
MERIDIAN OIL INC. and
SHELL WESTERN E & P

MONTANA
PROPOSED CAPITAL DEVELOPMENT
AND
PROJECTED WELL COMPLETIONS

| YEAR | INVESTMENT ($ MILLIONS) | # WELLS COMPLETIONS |
|---|---|---|
| 1994 | $ 22.450 | 22 |
| 1995 | 36.150 | 35 |
| 1996 | 30.750 | 31 |
| 1997 | 28.500 | 28 |
| 1998 | 23.500 | 22 |
| | $ 141.350 | 138 |

ANNUAL PROJECTED INCREASED REVENUES FROM PROPOSED INCENTIVES

| Year | State Taxes | Royalties | Local Taxes | Total |
|---|---|---|---|---|
| 1994 | $507,562 | $120,088 | $259,225 | $886,875 |
| 1995 | $1,261,036 | $417,273 | $738,229 | $2,416,538 |
| 1996 | $1,978,075 | $739,284 | $1,547,693 | $4,265,052 |
| 1997 | $2,578,146 | $1,019,929 | $2,326,625 | $5,924,700 |
| 1998 | $3,057,702 | $1,216,401 | $2,977,044 | $7,251,147 |
| 1999 | $3,087,210 | $1,158,280 | $3,598,782 | $7,844,272 |
| 2000 | $2,846,699 | $1,020,804 | $3,729,774 | $7,597,277 |
| 2001 | $2,684,843 | $945,100 | $3,516,449 | $7,146,392 |
| 2002 | $2,559,730 | $897,074 | $3,352,432 | $6,809,236 |
| 2003 | $2,457,185 | $865,081 | $3,216,195 | $6,538,461 |
| 2004 | $2,366,215 | $843,472 | $3,061,656 | $6,271,343 |
| 2005 | $2,261,140 | $828,439 | $2,960,025 | $6,049,604 |
| 2006 | $2,189,991 | $817,122 | $2,726,748 | $5,733,861 |
| 2007 | $2,019,209 | $807,569 | $2,644,831 | $5,471,609 |
| 2008 | $1,918,397 | $798,133 | $2,504,057 | $5,220,587 |
| 2009 | $1,657,331 | $760,226 | $2,161,212 | $4,578,769 |
| 2010 | $1,360,131 | $722,125 | $1,802,620 | $3,884,876 |
| 2011 | $1,102,545 | $685,931 | $1,468,421 | $3,256,897 |
| 2012 | $874,211 | $651,552 | $1,172,906 | $2,698,669 |
| 2013 | $779,232 | $618,901 | $1,048,532 | $2,446,665 |
| 2014 | $739,247 | $587,891 | $1,046,348 | $2,373,486 |
| 2016 | $739,457 | $558,430 | $984,809 | $2,282,696 |
| 2018 | $774,181 | $583,494 | $1,033,707 | $2,391,382 |
| 2020 | $839,665 | $655,161 | $1,123,876 | $2,618,702 |
| 2022 | $891,893 | $713,379 | $1,195,909 | $2,801,181 |
| 2024 | $894,348 | $734,024 | $1,162,628 | $2,791,000 |
| 2026 | $755,129 | $645,624 | $1,006,548 | $2,407,301 |
| 2028 | $506,250 | $433,156 | $684,122 | $1,623,528 |
| 2030 | $290,968 | $241,448 | $393,201 | $925,617 |
| 2032 | $104,343 | $81,350 | $141,005 | $326,698 |
| Total | $46,082,071 | $21,166,741 | $55,585,609 | $122,834,421 |

EXHIBIT
12-2-93
SB 18

# SUMMARY

- NO DECREASE IN TAX REVENUES FROM PRESENT OR FUTURE PRODUCTION ON EXISTING WELLS

- TAX INCENTIVES APPLY ONLY TO NEW OR ENHANCED PRODUCTION FROM NEW CAPITAL INVESTMENT AFTER DECEMBER 31, 1993 AND BEFORE JANUARY 1, 2002

- APPROXIMATELY 138 NEW WELLS WITH OVER $140 MILLION IN CAPITAL INVESTMENT

- NEW STATE AND LOCAL TAX REVENUES IN EXCESS OF $122 MILLION OVER LIFE OF NEW WELLS

EXHIBIT 5
12-2-93
SB 18

- **INCREASE "TAX HOLIDAY" ON HORIZONTAL WELLS FROM 12 TO 18 MONTHS**

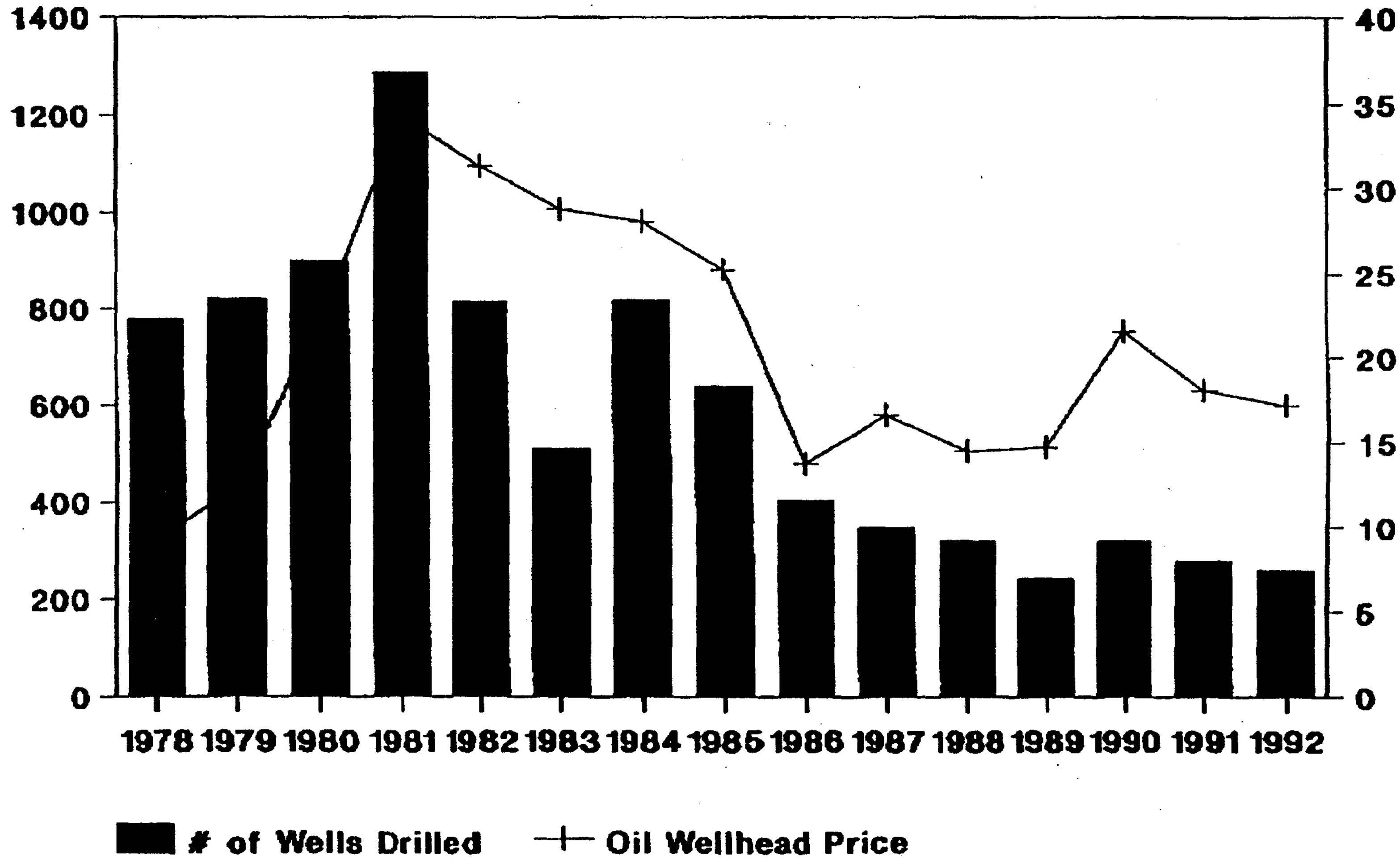
- **REDUCTION IN TAX RATES FOR NEW AND ENHANCED SECONDARY RECOVERY**

- **REDUCTION IN TAX RATES FOR NEW AND ENHANCED TERTIARY PRODUCTION**

12-2-93
SB 18

SENATE TAXATION
EXHIBIT NO. 6
DATE December 2, 1993
BILL NO SB 18

# Montana Oil Prices/Wells Drilled
## 1978 to 1992




Produced by MPA, August, 1993

EXHIBIT
12-2-93
SB 18

# MONTANA OIL PRICES AND NUMBER OF WELLS DRILLED
## 1978 TO 1992

### Number of Wells Drilled in Montana

| Year | Number of Wells Drilled |
|---|---|
| 1978 | 778 |
| 1979 | 822 |
| 1980 | 902 |
| 1981 | 1,289 |
| 1982 | 816 |
| 1983 | 511 |
| 1984 | 819 |
| 1985 | 640 |
| 1986 | 405 |
| 1987 | 348 |
| 1988 | 322 |
| 1989 | 242 |
| 1990 | 322 |
| 1991 | 278 |
| 1992 | 259 |

### Oil Wellhead Price

| Year | $/BBL |
|---|---|
| 1978 | 9.253 |
| 1979 | 12.279 |
| 1980 | 22.250 |
| 1981 | 34.317 |
| 1982 | 31.311 |
| 1983 | 28.804 |
| 1984 | 28.068 |
| 1985 | 25.214 |
| 1986 | 13.734 |
| 1987 | 16.622 |
| 1988 | 14.500 |
| 1989 | 14.710 |
| 1990 | 21.530 |
| 1991 | 18.10 |
| 1992 | 17.20 |

Production and price statistics from Montana Department of Revenue. Produced by Montana Petroleum Association, August, 1993.

EXHIBIT 1
12-2-93
SB 18

**Meridian Oil Inc.**

**Presentation to the Montana Legislature**

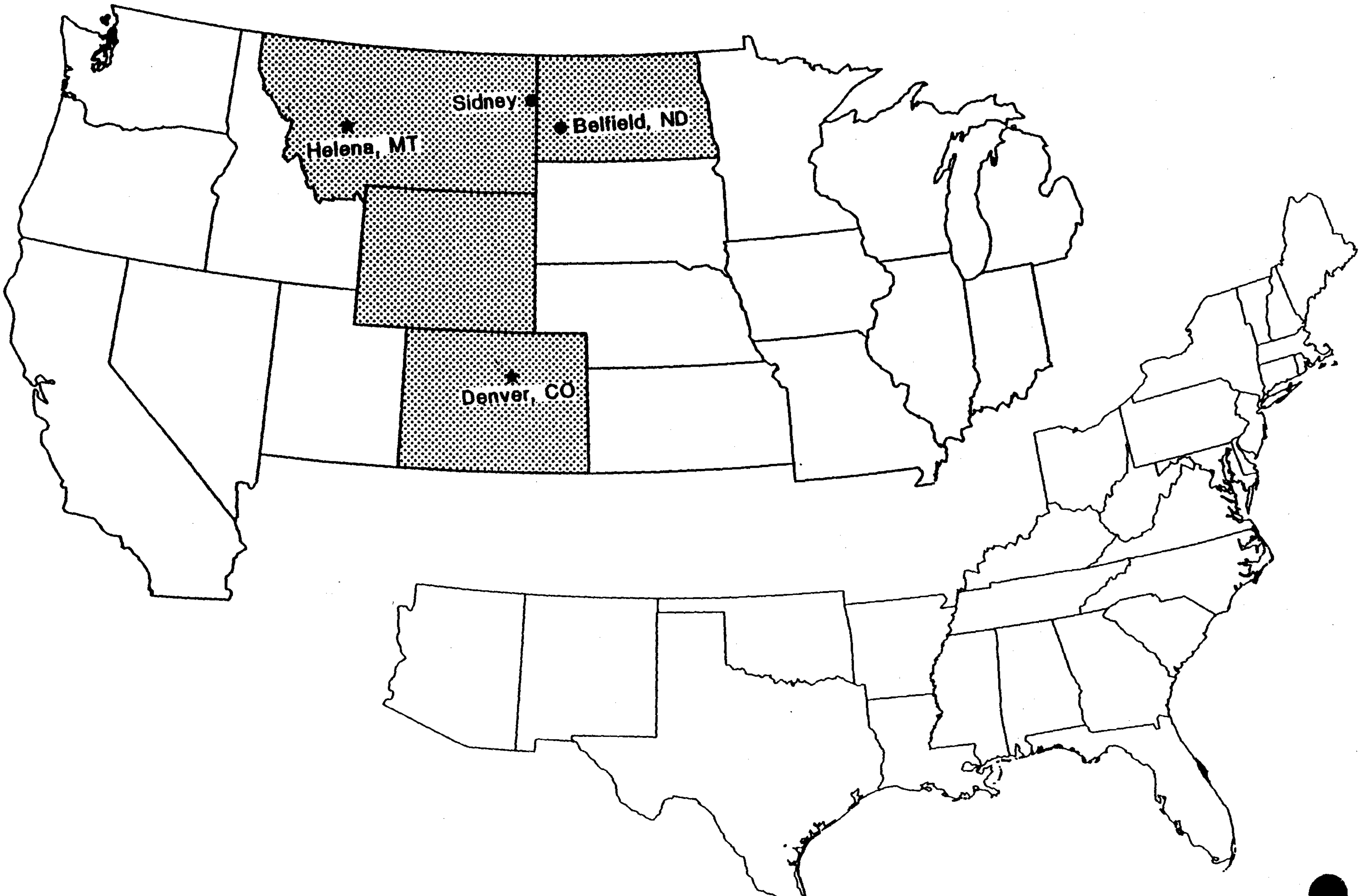
**1993 Special Legislative Session**

I am pleased to be with you today to discuss two topics: First, I want to explain to you the technology and risks associated with horizontal drilling, a technology in which Meridian has been (and continues to be) an industry leader. Hopefully, you may better understand why my company believes that an extension of the "tax holiday" for new horizontal wells is justified. Second, I want to share with you some of our plans for new drilling activity in Montana that we anticipate will occur if the Legislature passes the incentives for new and enhanced oil production.

Meridian believes that these incentives will encourage capital spending, will increase production and will increase revenues for the state of Montana.

Meridian is an active Montana producer and we are currently the largest independent oil and gas company in the United States in terms of total domestic proven reserves (of 6 Trillion Cubic Feet Equivalent - TCFE).

# MERIDIAN OIL
## DENVER REGION



12-2-93
SB 18

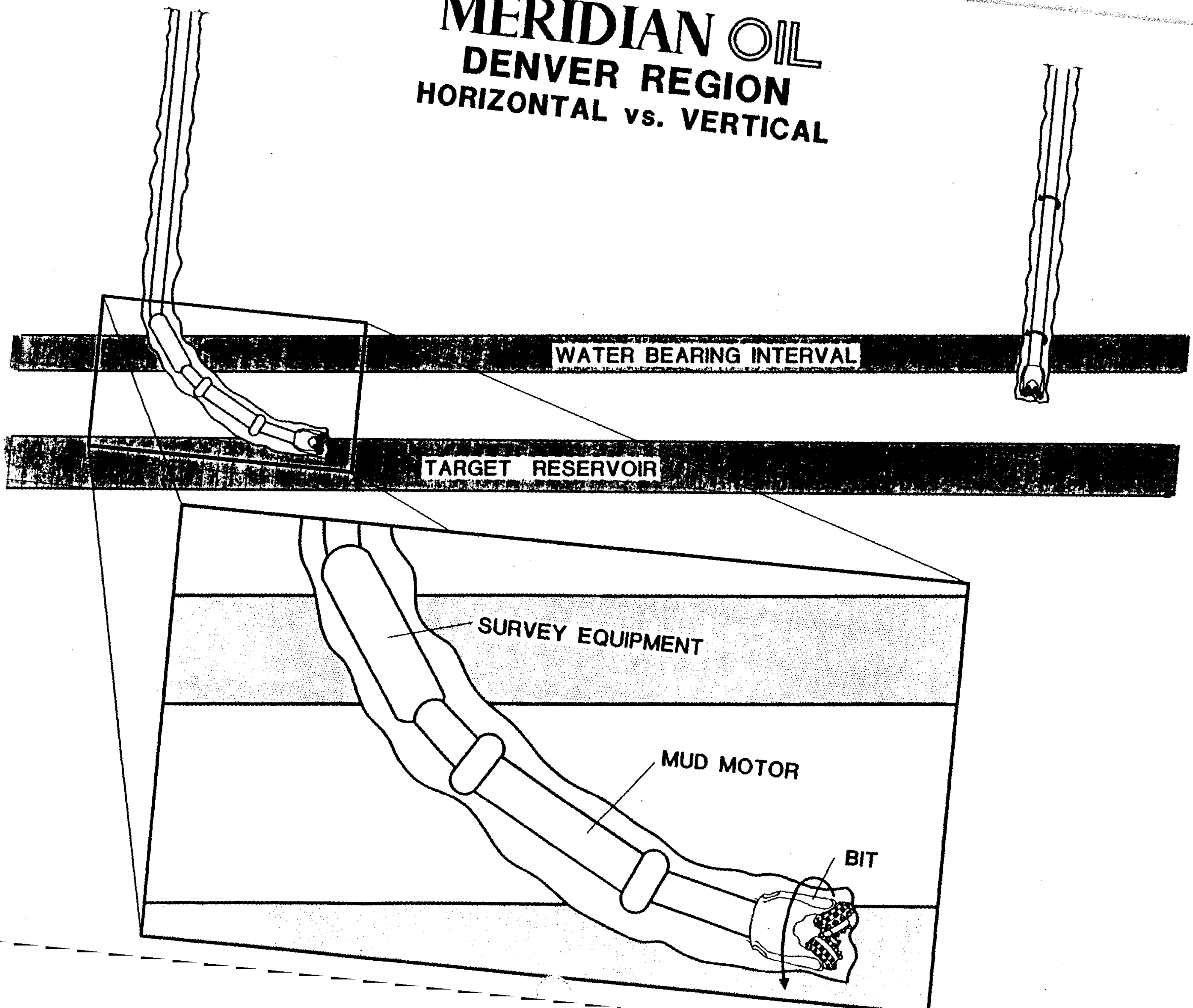
Exhibit 1 shows Meridian's Denver Region, which covers a large geographic area from Indiana to the West Coast. However, our historical focus has been in the Rocky Mountain area. Four states, North Dakota, Wyoming, Montana and Colorado account for 93% of our 15,500 barrels of oil and 28 million cubic feet of gas production per day. Additionally, over $41 MM or 95% of our Region's 1993 capital program will be employed in these states.

Our Production offices responsible for the operation of our Montana and North Dakota properties are located (as shown) in Sidney, Montana and Belfield, North Dakota. Upon completion of our 1993 drilling program, we will have drilled 34 new wells in the Sidney-Belfield area. Seven of these are located in Montana. 27 are located in North Dakota.

Three/fourths of our 1993 Sidney-Belfield wells will be drilled horizontally, with 7 out of the total 25 horizontal wells located in a pilot project in Montana.

We have requested that our Board of Directors approve increased levels of capital throughout the Denver Region for 1994. If approved, this would result in a 50% increase over our current year budget. We have proposed 51 new wells (as compared to the 34 in 1993) in the Sidney-Belfield area. We maintain the ability to reallocate capital within this area, as well as throughout the Denver Region, based on the relative economic success of the wells.

# MERIDIAN OIL
## DENVER REGION
### HORIZONTAL vs. VERTICAL

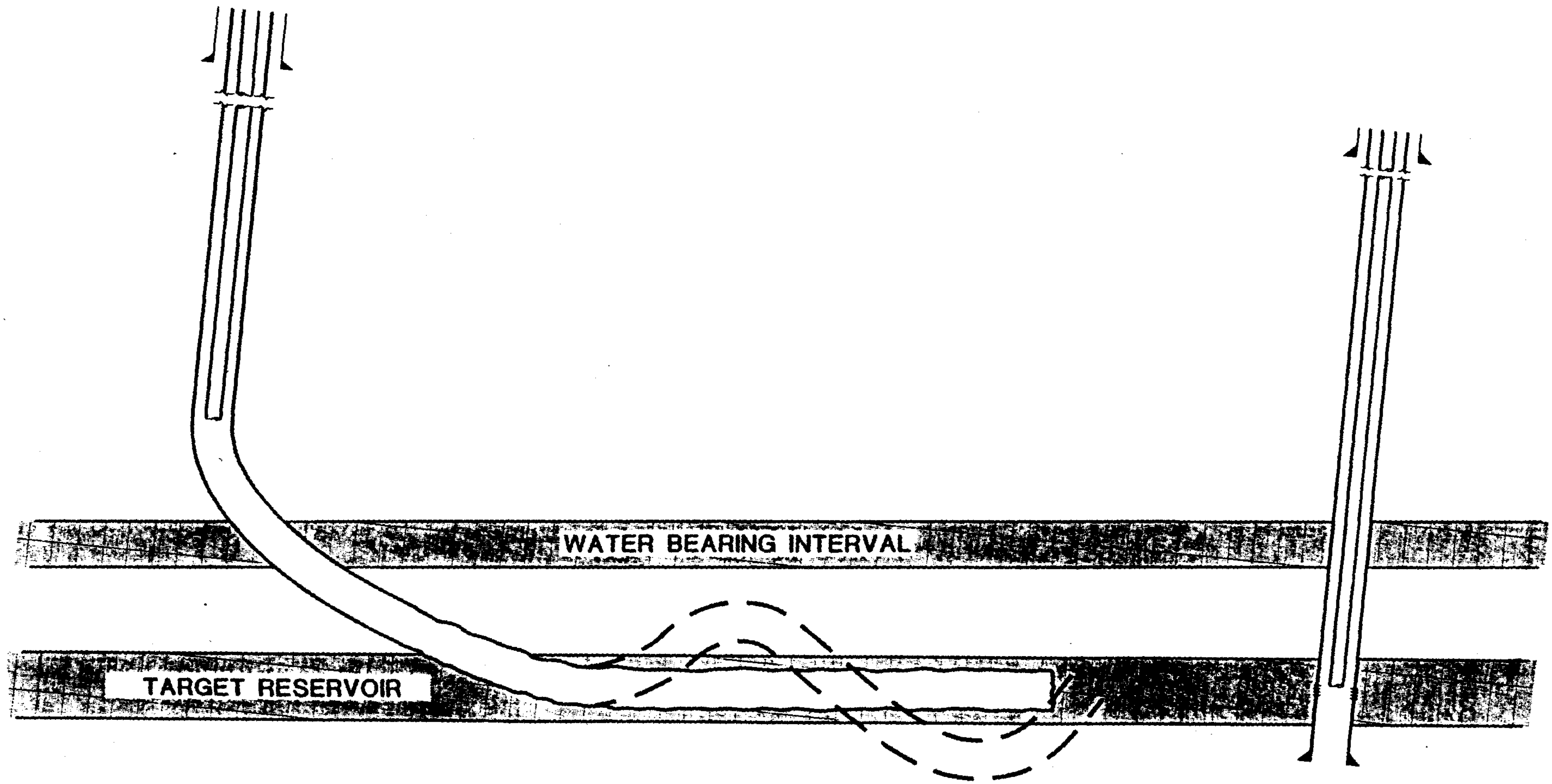


I would like to now discuss some of the specifics of horizontal drilling and explain why the application of this technology is both more expensive and more risky than traditional vertical well drilling. The second exhibit depicts a horizontal well drilled in an oil or gas reservoir and a well drilled vertically through the same zone.

The exhibit shows that the downhole equipment utilized to drill a vertical well consists of straight steel tools that simply provide the necessary weight for the bit to drill. The entire drill string is rotated from the surface and the bit "naturally" drills vertically.

Drilling horizontally requires that the bit be "steered" into the target reservoir. The process requires downhole tools to continuously survey the location of the bit and the path of the wellbore. The horizontal bottom-hole drilling assembly also contains a bend. A downhole motor, located below this bend, is required to rotate the bit. Although I have greatly simplified the downhole tool description, this basic design allows us to "steer" the bit in the objective reservoir.

MERIDIAN OIL
DENVER REGION
HORIZONTAL vs. VERTICAL




HIBIT 3

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# MERIDIAN OIL
## DENVER REGION
### HORIZONTAL vs. VERTICAL

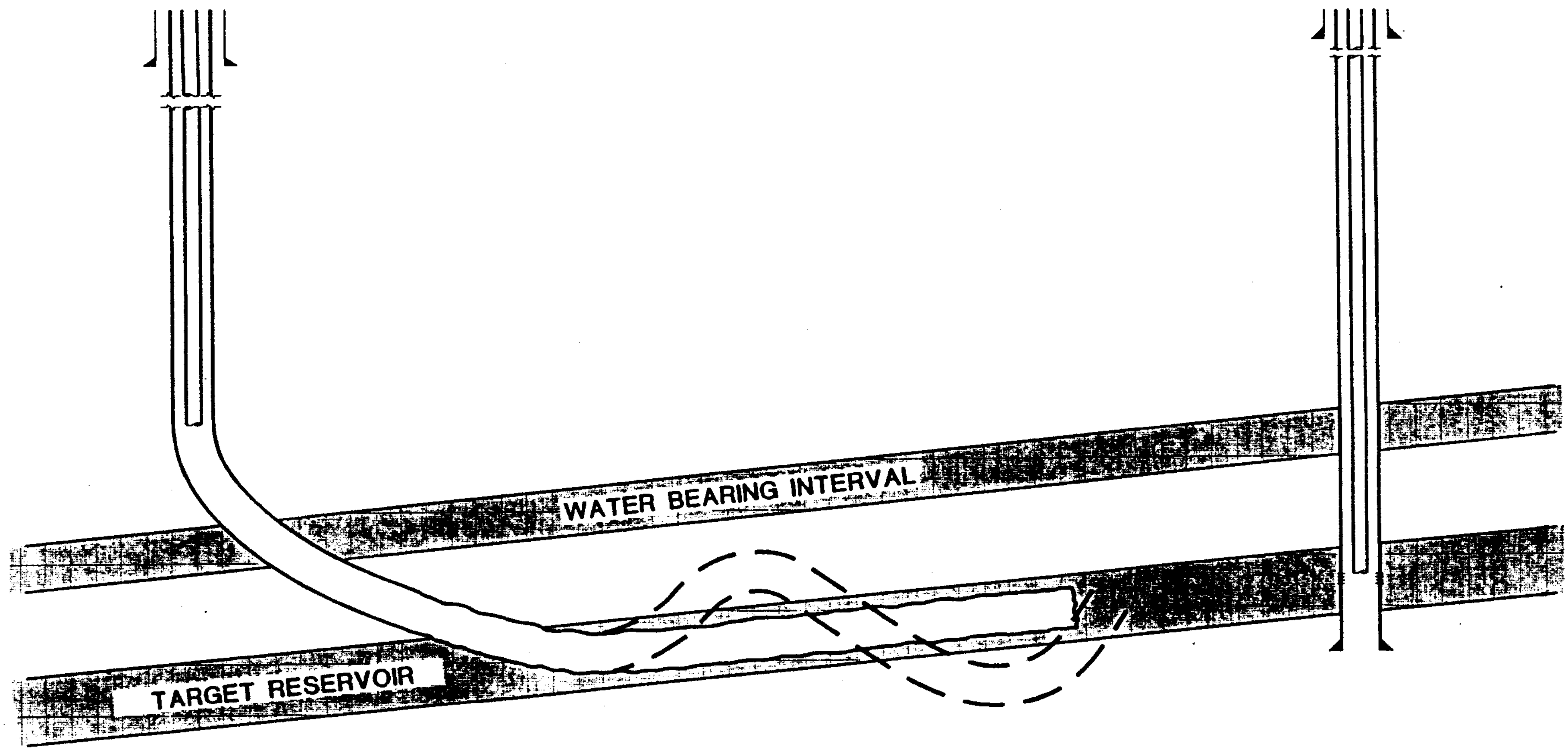



EXHIBIT 3

EXHIBIT 7
12-2-93
SB 18

The challenges associated with horizontal projects are great. Reservoirs must be accurately mapped in order to both hit the objective formation and to remain in the targeted zone. As diagrammed in Exhibit 3, drilling "in zone" is particularly difficult in thin reservoirs of less than 5-10'. Once in the horizontal portion of the wellbore, there remains a higher probability that the costly bottom hole drilling assemblies will be stuck or even lost in the hole. Open-hole logging procedures are more complicated since the wireline conveyed tools will not gravity fall to the end of a horizontal wellbore.

As an example, I would like to review the problems that we experienced while drilling a horizontal well in 1988 in southeast Montana. The downhole tools became stuck while drilling in the horizontal portion of the wellbore. Seven days were lost attempting to recover the stuck tools, setting a cement plug and drilling around the lost tools. The total cost of the problem exceeded $350M, which included $200M for the lost downhole equipment. These costs are significant when you consider that the cost of a problem-free well in this area is approximately $1MM.

The technical challenges are not unique to the drilling operations. Difficulties are frequently encountered during the completion and production phase of the horizontal projects. Problems are commonly associated with running and cementing production casing, perforating the casing, stimulating the reservoir and (like in the open hole case) conducting logging operations.

Industry reports of the increased time and cost of these procedures vary widely. Costs of 2-3 times that of offset vertical wells have been reported. We have been drilling horizontal wells in the Meridian Denver Region since 1987. Our experience has demonstrated that drilling wells horizontally as opposed to vertically results in:

50% to 100% increase in our daily drilling cost

50% to 100% additional drilling time - and -

25% to 50% of additional footage drilled in the horizontal portion of the wellbore.

In spite of these higher costs, the industry has attempted horizontal wells worldwide in a variety of oil and gas reservoirs. The economic viability of the projects has also varied significantly. A number of horizontal attempts have been economic failures.

# MERIDIAN OIL
## DENVER REGION
### FIVE YEAR IMPACT

— DRILL 107 WELLS

— CAPITAL COST $113 MM

— MINIMUM 2 RIGS OPERATING

— $3.4 MM/YEAR TO 88 DIRECT EMPLOYEES

— 350 ADDITIONAL JOBS

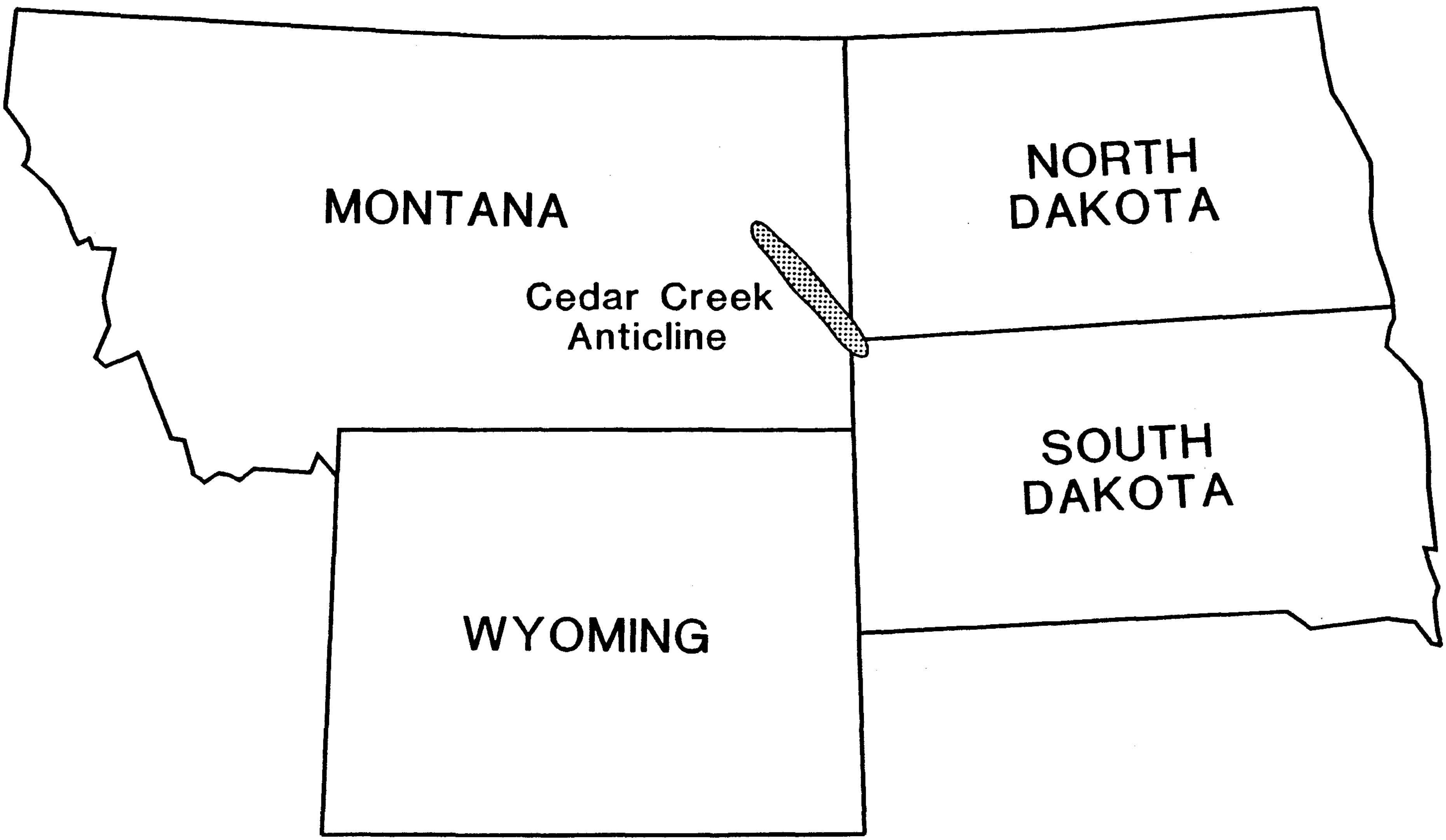
I would now like to discuss our proposed Montana drilling program to demonstrate both the risk and extent of what we are currently considering. I will focus on our East Lookout Butte horizontal pilot in southeast Montana. The project is near the Shell operated Pennel Unit on the east flank of the Cedar Creek anticline, as shown on Exhibit 4.

The project was initiated in 1988 when Meridian drilled 5 horizontal wells, attempting to achieve higher producing rates than the low rates of the existing vertical wells in the area. Even though higher rates were achieved, the wells were still marginally economic due the increased cost of the horizontal wells. In the same year, Meridian initiated a one year pilot water flood by injecting brine water into a single vertical well. We then requested and were granted extensions of the pilot water flood by the Board of Oil and Gas Conservation in 1989, 1990 and 1992. This project had been in a producing and evaluation phase then for 4 years until the beginning of 1993. This year, we expanded this pilot project by drilling 7 new horizontal wells.

We were able to justify these new wells primarily because of cost savings and efficiencies that we had gained from horizontal experience throughout our company during that 4 year period. The economic results of these 7 wells will impact our decision to move forward with the full project development of 70 wells in the East Lookout Butte project over the next 5 years. Due to current depressed oil price of less than $15/bbl in the area, these wells also appear marginally economic in spite of lower drilling costs than the 1988 program.

Again, the results of the horizontal drilling attempts industry-wide, throughout Meridian and in our East Lookout Butte project, all demonstrate the marginal economic nature of horizontal wells.

MERIDIAN OIL
DENVER REGION




XHIBIT 4

EXHIBIT 1
12-2-93
SB 18

Within Meridian, horizontal projects have experienced mixed economic results. As of August of this year, Meridian has drilled 218 horizontal wells. The wells were drilled in 22 pilot project areas, testing different geologic formations that produce both oil and natural gas.

In total, we consider the effort to be economically successful and we are quite pleased with our overall horizontal program. We can demonstrate this by pointing out that over 80% of these 218 horizontal wells have been drilled in the development of successful pilot programs. However, all these development wells were drilled in just 3 of the total 22 horizontal programs that have advanced beyond the pilot phase. The remaining 19 pilot projects, including our proposed Montana projects, are still in the evaluation stage and have not proven economically attractive enough to merit further development.

We feel that the mixed success rates reported by industry and these results within Meridian, demonstrate the marginal economic nature of most attempts at horizontal drilling. Therefore, any incentives to drill these risky and costly horizontal wells would be well received by the industry.

EXHIBIT 11
12-2-93
SB 18

Factors that effect the economics of horizontal projects are oil price, drilling and production costs, production rate and others such as the taxes that we are discussing today. Most of these variables are beyond our control. The proposed incentives, however, are variables that the state can influence.

Implementing the proposed horizontal drilling and enhanced oil recovery incentives would positively impact the East Lookout Butte pilot program, as well as the other Montana projects that Meridian has under consideration for 1994 and succeeding years. The economics of horizontal wells drilled in the area would be improved to the point that the project would compete favorably for capital with other projects within the Denver Region and throughout Meridian.

Provided that we are able to economically justify moving forward on this and other similar projects, we estimate that Meridian could drill up to 107 wells in the State of Montana over the next 5 years at a capital cost in excess of $113 MM. With an average of 44 direct employees per drilling operation and with at least 2 drilling rigs operating full time for the next five years, we believe that the drilling activity alone will substantially add to the Montana economy. We estimate that annual salaries of approximately $3.4 MM per year would be paid to approximately 88 employees directly supporting the 2 drilling operations. Further, based on a 4:1 ratio of indirect to direct employment, we estimate that over 350 additional support jobs would be needed in surrounding communities.

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I encourage you to strongly consider the proposed incentives for horizontal drilling and enhanced oil recovery projects. I believe that the incentives will serve to induce new, significant capital spending in Montana and will ultimately result in increased production and increased revenues for the state.

I appreciate the opportunity to discuss these issues with you and I welcome any questions that you may have for me today.

SENATE TAXATION
EXHIBIT NO. 8a
DATE December 2, 1993
BILL NO. SB 18

TESTIMONY OF R. E. SHEFFIELD

SHELL WESTERN E&P INC., HOUSTON, TX

IN SUPPORT OF LEGISLATION TO ENCOURAGE

HORIZONTAL DRILLING AND ENHANCED OIL PRODUCTION

My name is Bob Sheffield. I am Western Asset Technical Manager for Shell Western E & P Inc., based in Houston, Texas. SWEPI, as we are sometimes called, explores for and produces oil and gas in the US. We have operations stretching from Florida to Alaska. My territory in the Western Asset stretches from West Texas and New Mexico up the Rockies to Montana and on into Alaska. In my position I am responsible for technical review of all new projects and preparation of our capital budgets.

Shell is the largest oil producer in Montana, accounting for about 30 percent of the 20 million barrels produced here every year. We first discovered oil in Montana in 1951 near Glendive. This is in what's known as the Cedar Creek Anticline, a prolific formation running nearly 100 miles from Glendive through Baker and across the state line down into North Dakota. At the height of our development, in the late 50s and early 60s, there were times that we had as many as 16 drilling rigs operating in our field in Eastern Montana. We had major offices in Billings and Glendive and five field offices. Production peaked in 1964 at 39,000 barrels of oil per day. At this time we had about 60 Shell employees in Montana and also employed several hundred contract service personnel. Although our oil production has been gradually declining, we have been working hard to reduce this decline and prolong the productive life of the field.

Currently we produce more than 16,000 barrels of oil a day from 460 wells. We operate nearly 200 water injection wells, three gas conditioning facilities, and 50 field locations with a total investment of $350 million. We now have about 50 employees in Montana and pay $14 million a year in taxes. These tax payments have been steadily declining as our oil production has declined.

Although we pay a variety of taxes on our oil production, they basically work the same way. You take the tax rate and multiply it times our production volume and the price of crude oil. The combined Montana tax rate of about 12.7 percent is the highest oil and gas tax rate of any state that we operate in. The taxes we pay to Montana have been falling, because both our production volume and crude prices have been falling.

I would like to briefly discuss some basics of oil production, especially defining the waterfloods that we use extensively now in the Cedar Creek Anticline. The first phase of production is what we call <u>Primary Production</u> where we produce the oil with pumping units simply relying on the natural pressures of the formation. This continued for about 10 years in our field, and we were able to recover 15-20 percent of the oil originally inplace. Production would have declined rapidly and we would have sold or abandoned the field by now if we had not taken action to supplement natural reservoir pressures.

The action we took to stop the production decline was implementing Secondary Production, which in the case of this field is a waterflood. As the name implies, in this method we pump water back into the producing part of the field -- usually brine or salty water that is produced with the oil or from deep brackish formations. The water is pumped into the oil producing formation to help maintain the original pressure that drives the oil through the rocks to the producing wells.

It is very difficult to produce all of the oil in your existing formations. We have now been on Secondary Production for 30 years and have produced approximately 30 percent of the oil originally in place. We have invested $100 million in waterflood equipment, including pumps, flowlines, water handling and storage tanks, and a great deal of electrical equipment to keep it all working. Our electricity bill alone is about $400,000 a month! The added cost of a waterflood has to be justified by the added production you can get.

The third step in recovering additional oil is Tertiary Production. This is a much tougher economic decision. The oil left behind by the waterflood is the hardest to produce. In the mid '80s, we considered injecting CO2 into our formation. We actively lobbied this Legislature for tax incentives to make this economically feasible. We said at the time that the economic feasibility for this proposed project was based upon crude prices of $27 per barrel. The project was not carried out because shortly after the tax incentive was passed by the Legislature, oil prices plummeted drastically, to nearly $10 per barrel, making it economically impossible to carry out the project. CO2 is one of the most widely used Tertiary Production techniques. Others include chemicals such as polymers and surfactants and even steam. In most cases, this third phase is significantly more expensive. At the current average price of $12.50 a barrel for Montana oil, it is very difficult to justify the investment required. However, there are some operators who are considering tertiary projects right now.

The oil industry has changed dramatically in the 40 years that Shell has been in Montana. During this time, the combination of the US government restricting exploration in many prime areas and this cost/price squeeze has forced many large US oil companies to look elsewhere for new opportunities. Many have taken their exploration efforts overseas. Those of us who remain dedicated to the US have had to work smarter. Yes, like many industries, we have had to trim costs, including laying off employees. My company has cut back over 20 percent in the last few years.

We have also invested heavily in new technology. First, most of our existing wells are all monitored electronically, so that we know exactly how each well is doing from a computer screen in the office. Next, we have taken the newest exploration tool -- three dimensional or 3D seismic -- and have used it extensively throughout the Cedar Creek Anticline. Much of this work was done in the late 80s. Now, we have interpreted that seismic and are attempting to further develop the area. For the past few years we have been drilling north of Baker in the Pine, Pennel and Cabin Creek areas.

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As we move southeast in the Pennel Unit, the rock quality tends to deteriorate, making oil production more difficult. This picture shows well density in our Pennel Unit. You can see more wells in the north and more open spaces in the south. As the rocks thin out in the south and east, we cannot justify the cost of the many traditional vertical wells it would take to produce this. So we have experimented with horizontal wells that, while much more expensive, could economically recover the oil in this poorer part of the field. To date, our tests have been encouraging.

Let me show you a simplified chart of our Cedar Creek Anticline and how it responds to the kind of expanded water flood we are discussing. This curve represents a normal production cycle, with production gradually falling off as years go by. The Cedar Creek Anticline is 40 years old and we are well into the later stages of production. The tax incentives we are proposing are to make expansion economically feasible. By drilling additional horizontal wells we plan to expand production and extend to life of this field. Without this additional investment, we expect this field to become uneconomic soon after the turn of the century. With this additional phase of investment, we think we can add another seven years to the field's life. Please note that the normal expected production, shown in blue, will be taxed at the current rates. It is only the incremental - or added production - shown here in red, that is taxed at the lower rates we are suggesting.

We are now prepared to move forward with a $25-30 million program of at least a dozen horizontal wells and perhaps 20 traditional vertical wells over the next several years. If these are economically successful, we would probably find other locations in our field to drill horizontal wells in a second phase of this effort. We hope this first phase will add nearly 4,000 barrels of oil to our current daily production of 16,000 barrels and 11 million barrels to the ultimate recovery of this field. Over the next 15-20 years we estimate that this investment will generate $13-15 million in additional tax revenues to the state and local communities. That's new revenues above and beyond the taxes we pay on our current production. What's more, the tax incentives will help us extend the life of the field, which helps extend the jobs this field generates -- jobs for Shell employees and many others in the community.

We are currently evaluating the results from our second horizontal well, the total costs involved and the relative earning power of these wells as compared with other possible investment opportunities in other parts of my territory. When we first start in the budgeting process, there are always several "sure things" that are easy to approve. Then, as you review other projects you reach a group of investments that are closely competitive and "marginal" in a sense that they all just meet our investment criteria. These Montana wells are like that. They are sitting on an economic bubble, or the outer limits of our 1994 budget. By that I mean they are generally the most marginal of the many new projects that we are considering. However, when you factor in the new, lower taxes we are discussing, these projects improve their rate of return and "beat out" the other "marginal" projects.

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So I am here today proposing that the State of Montana consider economic incentives for renewed investment in oil development. We have invested the time, technology and money to fully evaluate these prospects. We are asking the State of Montana to offer new, reduced tax rates on new investment only. (Remember, all of our existing production would continue to be taxed at the current higher rates.) In return for these tax incentives, we are prepared to invest heavily in Montana, bring more drilling jobs to the state, increase the life of our oil field and thereby prolong the duration of jobs at our field. Perhaps most importantly to you here, this project will generate additional tax revenues to the state and counties. What's more, it's not just Shell and Meridian, although we are clearly in the forefront and ready to commit large amounts of capital now. We have talked to numerous smaller oil companies who are also evaluating horizontal technology. Several have already drilled a few wells in Montana or are considering it. They are watching us here today. If we move forward together in a positive fashion, I think it is reasonable to expect others to invest in Montana.

I believe this as a solution that benefits everyone. There is no loss of tax revenue to the state, there is only increased revenue. We will invest capital and create jobs.

Some say the State doesn't need to "help" Shell because we will drill these wells anyway, even at the higher tax rates. Yes, we will probably drill some. But, returning to my investment example: At the old, higher tax rates, these Montana wells have strong competition for capital funds from other Shell projects. The lower tax rates give this project a little breathing room to stay ahead of other projects. In the long run, that means we will be able to drill more wells in Montana, rather than curtailing our expansion before its completion.

The other question we have been asked repeatedly is "Why now? What's your hurry?" In other words, why can't this wait until the '95 Regular Legislative Session?

It is a necessity that we act now! Both Shell and Meridian have done their homework -- the seismic has been shot, its interpretation has been done, we have drilled a few horizontal wells to test our theory. In Shell's case, we have a mature field in a decline. With an aging field infrastructure and declining oil production, if we do not act now the field won't justify further investment. We are already at the point that many traditional vertical wells don't make economic sense. That is why we must drill the more expensive and riskier horizontal wells. To revive the field we need to act now. My department has the budget authority to move forward on the projects that meet our economic criteria. Before long, we will begin our 1995 planning cycle. If we wait until after your 1995 Regular Legislative Session, we will be working on our 1996 budget. If we delay this project, or only drill part of the first phase, we may lose the financing for the second phase to other areas. With production from the Cedar Creek Anticline otherwise declining rapidly, the economics may never again be favorable for further development with horizontal wells. Thus, if we are to take steps to maximize the production from our Montana holdings and also maximize the tax amounts that the State and local governments could receive, we must be able to act now. I view this

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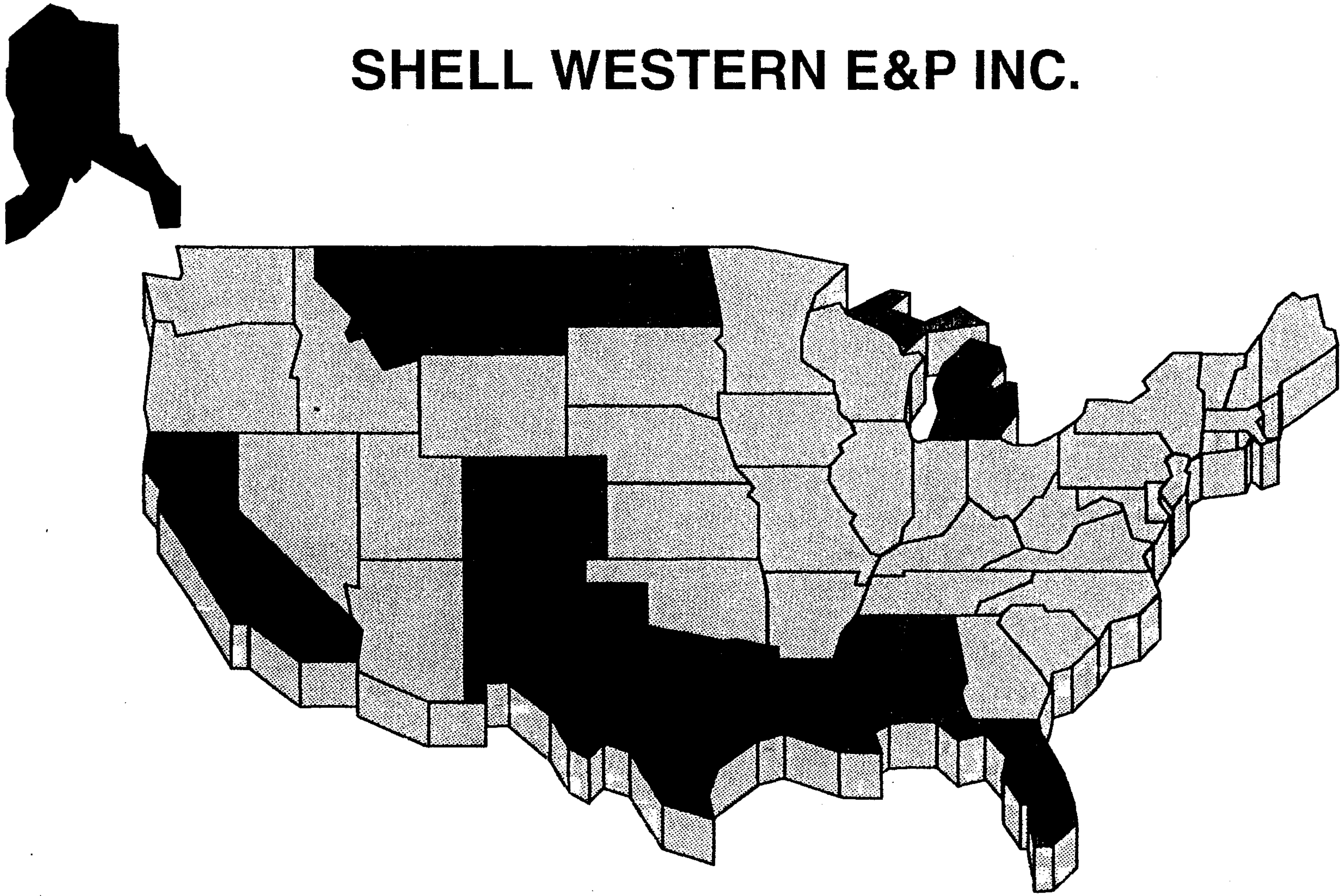
as a unique opportunity, timewise as well as opportunity wise. The time is now and we can move forward together.

Thank you for giving me the opportunity to speak today. I would be happy to address your questions.

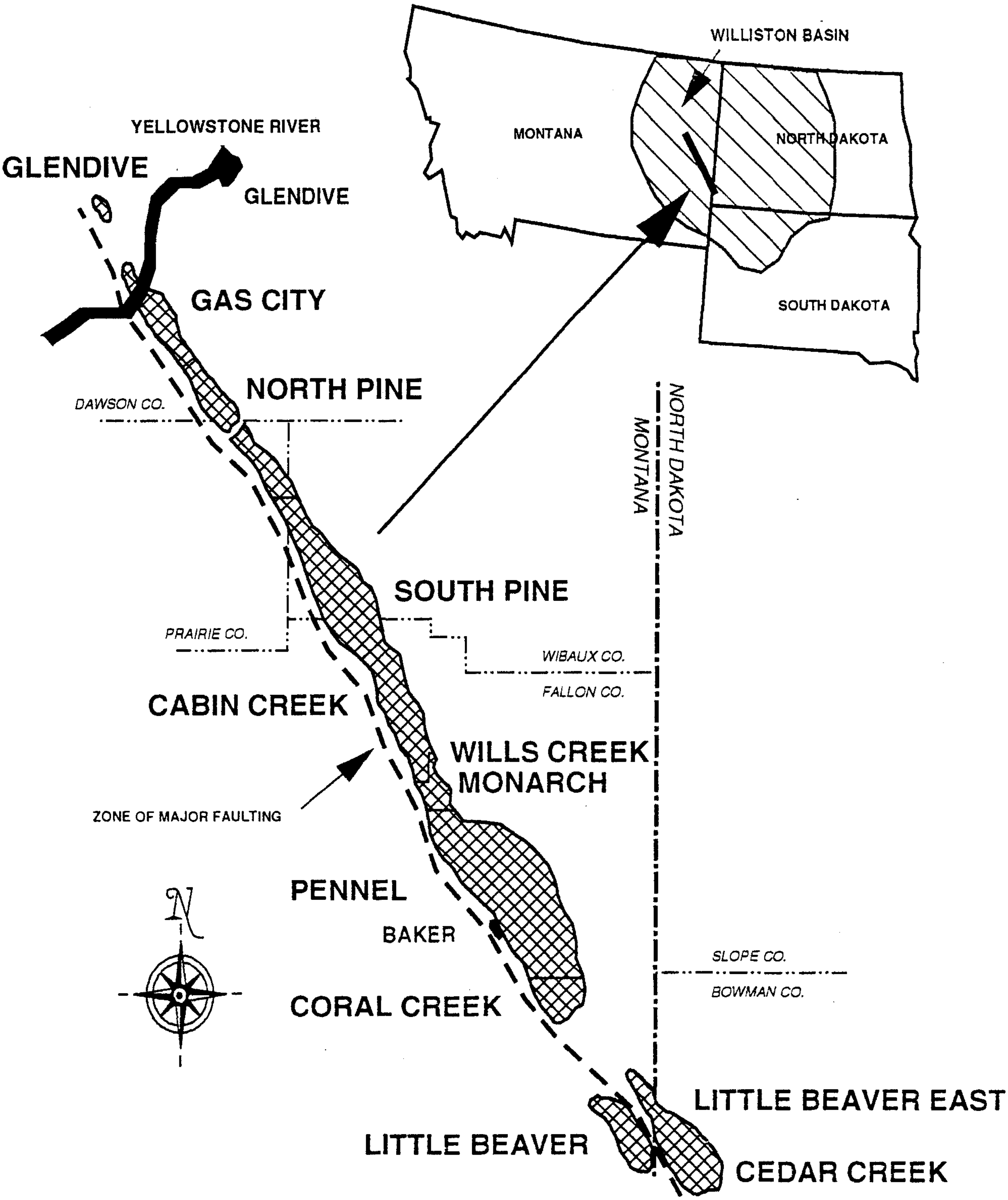
# SHELL WESTERN E&P INC.



SENATE TAXATION
EXHIBIT NO. 8b
DATE 2-13-95
BILL NO. SB 318

SWEPI.PPT:

# CEDAR CREEK ANTICLINE

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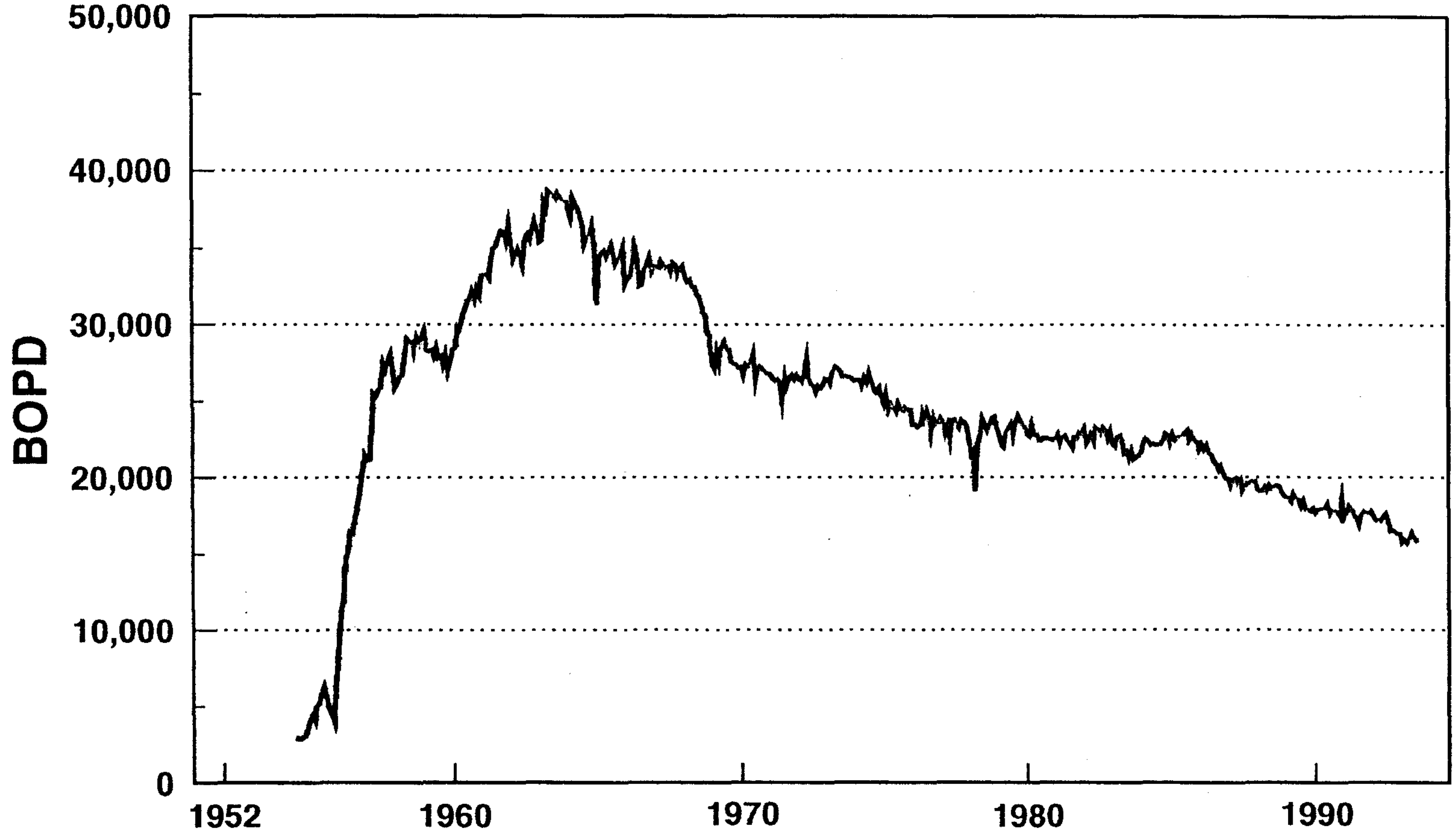
# CEDAR CREEK ANTICLINE

## OIL PRODUCTION

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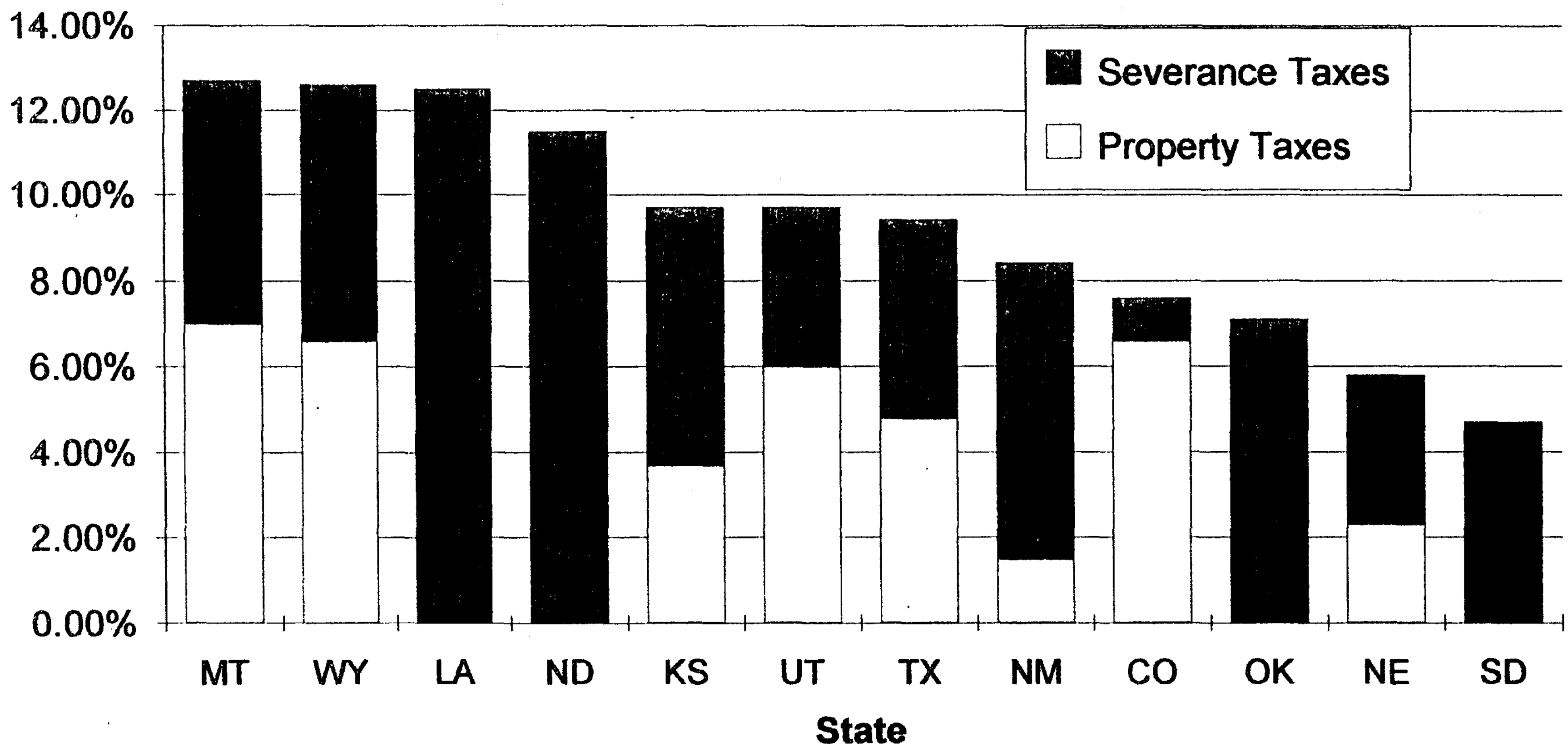
# Composite Effective Tax Rates on Crude Oil



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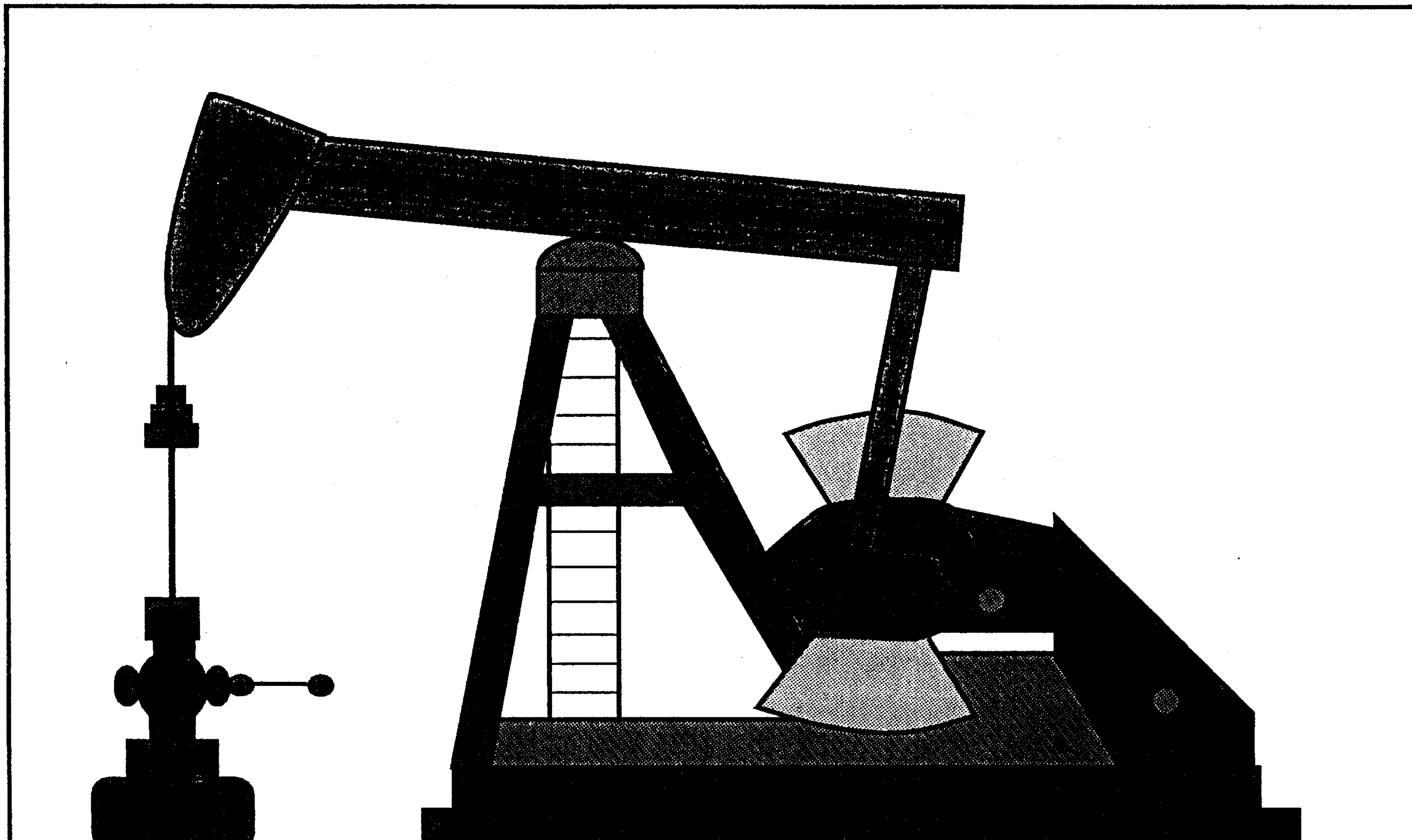
# Pumping Unit



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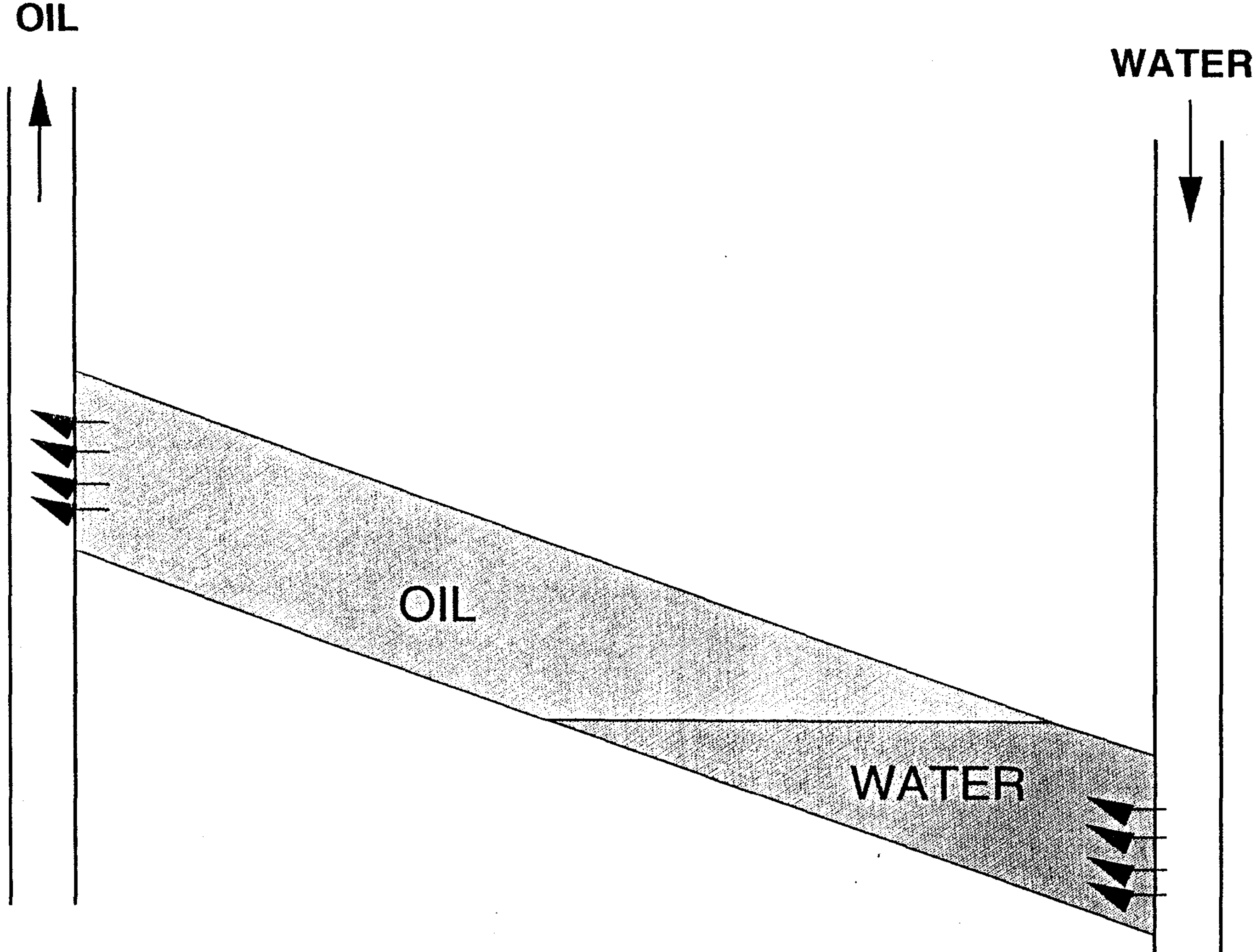
# CEDAR CREEK ANTICLINE
## WATERFLOODING TECHNIQUE

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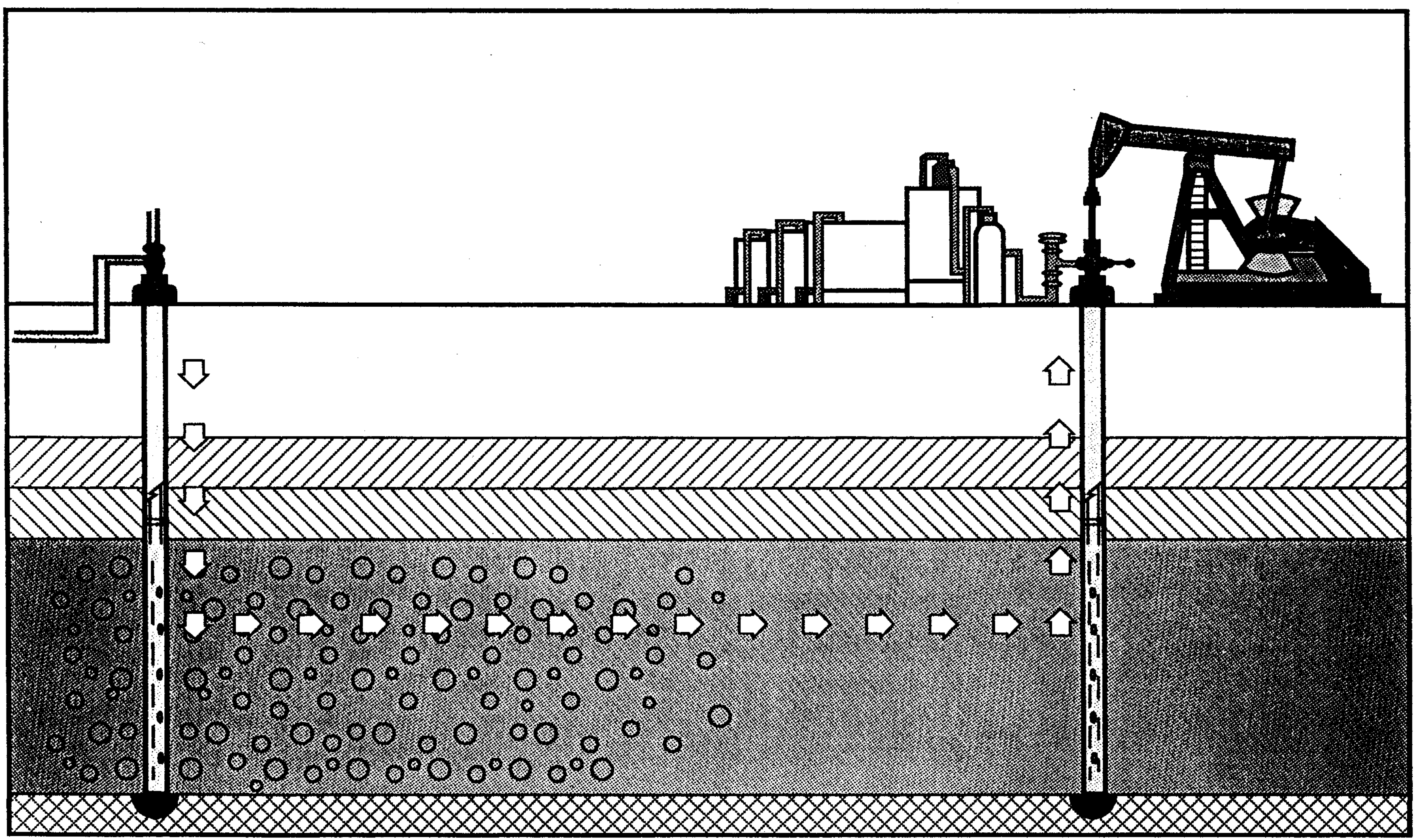
# Tertiary Production



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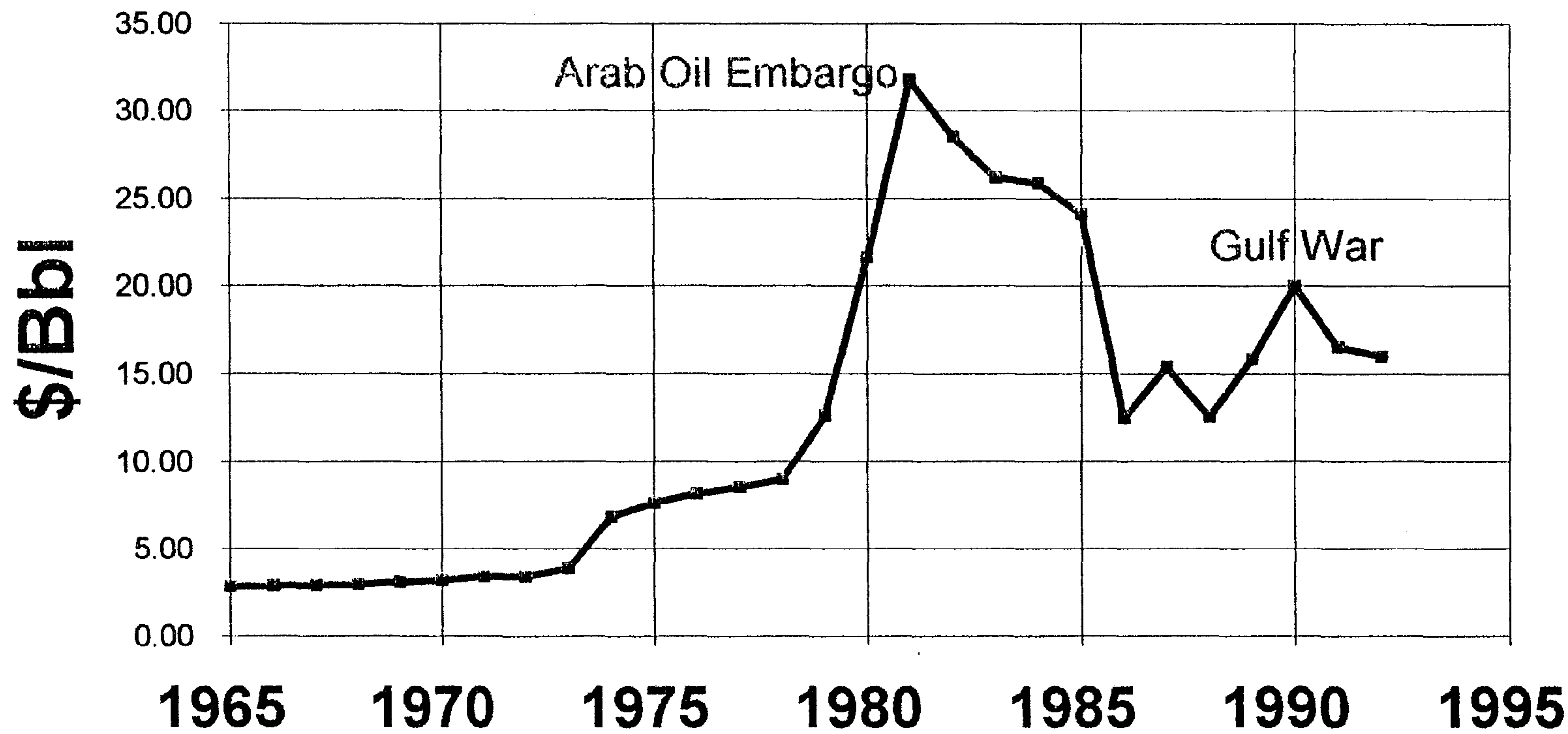
# Average Price of U.S. Crude Oil



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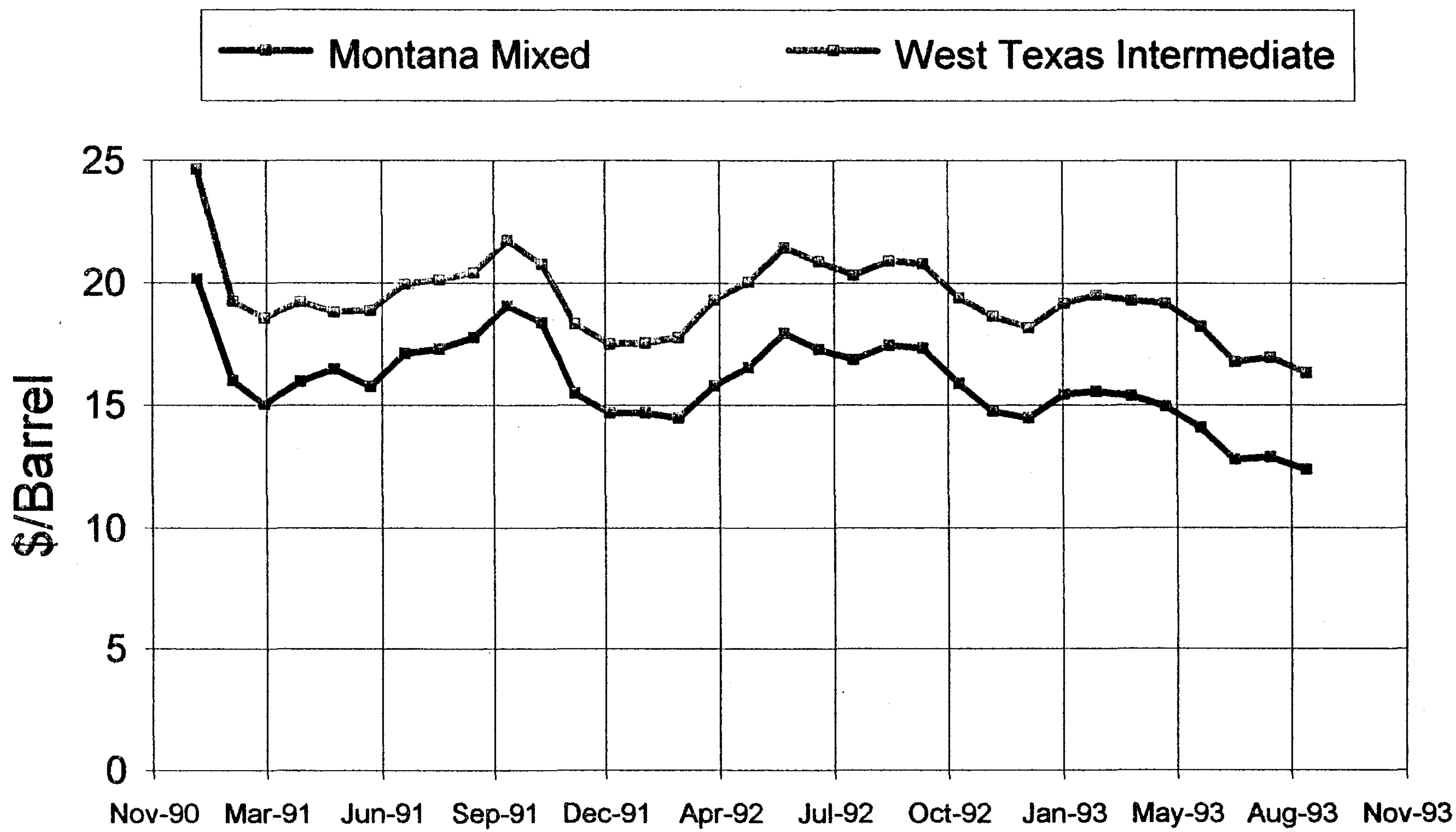
# Crude Oil Prices



# Seismic

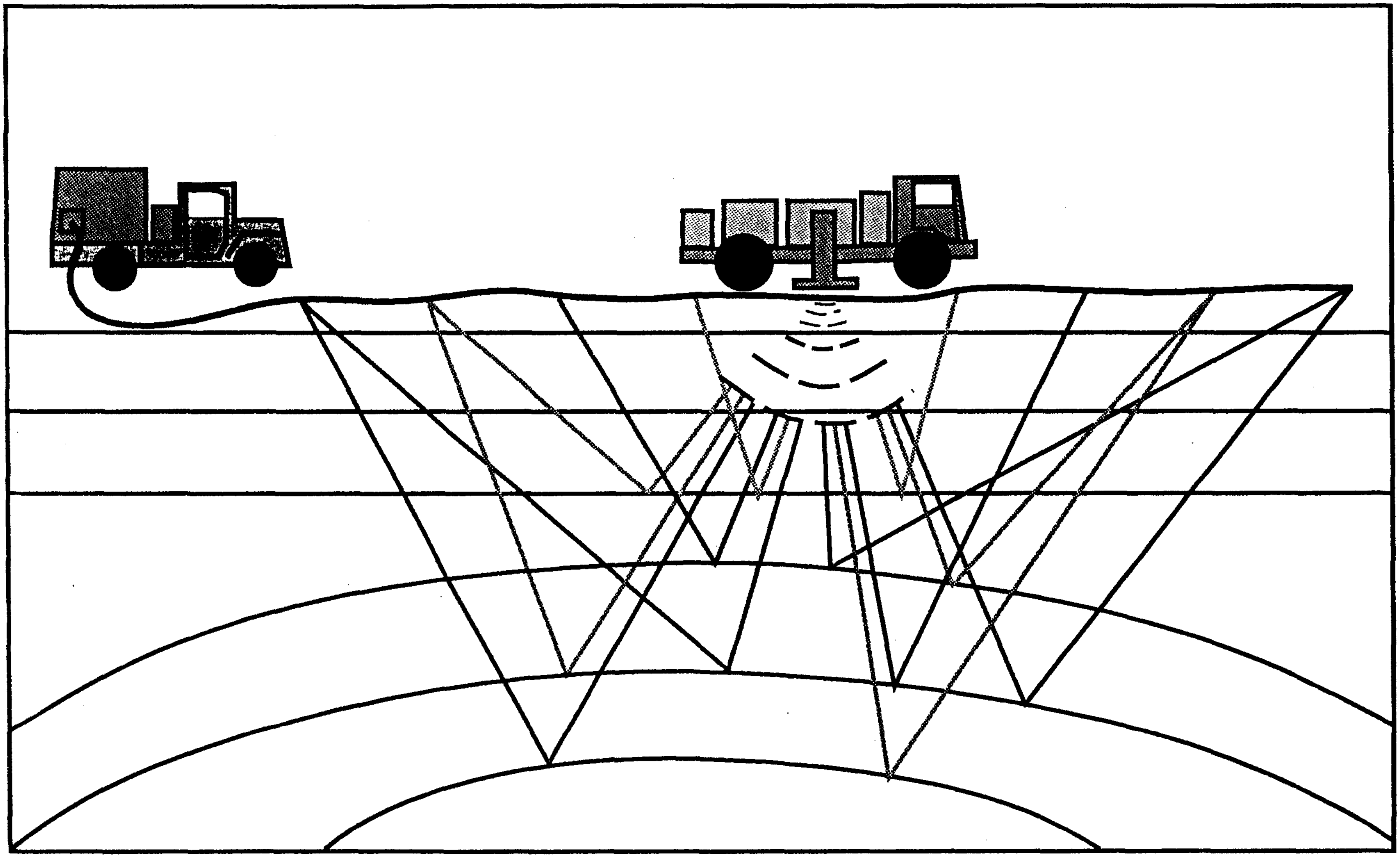


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EXHIBIT 8
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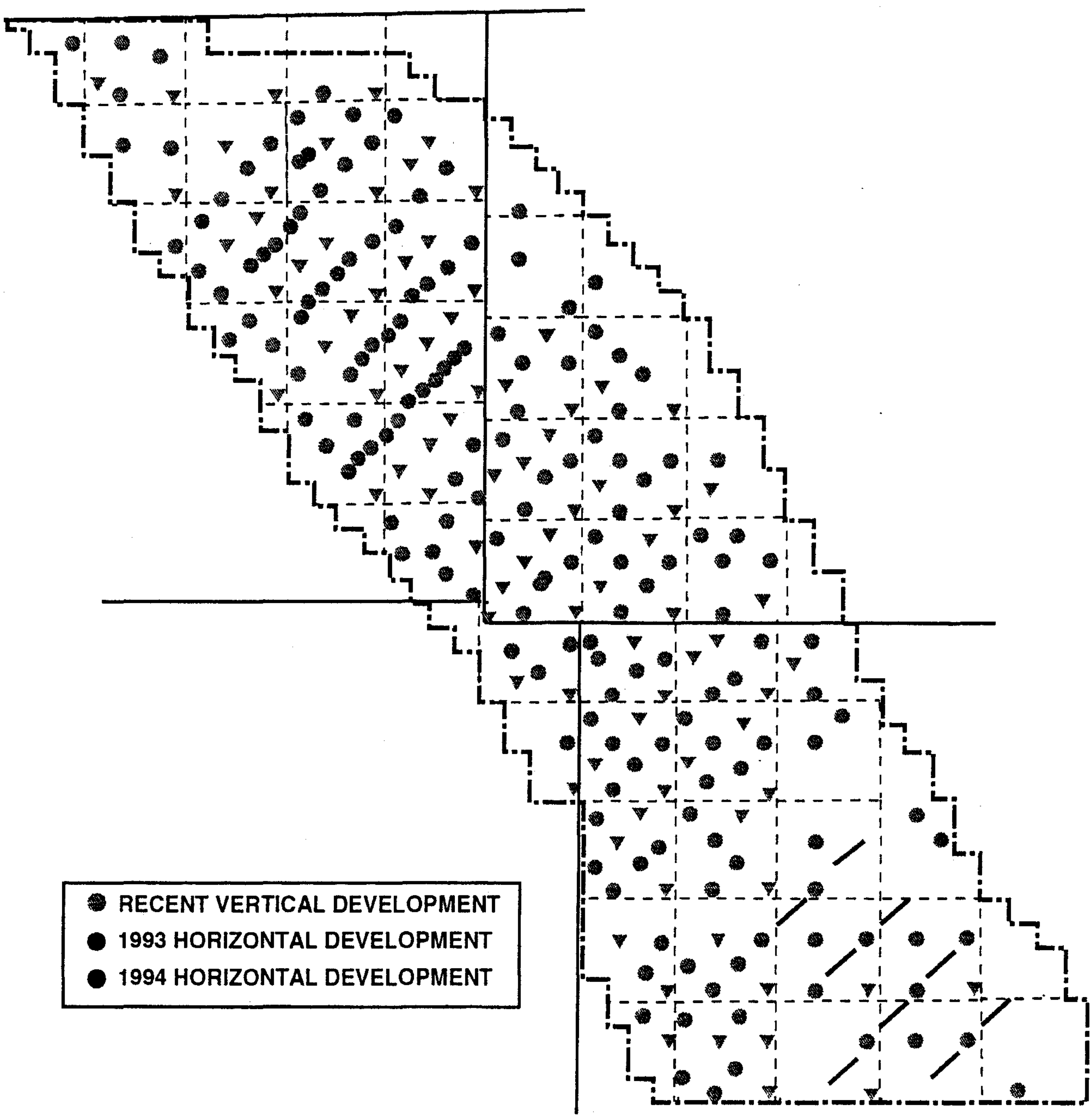
# PENNEL WATERFLOOD UNIT

## MAJOR DEVELOPMENT PROGRAMS POST 1986

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# CEDAR CREEK ANTICLINE
## HORIZONTAL WELL METHODOLOGY

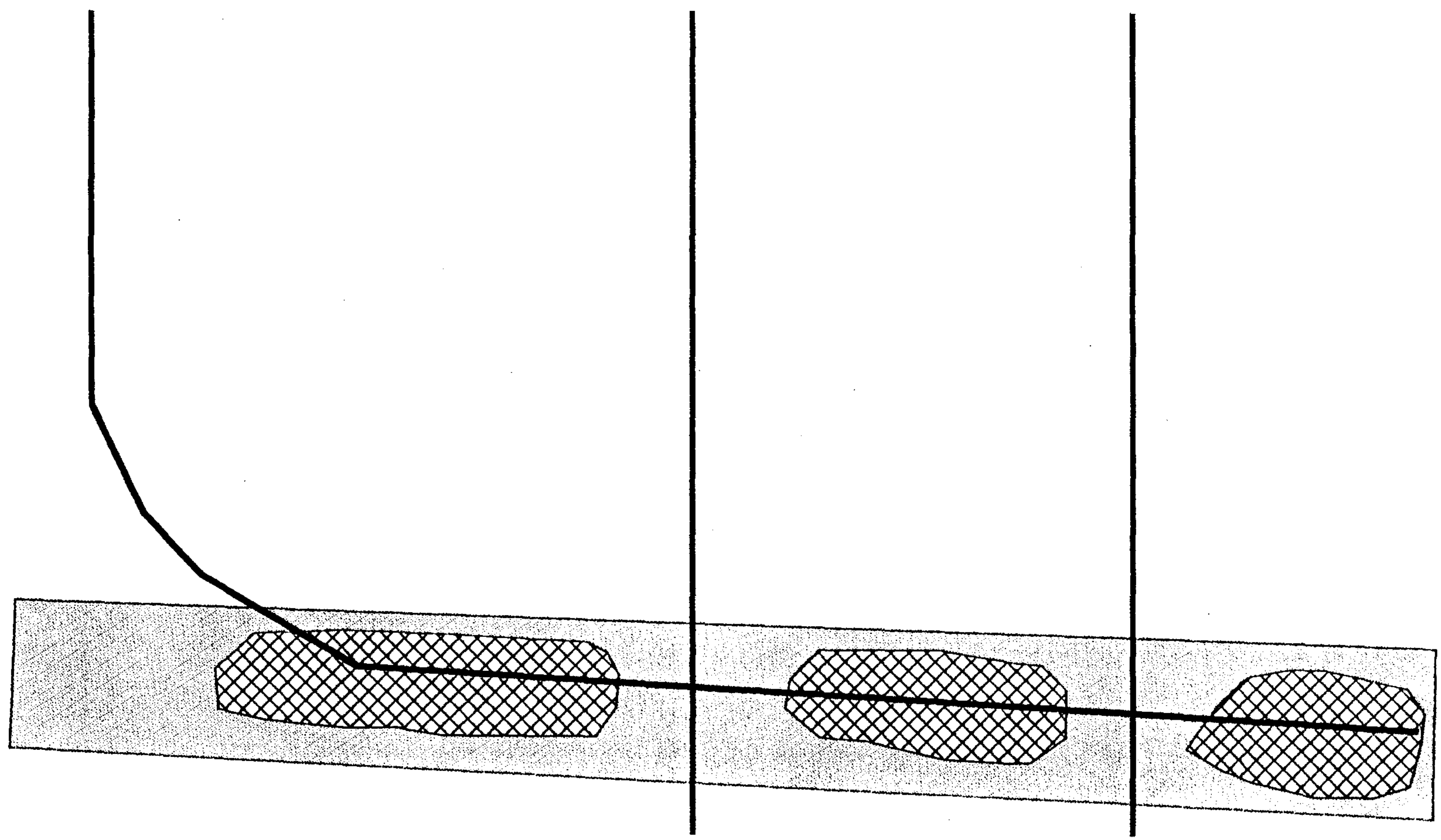

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EXHIBIT 8B
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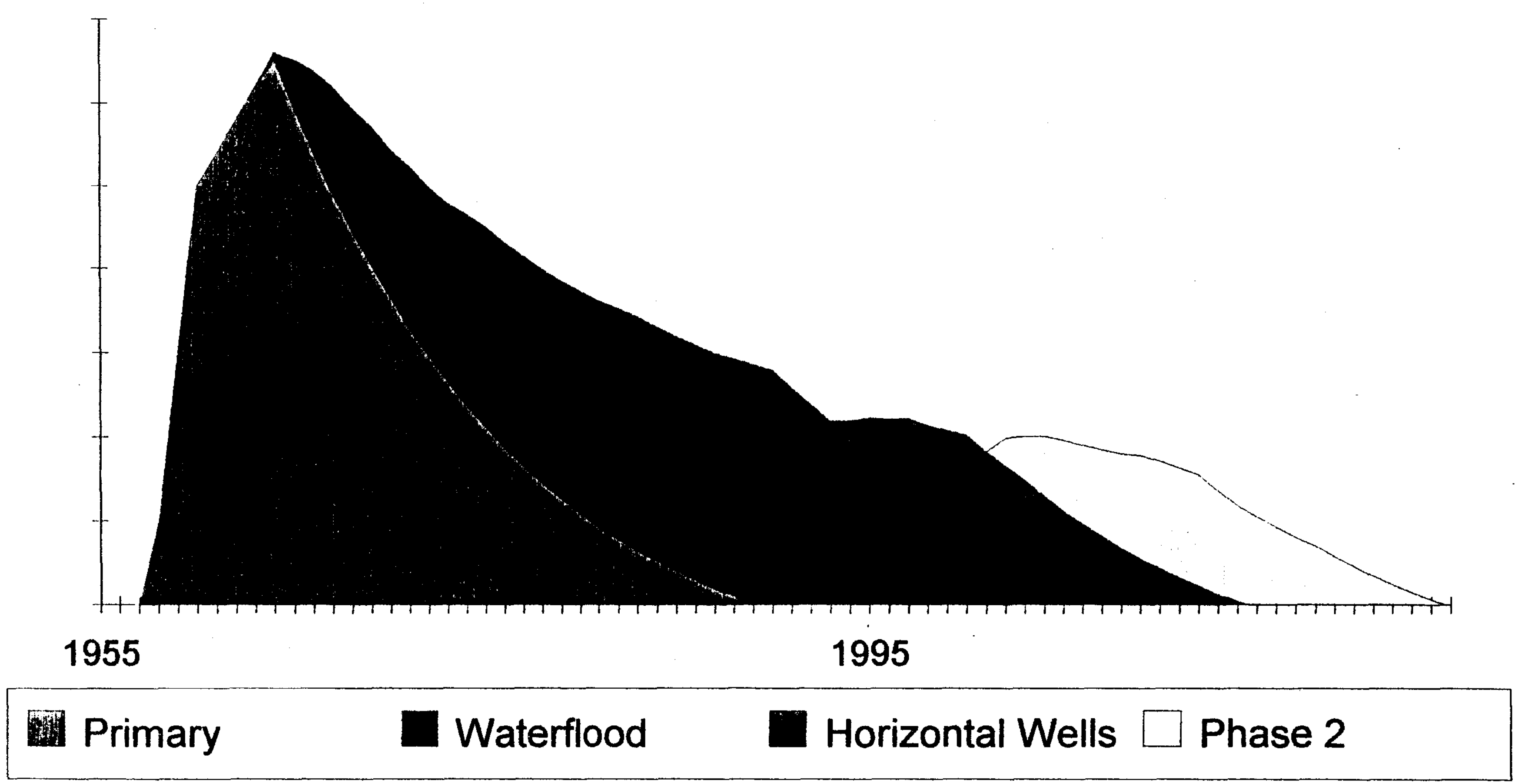
# Cedar Creek Anticline
# Impact of Horizontal Wells



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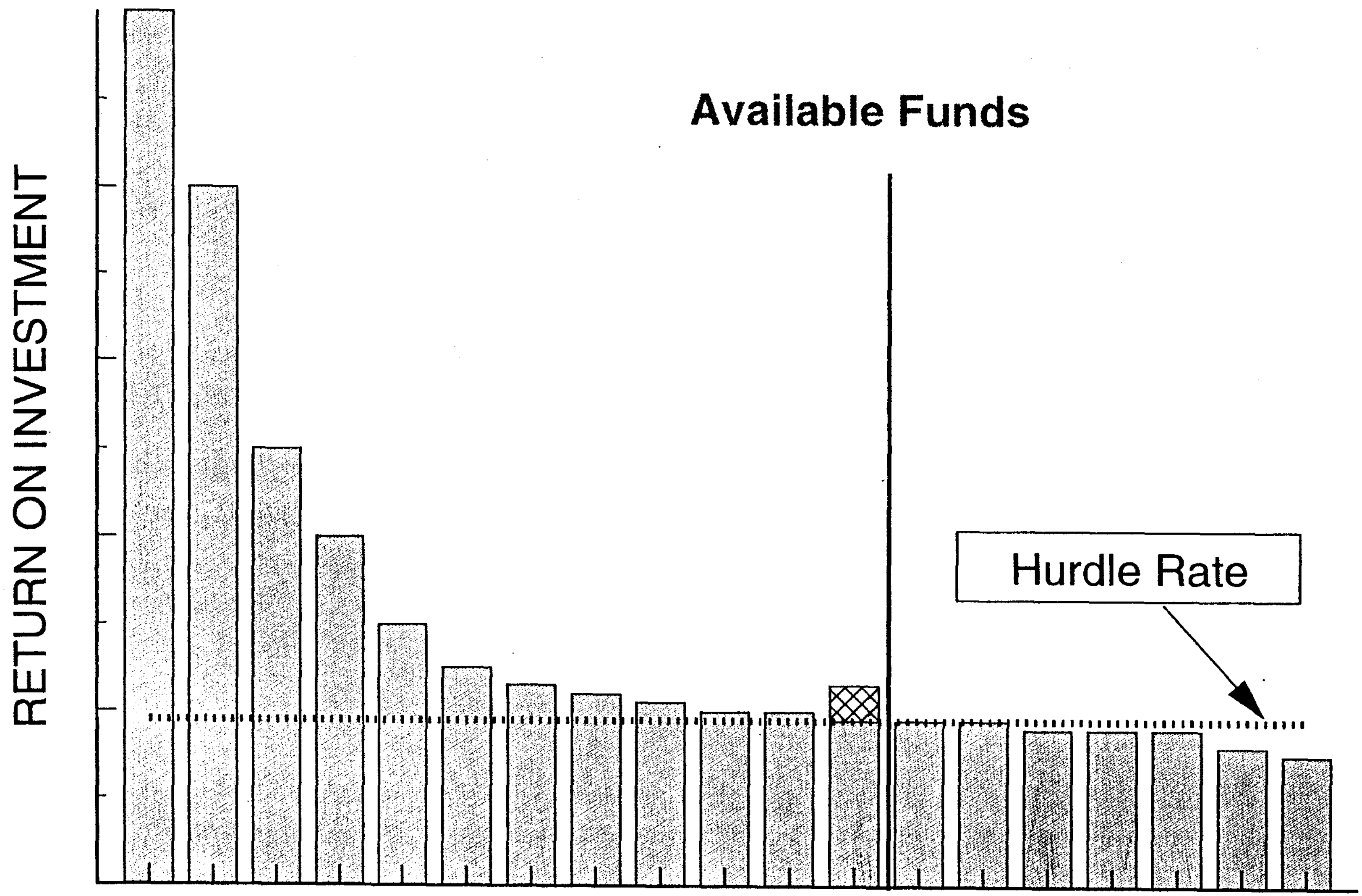
# Project Profitability




LEGISROI.DRW
SSS 11/22/93

C H Kosub
Division Manager
Denver Producing Division
Western E&P Region

Texaco Exploration
and Production Inc

8055 E Tufts Ave
Denver CO 80237

P O Box 46510
Denver CO 80201-6510

303 793 4801
FAX 303 793 4975

SENATE TAXATION
EXHIBIT NO. 9
DATE December 2, 1993
BILL NO. SB 18

November 29, 1993

The Honorable Mike Halligan
Chairman
Senate Taxation Committee
Montana State Senate
State Capitol Building
Helena, MT 59620

Dear Chairman Halligan:

Texaco Exploration and Production Inc. (TEPI) has horizontal oil wells in Blaine and Musselshell counties in Montana. We also have secondary recovery operations in Musselshell County. TEPI continues to review options for new horizontal drilling, secondary recovery and other oil and gas activities in Montana.

I strongly urge your support for incentives to encourage horizontal drilling and secondary recovery in your state. These are costly methods that can severely limit project profitability. The State of Montana's heavy tax burden on its oil and gas industry and high costs together put these projects in Montana at a disadvantage when compared to similar projects elsewhere. The proposed incentives would improve the chance that such high cost projects can return a profit in Montana. This, in turn, would improve the prospect of future drilling there.

In closing, TEPI encourages support for these incentives. They offer real benefits for companies that undertake such projects, and for the State of Montana and its people. Thank you for your review of this proposal and our thoughts on it.

Sincerely,

CH Kosub

CHK/kdb

BCC: Gail Abercrombie
Rich Hansen

**BALLARD & ASSOCIATES, INC.**

December 1, 1993

Chairman Mike Halligan,
Members Senate Taxation Committee

RE: SB18

Dear Chairman Halligan and Members of the Committee:

I am writing to ask your support of SB18. This bill is an incentive to encourage the use of expensive, new technology to develop new oil and gas reserves in Montana. The bill in no way affects tax revenues on existing production, and in fact is a revenue enhancement bill in that it will insure development of new reserves and thus provide a new revenue stream to the State of Montana.

Incentives do work. Evidence of this exists in many other states as well as in Canadian Provinces to the north of our borders. They have worked in Montana, too. In 1987, when the legislature passed some incentive legislation, I pledged to the committee that my company would drill, or cause to be drilled, a minimum of 35 new wells in the State of Montana. In fact, we were responsible for 42 wells during the time that all the incentives existed. SB18 will result in many more than that.

I strongly urge the committee to pass this bill and help provide Montanans with a new source or revenue.

Very truly yours,

W. W. Ballard

W. W. Ballard

WWB:vks

845 12th Street West / PO Box 20174
Billings, Montana 59104
406/259-8790 / FAX 406/259-3884

12-2-93
SB 18

CENEX®

TELECOPY TRANSMITTAL
Xerox Telecopier 7012
406-655-6250

DATE: December 1, 1993

TO: Senate Taxation Committee
Capitol Building
Helena, MT 59624
406-443-7291 - MPA - Attn: Gail Abercrombie

RE: SB 18 - Tax Incentives for Incremental Oil

FROM: J. R. Keating
CENEX Exploration & Production
P. O. Box 21479, Billings, MT 59104
406-655-6285

Dear Mr. Chairman:

Today the posted price for Montana crude is $12.15 per barrel. Exploratory test wells within the state are a rarity. Total production from existing wells is declining at a calculated rate shrinking that tax base.

With the Montana oil industry contributing less to the total tax needs of the state, it seems a poor time to suggest adopting SB 18. However, the opposite is true. In the depressed environment of our industry today, it is only additional investments in producing areas that have potential for increased barrels. That portion of our business should be stimulated with incentives.

Please be advised that we support and respectfully urge adoption of SB 18.

Thank you.

Sincerely,

J. R. Keating, Vice President
Exploration & Production

2000 POST OAK BOULEVARD / SUITE 100 / HOUSTON, TEXAS 77056-4400

Apache CORPORATION

(713) 296-6000

December 1, 1993

The Honorable Mike Halligan
Chairman, Senate Taxation Committee
Montana State Senate
State Capitol Building
Capitol Station
Helena, Montana 59620

Dear Chairman Halligan and Members of the Committee:

Please accept this letter as Apache Corporation's strong endorsement of the proposals to provide tax incentives for increasing exploration and production in the State of Montana, especially those incentives dealing with horizontal drilling.

Apache Corporation has developed a significant position in Montana, and we hope to continue to expand. We have 29,000 acres under lease, and are participants in a horizontal well currently being completed. We are in the process of determining whether continued drilling and production make economic sense.

As you know many states have come to the conclusion that increases in exploration and production for oil and gas are necessary to enhance the economy, to preserve jobs, and to protect their state treasuries. North Dakota, Texas, and Wyoming have already adopted incentive programs. Drilling and production incentives will be high on the agendas of the legislatures in Louisiana and Oklahoma. Tax incentives in those states have certainly encouraged more drilling and increased production.

However, the proposal you have before you is unique in that it would encourage one of the most advanced of the high tech operations our industry has developed. This is precisely the kind of activity that states should encourage. Horizontal drilling can produce greater quantities of oil and gas in a shorter time in the most environmentally sensitive fashion because one horizontal well can replace many vertical wells.

More exploration and production means more revenue for the state and more jobs for

Montanans. Encouraging horizontal drilling is exactly the right thing to do at exactly the right time. And in light of the recent dramatic drop in the world price of crude oil, incentives to spur more domestic exploration and production are even more crucial to the economic health of producing states and to our national security.

Again, Apache Corporation strongly supports the incentives for horizontal drilling that have been proposed. We urge you to move as quickly as possible to enact these incentives and to create more jobs and economic activity in the State of Montana.

Sincerely,

APACHE CORPORATION

Urban F. O'Brien III

Urban F. (Obie) O'Brien, III
Director, Governmental Affairs

UFO:ob/mhc

# CHOCTAW CORPORATION

November 30, 1993

Senator Mike Halligan, Chairman
Montana State Senate
State Capitol Building
Capitol Station
Helena, Montana 59620

Dear Senator Halligan:

Choctaw II Oil & Gas, Ltd. is a Texas limited partnership with Choctaw Corporation as its General Partner.

Choctaw currently operates 79 oil & gas wells in the Williston Basin, 45 of which are located in Montana. Additionally, Choctaw holds over 41,000 acres under lease in Montana.

Choctaw feels that horizontal exploration is the future of the basin and has considered commissioning a study for its application in the development of our leasehold acreage. However, as compared with other states where Choctaw operates, Montana costs -- especially taxes -- are excessive.

Therefore, I would encourage you to support legislation being considered during the Special Session to stimulate oil and gas investment in Montana. This is exactly the kind of incentive that would help influence my company's decision to invest more in Montana.

If you would like to know more about my company and our experience in Montana, please call me at (713) 546-8090. Thank you for your support.

Sincerely,

W. Russell Brown, Jr.
Senior Vice President

WRB:bk

700 MILAM, 13TH FLOOR • P.O. BOX 61585 • HOUSTON, TEXAS 77208-1585
(713) 546-8090 • FAX (713) 546-8580

EXHIBIT
12-2-93
SB 18

# QUEST PETROLEUM CORPORATION

Corporate Pointe
5250 South Virginia Street, Suite 390
Reno, Nevada 89502
(702) 826-2700

November 29, 1993

Senator Mike Halligan
Chairman, Senate Taxation Committee
Montana State Senate
State Capitol Building
Capitol Station
Helena, MT 59620

Dear Senator Halligan:

Quest Petroleum Corporation is a small independent oil and gas producer operating in Montana and five other western states. In recent years we have drilled three horizontal wells in Montana and are considering drilling additional vertical and horizontal wells and reworking existing wells to improve production. However, as compared with other states where we operate, Montana costs - in particular taxes - are excessive.

Therefore, we would encourage you to support taxation legislation being considered during the Special Session to stimulate oil and gas investment in Montana. This is exactly the kind of incentive that would help influence Quest's decision to invest more in Montana.

If you would like to know more about our company and our experience in Montana, please call me at (702) 826-2700. Thank you for your support.

Very truly yours,

QUEST PETROLEUM CORPORATION

John V.A. Sharp, Ph.D.
President

JVAS:jen

Exhibit #9a

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

33 S. Last Chance Gulch, Suite 2B
Post Office Box 1186
Helena, Montana 59624-1186

Telephone (406) 442-7582
FAX (406) 443-7291

Gail Abercrombie
Executive Director

SENATE TAXATION
EXHIBIT NO. 9A
DATE December 2, 1993
BILL NO. SB 18

# STATEMENT IN SUPPORT OF SENATE BILL 18

**before the Senate Taxation Committee**
**December 2, 1993**

David A. Johnson
President
Montana Petroleum Association

My name is Dave Johnson, and I am here as President of the Montana Petroleum Association to speak in support of Senate Bill 18.

This bill encourages the use of enhanced recovery technologies that more fully retrieve the resource from existing fields, and the use of horizontal drilling technologies that also can yield greater recovery from primary production in existing and new fields.

Montana Petroleum Association member Kurt Burris, president of Cardinal Drilling out of Billings, reports that horizontal drilling technologies are changing and improving every month. Over our northern border in Saskatchewan, where there has been more utilization of horizontal drilling, they have been running three to four laterals off of one bore hole. That means one drill pad for an extensive system of resource recovery. Less surface disturbance ... More recovery. Bill White, Deputy Secretary of the U. S. Department of Energy, recently cited a report that concluded that "new technology alone, at every reasonable price scenario, could boost recoverable [crude oil] discoveries by about 45 percent, and the use of advanced technology can have at least as much impact as price increases in terms of increasing resource recovery." The drilling companies of Montana have the equipment for horizontal drilling and enhanced recovery, and are ready to put it to use in Montana.

Our Association members are sensitive to the perception of bringing this incentive bill before you at this time of budget concerns. But we cannot change the realities of lead time these horizontal drilling and enhanced recovery projects need in vying for corporate dollars. This, coupled with the fact that the lower tax rates apply only to the incremental production increases resulting from enhanced recovery, above the naturally occurring production without the enhancement, leads us to support the introduction and passage of this incentive proposal during this special session.

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12-2-93
SB 18



As Mr. Bill Ballard, president of Ballard and Associates in Billings, said in his letter to you, "Incentives do work. They have worked in Montana." He pledged to the 1987 legislature to drill 35 new wells in response to the passage of an incentive in that legislative session, and in fact, he was involved in the drilling of 42 wells.

In a letter to the White House, U.S. Senators, including Senator Baucus, wrote "... we need to focus on preserving our domestic oil and gas industry..." and "by encouraging domestic exploration and drilling, we can keep ... dollars and the accompanying jobs, here at home." Senate Bill 18 is part of such a program.

The Montana Petroleum Associations thanks Senator Halligan for his leadership in sponsoring Senate Bill 18, and we urge its passage as Montana's part in the encouragement of domestic drilling while preserving the tax revenues and expanding the taxable production base in Montana.

SENATE TAXATION
EXHIBIT NO. 10
DATE December 2, 1993
BILL NO. SB 18

# REVENUE OVERSIGHT COMMITTEE

# MEETING OF NOVEMBER 17, 1993

Sen. Towe to both Mr. Tom Dyk of Meridian Oil and Mr. Robert Sheffield of Shell Western E & P, Inc.

> Are you sufficiently convinced that this time it will work even though last time it didn't; that you are prepared to say, okay, if you don't make $140 million in new investment and 138 wells, and I will even spot you 20% off of that, that you will refund the extra tax benefit.

Mr. Sheffield:

> I lost you on the last part of the question.

Sen. Towe:

> $141 million of new investments is what you both indicated. Lets take 80% of that--what does that amount to?--about $112 million. Lets take $110 million--are you prepared to say that if the two of you combined don't invest the $112 million, that you will refund the extra benefit. Are you sufficiently convinced that you will make that kind of investment; to be willing to commit to that.

Mr. Sheffield:

> One more time for help, would somebody help me understand the term refund.

Mr. Dyk:

> Let me address the economic point and then also the budget point. ~~We are doing something that is risky still.~~ So, no, ~~we are not confident that the whole project will go forward.~~ There is technological risks that we are still taking. ~~If the wells don't turn out like we currently project they will, we're not going to go ahead with that project.~~ What we are doing with horizontal drilling is something that is new and only 6-years old. We have as much expertise as anybody, but we can't say it's going to work everywhere. If you remember, only 3 out of the 22 different projects that we tried, have gotten past that pilot project. Without that incentive, we may not get over that hurdle. So, I personally couldn't stand up and say, if we don't get the $140 million, I would be willing to refund it. ~~I can't tell you that its going to happen. I can tell you that the prices still have to be there.~~ Our long-term look at prices is that they will be at about the $17 or $18 benchmark. If we gain at all, we're just going to gain general inflation. You could see a temporary spike like you did in the Persian Gulf; but we don't control prices, Saudi Arabia and the OPEC nations do. I couldn't tell you that I could give

you that money back because ~~I can't tell you that is going to be, given the economic environment and where we see the technology headed right now,~~ we are willing to start that investment process. The 5-year look is what it could be given that things are as we see them.

Mr. Sheffield:

Now that I understand your point on refund, I would like to emphasize that we don't get any benefit except to the degree that we invest.

Sen. Towe:

Mr. Sheffield, you made the point and commented on it, and very honestly I think, indicating that you don't know for sure that without the incentive, you wouldn't be drilling some wells anyway. I think you said obviously, you would probably drill some. How many dollars of these figures of tax benefits would really happen anyway if we didn't have this incentive.

Mr. Sheffield:

~~That would be pure conjecture~~, I think, on my part. If I could steal some numbers from Tom's company. Let me show you some of the risks involved in horizontal wells. These are wells that Meridian drilled in the (name inaudible) oil field, and as you can see, they had one well that started out producing over 150 barrels a day and then within a year declined to around 70 to 80 barrels. Still doing pretty well, but the other wells that they drilled started out less than 100, and ~~fairly rapid over the course of less than 2 years, declined to less than $30 a barrel.~~ This is a risky proposition. If we do as poorly as that bottom band of wells, this won't go very far because it's just not economic. On the average, we think given that part of the field where we can do a little bit better than that, but there's no cinch bets here unfortunately. We know there is oil there, but we don't know how fast we can get it out.

Mr. Dyk:

I can tell you that right now, what I recommended be done hasn't been approved by the Board of Directors. What we have done this year are marginal. What we have proposed for next year could still not get funded. So I can't tell you that even next years would be done or how much would be done.

STATE OF NORTH DAKOTA
OFFICE OF STATE TAX COMMISSIONER
STATE CAPITOL, 600 E. BOULEVARD AVE., BISMARCK, NORTH DAKOTA 58505-0599
701-224-2770 FAX 701-224-3700 TDD 701-224-2778

Bob Hanson
COMMISSIONER

November 17, 1993

SENATE TAXATION
EXHIBIT NO. 11
DATE December 2, 1993
BILL NO. SB 18

Representative Jim Elliott
100 Trout Creek Road
Trout Creek, MT 59874

Dear Representative Elliott:

In response to your request for information relating to oil production from horizontal wells drilled in North Dakota, I am enclosing a spreadsheet that details monthly production data from July 1987 through June 1993 for each horizontal well. I have also enclosed a computer disc containing the Lotus spreadsheet file for this data which should allow you to analyze the information with more flexibility.

Just a few comments about the spreadsheet:

a. The first four columns of the spreadsheet show the operator's name, the North Dakota Industrial Commission's well file number, the well's API number (used for tax reporting), and the dates of the 15-month exempt period applicable to the well.

b. The barrels of oil produced from each well are scheduled from the first month of production through June 1993.

c. There are 191 horizontal wells listed of which 189 produced more than 11.6 million barrels since our 15-month new well exemption became effective in April 1987. Approximately 8 million barrels have been exempt from the 6.5% oil extraction tax because of the new well exemption, and 3.6 million barrels were taxed at a reduced rate of 4% after the well's 15-month exempt period expired.

d. Approx. 60% of the wells were low producers (i.e., 10 barrels or less of average daily production) either initially or by the time the 15-month exempt period expired.

For your reference, I am also attaching a narrative that explains North Dakota's severance tax laws. The portion of the narrative addressing the new well exemption and reduced rate provisions are highlighted.

Please call me at the number below if you need clarification of the enclosed spreadsheet or if you need additional information.

Sincerely,

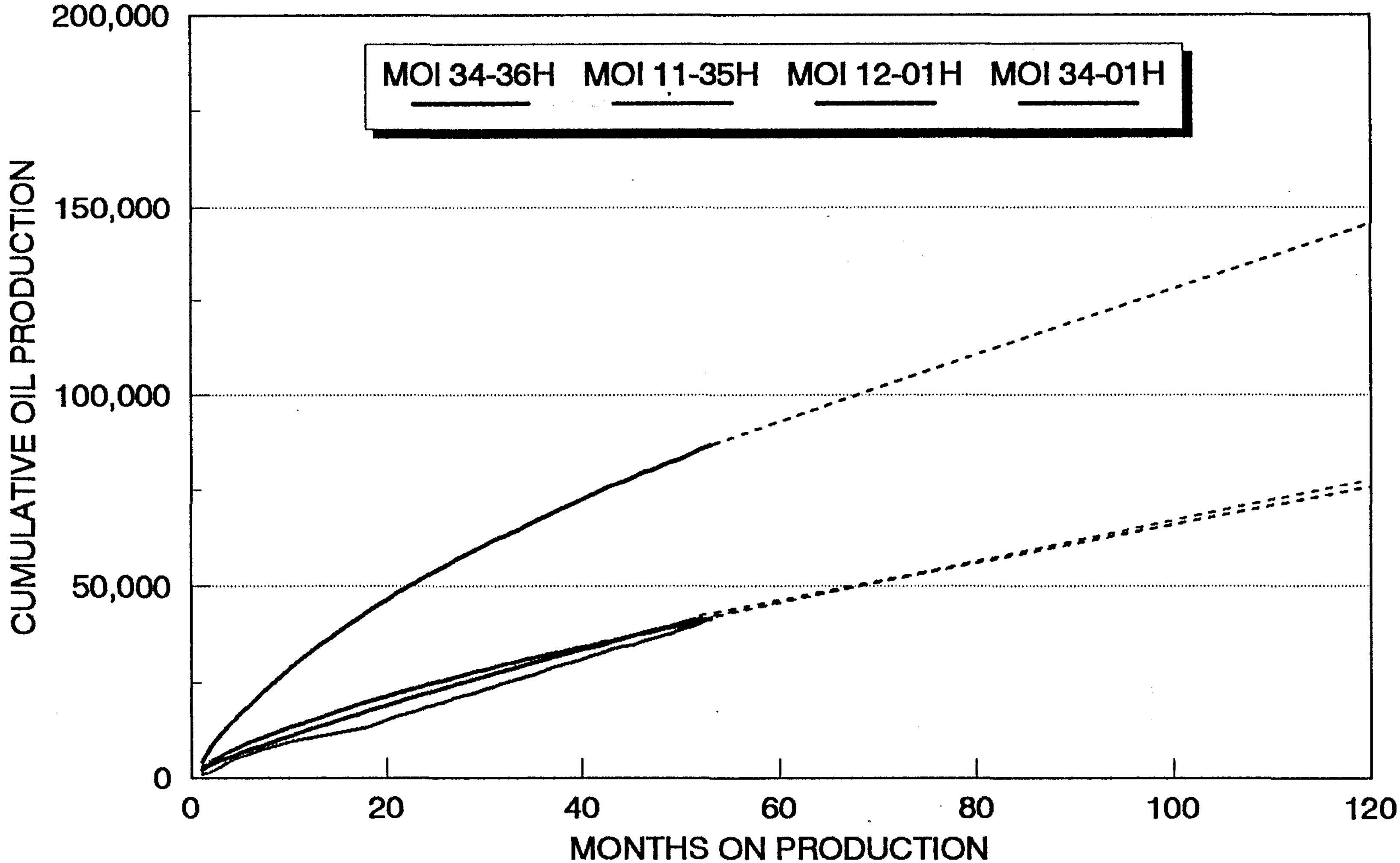
Carole Murschel

Carole Murschel, CPA
Supervisor, Oil & Gas Taxes
Phone: (701) 224-3594

CJM:lkh
Enclosures

SENATE TAXATION
EXHIBIT NO. 12
DATE December 2, 1993
BILL NO. SB 18

# MERIDIAN HORIZONTAL WELL CUMULATIVE PRODUCTION
## CEDAR CREEK ANTICLINE




MOICUM.DRW
SSS 11/18/93

# HORIZONTAL WELL PRODUCTION VOLUMES

| | | I.C. FILE# | API# | Exempt Period | 9007 | 9008 | 9009 | 9010 | 9011 | 9012 | 9101 | 9102 | 9103 | 9104 | 9105 | 9106 | FY-91 Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 72 | Meridian Oil, Inc. | 12092 H | 53 - 2178 | 6/ 26/ 90 - 9/ 25/ 91 | 2,961 | 2,588 | 1,441 | 1,985 | 1,268 | 1,380 | 1,044 | 1,037 | 981 | 865 | 979 | 788 | 17,317 |
| 73 | Slawson Expl | 12687 H | 7 - 1214 | 6/ 3/ 90 - 9/ 2/ 91 | 16,476 | 14,574 | 11,395 | 7,681 | 8,948 | 11,480 | 8,955 | 5,964 | 6,325 | 4,693 | 5,627 | 771 | 102,889 |
| 74 | Conoco, Inc. | 12591 H | 7 - 1215 | 6/ 16/ 90 - 9/ 15/ 91 | 15,428 | 11,739 | 10,392 | 8,858 | 8,320 | 6,083 | 7,418 | 5,663 | 5,547 | 4,682 | 4,238 | 3,788 | 92,156 |
| 75 | Slawson Expl | 12835 H | 53 - 2319 | 6/ 15/ 90 - 9/ 14/ 91 | 2,970 | 2,675 | 2,389 | 2,296 | 2,109 | 2,030 | 1,924 | 1,734 | 1,804 | 1,675 | 1,827 | 1,524 | 24,957 |
| 76 | Meridian Oil, Inc. | 12870 H | 53 - 2323 | 6/ 10/ 90 - 9/ 9/ 91 | 3,867 | 3,490 | 3,240 | 3,157 | 3,791 | 4,312 | 4,016 | 3,567 | 3,857 | 3,352 | 3,578 | 3,341 | 43,568 |
| 77 | Meridian Oil, Inc. | 12897 H | 53 - 2329 | 7/ 9/ 90 - 10/ 8/ 91 | 8,333 | 9,433 | 8,327 | 7,949 | 7,291 | 7,170 | 6,768 | 6,101 | 7,114 | 6,420 | 6,603 | 6,134 | 87,643 |
| 78 | Pacific Enterpr | 12907 H | 7 - 1216 | 7/ 15/ 90 - 10/ 14/ 91 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 79 | American Hunter | 12893 H | 61 - 416 | 7/ 8/ 90 - 10/ 7/ 91 | 0 | 174 | 141 | 85 | 73 | 44 | 90 | 35 | 0 | 72 | 0 | 60 | 774 |
| 80 | Slawson Expl | 12920 H | 7 - 1218 | 7/ 15/ 90 - 10/ 14/ 91 | 11,166 | 17,326 | 14,192 | 13,172 | 11,330 | 10,301 | 9,039 | 7,552 | 7,069 | 6,091 | 7,167 | 6,267 | 120,712 |
| 81 | Meridian Oil, Inc. | 12932 H | 7 - 1222 | 7/ 20/ 90 - 10/ 19/ 91 | 3,235 | 7,432 | 6,345 | 6,397 | 5,858 | 5,692 | 5,320 | 4,498 | 4,704 | 3,994 | 4,176 | 3,666 | 61,317 |
| 82 | Conoco, Inc. | 12908 H | 7 - 1217 | 7/ 23/ 90 - 10/ 22/ 91 | 1,164 | 6,064 | 5,446 | 3,288 | 4,041 | 3,090 | 2,841 | 2,715 | 2,789 | 2,658 | 1,002 | 1,634 | 36,732 |
| 83 | Leede Oil & Gas | 12852 H | 53 - 2322 | 7/ 17/ 90 - 10/ 16/ 91 | 7,110 | 11,651 | 9,310 | 7,534 | 6,263 | 4,816 | 3,535 | 4,405 | 3,380 | 2,564 | 4,094 | 3,960 | 68,622 |
| 84 | American Hunter | 12864 H | 105 - 1392 | 7/ 2/ 90 - 10/ 1/ 91 | 177 | 275 | 104 | 202 | 100 | 104 | 127 | 181 | 0 | 195 | 103 | 0 | 1,568 |
| 85 | Union Pacific | 12927 H | 25 - 456 | 9/ 1/ 90 - 11/ 30/ 91 | | | 389 | 236 | 345 | 205 | 194 | 191 | 170 | 159 | 148 | 98 | 2,115 |
| 86 | Pacific Enterpr | 12924 H | 53 - 2332 | 9/ 1/ 90 - 11/ 30/ 91 | | | 670 | 858 | 22 | 0 | 158 | 291 | 244 | 0 | 0 | 0 | 2,243 |
| 87 | Slawson Expl | 12934 H | 53 - 2334 | 8/ 18/ 90 - 11/ 17/ 91 | | 877 | 1,735 | 1,296 | 931 | 804 | 976 | 2,093 | 2,409 | 1,896 | 1,789 | 1,541 | 16,147 |
| 88 | Columbia Gas | 12815 H | 7 - 1200 | 8/ 14/ 90 - 11/ 13/ 91 | | 8,341 | 14,593 | 13,456 | 9,854 | 8,195 | 7,541 | 5,928 | 5,903 | 5,162 | 4,906 | 3,845 | 87,724 |
| 89 | Meridian Oil, Inc. | 11967 H | 53 - 2154 | 8/ 22/ 90 - 11/ 21/ 91 | | 2,189 | 5,049 | 3,433 | 2,518 | 2,178 | 1,666 | 1,384 | 1,600 | 1,166 | 1,261 | 1,058 | 23,702 |
| 90 | Meridian Oil, Inc. | 12885 H | 7 - 1208 | 8/ 16/ 90 - 11/ 15/ 91 | | 6,120 | 6,110 | 5,506 | 2,378 | 6,341 | 5,222 | 5,011 | 4,867 | 5,024 | 4,569 | 3,898 | 58,646 |
| 91 | Meridian Oil, Inc. | 12968 H | 53 - 2337 | 9/ 28/ 90 - 12/ 27/ 91 | | | 1,149 | 9,441 | 7,713 | 7,139 | 6,659 | 5,689 | 2,020 | 4,662 | 5,939 | 5,258 | 55,669 |
| 92 | Slawson Expl | 12936 H | 7 - 1223 | 9/ 3/ 90 - 12/ 2/ 91 | | | 2,032 | 1,558 | 1,501 | 1,278 | 1,041 | 1,482 | 624 | 1,060 | 1,096 | 917 | 12,589 |
| 93 | Columbia Gas | 12938 H | 7 - 1225 | 9/ 24/ 90 - 12/ 23/ 91 | | | 1,850 | 3,972 | 3,419 | 2,308 | 2,541 | 1,611 | 1,507 | 1,407 | 1,196 | 1,482 | 21,293 |
| 94 | Conoco, Inc. | 12939 H | 7 - 1226 | 9/ 30/ 90 - 12/ 29/ 91 | | | 107 | 3,341 | 2,561 | 2,151 | 1,910 | 1,500 | 1,539 | 1,304 | 1,115 | 1,133 | 16,661 |
| 95 | Meridian Oil, Inc. | 12948 H | 7 - 1228 | 9/ 18/ 90 - 12/ 17/ 91 | | | 1,285 | 4,517 | 4,040 | 2,243 | 2,552 | 2,258 | 2,470 | 2,200 | 1,310 | 665 | 23,520 |
| 96 | Slawson Expl | 12974 H | 7 - 1234 | 10/ 30/ 90 - 1/ 29/ 92 | | | | 265 | 1,266 | 837 | 758 | 592 | 592 | 548 | 427 | 304 | 5,589 |
| 97 | Meridian Oil, Inc. | 12992 H | 53 - 2343 | 10/ 30/ 90 - 1/ 29/ 92 | | | | 271 | 4,595 | 4,167 | 3,946 | 3,372 | 3,605 | 3,010 | 3,415 | 2,904 | 29,285 |
| 98 | Union Pacific | 12991 H | 25 - 481 | 10/ 31/ 90 - 1/ 30/ 92 | | | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 99 | Meridian Oil, Inc. | 12975 H | 7 - 1235 | 10/ 21/ 90 - 1/ 20/ 92 | | | | 1,135 | 2,952 | 2,461 | 1,982 | 1,470 | 1,487 | 1,835 | 1,788 | 1,617 | 16,727 |
| 100 | Cenex | 12808 H | 53 - 2313 | 11/ 6/ 90 - 2/ 5/ 92 | | | | | 4,175 | 4,097 | 3,481 | 2,806 | 2,841 | 2,425 | 1,332 | 2,167 | 23,326 |
| 101 | Slawson Expl | 12925 H | 7 - 1221 | 11/ 16/ 90 - 2/ 15/ 92 | | | | | 1,576 | 1,682 | 690 | 655 | 1,833 | 1,853 | 1,613 | 1,399 | 11,301 |
| 102 | Columbia Gas | 12937 H | 7 - 1224 | 11/ 11/ 90 - 2/ 10/ 92 | | | | | 5,880 | 10,087 | 9,001 | 7,037 | 7,325 | 5,640 | 5,439 | 4,371 | 54,780 |
| 103 | Shell Western E&P | 12886 H | 7 - 1213 | 11/ 8/ 90 - 2/ 7/ 92 | | | | | 12,145 | 11,774 | 9,993 | 8,535 | 8,749 | 8,364 | 8,151 | 7,851 | 75,562 |
| 104 | Meridian Oil, Inc. | 12981 H | 53 - 2339 | 11/ 30/ 90 - 2/ 28/ 92 | | | | | 0 | 633 | 1,858 | 1,474 | 1,451 | 1,302 | 1,122 | 1,140 | 8,980 |
| 105 | Conoco, Inc. | 12956 H | 7 - 1230 | 11/ 17/ 90 - 2/ 16/ 92 | | | | | 1,643 | 1,673 | 1,317 | 1,240 | 1,543 | 1,231 | 1,307 | 1,185 | 11,139 |
| 106 | Meridian Oil, Inc. | 12999 H | 53 - 2344 | 12/ 10/ 90 - 3/ 9/ 92 | | | | | | 0 | 0 | 0 | 0 | 3,712 | 4,198 | 3,558 | 11,464 |
| 107 | Meridian | 6662 H | 53 - 809 | 12/ 22/ 90 - 3/ 21/ 92 | | | | | | 238 | 9,315 | 5,653 | 4,704 | 5,936 | 5,060 | 4,286 | 35,192 |
| 108 | Meridian Oil, Inc. | 12874 H | 7 - 1211 | 12/ 29/ 90 - 3/ 28/ 92 | | | | | | 0 | 0 | 0 | 0 | 16,885 | 11,699 | 12,733 | 41,317 |
| 109 | Conoco, Inc. | 13024 H | 7 - 1237 | 1/ 31/ 91 - 4/ 30/ 92 | | | | | | | 0 | 0 | 0 | 5,805 | 6,214 | 6,550 | 18,569 |
| 110 | Meridian Oil, Inc. | 13040 H | 53 - 2347 | 1/ 9/ 91 - 4/ 8/ 92 | | | | | | | 0 | 0 | 0 | 5,885 | 5,322 | 636 | 11,843 |
| 111 | Edisto | 12965 H | 25 - 459 | 1/ 7/ 91 - 4/ 6/ 92 | | | | | | | 0 | 0 | 0 | 254 | 211 | 120 | 585 |
| 112 | Meridian Oil, Inc. | 13070 H | 53 - 2352 | 2/ 1/ 91 - 4/ 30/ 92 | | | | | | | | 0 | 0 | 2,066 | 1,817 | 1,413 | 5,296 |
| 113 | Columbia Gas | 13004 H | 7 - 1236 | 1/ 20/ 91 - 4/ 19/ 92 | | | | | | | 0 | 0 | 0 | 6,412 | 4,639 | 5,101 | 16,152 |
| 114 | Slawson Expl | 13027 H | 7 - 1238 | 1/ 6/ 91 - 4/ 5/ 92 | | | | | | | 0 | 0 | 0 | 8,069 | 5,788 | 5,182 | 19,039 |
| 115 | Conoco, Inc. | 12984 H | 53 - 2341 | 1/ 16/ 91 - 4/ 15/ 92 | | | | | | | 284 | 82 | 0 | 0 | 0 | 0 | 366 |
| 116 | Meridian Oil, Inc. | 13060 H | 53 - 2351 | 1/ 15/ 91 - 4/ 14/ 92 | | | | | | | 0 | 0 | 0 | 11,105 | 10,660 | 9,679 | 31,444 |
| 117 | Meridian Oil, Inc. | 13091 H | 53 - 2355 | 2/ 21/ 91 - 5/ 20/ 92 | | | | | | | | 0 | 0 | 279 | 8 | 132 | 419 |
| 118 | Slawson Expl | 6587 H | 25 - 126 | 2/ 3/ 91 - 5/ 2/ 92 | | | | | | | | 175 | 245 | 193 | 130 | 187 | 930 |
| 119 | American Hunter | 13092 H | 53 - 2356 | 2/ 22/ 91 - 5/ 21/ 92 | | | | | | | | 0 | 0 | 50 | 125 | 82 | 257 |
| 120 | Meridian Oil, Inc. | 13001 H | 53 - 2345 | 2/ 3/ 91 - 5/ 2/ 92 | | | | | | | | 0 | 0 | 2,931 | 2,800 | 2,432 | 8,163 |
| 121 | Columbia Gas | 12967 H | 7 - 1233 | 2/ 9/ 91 - 5/ 8/ 92 | | | | | | | | 0 | 0 | 4,837 | 2,746 | 2,042 | 9,625 |
| 122 | Conoco, Inc. | 13112 H | 7 - 1245 | 3/ 29/ 91 - 6/ 28/ 92 | | | | | | | | | 0 | 9,367 | 9,004 | 8,425 | 26,796 |
| 123 | Slawson Expl | 12964 H | 7 - 1232 | 3/ 9/ 91 - 6/ 8/ 92 | | | | | | | | | 0 | 14,661 | 12,620 | 9,982 | 37,263 |
| 124 | Meridian Oil, Inc. | 13106 H | 7 - 1242 | 3/ 31/ 91 - 6/ 30/ 92 | | | | | | | | | 0 | 4,813 | 3,684 | 3,146 | 11,643 |
| 125 | Slawson Expl | 13108 H | 7 - 1243 | 3/ 17/ 91 - 6/ 16/ 92 | | | | | | | | | 0 | 11,596 | 8,802 | 9,690 | 30,088 |
| 126 | Meridian Oil, Inc. | 13044 H | 53 - 2348 | 3/ 29/ 91 - 6/ 28/ 92 | | | | | | | | | 0 | 742 | 612 | 621 | 1,975 |
| 127 | Meridian Oil, Inc. | 13105 H | 53 - 2358 | 3/ 4/ 91 - 6/ 3/ 92 | | | | | | | | | 0 | 1,456 | 921 | 975 | 3,352 |
| 128 | Cenex | 13124 H | 7 - 1248 | 4/ 15/ 91 - 7/ 14/ 92 | | | | | | | | | | 412 | 4,448 | 3,090 | 7,950 |
| 129 | Columbia Gas | 13039 H | 7 - 1239 | 4/ 5/ 91 - 7/ 4/ 92 | | | | | | | | | | 6,924 | 5,295 | 3,684 | 15,903 |
| 130 | Meridian Oil, Inc. | 13120 H | 7 - 1246 | 4/ 8/ 91 - 7/ 7/ 92 | | | | | | | | | | 18,304 | 18,437 | 12,835 | 48,076 |
| 131 | Conoco, Inc. | 13104 H | 7 - 1241 | 4/ 30/ 91 - 7/ 29/ 92 | | | | | | | | | | 105 | 2,889 | 3,255 | 6,249 |
| 132 | Conoco, Inc. | 13107 H | 25 - 467 | 5/ 15/ 91 - 8/ 14/ 92 | | | | | | | | | | | 330 | 0 | 330 |
| 133 | Columbia Gas | 12952 H | 7 - 1229 | 5/ 28/ 91 - 8/ 27/ 92 | | | | | | | | | | | 1,020 | 3,843 | 4,863 |
| 134 | Cenex | 13123 H | 7 - 1247 | 6/ 1/ 91 - 8/ 31/ 92 | | | | | | | | | | | | 1,013 | 1,013 |
| 135 | Meridian Oil, Inc. | 13071 H | 53 - 2353 | 5/ 14/ 91 - 8/ 13/ 92 | | | | | | | | | | | 11,736 | 15,399 | 27,135 |
| 136 | Meridian Oil, Inc. | 13178 H | 53 - 2363 | 6/ 17/ 91 - 9/ 16/ 92 | | | | | | | | | | | | 4,642 | 4,642 |
| 137 | Slawson Expl | 13164 H | 7 - 1256 | 6/ 7/ 91 - 9/ 6/ 92 | | | | | | | | | | | | 10,884 | 10,884 |
| 138 | Conoco, Inc. | 13168 H | 7 - 1257 | 6/ 21/ 91 - 9/ 20/ 92 | | | | | | | | | | | | 2,201 | 2,201 |
| 139 | Meridian Oil, Inc. | 13187 H | 7 - 1260 | 7/ 15/ 91 - 10/ 14/ 92 | | | | | | | | | | | | | 0 |
| 140 | Columbia Gas | 13133 H | 7 - 1250 | 7/ 29/ 91 - 10/ 28/ 92 | | | | | | | | | | | | | 0 |
| 141 | Cenex | 13194 H | 7 - 1262 | 7/ 17/ 91 - 10/ 16/ 92 | | | | | | | | | | | | | 0 |
| 142 | Meridian Oil, Inc. | 13165 H | 53 - 2362 | 7/ 19/ 91 - 10/ 18/ 92 | | | | | | | | | | | | | 0 |

SENATE TAXATION
EXHIBIT NO. 13
DATE December 2, 1993
BILL NO. SB 18

SENATE TAXATION
EXHIBIT NO. 14
DATE December 2, 1993
BILL NO. SB18

COMBINED
MERIDIAN OIL INC. and
SHELL WESTERN E & P

MONTANA
PROPOSED CAPITAL DEVELOPMENT
AND
PROJECTED WELL COMPLETIONS

| YEAR | INVESTMENT ($ MILLIONS) | 80% | # WELLS COMPLETIONS | 80% |
|---|---|---|---|---|
| 1994 | $ 22.450 | 18 KK | 22 | 17.6 |
| 1995 | 36.150 | 29 KK | 35 | 28 |
| 1996 | 30.750 | 24.6 KK | 31 | 24.8 |
| 1997 | 28.500 | 22.8 KK | 28 | 22.4 |
| 1998 | 23.500 | 18.8 KK | 22 | 17.6 |
| | $ 141.350 | [illegible] | 138 | 108 |

This information was taken from "Proposed Incentives to Attract Capital Investment in Montana for New Drilling and Enhanced Oil Production" (Exhibit #1) presented by Stan Kaleczyc representing Meridian Oil. Revenue Oversight Committee meeting of November 17, 1993.

DATE 2 Dec 93

SENATE COMMITTEE ON Tax 4S

BILLS BEING HEARD TODAY: SB 4, SB18

< ■ > PLEASE PRINT < ■ >

Check One

| Name | Representing | Bill No. | Support | Oppose |
|---|---|---|---|---|
| JOHN DELANO | BUR. RES | 18 | X | |
| W. H. TULLOCH | MERIDIAN OIL INC | 18 | ✓ | |
| BRENT J. SMOLIK | MERIDIAN OIL INC | 18 | ✓ | |
| Gloria Paladichuk | Richland Co. Commissioner | 18 | ✓ | |
| Bob Sheffield | Shell Oil Company | 18 | ✓ | |
| Perry Pearce | Meridian Oil | 18 | ✓ | |
| Sue M. Olson | MT Oil, Gas & Coal Cty | 18 | ✓ | |
| Don RIEGER | MT. Ass. of Oil, Gas, Coal Cties | 18 | ✓ | |
| JEROME ANDERSON | SHELL WESTERN EXP INC | 18 | ✓ | |
| [illegible] | Musselshell County | 18 | ✓ | |
| Rich Hause | Shell Oil | 18 | ✓ | |
| STAN KALECZYC | MERIDIAN OIL | 18 | ✓ | |
| W. M. (BILL) VAUGHEY | SELF, AN INDEP O.G PROD. | 18 | ✓ | |
| TOM RICHMOND | BOARD OF OIL & GAS CONSERVATION | 18 | | |

VISITOR REGISTER

PLEASE LEAVE PREPARED STATEMENT WITH COMMITTEE SECRETARY

DATE Dec 2, 1993

SENATE COMMITTEE ON Tax

BILLS BEING HEARD TODAY: SB 4 SB 18

# < ■ > PLEASE PRINT < ■ >

Check One

| Name | Representing | Bill No. | Support | Oppose |
|---|---|---|---|---|
| Walter L McNutt | Richland Development | 18 | ✓ | |
| Don Franz | Franz Const. Inc | 18 | ✓ | |
| John Pigg | H.R.P. Oil Properties | 18 | ✓ | |
| Dave Cramer | Dave's Hot Oil Str. | 18 | ✓ | |
| Jim Tutwiler | MT Chamber | SB 18 | ✓ | |
| Everett Mitchell | Baker Mt. | 18 | ✓ | |
| Rocky Gorder | Sidney Mt | 18 | ✓ | |
| Robert Marquiss | Sidney MT. | 18 | ✓ | |
| Del Kenitzer | Baker Mt. | SB 18 | ✓ | |
| David A. Johnson | Mt. Petro Assoc | S18 | ✓ | |
| Gail Abercrombie | MT Petroleum Assn | S18 | ✓ | |
| Dennis Iverson | Northern Montana Oil & Gas Assoc. | SB18 | ✓ | |
| [illegible] | MT Taxpayers | SB18 | ✓ | |
| Newell Anderson | Dept of Commerce | SB 4 | | |

VISITOR REGISTER

PLEASE LEAVE PREPARED STATEMENT WITH COMMITTEE SECRETARY

DATE 2 December 1993

SENATE COMMITTEE ON Senate Taxation

BILLS BEING HEARD TODAY: SB 4, SB 18

< ■ > PLEASE PRINT < ■ >

Check One

| Name | Representing | Bill No. | Support | Oppose |
|---|---|---|---|---|
| Steve Bender | OBPP | 4 | | |
| Ken Williams | Entech | 18 | ✓ | |
| Tom Ebzery | Exxon | 18 | ✓ | |
| Sen. Bruski-Maus | SD 12 | 18 | ✓ | |
| Peggy Trenk | WETA | 18 | ✓ | |
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VISITOR REGISTER

PLEASE LEAVE PREPARED STATEMENT WITH COMMITTEE SECRETARY

DATE 2 December 1993

SENATE COMMITTEE ON Taxation

BILLS BEING HEARD TODAY: SB 4, SB 18

< ■ > PLEASE PRINT < ■ >

Check One

| Name | Representing | Bill No. | Support | Oppose |
|---|---|---|---|---|
| Rick Hill | GOVERNOR | SB18 | X | |
| Brian Smith | Revenue | SB18 | | |
| Van Charlton | Revenue | SB 18 | | |
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VISITOR REGISTER

PLEASE LEAVE PREPARED STATEMENT WITH COMMITTEE SECRETARY