

IN THE HOUSE

APRIL 16, 1987

RECEIVED FROM SENATE.

SECOND READING, AMENDMENTS
CONCURRED IN.

APRIL 17, 1987

THIRD READING, AMENDMENTS
CONCURRED IN.

SENT TO ENROLLING.

APRIL 21, 1987

ENROLLING REPORT.

SIGNED BY SPEAKER.

IN THE SENATE

APRIL 21, 1987

SIGNED BY PRESIDENT.

IN THE HOUSE

APRIL 21, 1987

DELIVERED TO GOVERNOR.

APRIL 22, 1987

RETURNED FROM GOVERNOR WITH
RECOMMENDED AMENDMENTS.

SECOND READING, GOVERNOR'S RECOM-
MENDED AMENDMENTS CONCURRED IN.

THIRD READING, GOVERNOR'S RECOM-
MENDED AMENDMENTS CONCURRED IN.

TRANSMITTED TO SENATE.

IN THE SENATE

APRIL 23, 1987

SECOND READING, GOVERNOR'S RECOM-
MENDED AMENDMENTS CONCURRED IN.

THIRD READING, GOVERNOR'S RECOM-
MENDED AMENDMENTS CONCURRED IN.

RETURNED TO HOUSE.

IN THE HOUSE

APRIL 23, 1987

RECEIVED FROM SENATE.

SENT TO ENROLLING.

1 House BILL NO. 776
 2 INTRODUCED BY NATHAN J. STANLEY Manuel
 3 Rob McCallister Hayne Boyd Connolly Don Brown Hollister
 4 A BILL FOR AN ACT ENTITLED: "AN ACT TO EXEMPT STRIPPED
 5 WELLS AND, FOR THE FIRST 2 YEARS OF PRODUCTION, ALL OTHER
 6 WELLS PRODUCING PETROLEUM, NATURAL GAS, OR OTHER MINERAL OR
 7 CRUDE OIL FROM SEVERANCE TAXES; AMENDING SECTIONS 15-23-607,
 8 15-23-612, AND 15-36-121, MCA; AND PROVIDING AN IMMEDIATE
 9 EFFECTIVE DATE AND A RETROACTIVE APPLICABILITY DATE."
 10
 11 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:
 12 Section 1. Section 15-23-607, MCA, is amended to read:
 13 "15-23-607. County assessors to compute taxes. (1)
 14 Immediately after the board of county commissioners has
 15 fixed tax levies on the second Monday in August, the county
 16 assessor shall compute the taxes on such net proceeds,
 17 except as provided in ~~15-36-121~~ 15-23-612 and in subsection
 18 (2), and royalty assessments and shall deliver the book to
 19 the county treasurer on or before September 15. The county
 20 treasurer shall proceed to give full notice thereof to such
 21 operator and to collect the same in manner provided by law.
 22 (2) For new production, as defined in 15-23-601, the
 23 county assessor may not levy or assess any mills against the
 24 value of such new production, but shall instead levy a tax
 25 as follows:

1 (a) for new production of petroleum or other mineral
 2 or crude oil, 7% of net proceeds, as described in
 3 15-23-603(3); or
 4 (b) for new production of natural gas, 12% of net
 5 proceeds, as described in 15-23-603(3).
 6 (3) The amount of tax levied in subsections (2)(a) and
 7 (2)(b), divided by the appropriate tax rate and multiplied
 8 by 60%, shall be treated as taxable value for county bonding
 9 purposes.
 10 (4) The operator or producer shall be liable for the
 11 payment of said taxes and same shall, except as provided in
 12 15-16-121, be payable by and shall be collected from such
 13 operators in the same manner and under the same penalties as
 14 provided for the collection of taxes upon net proceeds of
 15 mines; provided, however, that the operator may at his
 16 option withhold from the proceeds of royalty interest,
 17 either in kind or in money, an estimated amount of the tax
 18 to be paid by him upon such royalty or royalty interest.
 19 After such withholding any deviation between the estimated
 20 tax and the actual tax may be accounted for by adjusting
 21 subsequent withholdings from the proceeds of royalty
 22 interests."
 23 Section 2. Section 15-23-612, MCA, is amended to read:
 24 "15-23-612. Certain natural gas exempt. (1) Natural
 25 gas produced ~~as--provided--in--15-36-121(2)--is--exempt--from~~



-2- INTRODUCED BILL
 HB 776

1 ~~one-half the net proceeds tax imposed by this part for 3~~
 2 ~~years beginning as provided in 15-36-121(3) if the~~
 3 ~~requirements of 15-36-121(2) are met:~~ from a well 5,000 feet
 4 deep or deeper, drilling for which was completed after
 5 December 31, 1976, but before January 1, 1987, is exempt
 6 from one-half of the net proceeds tax imposed by this part
 7 for 3 years if the gas produced from the well is:

8 (a) placed into a natural gas distribution system for
 9 delivery to consumers after diligent completion of the well;
 10 and

11 (b) distributed by a natural gas distribution system
 12 serving only natural gas consumers a majority of which are
 13 within Montana or at least 10,000 natural gas consumers
 14 within Montana.

15 (2) The 3-year exemption provided by this section
 16 shall begin when natural gas from a qualifying well is first
 17 placed into a natural gas distribution system.

18 ~~(2)(3)~~ Notwithstanding the provisions of subsection
 19 subsections (1) and (2), all reporting requirements under
 20 the net proceeds tax remain in effect."

21 Section 3. Section 15-36-121, MCA, is amended to read:

22 "15-36-121. Exemption from severance tax. (1) It is
 23 the public policy of this state to promote a sufficient
 24 supply of natural gas to provide for the residents of this
 25 state, and to lessen Montana's dependence on imported

1 natural gas, and to encourage the exploration for and
 2 development and production of natural gas, petroleum, and
 3 other mineral and crude oil within the state.

4 ~~(2) Natural gas produced from a well 5,000 feet deep~~
 5 ~~or deeper on which drilling was commenced after December 31,~~
 6 ~~1976, but before December 31, 1992, is exempt from all of~~
 7 ~~the severance tax imposed by 15-36-101 for 3 years if the~~
 8 ~~gas produced from the well is:~~

9 ~~(a) placed into a natural gas distribution system for~~
 10 ~~delivery to consumers after diligent completion of the well;~~
 11 ~~and~~

12 ~~(b) distributed by a natural gas distribution system~~
 13 ~~serving only natural gas consumers a majority of which are~~
 14 ~~within Montana or at least 10,000 natural gas consumers~~
 15 ~~within Montana.~~

16 ~~(3) The 3-year exemption provided by this section~~
 17 ~~shall begin when natural gas from a qualifying well is first~~
 18 ~~placed into a natural gas distribution system.~~

19 (2) All new production from a well during the 24
 20 months immediately following the date of notification to the
 21 department of revenue that an oil well is flowing or being
 22 pumped or that a gas well has been connected to a gathering
 23 or distribution system is exempt from all of the severance
 24 tax imposed by 15-36-101, provided the notification of
 25 completion was made after December 31, 1986.

1 (3) All the natural gas produced from any well that
 2 has produced 60,000 cubic feet or less of natural gas a day
 3 for 1 year prior to the quarter for which production is
 4 reported as required by 15-36-105 is exempt from all of the
 5 severance tax imposed by 15-36-101.

6 (4) All production from a stripper well is exempt from
 7 all of the severance tax imposed by 15-36-101.

8 (5) For the purposes of this section, the following
 9 definitions apply:

10 (a) "New production" means the production of natural
 11 gas, petroleum, or other crude or mineral oil from any well;

12 (i) that has not produced natural gas, petroleum, or
 13 other crude or mineral oil during the 5 years immediately
 14 preceding the first month of qualified new production; and

15 (ii) on which the notification provided for in
 16 subsection (2) was made after December 31, 1986.

17 (b) "Stripper well" means a well that produces less
 18 than 10 barrels per day, and, if otherwise not specifically
 19 determinable, production must be determined by dividing the
 20 amount of production from a lease or unitized area for the
 21 year prior to the current calendar year by the number of
 22 producing wells in the lease or unitized area, and by
 23 dividing the resulting quotient by 365.

24 †(4)(6) Notwithstanding the provisions of subsection
 25 subsections (2) through (4), all reporting requirements

1 under the severance tax remain in effect."

2 NEW SECTION. Section 4. Extension of authority. Any
 3 existing authority of the department of revenue or the board
 4 of oil and gas conservation to make rules on the subject of
 5 the provisions of this act is extended to the provisions of
 6 this act.

7 NEW SECTION. Section 5. Coordination instructions.
 8 (1) If this bill and ___ Bill No. ___ [LC 932], including
 9 the section of that bill defining "new production", "interim
 10 production", and "stripper well" in 15-23-601, are passed
 11 and approved, sections 1 and 2 and subsection (5) of section
 12 3 of this bill are void, and the following amendments are
 13 made to this bill:

14 (a) Following: "new production" in 15-36-121(2),
 15 insert "as defined in 15-23-601";

16 (b) Following: "stripper well" in 15-36-121(4), insert
 17 "as defined in 15-23-601".

18 (2) If this bill and Senate Bill No. 66 are passed and
 19 approved, Senate Bill No. 66 is void.

20 NEW SECTION. Section 6. Effective date --
 21 applicability. This act is effective on passage and approval
 22 and applies retroactively, within the meaning of 1-2-109, to
 23 taxable years beginning on or after January 1, 1987.

-End-

STATE OF MONTANA - FISCAL NOTE

Form BD-15

In compliance with a written request, there is hereby submitted a Fiscal Note for HB776, as introduced.

DESCRIPTION OF PROPOSED LEGISLATION:

An act to exempt stripper wells and, for the first 2 years of production, all other wells producing petroleum, natural gas, or other mineral or crude oil from severance taxes; providing an immediate effective date and a retroactive applicability date.

ASSUMPTIONS:

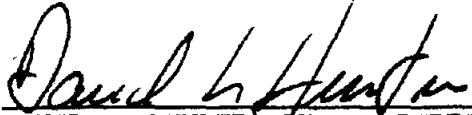
1. In FY88 oil production is 25.964 million bbl. and gas production is 45.788 MMCF; the price of oil is \$14.799 per bbl. and the price of gas is \$2.046 per MCF. In FY89 oil production is 25.268 million bbl. and gas production is 47.396 million MMCF. The price of oil is \$16.48/bbl. and the price of gas is \$2.302/MCF (REAC).
2. "New production," as defined in the bill, remains constant at the estimated 1986 level of 518,196 bbl. for oil, and 812,495 MCF for natural gas. (Department of Revenue data.)
3. Oil stripper wells contribute 10 percent of total oil production (Petroleum Independent, September 1985, page 53).
4. Revenue reductions relating to "new production" are reflected first in revenues to be rebated back to the counties under MCA 15-36-112(2)(b).
5. The proposed legislation could have an effect in FY87 because it applies retroactively to taxable years beginning after January 1, 1987. FY87 oil and natural gas severance tax revenues could be decreased by about \$580,000.

FISCAL IMPACT:

	FY88			FY89		
	Current Law	Proposed Law	Difference	Current Law	Proposed Law	Difference
<u>Revenues:</u>						
Oil severance tax	\$19,212,000	\$ 16,935,000	(\$2,277,000)	\$20,821,000	\$ 18,342,000	(\$2,479,000)
Natural Gas severance tax	2,518,000	2,474,000	(44,000)	2,933,000	2,883,000	(50,000)
TOTAL	\$21,730,00	\$ 19,409,000	(\$2,321,000)	\$23,754,000	\$ 21,225,000	(\$2,529,000)

Fund Information:

	FY88	FY89
<u>Local Government</u>		
Block Grant	\$ 6,404,000	\$ 5,645,000 (\$ 759,000)
County Rebate	359,000	46,000 (313,000)
General Fund	14,967,000	13,718,000 (1,249,000)
TOTAL	\$21,730,00	\$ 19,409,000 (\$2,321,000)

 DATE 2/17/87
 DAVID L. HUNTER, BUDGET DIRECTOR
 Office of Budget and Program Planning

 DATE Feb 17, 1987
 DENNIS NATHE, PRIMARY SPONSOR

Fiscal Note for HB776, as introduced.

#8 776

Fiscal Note Request, HB776, as introduced.

Form BD-15

Page 2

EFFECT ON COUNTY OR OTHER LOCAL REVENUE OR EXPENDITURES:

Counties with increased production will lose severance tax refunds on the new production.

TECHNICAL OR MECHANICAL DEFECTS IN PROPOSED LEGISLATION OR CONFLICTS WITH EXISTING LEGISLATION:

The bill does not stipulate the basis for calculating increased production following the two-year grace period provided for in the bill.

HB 776

STATE OF MONTANA - FISCAL NOTE

Form BD-15

In compliance with a written request, there is hereby submitted a Fiscal Note for HB776, as introduced.
REVISED FISCAL NOTE

DESCRIPTION OF PROPOSED LEGISLATION:

An act to exempt stripper wells and, for the first 2 years of production, all other wells producing petroleum, natural gas, or other mineral or crude oil from severance taxes; providing an immediate effective date and a retroactive applicability date.

ASSUMPTIONS:

1. In FY88 oil production is 25.964 million bbl. and gas production is 45.788 MMCF; the price of oil is \$14.799 per bbl. and the price of gas is \$2.046 per MCF. In FY89 oil production is 25.268 million bbl. and gas production is 47.396 million MMCF. The price of oil is \$16.48/bbl. and the price of gas is \$2.302/MCF (REAC).
2. "New production," as defined in the bill, remains constant at the estimated 1986 level of 518,196 bbl. for oil, and 812,495 MCF for natural gas.
3. Oil stripper wells contribute 10 percent of total oil production (Petroleum Independent, September 1985, page 53).
4. Gas stripper wells contribute 50 percent of total gas production (MDOR sample estimate).
5. Revenue reductions relating to "new production" are reflected first in revenues to be rebated back to the counties under MCA 15-36-112(2)(b).
5. The proposed legislation could have an effect in FY87 because it applies retroactively to taxable years beginning after January 1, 1987. FY87 oil and natural gas severance tax revenues could be decreased by about \$884,000.

FISCAL IMPACT:

	FY88			FY89		
	Current Law	Proposed Law	Difference	Current Law	Proposed Law	Difference
<u>Revenues:</u>						
Oil severance tax	\$19,212,000	\$ 16,935,000	(\$2,277,000)	\$20,821,000	\$ 18,342,000	(\$2,479,000)
Natural gas severance tax	2,518,000	1,260,000	(1,258,000)	2,933,000	1,466,000	(1,467,000)
TOTAL	\$21,730,000	\$ 18,195,000	(\$3,535,000)	\$23,754,000	\$ 19,808,000	(\$3,946,000)

Fund Information:

Local Government

Block Grant	\$ 6,404,000	\$ 5,645,000	(\$ 759,000)	\$ 6,940,000	\$ 6,114,000	(\$ 826,000)
County Rebate	\$ 359,000	\$ 46,000	(\$ 313,000)	\$ 397,000	\$ 50,000	(\$ 347,000)
General Fund	\$14,967,000	\$ 12,504,000	(\$2,463,000)	\$16,417,000	\$ 13,644,000	(\$2,773,000)

David L. Hunter DATE 2/23/87
 DAVID L. HUNTER, BUDGET DIRECTOR
 Office of Budget and Program Planning

Dennis M. Nathe DATE Feb-24, 1987
 DENNIS NATHE, PRIMARY SPONSOR
 WITH RESERVATIONS 16
 Fiscal Note for HB776, as introduced.
 REVISED FISCAL NOTE **HB 776**
#2

Fiscal Note Request, HB776, as introduced. REVISED FISCAL NOTE

Form BD-15

Page 2

EFFECT ON COUNTY OR OTHER LOCAL REVENUE OR EXPENDITURES:

Counties with increased production will lose severance tax refunds on the new production.

TECHNICAL OR MECHANICAL DEFECTS IN PROPOSED LEGISLATION OR CONFLICTS WITH EXISTING LEGISLATION:

The bill does not stipulate the basis for calculating increased production following the two-year grace period provided for in the bill.

HB 776
#2

APPROVED BY COMMITTEE
ON TAXATION

HOUSE BILL NO. 776

INTRODUCED BY NATHE, IVERSON, GAGE, MANUEL, ROTH,
HAYNE, MCCALLUM, ASAY, STRATFORD, CONNELLY, D. BROWN,
HOLLIDAY, BOYLAN, E. SMITH, MCLANE, MAZUREK, BISHOP

A BILL FOR AN ACT ENTITLED: "AN ACT TO EXEMPT CERTAIN
STRIPPER WELLS AND, FOR THE FIRST 2 YEARS OF PRODUCTION, ALL
OTHER WELLS PRODUCING PETROLEUM, NATURAL GAS, OR OTHER
MINERAL OR CRUDE OIL FROM SEVERANCE TAXES; TO LOWER THE
SEVERANCE TAX RATE TO 3 PERCENT FOR CERTAIN STRIPPER WELLS;
AMENDING SECTIONS 15-23-607, 15-23-612, 15-36-101, AND
15-36-121, MCA; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE
AND, A RETROACTIVE APPLICABILITY DATE, AND A CONTINGENT
TERMINATION DATE."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

Section 1. Section 15-23-607, MCA, is amended to read:

"15-23-607. County assessors to compute taxes. (1)
Immediately after the board of county commissioners has
fixed tax levies on the second Monday in August, the county
assessor shall compute the taxes on such net proceeds,
except as provided in ~~15-36-121~~ 15-23-612 and in subsection
(2), and royalty assessments and shall deliver the book to
the county treasurer on or before September 15. The county
treasurer shall proceed to give full notice thereof to such

operator and to collect the same in manner provided by law.

(2) For new production, as defined in 15-23-601, the
county assessor may not levy or assess any mills against the
value of such new production, but shall instead levy a tax
as follows:

(a) for new production of petroleum or other mineral
or crude oil, 7% of net proceeds, as described in
15-23-603(3); or

(b) for new production of natural gas, 12% of net
proceeds, as described in 15-23-603(3).

(3) The amount of tax levied in subsections (2)(a) and
(2)(b), divided by the appropriate tax rate and multiplied
by 60%, shall be treated as taxable value for county bonding
purposes.

(4) The operator or producer shall be liable for the
payment of said taxes and same shall, except as provided in
15-16-121, be payable by and shall be collected from such
operators in the same manner and under the same penalties as
provided for the collection of taxes upon net proceeds of
mines; provided, however, that the operator may at his
option withhold from the proceeds of royalty interest,
either in kind or in money, an estimated amount of the tax
to be paid by him upon such royalty or royalty interest.
After such withholding any deviation between the estimated
tax and the actual tax may be accounted for by adjusting

1 subsequent withholdings from the proceeds of royalty
2 interests."

3 Section 2. Section 15-23-612, MCA, is amended to read:

4 "15-23-612. Certain natural gas exempt. (1) Natural
5 gas produced ~~as provided in 15-36-121(2) is exempt from~~
6 ~~one-half the net proceeds tax imposed by this part for 3~~
7 ~~years beginning as provided in 15-36-121(3) if the~~
8 ~~requirements of 15-36-121(2) are met~~ from a well 5,000 feet
9 deep or deeper, drilling for which was completed after
10 December 31, 1976, but before January 1, 1987, is exempt
11 from one-half of the net proceeds tax imposed by this part
12 for 3 years if the gas produced from the well is:

13 (a) placed into a natural gas distribution system for
14 delivery to consumers after diligent completion of the well;
15 and

16 (b) distributed by a natural gas distribution system
17 serving only natural gas consumers a majority of which are
18 within Montana or at least 10,000 natural gas consumers
19 within Montana.

20 (2) The 3-year exemption provided by this section
21 shall begin when natural gas from a qualifying well is first
22 placed into a natural gas distribution system.

23 ~~(2)(3)~~ Notwithstanding the provisions of subsection
24 subsections (1) and (2), all reporting requirements under
25 the net proceeds tax remain in effect."

1 SECTION 3. SECTION 15-36-101, MCA, IS AMENDED TO READ:

2 "15-36-101. Definitions and rate of tax. (1) Every
3 person engaging in or carrying on the business of producing
4 petroleum, other mineral or crude oil, or natural gas within
5 this state or engaging in or carrying on the business of
6 owning, controlling, managing, leasing, or operating within
7 this state any well or wells from which any merchantable or
8 marketable petroleum, other mineral or crude oil, or natural
9 gas is extracted or produced sufficient in quantity to
10 justify the marketing of the same must, except as provided
11 in 15-36-121, each year when engaged in or carrying on any
12 such business in this state pay to the department of revenue
13 for the exclusive use and benefit of the state of Montana a
14 severance tax computed at the following rates:

15 (a) except as provided in subsections (1)(b), and
16 (1)(c), and (1)(d), 5% of the total gross value of all the
17 petroleum and other mineral or crude oil produced by such
18 person from each lease or unit on or after April 1, 1981,
19 and on or before March 31, 1983; 6% of the total gross value
20 of all the petroleum and other mineral or crude oil produced
21 by such person from each lease or unit on or after April 1,
22 1983, and on or before March 31, 1985; and 5% of the total
23 gross value of all the petroleum and other mineral or crude
24 oil produced by such person from each lease or unit
25 thereafter; but in determining the amount of such tax there

1 shall be excluded from consideration all petroleum or other
2 crude or mineral oil produced and used by such person during
3 such year in connection with his operations in prospecting
4 for, developing, and producing such petroleum or crude or
5 mineral oil;

6 (b) 2.65% of the total gross value of natural gas
7 produced from each lease or unit; but in determining the
8 amount of such tax there shall be excluded from
9 consideration all gas produced and used by such person
10 during such year in connection with his operations in
11 prospecting for, developing, and producing such gas or
12 petroleum or crude or mineral oil; and there shall also be
13 excluded from consideration all gas, including carbon
14 dioxide gas, recycled or reinjected into the ground;

15 (c) 2.5% of the total gross value of the incremental
16 petroleum and other mineral or crude oil produced from each
17 lease or unit in a tertiary recovery project after July 1,
18 1985. For purposes of this section, a tertiary recovery
19 project must meet the following requirements:

20 (i) the project must be approved as a tertiary
21 recovery project by the department of revenue. Such approval
22 may be extended only after notice and hearing in accordance
23 with Title 2, chapter 4.

24 (ii) the property to be affected by the project must be
25 adequately delineated according to the specifications

1 required by the department; and

2 (iii) the project must involve the application of one
3 or more tertiary recovery methods that can reasonably be
4 expected to result in an increase, determined by the
5 department to be significant in light of all the facts and
6 circumstances, in the amount of crude oil which may
7 potentially be recovered. For the purpose of this section,
8 tertiary recovery methods include but are not limited to:

- 9 (A) miscible fluid displacement;
- 10 (B) steam drive injection;
- 11 (C) micellar/emulsion flooding;
- 12 (D) in situ combustion;
- 13 (E) polymer augmented water flooding;
- 14 (F) cyclic steam injection;
- 15 (G) alkaline or caustic flooding;
- 16 (H) carbon dioxide water flooding;
- 17 (I) immiscible carbon dioxide displacement;
- 18 (J) any other method approved by the department as a
19 tertiary recovery method;

20 (d) 3% of the total gross value of all the natural
21 gas, petroleum, and other mineral or crude oil produced by a
22 stripper well, as defined in 15-36-121, that produces more
23 than 5 barrels a day during the period beginning April 1,
24 1987, and ending March 31, 1989.

25 (2) For purposes of this section, the term

1 "incremental petroleum and other mineral or crude oil" means
 2 the amount of oil, as determined by the department of
 3 revenue, to be in excess of what would have been produced by
 4 primary and secondary methods. The determination arrived at
 5 by the department must be made only after notice and hearing
 6 and shall specify through the life of a tertiary project,
 7 calendar year by calendar year, the combined amount of
 8 primary and secondary production that must be used to
 9 establish the incremental production from each lease or unit
 10 in a tertiary recovery project.

11 (3) Nothing in this part may be construed as requiring
 12 laborers or employees hired or employed by any person to
 13 drill any oil well or to work in or about any oil well or
 14 prospect or explore for or do any work for the purpose of
 15 developing any petroleum or other mineral or crude oil to
 16 pay such severance tax, nor may any work done or the
 17 drilling of any well or wells for the purpose of prospecting
 18 or exploring for petroleum or other mineral or crude oils or
 19 for the purpose of developing same be considered to be the
 20 engaging in or carrying on of any such business. If, in the
 21 doing of any such work, in the drilling of any oil well, or
 22 in such prospecting, exploring, or development work, any
 23 merchantable or marketable petroleum or other mineral or
 24 crude oil in excess of the quantity required by such person
 25 for carrying on such operation is produced sufficient in

1 quantity to justify the marketing of the same, such work,
 2 drilling, prospecting, exploring, or development work is
 3 considered to be the engaging in and carrying on of such
 4 business within this state within the meaning of this
 5 section.

6 (4) Every person required to pay such tax hereunder
 7 shall pay the same in full for his own account and for the
 8 account of each of the other owner or owners of the gross
 9 proceeds in value or in kind of all the marketable petroleum
 10 or other mineral or crude oil or natural gas extracted and
 11 produced, including owner or owners of working interest,
 12 royalty interest, overriding royalty interest, carried
 13 working interest, net proceeds interest, production
 14 payments, and all other interest or interests owned or
 15 carved out of the total gross proceeds in value or in kind
 16 of such extracted marketable petroleum or other mineral or
 17 crude oil or natural gas, except that any of the aforesaid
 18 interests that are owned by the federal, state, county, or
 19 municipal governments shall be exempt from taxation under
 20 this chapter. Unless otherwise provided in a contract or
 21 lease, the pro rata share of any royalty owner or owners
 22 will be deducted from any settlements under said lease or
 23 leases or division of proceeds orders or other contracts."

24 Section 4. Section 15-36-121, MCA, is amended to read:
 25 "15-36-121. Exemption from severance tax. (1) It is

1 the public policy of this state to promote a sufficient
 2 supply of natural gas to provide for the residents of this
 3 state, and to lessen Montana's dependence on imported
 4 natural gas, and to encourage the exploration for and
 5 development and production of natural gas, petroleum, and
 6 other mineral and crude oil within the state.

7 ~~(2) Natural gas produced from a well 5,000 feet deep
 8 or deeper on which drilling was commenced after December 31,
 9 1976, but before December 31, 1992, is exempt from all of
 10 the severance tax imposed by 15-36-101 for 3 years if the
 11 gas produced from the well is:~~

12 ~~(a) placed into a natural gas distribution system for
 13 delivery to consumers after diligent completion of the well;
 14 and~~

15 ~~(b) distributed by a natural gas distribution system
 16 serving only natural gas consumers a majority of which are
 17 within Montana or at least 10,000 natural gas consumers
 18 within Montana;~~

19 ~~(3) The 3-year exemption provided by this section
 20 shall begin when natural gas from a qualifying well is first
 21 placed into a natural gas distribution system.~~

22 (2) All new production from a well during the 24
 23 months immediately following the date of notification to the
 24 department of revenue that an oil well is flowing or being
 25 pumped or that a gas well has been connected to a gathering

1 or distribution system is exempt from all of the severance
 2 tax imposed by 15-36-101, provided the notification of
 3 completion was made after December 31, 1986, AND BEFORE JULY
 4 1, 1991.

5 (3) All the natural gas produced from any well that
 6 has produced 60,000 cubic feet or less of natural gas a day
 7 for 1 year prior to the quarter for which production is
 8 reported as required by 15-36-105 is exempt from all of the
 9 severance tax imposed by 15-36-101.

10 (4) All production from a stripper well THAT PRODUCES
 11 5 BARRELS OR LESS A DAY is exempt from all of the severance
 12 tax imposed by 15-36-101.

13 (5) For the purposes of this section, the following
 14 definitions apply:

15 (a) "New production" means the production of natural
 16 gas, petroleum, or other crude or mineral oil from any well:

17 (i) that has not produced natural gas, petroleum, or
 18 other crude or mineral oil during the 5 years immediately
 19 preceding the first month of qualified new production; and

20 (ii) on which the notification provided for in
 21 subsection (2) was made after December 31, 1986.

22 (b) "Stripper well" means a well that produces less
 23 than 10 barrels per day, and, if otherwise not specifically
 24 determinable, production must be determined by dividing the
 25 amount of production from a lease or unitized area for the

1 year prior to the current calendar year by the number of
 2 producing wells in the lease or unitized area, and by
 3 dividing the resulting quotient by 365.

4 ~~(4)~~(6) Notwithstanding the provisions of subsection
 5 subsections (2) through (4), all reporting requirements
 6 under the severance tax remain in effect."

7 NEW SECTION. Section 5. Extension of authority. Any
 8 existing authority of the department of revenue or the board
 9 of oil and gas conservation to make rules on the subject of
 10 the provisions of this act is extended to the provisions of
 11 this act.

12 NEW SECTION. Section 6. Coordination instructions.
 13 (1) If this bill and ___ Bill No. ___ [LC 932], including
 14 the section of that bill defining "new production", "interim
 15 production", and "stripper well" in 15-23-601, are passed
 16 and approved, sections 1 and 2 and subsection (5) of section
 17 3 of this bill are void, and the following amendments are
 18 made to this bill:

19 (a) Following: "new production" in 15-36-121(2),
 20 insert "as defined in 15-23-601";

21 (b) Following: "stripper well" in 15-36-121(4), insert
 22 "as defined in 15-23-601".

23 (2) If this bill and Senate Bill No. 66 are passed and
 24 approved, Senate Bill No. 66 is void.

25 NEW SECTION. Section 7. Effective date --

1 applicability -- CONTINGENT TERMINATION. (1) This act is
 2 effective on passage and approval and applies retroactively,
 3 within the meaning of 1-2-109, to taxable years beginning on
 4 or after January 1, 1987.

5 (2) SUBSECTION (2) OF 15-36-121, CONCERNING NEW
 6 PRODUCTION, TERMINATES ON THE DATE THE GOVERNOR BY EXECUTIVE
 7 ORDER CERTIFIES THAT THE PRICE OF WEST TEXAS INTERMEDIATE
 8 CRUDE OIL HAS REACHED \$25 A BARREL AS REPORTED IN THE WALL
 9 STREET JOURNAL.

10 (3) SUBSECTION (4) OF 15-36-121, CONCERNING STRIPPER
 11 WELL PRODUCTION, TERMINATES ON THE DATE THE GOVERNOR BY
 12 EXECUTIVE ORDER CERTIFIES THAT THE PRICE OF WEST TEXAS
 13 INTERMEDIATE CRUDE OIL HAS REACHED \$30 A BARREL AS REPORTED
 14 IN THE WALL STREET JOURNAL.

-End-

1 HOUSE BILL NO. 776

2 INTRODUCED BY NATHE, IVERSON, GAGE, MANUEL, ROTH,
3 HAYNE, MCCALLUM, ASAY, STRATFORD, CONNELLY, D. BROWN,
4 HOLLIDAY, BOYLAN, E. SMITH, MCLANE, MAZUREK, BISHOP
5

6 A BILL FOR AN ACT ENTITLED: "AN ACT TO EXEMPT CERTAIN
7 STRIPPER WELLS AND, FOR THE FIRST 2 YEARS OF PRODUCTION, ALL
8 OTHER WELLS PRODUCING PETROLEUM, NATURAL GAS, OR OTHER
9 MINERAL OR CRUDE OIL FROM SEVERANCE TAXES; TO LOWER THE
10 SEVERANCE TAX RATE TO 3 PERCENT FOR CERTAIN STRIPPER WELLS;
11 AMENDING SECTIONS 15-23-607, 15-23-612, 15-36-101, AND
12 15-36-121, MCA; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE
13 AND, A RETROACTIVE APPLICABILITY DATE, AND A CONTINGENT
14 TERMINATION DATE."
15

16 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

17 Section 1. Section 15-23-607, MCA, is amended to read:

18 "15-23-607. County assessors to compute taxes. (1)
19 Immediately after the board of county commissioners has
20 fixed tax levies on the second Monday in August, the county
21 assessor shall compute the taxes on such net proceeds,
22 except as provided in ~~15-36-121~~ 15-23-612 and in subsection
23 (2), and royalty assessments and shall deliver the book to
24 the county treasurer on or before September 15. The county
25 treasurer shall proceed to give full notice thereof to such

1 operator and to collect the same in manner provided by law.

2 (2) For new production, as defined in 15-23-601, the
3 county assessor may not levy or assess any mills against the
4 value of such new production, but shall instead levy a tax
5 as follows:

6 (a) for new production of petroleum or other mineral
7 or crude oil, 7% of net proceeds, as described in
8 15-23-603(3); or

9 (b) for new production of natural gas, 12% of net
10 proceeds, as described in 15-23-603(3).

11 (3) The amount of tax levied in subsections (2)(a) and
12 (2)(b), divided by the appropriate tax rate and multiplied
13 by 60%, shall be treated as taxable value for county bonding
14 purposes.

15 (4) The operator or producer shall be liable for the
16 payment of said taxes and same shall, except as provided in
17 15-16-121, be payable by and shall be collected from such
18 operators in the same manner and under the same penalties as
19 provided for the collection of taxes upon net proceeds of
20 mines; provided, however, that the operator may at his
21 option withhold from the proceeds of royalty interest,
22 either in kind or in money, an estimated amount of the tax
23 to be paid by him upon such royalty or royalty interest.
24 After such withholding any deviation between the estimated
25 tax and the actual tax may be accounted for by adjusting

1 subsequent withholdings from the proceeds of royalty
2 interests."

3 Section 2. Section 15-23-612, MCA, is amended to read:

4 "15-23-612. Certain natural gas exempt. (1) Natural
5 gas produced ~~as provided in 15-36-121(2) is exempt from~~
6 ~~one-half the net proceeds tax imposed by this part for 3~~
7 ~~years beginning as provided in 15-36-121(3) if the~~
8 ~~requirements of 15-36-121(2) are met.~~ from a well 5,000 feet
9 deep or deeper, drilling for which was completed after
10 December 31, 1976, but before January 1, 1987, is exempt
11 from one-half of the net proceeds tax imposed by this part
12 for 3 years if the gas produced from the well is:

13 (a) placed into a natural gas distribution system for
14 delivery to consumers after diligent completion of the well;
15 and

16 (b) distributed by a natural gas distribution system
17 serving only natural gas consumers a majority of which are
18 within Montana or at least 10,000 natural gas consumers
19 within Montana.

20 (2) The 3-year exemption provided by this section
21 shall begin when natural gas from a qualifying well is first
22 placed into a natural gas distribution system.

23 ~~(2)(3)~~ (3) Notwithstanding the provisions of subsection
24 subsections (1) and (2), all reporting requirements under
25 the net proceeds tax remain in effect."

1 SECTION 3. SECTION 15-36-101, MCA, IS AMENDED TO READ:

2 "15-36-101. Definitions and rate of tax. (1) Every
3 person engaging in or carrying on the business of producing
4 petroleum, other mineral or crude oil, or natural gas within
5 this state or engaging in or carrying on the business of
6 owning, controlling, managing, leasing, or operating within
7 this state any well or wells from which any merchantable or
8 marketable petroleum, other mineral or crude oil, or natural
9 gas is extracted or produced sufficient in quantity to
10 justify the marketing of the same must, except as provided
11 in 15-36-121, each year when engaged in or carrying on any
12 such business in this state pay to the department of revenue
13 for the exclusive use and benefit of the state of Montana a
14 severance tax computed at the following rates:

15 (a) except as provided in subsections (1)(b), and
16 (1)(c), and (1)(d), 5% of the total gross value of all the
17 petroleum and other mineral or crude oil produced by such
18 person from each lease or unit on or after April 1, 1981,
19 and on or before March 31, 1983; 6% of the total gross value
20 of all the petroleum and other mineral or crude oil produced
21 by such person from each lease or unit on or after April 1,
22 1983, and on or before March 31, 1985; and 5% of the total
23 gross value of all the petroleum and other mineral or crude
24 oil produced by such person from each lease or unit
25 thereafter; but in determining the amount of such tax there

1 shall be excluded from consideration all petroleum or other
2 crude or mineral oil produced and used by such person during
3 such year in connection with his operations in prospecting
4 for, developing, and producing such petroleum or crude or
5 mineral oil;

6 (b) 2.65% of the total gross value of natural gas
7 produced from each lease or unit; but in determining the
8 amount of such tax there shall be excluded from
9 consideration all gas produced and used by such person
10 during such year in connection with his operations in
11 prospecting for, developing, and producing such gas or
12 petroleum or crude or mineral oil; and there shall also be
13 excluded from consideration all gas, including carbon
14 dioxide gas, recycled or reinjected into the ground;

15 (c) 2.5% of the total gross value of the incremental
16 petroleum and other mineral or crude oil produced from each
17 lease or unit in a tertiary recovery project after July 1,
18 1985. For purposes of this section, a tertiary recovery
19 project must meet the following requirements:

20 (i) the project must be approved as a tertiary
21 recovery project by the department of revenue. Such approval
22 may be extended only after notice and hearing in accordance
23 with Title 2, chapter 4.

24 (ii) the property to be affected by the project must be
25 adequately delineated according to the specifications

1 required by the department; and

2 (iii) the project must involve the application of one
3 or more tertiary recovery methods that can reasonably be
4 expected to result in an increase, determined by the
5 department to be significant in light of all the facts and
6 circumstances, in the amount of crude oil which may
7 potentially be recovered. For the purpose of this section,
8 tertiary recovery methods include but are not limited to:

- 9 (A) miscible fluid displacement;
- 10 (B) steam drive injection;
- 11 (C) micellar/emulsion flooding;
- 12 (D) in situ combustion;
- 13 (E) polymer augmented water flooding;
- 14 (F) cyclic steam injection;
- 15 (G) alkaline or caustic flooding;
- 16 (H) carbon dioxide water flooding;
- 17 (I) immiscible carbon dioxide displacement;
- 18 (J) any other method approved by the department as a
19 tertiary recovery method;

20 (d) 3% of the total gross value of all the natural
21 gas, petroleum, and other mineral or crude oil produced by a
22 stripper well, as defined in 15-36-121, that produces more
23 than 5 barrels a day during the period beginning April 1,
24 1987, and ending March 31, 1989.

25 (2) For purposes of this section, the term

1 "incremental petroleum and other mineral or crude oil" means
 2 the amount of oil, as determined by the department of
 3 revenue, to be in excess of what would have been produced by
 4 primary and secondary methods. The determination arrived at
 5 by the department must be made only after notice and hearing
 6 and shall specify through the life of a tertiary project,
 7 calendar year by calendar year, the combined amount of
 8 primary and secondary production that must be used to
 9 establish the incremental production from each lease or unit
 10 in a tertiary recovery project.

11 (3) Nothing in this part may be construed as requiring
 12 laborers or employees hired or employed by any person to
 13 drill any oil well or to work in or about any oil well or
 14 prospect or explore for or do any work for the purpose of
 15 developing any petroleum or other mineral or crude oil to
 16 pay such severance tax, nor may any work done or the
 17 drilling of any well or wells for the purpose of prospecting
 18 or exploring for petroleum or other mineral or crude oils or
 19 for the purpose of developing same be considered to be the
 20 engaging in or carrying on of any such business. If, in the
 21 doing of any such work, in the drilling of any oil well, or
 22 in such prospecting, exploring, or development work, any
 23 merchantable or marketable petroleum or other mineral or
 24 crude oil in excess of the quantity required by such person
 25 for carrying on such operation is produced sufficient in

1 quantity to justify the marketing of the same, such work,
 2 drilling, prospecting, exploring, or development work is
 3 considered to be the engaging in and carrying on of such
 4 business within this state within the meaning of this
 5 section.

6 (4) Every person required to pay such tax hereunder
 7 shall pay the same in full for his own account and for the
 8 account of each of the other owner or owners of the gross
 9 proceeds in value or in kind of all the marketable petroleum
 10 or other mineral or crude oil or natural gas extracted and
 11 produced, including owner or owners of working interest,
 12 royalty interest, overriding royalty interest, carried
 13 working interest, net proceeds interest, production
 14 payments, and all other interest or interests owned or
 15 carved out of the total gross proceeds in value or in kind
 16 of such extracted marketable petroleum or other mineral or
 17 crude oil or natural gas, except that any of the aforesaid
 18 interests that are owned by the federal, state, county, or
 19 municipal governments shall be exempt from taxation under
 20 this chapter. Unless otherwise provided in a contract or
 21 lease, the pro rata share of any royalty owner or owners
 22 will be deducted from any settlements under said lease or
 23 leases or division of proceeds orders or other contracts."

24 Section 4. Section 15-36-121, MCA, is amended to read:
 25 "15-36-121. Exemption from severance tax. (1) It is

1 the public policy of this state to promote a sufficient
 2 supply of natural gas to provide for the residents of this
 3 state, and to lessen Montana's dependence on imported
 4 natural gas, and to encourage the exploration for and
 5 development and production of natural gas, petroleum, and
 6 other mineral and crude oil within the state.

7 ~~(2) Natural gas produced from a well 5,000 feet deep~~
 8 ~~or deeper on which drilling was commenced after December 31,~~
 9 ~~1976, but before December 31, 1992, is exempt from all of~~
 10 ~~the severance tax imposed by 15-36-101 for 3 years if the~~
 11 ~~gas produced from the well is:~~

12 ~~(a) placed into a natural gas distribution system for~~
 13 ~~delivery to consumers after diligent completion of the well,~~
 14 ~~and~~

15 ~~(b) distributed by a natural gas distribution system~~
 16 ~~serving only natural gas consumers a majority of which are~~
 17 ~~within Montana or at least 10,000 natural gas consumers~~
 18 ~~within Montana;~~

19 ~~(3) The 3-year exemption provided by this section~~
 20 ~~shall begin when natural gas from a qualifying well is first~~
 21 ~~placed into a natural gas distribution system;~~

22 (2) All new production from a well during the 24
 23 months immediately following the date of notification to the
 24 department of revenue that an oil well is flowing or being
 25 pumped or that a gas well has been connected to a gathering

1 or distribution system is exempt from all of the severance
 2 tax imposed by 15-36-101, provided the notification of
 3 completion was made after December 31, 1986, AND BEFORE JULY
 4 1, 1991.

5 (3) All the natural gas produced from any well that
 6 has produced 60,000 cubic feet or less of natural gas a day
 7 for 1 year prior to the quarter for which production is
 8 reported as required by 15-36-105 is TAXED AS FOLLOWS:

9 (A) THE FIRST 30,000 CUBIC FEET OF GAS PRODUCED IS
 10 exempt from all of the severance tax imposed by 15-36-101;
 11 AND

12 (B) THE NEXT 30,000 CUBIC FEET OF GAS PRODUCED IS
 13 TAXED AT 1.59¢.

14 (4) All production from a stripper well THAT PRODUCES
 15 5 BARRELS OR LESS A DAY is exempt from all of the severance
 16 tax imposed by 15-36-101.

17 (5) For the purposes of this section, the following
 18 definitions apply:

19 (a) "New production" means the production of natural
 20 gas, petroleum, or other crude or mineral oil from any well:

21 (i) that has not produced natural gas, petroleum, or
 22 other crude or mineral oil during the 5 years immediately
 23 preceding the first month of qualified new production; and

24 (ii) on which the notification provided for in
 25 subsection (2) was made after December 31, 1986.

1 (b) "Stripper well" means a well that produces less
 2 than 10 barrels per day, and, if otherwise not specifically
 3 determinable, production must be determined by dividing the
 4 amount of production from a lease or unitized area for the
 5 year prior to the current calendar year by the number of
 6 producing wells in the lease or unitized area, and by
 7 dividing the resulting quotient by 365.

8 (4)(6) Notwithstanding the provisions of subsection
 9 subsections (2) through (4), all reporting requirements
 10 under the severance tax remain in effect."

11 NEW SECTION. Section 5. Extension of authority. Any
 12 existing authority of the department of revenue or the board
 13 of oil and gas conservation to make rules on the subject of
 14 the provisions of this act is extended to the provisions of
 15 this act.

16 NEW SECTION. Section 6. Coordination instructions.
 17 (1) If this bill and ___ Bill No. ___ [LC 932], including
 18 the section of that bill defining "new production", "interim
 19 production", and "stripper well" in 15-23-601, are passed
 20 and approved, sections 1 and 2 and subsection (5) of section
 21 3 of this bill are void, and the following amendments are
 22 made to this bill:

23 (a) Following: "new production" in 15-36-121(2),
 24 insert "as defined in 15-23-601";

25 (b) Following: "stripper well" in 15-36-121(4), insert

1 "as defined in 15-23-601".

2 (2) If this bill and Senate Bill No. 66 are passed and
 3 approved, Senate Bill No. 66 is void.

4 NEW SECTION. Section 7. Effective date --
 5 applicability -- CONTINGENT TERMINATION. (1) This act is
 6 effective on passage and approval and applies retroactively,
 7 within the meaning of 1-2-109, to taxable years beginning on
 8 or after January 1, 1987.

9 (2) SUBSECTION (2) OF 15-36-121, CONCERNING NEW
 10 PRODUCTION, TERMINATES ON THE DATE THE GOVERNOR BY EXECUTIVE
 11 ORDER CERTIFIES THAT THE PRICE OF WEST TEXAS INTERMEDIATE
 12 CRUDE OIL HAS REACHED \$25 A BARREL AS REPORTED IN THE WALL
 13 STREET JOURNAL.

14 (3) SUBSECTION (4) OF 15-36-121, CONCERNING STRIPPER
 15 WELL PRODUCTION, TERMINATES ON THE DATE THE GOVERNOR BY
 16 EXECUTIVE ORDER CERTIFIES THAT THE PRICE OF WEST TEXAS
 17 INTERMEDIATE CRUDE OIL HAS REACHED \$30 A BARREL AS REPORTED
 18 IN THE WALL STREET JOURNAL.

19 NEW SECTION. SECTION 8. COORDINATION INSTRUCTION. IF
 20 HOUSE BILL NO. 377 IS PASSED AND APPROVED, THIS ACT IS VOID.

-End-

STATE OF MONTANA - FISCAL NOTE

Form BD-15

In compliance with a written request, there is hereby submitted a Fiscal Note for HB776, third reading copy with senate amendments.

DESCRIPTION OF PROPOSED LEGISLATION:

An act to exempt certain stripper wells and, for the first 2 years of production, all other wells producing petroleum, natural gas, or other mineral or crude oil from severance taxes; to lower the severance tax rate to 3 percent for certain stripper wells; providing an immediate effective date and a retroactive applicability date, and a contingent termination date.

ASSUMPTIONS:

1. In FY88 oil production is 25.964 million bbl. and gas production is 45.788 MMCF; the price of oil is \$14.799 per bbl. and the price of gas is \$2.046 per MCF. In FY89 oil production is 25.268 million bbl. and gas production is 47.396 million MMCF. The price of oil is \$16.48/bbl. and the price of gas is \$2.302/MCF (REAC).
2. "New production," as defined in the bill, remains constant at the estimated 1986 level of 518,196 bbl. for oil, and 812,495 MCF for natural gas.
3. Oil stripper wells contribute 10 percent of total oil production (Petroleum Independent, September 1985, page 53).
4. It is assumed that 50% of oil stripper wells produce 5 bbl./day or less. (Oil & Gas Conservation Division)
5. Gas stripper wells contribute 50 percent of total gas production (MDOR sample estimate).
6. It is assumed that 60% of all natural gas wells producing 60 MCF/day or less is from wells producing 30 MCF/day or less. (Oil and Gas Conservation Division)
7. Revenue reductions relating to "new production" are reflected first in revenues to be rebated back to the counties under MCA 15-36-112(2)(b).

FISCAL IMPACT:

	FY88			FY89		
	Current Law	Proposed Law	Difference	Current Law	Proposed Law	Difference
Revenues:						
Oil severance tax	\$19,212,000	\$ 17,503,000	(\$1,709,000)	\$20,821,000	\$ 18,957,000	(\$1,864,000)
Natural gas severance tax	2,518,000	1,551,000	(967,000)	2,933,000	1,806,000	(1,127,000)
TOTAL	\$21,730,000	\$ 19,054,000	(\$2,676,000)	\$23,754,000	\$ 20,763,000	(\$2,991,000)

Fund Information:

	FY88	FY89
Local Government		
Block Grant	\$ 6,404,000	\$ 5,834,000 (\$ 570,000)
County Rebate	\$ 359,000	\$ 46,000 (\$ 313,000)
General Fund	\$14,967,000	\$ 13,174,000 (\$1,793,000)

David L. Hunter DATE 4/16/87
 DAVID L. HUNTER, BUDGET DIRECTOR
 Office of Budget and Program Planning

Dennis A. Nathe DATE April 16, 1987
 DENNIS NATHE, PRIMARY SPONSOR

Fiscal Note for HB776, third reading copy
 with senate amendments.

HB 776
#3

Fiscal Note Request, HB776, third reading with senate amendments.

Form BD-15

Page 2

EFFECT ON COUNTY OR OTHER LOCAL REVENUE OR EXPENDITURES:

Counties with increased production will lose severance tax refunds on the new production.

HB 776

1 HOUSE BILL NO. 776

2 INTRODUCED BY NATHE, IVERSON, GAGE, MANUEL, ROTH,
 3 HAYNE, MCCALLUM, ASAY, STRATFORD, CONNELLY, D. BROWN,
 4 HOLLIDAY, BOYLAN, E. SMITH, MCLANE, MAZUREK, BISHOP

5
 6 A BILL FOR AN ACT ENTITLED: "AN ACT TO EXEMPT CERTAIN
 7 STRIPPER WELLS AND, FOR THE FIRST 2 YEARS OF PRODUCTION, ALL
 8 OTHER WELLS PRODUCING PETROLEUM, NATURAL GAS, OR OTHER
 9 MINERAL OR CRUDE OIL FROM SEVERANCE TAXES; TO LOWER THE
 10 SEVERANCE TAX RATE TO 3 PERCENT FOR CERTAIN STRIPPER WELLS;
 11 AMENDING SECTIONS 15-23-607, 15-23-612, 15-36-101, AND
 12 15-36-121, MCA; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE
 13 AND, A RETROACTIVE APPLICABILITY DATE, AND A CONTINGENT
 14 TERMINATION DATE."

15
 16 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

17 Section 1. Section 15-23-607, MCA, is amended to read:

18 "15-23-607. County assessors to compute taxes. (1)
 19 Immediately after the board of county commissioners has
 20 fixed tax levies on the second Monday in August, the county
 21 assessor shall compute the taxes on such net proceeds,
 22 except as provided in ~~15-36-121~~ 15-23-612 and in subsection
 23 (2), and royalty assessments and shall deliver the book to
 24 the county treasurer on or before September 15. The county
 25 treasurer shall proceed to give full notice thereof to such

1 operator and to collect the same in manner provided by law.

2 (2) For new production, as defined in 15-23-601, the
 3 county assessor may not levy or assess any mills against the
 4 value of such new production, but shall instead levy a tax
 5 as follows:

6 (a) for new production of petroleum or other mineral
 7 or crude oil, 7% of net proceeds, as described in
 8 15-23-603(3); or

9 (b) for new production of natural gas, 12% of net
 10 proceeds, as described in 15-23-603(3).

11 (3) The amount of tax levied in subsections (2)(a) and
 12 (2)(b), divided by the appropriate tax rate and multiplied
 13 by 60%, shall be treated as taxable value for county bonding
 14 purposes.

15 (4) The operator or producer shall be liable for the
 16 payment of said taxes and same shall, except as provided in
 17 15-16-121, be payable by and shall be collected from such
 18 operators in the same manner and under the same penalties as
 19 provided for the collection of taxes upon net proceeds of
 20 mines; provided, however, that the operator may at his
 21 option withhold from the proceeds of royalty interest,
 22 either in kind or in money, an estimated amount of the tax
 23 to be paid by him upon such royalty or royalty interest.
 24 After such withholding any deviation between the estimated
 25 tax and the actual tax may be accounted for by adjusting

1 subsequent withholdings from the proceeds of royalty
2 interests."

3 Section 2. Section 15-23-612, MCA, is amended to read:

4 "15-23-612. Certain natural gas exempt. (1) Natural
5 gas produced ~~as provided in 15-36-121(2) is exempt from~~
6 ~~one-half the net proceeds tax imposed by this part for 3~~
7 ~~years beginning as provided in 15-36-121(3) if the~~
8 ~~requirements of 15-36-121(2) are met:~~ from a well 5,000 feet
9 deep or deeper, drilling for which was completed after
10 December 31, 1976, but before January APRIL 1, 1987, is
11 exempt from one-half of the net proceeds tax imposed by this
12 part for 3 years if the gas produced from the well is:

13 (a) placed into a natural gas distribution system for
14 delivery to consumers after diligent completion of the well;
15 and

16 (b) distributed by a natural gas distribution system
17 servng only natural gas consumers a majority of which are
18 within Montana or at least 10,000 natural gas consumers
19 within Montana.

20 (2) The 3-year exemption provided by this section
21 shall begin when natural gas from a qualifying well is first
22 placed into a natural gas distribution system.

23 ~~(2)(3)~~ (3) Notwithstanding the provisions of subsection
24 subsections (1) and (2), all reporting requirements under
25 the net proceeds tax remain in effect."

1 SECTION 3. SECTION 15-36-101, MCA, IS AMENDED TO READ:

2 "15-36-101. Definitions and rate of tax. (1) Every
3 person engaging in or carrying on the business of producing
4 petroleum, other mineral or crude oil, or natural gas within
5 this state or engaging in or carrying on the business of
6 owning, controlling, managing, leasing, or operating within
7 this state any well or wells from which any merchantable or
8 marketable petroleum, other mineral or crude oil, or natural
9 gas is extracted or produced sufficient in quantity to
10 justify the marketing of the same must, except as provided
11 in 15-36-121, each year when engaged in or carrying on any
12 such business in this state pay to the department of revenue
13 for the exclusive use and benefit of the state of Montana a
14 severance tax computed at the following rates:

15 (a) except as provided in subsections (1)(b), and
16 (1)(c), and (1)(d), 5% of the total gross value of all the
17 petroleum and other mineral or crude oil produced by such
18 person from each lease or unit on or after April 1, 1981,
19 and on or before March 31, 1983; 6% of the total gross value
20 of all the petroleum and other mineral or crude oil produced
21 by such person from each lease or unit on or after April 1,
22 1983, and on or before March 31, 1985; and 5% of the total
23 gross value of all the petroleum and other mineral or crude
24 oil produced by such person from each lease or unit
25 thereafter; but in determining the amount of such tax there

1 shall be excluded from consideration all petroleum or other
 2 crude or mineral oil produced and used by such person during
 3 such year in connection with his operations in prospecting
 4 for, developing, and producing such petroleum or crude or
 5 mineral oil;

6 (b) 2.65% of the total gross value of natural gas
 7 produced from each lease or unit; but in determining the
 8 amount of such tax there shall be excluded from
 9 consideration all gas produced and used by such person
 10 during such year in connection with his operations in
 11 prospecting for, developing, and producing such gas or
 12 petroleum or crude or mineral oil; and there shall also be
 13 excluded from consideration all gas, including carbon
 14 dioxide gas, recycled or reinjected into the ground;

15 (c) 2.5% of the total gross value of the incremental
 16 petroleum and other mineral or crude oil produced from each
 17 lease or unit in a tertiary recovery project after July 1,
 18 1985. For purposes of this section, a tertiary recovery
 19 project must meet the following requirements:

20 (i) the project must be approved as a tertiary
 21 recovery project by the department of revenue. Such approval
 22 may be extended only after notice and hearing in accordance
 23 with Title 2, chapter 4.

24 (ii) the property to be affected by the project must be
 25 adequately delineated according to the specifications

1 required by the department; and

2 (iii) the project must involve the application of one
 3 or more tertiary recovery methods that can reasonably be
 4 expected to result in an increase, determined by the
 5 department to be significant in light of all the facts and
 6 circumstances, in the amount of crude oil which may
 7 potentially be recovered. For the purpose of this section,
 8 tertiary recovery methods include but are not limited to:

- 9 (A) miscible fluid displacement;
- 10 (B) steam drive injection;
- 11 (C) micellar/emulsion flooding;
- 12 (D) in situ combustion;
- 13 (E) polymer augmented water flooding;
- 14 (F) cyclic steam injection;
- 15 (G) alkaline or caustic flooding;
- 16 (H) carbon dioxide water flooding;
- 17 (I) immiscible carbon dioxide displacement;
- 18 (J) any other method approved by the department as a
 19 tertiary recovery method;

20 (d) 3% of the total gross value of all the natural
 21 gas, petroleum, and other mineral or crude oil, AFTER THE
 22 FIRST 5 BARRELS, produced by a stripper well, as defined in
 23 15-36-121, that produces more than 5 barrels a day during
 24 the period beginning April 1, 1987, and ending March 31,
 25 1989.

1 (2) For purposes of this section, the term
 2 "incremental petroleum and other mineral or crude oil" means
 3 the amount of oil, as determined by the department of
 4 revenue, to be in excess of what would have been produced by
 5 primary and secondary methods. The determination arrived at
 6 by the department must be made only after notice and hearing
 7 and shall specify through the life of a tertiary project,
 8 calendar year by calendar year, the combined amount of
 9 primary and secondary production that must be used to
 10 establish the incremental production from each lease or unit
 11 in a tertiary recovery project.

12 (3) Nothing in this part may be construed as requiring
 13 laborers or employees hired or employed by any person to
 14 drill any oil well or to work in or about any oil well or
 15 prospect or explore for or do any work for the purpose of
 16 developing any petroleum or other mineral or crude oil to
 17 pay such severance tax, nor may any work done or the
 18 drilling of any well or wells for the purpose of prospecting
 19 or exploring for petroleum or other mineral or crude oils or
 20 for the purpose of developing same be considered to be the
 21 engaging in or carrying on of any such business. If, in the
 22 doing of any such work, in the drilling of any oil well, or
 23 in such prospecting, exploring, or development work, any
 24 merchantable or marketable petroleum or other mineral or
 25 crude oil in excess of the quantity required by such person

1 for carrying on such operation is produced sufficient in
 2 quantity to justify the marketing of the same, such work,
 3 drilling, prospecting, exploring, or development work is
 4 considered to be the engaging in and carrying on of such
 5 business within this state within the meaning of this
 6 section.

7 (4) Every person required to pay such tax hereunder
 8 shall pay the same in full for his own account and for the
 9 account of each of the other owner or owners of the gross
 10 proceeds in value or in kind of all the marketable petroleum
 11 or other mineral or crude oil or natural gas extracted and
 12 produced, including owner or owners of working interest,
 13 royalty interest, overriding royalty interest, carried
 14 working interest, net proceeds interest, production
 15 payments, and all other interest or interests owned or
 16 carved out of the total gross proceeds in value or in kind
 17 of such extracted marketable petroleum or other mineral or
 18 crude oil or natural gas, except that any of the aforesaid
 19 interests that are owned by the federal, state, county, or
 20 municipal governments shall be exempt from taxation under
 21 this chapter. Unless otherwise provided in a contract or
 22 lease, the pro rata share of any royalty owner or owners
 23 will be deducted from any settlements under said lease or
 24 leases or division of proceeds orders or other contracts."

25 Section 4. Section 15-36-121, MCA, is amended to read:

1 "15-36-121. Exemption from severance tax. (1) It is
2 the public policy of this state to promote a sufficient
3 supply of natural gas to provide for the residents of this
4 state, and to lessen Montana's dependence on imported
5 natural gas, and to encourage the exploration for and
6 development and production of natural gas, petroleum, and
7 other mineral and crude oil within the state.

8 (2) ~~Natural gas produced from a well 5,000 feet deep
9 or deeper on which drilling was commenced after December 31,
10 1976, but before December 31, 1992, is exempt from all of
11 the severance tax imposed by 15-36-101 for 3 years if the
12 gas produced from the well is:~~

13 (a) ~~placed into a natural gas distribution system for
14 delivery to consumers after diligent completion of the well;~~
15 and

16 (b) ~~distributed by a natural gas distribution system
17 serving only natural gas consumers a majority of which are
18 within Montana or at least 10,000 natural gas consumers
19 within Montana;~~

20 (3) ~~The 3-year exemption provided by this section
21 shall begin when natural gas from a qualifying well is first
22 placed into a natural gas distribution system;~~

23 (2) All new production from a well during the 24
24 months immediately following the date of notification to the
25 department of revenue that an oil well is flowing or being

1 pumped or that a gas well has been connected to a gathering
2 or distribution system is exempt from all of the severance
3 tax imposed by 15-36-101, provided the notification of
4 completion was made after December 31, 1986 MARCH 31, 1987,
5 AND BEFORE JULY 1, 1991.

6 (3) All the natural gas produced from any well that
7 has produced 60,000 cubic feet or less of natural gas a day
8 for 1 year prior to the quarter for which production is
9 reported as required by 15-36-105 is TAXED AS FOLLOWS:

10 (A) THE FIRST 30,000 CUBIC FEET OF GAS PRODUCED IS
11 exempt from all of the severance tax imposed by 15-36-101;
12 AND

13 (B) THE NEXT EVERYTHING OVER 30,000 CUBIC FEET OF GAS
14 PRODUCED IS TAXED AT 1.59%.

15 (4) All production from a stripper well THAT PRODUCES
16 5 BARRELS OR LESS A DAY is exempt from all of the severance
17 tax imposed by 15-36-101.

18 (5) For the purposes of this section, the following
19 definitions apply:

20 (a) "New production" means the production of natural
21 gas, petroleum, or other crude or mineral oil from any
22 well:

23 (i) ~~that has not produced natural gas, petroleum, or
24 other crude or mineral oil during the 5 years immediately
25 preceding the first month of qualified new production; and~~

1 (I) THAT HAS NOT PRODUCED NATURAL GAS, PETROLEUM, OR
 2 OTHER CRUDE OR MINERAL OIL DURING THE 5 YEARS IMMEDIATELY
 3 PRECEDING THE FIRST MONTH OF QUALIFIED NEW PRODUCTION; AND

4 {++}(II) on which the notification provided for in
 5 subsection (2) was made after December-31, 1986 MARCH 31,
 6 1987.

7 (b) "Stripper well" means a well that produces less
 8 than 10 barrels per day, and, if otherwise not specifically
 9 determinable, production must be determined by dividing the
 10 amount of production from a lease or unitized area for the
 11 year prior to the current calendar year by the number of
 12 producing wells in the lease or unitized area, and by
 13 dividing the resulting quotient by 365.

14 {++}(6) Notwithstanding the provisions of subsection
 15 subsections (2) through (4), all reporting requirements
 16 under the severance tax remain in effect."

17 NEW SECTION. Section 5. Extension of authority. Any
 18 existing authority of the department of revenue or the board
 19 of oil and gas conservation to make rules on the subject of
 20 the provisions of this act is extended to the provisions of
 21 this act.

22 NEW SECTION. Section 6. Coordination instructions.
 23 (1) If this bill and ___ Bill No. ___ [LC 932], including
 24 the section of that bill defining "new production", AND
 25 "interim production", and "stripper well" in 15-23-601, are

1 passed and approved, sections 1 and 2 and subsection (5) of
 2 section 3 of this bill are void, and the following
 3 amendments are AMENDMENT IS made to this bill:

4 {+} Following: "new production" in 15-36-121(2),
 5 insert "as defined in 15-23-601";

6 {b}--Following: "stripper well" in 15-36-121(4), insert
 7 "as defined in 15-23-601".

8 (2) If this bill and Senate Bill No. 66 are passed and
 9 approved, Senate Bill No. 66 is void.

10 NEW SECTION. Section 7. Effective date --
 11 applicability -- CONTINGENT TERMINATION. (1) This act is
 12 effective on passage and approval and applies retroactively,
 13 within the meaning of 1-2-109, to taxable years beginning on
 14 or after January APRIL 1, 1987.

15 (2) SUBSECTION (2) OF 15-36-121, CONCERNING NEW
 16 PRODUCTION, TERMINATES ON THE DATE THE GOVERNOR BY EXECUTIVE
 17 ORDER CERTIFIES THAT THE PRICE OF WEST TEXAS INTERMEDIATE
 18 CRUDE OIL HAS REACHED \$25 A BARREL AS REPORTED IN THE WALL
 19 STREET JOURNAL.

20 (3) SUBSECTION SECTION 15-36-101(1)(D) AND SUBSECTION
 21 (4) OF 15-36-121, CONCERNING STRIPPER WELL PRODUCTION,
 22 TERMINATES TERMINATE ON THE DATE THE GOVERNOR BY EXECUTIVE
 23 ORDER CERTIFIES THAT THE PRICE OF WEST TEXAS INTERMEDIATE
 24 CRUDE OIL HAS REACHED \$30 A BARREL AS REPORTED IN THE WALL
 25 STREET JOURNAL.

1 NEW SECTION--SECTION 8--COORDINATION INSTRUCTION--IF
2 HOUSE BILL NO. 377 IS PASSED AND APPROVED, THIS ACT IS VOID.

-End-

STANDING COMMITTEE REPORT

HB 776
Page 2 of 2

SENATE

April 11 1987

APRIL 11 1987

MR. PRESIDENT

We, your committee on SENATE TAXATION

having had under consideration HOUSE BILL No. 776

third reading copy (blue color)

NATHE (GAGE)

EXEMPT FROM SEVERANCE TAX ALL STRIPPER WELLS AND ALL OTHER WELLS FOR 2 YEARS

Respectfully report as follows. That No.

be amended as follows:

- 1. Page 3, line 10.
Strike: "January"
Insert: "April"
- 2. Page 6, line 21.
Following: "crude oil"
Insert: ", after the first five barrels,"
- 3. Page 10, lines 2 and 3.
Following: "notification" on line 2
Strike: "of completion"
Following: "after" on line 3
Strike: "December 31, 1986"
Insert: "March 31, 1987"
- 4. Page 10, line 12.
Strike: "THE NEXT"
Insert: "everything over".
- 5. Page 10, lines 20 through 24.
Following: "any well" on line 20
Strike: ":" on line 20 through "(ii)" on line 24

6. Page 10, line 25.
Strike: "December 31, 1986"
Insert: "March 31, 1987"

7. Page 12, lines 7 and 8.
Strike: "taxable" on line 7 through "January" on line 8
Insert: "April"

8. Page 12, line 14.
Following: "(3)"
Insert: "Section 15-36-101 (1) (d) and"

9. Page 12, line 15.
Strike: "TERMINATES"
Insert: "terminate"

AND AS AMENDED BE CONCURRED IN

DO PASS

DO NOT PASS

Chairman

George M. McCallum
SENATOR MCCALLUM, CHAIRMAN
4-11-87
117

4141001p.cwr

COMMITTEE OF THE WHOLE AMENDMENT

SENATE

4-14-87

DATE

10:01

TIME

No. 776

MR. CHAIRMAN: I MOVE TO AMEND House Bill

third reading copy (blue) as follows:
Color

1. Strike: Amendment no. 5 in Senate Taxation Standing Committee Report of April 11, 1987, in its entirety.
2. Page 11, line 18.
Strike: ",,"
Insert: "and"
3. Page 11, line 19.
Strike: ", and stripper well"
4. Page 11, line 21.
Strike: "amendments are"
Insert: "amendment is"
5. Page 11, line 23.
Strike: "(a)"
6. Pages 11, line 24 through line 1 of page 12.
Strike: ";," on line 24 through "15-23-601" on line 1 of page 12.

4141002n.cwo

COMMITTEE OF THE WHOLE AMENDMENT

4-14-87

DATE

10:02

TIME

776

No.

MR. CHAIRMAN: I MOVE TO AMEND House Bill

third reading copy (blue) as follows:
Color

1. Page 12, lines 19 and 20.
Strike: section 8 in its entirety

ADOPT

REJECT

Senator Gage

ADOPT

REJECT

Senator Gage

GOVERNOR'S AMENDMENTS
TO HOUSE BILL NO. 776
(Reference Copy)
April 22, 1987

1. Page 10, lines 8 and 9
Following: on line 8 the first "for"
Strike: "1"
Insert: "the calendar"
Following: "to the"
Strike: "quarter for which production is reported as required by
15-36-105 is TAXED AS FOLLOWS:"
Insert: "current year shall be taxed as provided in this section.
Production must be determined by dividing the amount of
production from a lease or unitized area for the year prior
to the current calendar year by the number of producing
wells in the lease or unitized area, and by dividing the
resulting quotient by 365."
2. Page 10, line 10
Following: "FEET OF"
Strike: "GAS PRODUCED"
Insert: "average daily production per well"
3. Page 10, line 15
Following: "(4)"
Strike: "All production"
Insert: "The first five barrels of average daily production"
Following: "well" on line 15
Strike: "THAT PRODUCES 5 BARRELS OR LESS A DAY"
4. Page 11, lines 8 and 9
Following: "day" on line 8
Strike: ", and, if otherwise not specifically determinable, production
must be"
5. Page 12, line 1
Following: "(5)"
Insert: "(a)"
6. Page 12, line 2
Following: "section"
Strike: "3"
Insert: "4"

-END-

1 HOUSE BILL NO. 776

2 INTRODUCED BY NATHE, IVERSON, GAGE, MANUEL, ROTH,
3 HAYNE, MCCALLUM, ASAY, STRATFORD, CONNELLY, D. BROWN,
4 HOLLIDAY, BOYLAN, E. SMITH, MCLANE, MAZUREK, BISHOP
5

6 A BILL FOR AN ACT ENTITLED: "AN ACT TO EXEMPT CERTAIN
7 STRIPPER WELLS AND, FOR THE FIRST 2 YEARS OF PRODUCTION, ALL
8 OTHER WELLS PRODUCING PETROLEUM, NATURAL GAS, OR OTHER
9 MINERAL OR CRUDE OIL FROM SEVERANCE TAXES; TO LOWER THE
10 SEVERANCE TAX RATE TO 3 PERCENT FOR CERTAIN STRIPPER WELLS;
11 AMENDING SECTIONS 15-23-607, 15-23-612, 15-36-101, AND
12 15-36-121, MCA; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE
13 AND, A RETROACTIVE APPLICABILITY DATE, AND A CONTINGENT
14 TERMINATION DATE."
15

16 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

17 Section 1. Section 15-23-607, MCA, is amended to read:

18 "15-23-607. County assessors to compute taxes. (1)
19 Immediately after the board of county commissioners has
20 fixed tax levies on the second Monday in August, the county
21 assessor shall compute the taxes on such net proceeds,
22 except as provided in ~~15-36-121~~ 15-23-612 and in subsection
23 (2), and royalty assessments and shall deliver the book to
24 the county treasurer on or before September 15. The county
25 treasurer shall proceed to give full notice thereof to such

1 operator and to collect the same in manner provided by law.

2 (2) For new production, as defined in 15-23-601, the
3 county assessor may not levy or assess any mills against the
4 value of such new production, but shall instead levy a tax
5 as follows:

6 (a) for new production of petroleum or other mineral
7 or crude oil, 7% of net proceeds, as described in
8 15-23-603(3); or

9 (b) for new production of natural gas, 12% of net
10 proceeds, as described in 15-23-603(3).

11 (3) The amount of tax levied in subsections (2)(a) and
12 (2)(b), divided by the appropriate tax rate and multiplied
13 by 60%, shall be treated as taxable value for county bonding
14 purposes.

15 (4) The operator or producer shall be liable for the
16 payment of said taxes and same shall, except as provided in
17 15-16-121, be payable by and shall be collected from such
18 operators in the same manner and under the same penalties as
19 provided for the collection of taxes upon net proceeds of
20 mines; provided, however, that the operator may at his
21 option withhold from the proceeds of royalty interest,
22 either in kind or in money, an estimated amount of the tax
23 to be paid by him upon such royalty or royalty interest.
24 After such withholding any deviation between the estimated
25 tax and the actual tax may be accounted for by adjusting

1 subsequent withholdings from the proceeds of royalty
2 interests."

3 Section 2. Section 15-23-612, MCA, is amended to read:

4 "15-23-612. Certain natural gas exempt. (1) Natural
5 gas produced ~~as provided in 15-36-121(2)~~ is exempt from
6 one-half the net proceeds tax imposed by this part for 3
7 years beginning as provided in 15-36-121(3) if the
8 requirements of 15-36-121(2) are met, from a well 5,000 feet
9 deep or deeper, drilling for which was completed after
10 December 31, 1976, but before January APRIL 1, 1987, is
11 exempt from one-half of the net proceeds tax imposed by this
12 part for 3 years if the gas produced from the well is:

13 (a) placed into a natural gas distribution system for
14 delivery to consumers after diligent completion of the well;
15 and

16 (b) distributed by a natural gas distribution system
17 servicing only natural gas consumers a majority of which are
18 within Montana or at least 10,000 natural gas consumers
19 within Montana.

20 (2) The 3-year exemption provided by this section
21 shall begin when natural gas from a qualifying well is first
22 placed into a natural gas distribution system.

23 ~~(2)(3)~~ Notwithstanding the provisions of subsection
24 subsections (1) and (2), all reporting requirements under
25 the net proceeds tax remain in effect."

1 SECTION 3. SECTION 15-36-101, MCA, IS AMENDED TO READ:

2 "15-36-101. Definitions and rate of tax. (1) Every
3 person engaging in or carrying on the business of producing
4 petroleum, other mineral or crude oil, or natural gas within
5 this state or engaging in or carrying on the business of
6 owning, controlling, managing, leasing, or operating within
7 this state any well or wells from which any merchantable or
8 marketable petroleum, other mineral or crude oil, or natural
9 gas is extracted or produced sufficient in quantity to
10 justify the marketing of the same must, except as provided
11 in 15-36-121, each year when engaged in or carrying on any
12 such business in this state pay to the department of revenue
13 for the exclusive use and benefit of the state of Montana a
14 severance tax computed at the following rates:

15 (a) except as provided in subsections (1)(b), and
16 (1)(c), and (1)(d), 5% of the total gross value of all the
17 petroleum and other mineral or crude oil produced by such
18 person from each lease or unit on or after April 1, 1981,
19 and on or before March 31, 1983; 6% of the total gross value
20 of all the petroleum and other mineral or crude oil produced
21 by such person from each lease or unit on or after April 1,
22 1983, and on or before March 31, 1985; and 5% of the total
23 gross value of all the petroleum and other mineral or crude
24 oil produced by such person from each lease or unit
25 thereafter; but in determining the amount of such tax there

1 shall be excluded from consideration all petroleum or other
 2 crude or mineral oil produced and used by such person during
 3 such year in connection with his operations in prospecting
 4 for, developing, and producing such petroleum or crude or
 5 mineral oil;

6 (b) 2.65% of the total gross value of natural gas
 7 produced from each lease or unit; but in determining the
 8 amount of such tax there shall be excluded from
 9 consideration all gas produced and used by such person
 10 during such year in connection with his operations in
 11 prospecting for, developing, and producing such gas or
 12 petroleum or crude or mineral oil; and there shall also be
 13 excluded from consideration all gas, including carbon
 14 dioxide gas, recycled or reinjected into the ground;

15 (c) 2.5% of the total gross value of the incremental
 16 petroleum and other mineral or crude oil produced from each
 17 lease or unit in a tertiary recovery project after July 1,
 18 1985. For purposes of this section, a tertiary recovery
 19 project must meet the following requirements:

20 (i) the project must be approved as a tertiary
 21 recovery project by the department of revenue. Such approval
 22 may be extended only after notice and hearing in accordance
 23 with Title 2, chapter 4.

24 (ii) the property to be affected by the project must be
 25 adequately delineated according to the specifications

1 required by the department; and

2 (iii) the project must involve the application of one
 3 or more tertiary recovery methods that can reasonably be
 4 expected to result in an increase, determined by the
 5 department to be significant in light of all the facts and
 6 circumstances, in the amount of crude oil which may
 7 potentially be recovered. For the purpose of this section,
 8 tertiary recovery methods include but are not limited to:

9 (A) miscible fluid displacement;

10 (B) steam drive injection;

11 (C) micellar/emulsion flooding;

12 (D) in situ combustion;

13 (E) polymer augmented water flooding;

14 (F) cyclic steam injection;

15 (G) alkaline or caustic flooding;

16 (H) carbon dioxide water flooding;

17 (I) immiscible carbon dioxide displacement;

18 (J) any other method approved by the department as a
 19 tertiary recovery method;

20 (d) 3% of the total gross value of all the natural
 21 gas, petroleum and other mineral or crude oil, AFTER THE
 22 FIRST 5 BARRELS, produced by a stripper well, as defined in
 23 15-36-121, that produces more than 5 barrels a day during
 24 the period beginning April 1, 1987, and ending March 31,
 25 1989.

(2) For purposes of this section, the term "incremental petroleum and other mineral or crude oil" means the amount of oil, as determined by the department of revenue, to be in excess of what would have been produced by primary and secondary methods. The determination arrived at by the department must be made only after notice and hearing and shall specify through the life of a tertiary project, calendar year by calendar year, the combined amount of primary and secondary production that must be used to establish the incremental production from each lease or unit in a tertiary recovery project.

(3) Nothing in this part may be construed as requiring laborers or employees hired or employed by any person to drill any oil well or to work in or about any oil well or prospect or explore for or do any work for the purpose of developing any petroleum or other mineral or crude oil to pay such severance tax, nor may any work done or the drilling of any well or wells for the purpose of prospecting or exploring for petroleum or other mineral or crude oils or for the purpose of developing same be considered to be the engaging in or carrying on of any such business. If, in the doing of any such work, in the drilling of any oil well, or in such prospecting, exploring, or development work, any merchantable or marketable petroleum or other mineral or crude oil in excess of the quantity required by such person

for carrying on such operation is produced sufficient in quantity to justify the marketing of the same, such work, drilling, prospecting, exploring, or development work is considered to be the engaging in and carrying on of such business within this state within the meaning of this section.

(4) Every person required to pay such tax hereunder shall pay the same in full for his own account and for the account of each of the other owner or owners of the gross proceeds in value or in kind of all the marketable petroleum or other mineral or crude oil or natural gas extracted and produced, including owner or owners of working interest, royalty interest, overriding royalty interest, carried working interest, net proceeds interest, production payments, and all other interest or interests owned or carved out of the total gross proceeds in value or in kind of such extracted marketable petroleum or other mineral or crude oil or natural gas, except that any of the aforesaid interests that are owned by the federal, state, county, or municipal governments shall be exempt from taxation under this chapter. Unless otherwise provided in a contract or lease, the pro rata share of any royalty owner or owners will be deducted from any settlements under said lease or leases or division of proceeds orders or other contracts."

Section 4. Section 15-36-121, MCA, is amended to read:

1 "15-36-121. Exemption from severance tax. (1) It is
 2 the public policy of this state to promote a sufficient
 3 supply of natural gas to provide for the residents of this
 4 state, and to lessen Montana's dependence on imported
 5 natural gas, and to encourage the exploration for and
 6 development and production of natural gas, petroleum, and
 7 other mineral and crude oil within the state.

8 (2) ~~Natural gas produced from a well 5,000 feet deep
 9 or deeper on which drilling was commenced after December 31,
 10 1976, but before December 31, 1992, is exempt from all of
 11 the severance tax imposed by 15-36-101 for 3 years if the
 12 gas produced from the well is:~~

13 (a) ~~placed into a natural gas distribution system for
 14 delivery to consumers after diligent completion of the well;~~
 15 and

16 (b) ~~distributed by a natural gas distribution system
 17 serving only natural gas consumers a majority of which are
 18 within Montana or at least 10,000 natural gas consumers
 19 within Montana;~~

20 (3) ~~The 3-year exemption provided by this section
 21 shall begin when natural gas from a qualifying well is first
 22 placed into a natural gas distribution system.~~

23 (2) All new production from a well during the 24
 24 months immediately following the date of notification to the
 25 department of revenue that an oil well is flowing or being

1 pumped or that a gas well has been connected to a gathering
 2 or distribution system is exempt from all of the severance
 3 tax imposed by 15-36-101, provided the notification of
 4 completion was made after December 31, 1986 MARCH 31, 1987,
 5 AND BEFORE JULY 1, 1991.

6 (3) All the natural gas produced from any well that
 7 has produced 60,000 cubic feet or less of natural gas a day
 8 for 1 THE CALENDAR year prior to the quarter for which
 9 production is reported as required by 15-36-105 is TAXED AS
 10 FOLLOWS: CURRENT YEAR SHALL BE TAXED AS PROVIDED IN THIS
 11 SECTION. PRODUCTION MUST BE DETERMINED BY DIVIDING THE
 12 AMOUNT OF PRODUCTION FROM A LEASE OR UNITIZED AREA FOR THE
 13 YEAR PRIOR TO THE CURRENT CALENDAR YEAR BY THE NUMBER OF
 14 PRODUCING WELLS IN THE LEASE OR UNITIZED AREA AND BY
 15 DIVIDING THE RESULTING QUOTIENT BY 365.

16 (a) ~~THE THE FIRST 30,000 CUBIC FEET OF GAS PRODUCED~~
 17 AVERAGE DAILY PRODUCTION PER WELL IS exempt from all of the
 18 severance tax imposed by 15-36-101; AND

19 (b) ~~THE NEXT EVERYTHING EVERYTHING OVER 30,000 CUBIC~~
 20 FEET OF GAS PRODUCED IS TAXED AT 1.59%.

21 (4) ~~All production THE FIRST 5 BARRELS OF AVERAGE~~
 22 DAILY PRODUCTION from a stripper well THAT PRODUCES 5
 23 BARRELS OR LESS A DAY IS ARE exempt from all of the
 24 severance tax imposed by 15-36-101.

25 (5) For the purposes of this section, the following

1 definitions apply:

2 (a) "New production" means the production of natural
 3 gas, petroleum, or other crude or mineral oil from any
 4 well:

5 ~~(i) that has not produced natural gas, petroleum, or~~
 6 ~~other crude or mineral oil during the 5 years immediately~~
 7 ~~preceding the first month of qualified new production; and~~

8 (I) THAT HAS NOT PRODUCED NATURAL GAS, PETROLEUM, OR
 9 OTHER CRUDE OR MINERAL OIL DURING THE 5 YEARS IMMEDIATELY
 10 PRECEDING THE FIRST MONTH OF QUALIFIED NEW PRODUCTION; AND

11 ~~(ii)(II) on which the notification provided for in~~
 12 ~~subsection (2) was made after December 31, 1986~~ MARCH 31,
 13 1987.

14 (b) "Stripper well" means a well that produces less
 15 than 10 barrels per day, and, if otherwise not specifically
 16 determinable, production must be determined by dividing the
 17 amount of production from a lease or unitized area for the
 18 year prior to the current calendar year by the number of
 19 producing wells in the lease or unitized area, and by
 20 dividing the resulting quotient by 365.

21 ~~(6)~~ Notwithstanding the provisions of subsection
 22 subsections (2) through (4), all reporting requirements
 23 under the severance tax remain in effect."

24 NEW SECTION. Section 5. Extension of authority. Any
 25 existing authority of the department of revenue or the board

1 of oil and gas conservation to make rules on the subject of
 2 the provisions of this act is extended to the provisions of
 3 this act.

4 NEW SECTION. Section 6. Coordination instructions.

5 (1) If this bill and ___ Bill No. ___ [LC 932], including
 6 the section of that bill defining "new production" AND
 7 "interim production" and "stripper well" in 15-23-601, are
 8 passed and approved, sections 1 and 2 and subsection (5)(A)
 9 of section 3 4 of this bill are void, and the following
 10 amendments are AMENDMENT IS made to this bill:

11 (a) Following: "new production" in 15-36-121(2),
 12 insert "as defined in 15-23-601";

13 (b) ~~Following: "stripper well" in 15-36-121(4);~~ insert
 14 "as defined in 15-23-601".

15 (2) If this bill and Senate Bill No. 66 are passed and
 16 approved, Senate Bill No. 66 is void.

17 NEW SECTION. Section 7. Effective date --
 18 applicability -- CONTINGENT TERMINATION. (1) This act is
 19 effective on passage and approval and applies retroactively,
 20 within the meaning of 1-2-109, to taxable years beginning on
 21 or after January APRIL 1, 1987.

22 (2) SUBSECTION (2) OF 15-36-121, CONCERNING NEW
 23 PRODUCTION, TERMINATES ON THE DATE THE GOVERNOR BY EXECUTIVE
 24 ORDER CERTIFIES THAT THE PRICE OF WEST TEXAS INTERMEDIATE
 25 CRUDE OIL HAS REACHED \$25 A BARREL AS REPORTED IN THE WALL

1 STREET JOURNAL.

2 (3) SUBSECTION SECTION 15-36-101(1)(D) AND SUBSECTION
3 (4) OF 15-36-121, CONCERNING STRIPPER WELL PRODUCTION,
4 TERMINATES TERMINATE ON THE DATE THE GOVERNOR BY EXECUTIVE
5 ORDER CERTIFIES THAT THE PRICE OF WEST TEXAS INTERMEDIATE
6 CRUDE OIL HAS REACHED \$30 A BARREL AS REPORTED IN THE WALL
7 STREET JOURNAL.

8 NEW-SECTION--SECTION-8--COORDINATION--INSTRUCTION--IF
9 HOUSE-BILL-NO-377-IS-PASSED-AND-APPROVED, THIS ACT IS VOID.

-End-