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

IN THE HOUSE

FEBRUARY 16, 1987	INTRODUCED AND REFERRED TO COMMITTEE ON TAXATION.
MARCH 20, 1987	COMMITTEE RECOMMEND BILL DO PASS AS AMENDED. REPORT ADOPTED.
	PRINTING REPORT.
MARCH 23, 1987	SECOND READING, DO PASS AS AMENDED.
MARCH 24, 1987	ENGROSSING REPORT.
	THIRD READING, PASSED. AYES, 66; NOES, 33.
	TRANSMITTED TO SENATE.

IN THE SENATE

MARCH 25, 1987	INTRODUCED AND REFERRED TO COMMITTEE ON TAXATION.
APRIL 11, 1987	COMMITTEE RECOMMEND BILL BE CONCURRED IN AS AMENDED. REPORT ADOPTED.
APRIL 14, 1987	SECOND READING, CONCURRED IN AS AMENDED.
	ON MOTION, RULES SUSPENDED TO PLACE BILL ON THIRD READING THE 83RD LEGISLATIVE DAY.
	THIRD READING, CONCURRED IN. AYES, 35; NOES, 15.
	RETURNED TO HOUSE WITH AMENDMENTS.

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 RECOMMENDED AMENDMENTS CONCURRED IN.
	THIRD READING, GOVERNOR'S RECOMMENDED AMENDMENTS CONCURRED IN.
	TRANSMITTED TO SENATE.

IN THE SENATE

APRIL 23, 1987	SECOND READING, GOVERNOR'S RECOMMENDED AMENDMENTS CONCURRED IN.
	THIRD READING, GOVERNOR'S RECOMMENDED AMENDMENTS CONCURRED IN.
	RETURNED TO HOUSE.

IN THE HOUSE

APRIL 23, 1987 RECEIVED FROM SENATE.

SENT TO ENROLLING.

House BILL NO. 776

INTRODUCED BY NATHE

A BILL FOR AN ACT ENTITLED: "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; AMENDING SECTIONS 15-23-607, 15-23-612, AND 15-36-121, MCA; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE AND A RETROACTIVE APPLICABILITY 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 subsequent withholdings from the proceeds of royalty interests."

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

"15-23-612. Certain natural gas exempt. (1) Natural gas produced ~~as--provided--in--15-36-121(2)-is-exempt-from~~

INTRODUCED BILL
HB 776

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(b) "Stripper well" means a well that produces less than 10 barrels per day, and, if otherwise not specifically determinable, 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.

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

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under the severance tax remain in effect."

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

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

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

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

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

NEW SECTION. Section 6. Effective date -- applicability. This act is effective on passage and approval and applies retroactively, within the meaning of 1-2-109, to 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
Revenues:						
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:						
Local Government Block Grant	$ 6,404,000	$ 5,645,000	($ 759,000)	$ 6,940,00	$ 6,114,000	($ 826,000)
County Rebate	359,000	46,000	(313,000)	397,000	50,000	(347,000)
General Fund	14,967,000	13,718,000	(1,249,000)	16,417,000	15,061,000	(1,356,000)
TOTAL	$21,730,00	$ 19,409,000	($2,321,000)	$23,754,000	$ 21,225,000	($2,529,000)

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

Dennis G. Nathe DATE 2-19, 1987
DENNIS NATHE, PRIMARY SPONSOR

Fiscal Note for HB776, as introduced.

HB 776

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
Revenues:						
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 N. Nathe DATE Feb 24, 1987

DENNIS NATHE, PRIMARY SPONSOR

WITH RESERVATIONS !!

Fiscal Note for HB776, as introduced.

REVISED FISCAL NOTE

HB 776
#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

SECOND READING

subsequent withholdings from the proceeds of royalty interests."

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

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

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

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

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

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

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

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

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

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

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

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

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

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

required by the department; and

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

(A) miscible fluid displacement;

(B) steam drive injection;

(C) micellar/emulsion flooding;

(D) in situ combustion;

(E) polymer augmented water flooding;

(F) cyclic steam injection;

(G) alkaline or caustic flooding;

(H) carbon dioxide water flooding;

(I) immiscible carbon dioxide displacement;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(b) "Stripper well" means a well that produces less than 10 barrels per day, and, if otherwise not specifically determinable, 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.

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

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

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

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

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

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

NEW SECTION. Section 7. Effective date --

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

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

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

-End-

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

THIRD READING

subsequent withholdings from the proceeds of royalty interests."

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

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

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

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

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

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

HB 0776/03

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

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

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

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

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

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

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

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

required by the department; and

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

(A) miscible fluid displacement;

(B) steam drive injection;

(C) micellar/emulsion flooding;

(D) in situ combustion;

(E) polymer augmented water flooding;

(F) cyclic steam injection;

(G) alkaline or caustic flooding;

(H) carbon dioxide water flooding;

(I) immiscible carbon dioxide displacement;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(b) "Stripper well" means a well that produces less than 10 barrels per day, and, if otherwise not specifically determinable, 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.

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

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

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

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

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

"as defined in 15-23-601".

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

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

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

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

NEW SECTION. SECTION 8. COORDINATION INSTRUCTION. IF 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		
Revenues:	Current Law	Proposed Law	Difference	Current Law	Proposed Law	Difference
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:						
Local Government Block Grant	$ 6,404,000	$ 5,834,000	($ 570,000)	$ 6,940,000	$ 6,319,000	($ 621,000)
County Rebate	$ 359,000	$ 46,000	($ 313,000)	$ 397,000	$ 50,000	($ 347,000)
General Fund	$14,967,000	$ 13,174,000	($1,793,000)	$16,417,000	$ 14,394,000	($2,023,000)

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

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

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

HB 776
#3

EFFECT ON COUNTY OR OTHER LOCAL REVENUE OR EXPENDITURES:
Counties with increased production will lose severance tax refunds on the new production.

HB 776

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

REFERENCE BILL

subsequent withholdings from the proceeds of royalty interests."

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

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

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

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

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

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

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

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

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

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

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

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

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

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

required by the department; and

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

(A) miscible fluid displacement;

(B) steam drive injection;

(C) micellar/emulsion flooding;

(D) in situ combustion;

(E) polymer augmented water flooding;

(F) cyclic steam injection;

(G) alkaline or caustic flooding;

(H) carbon dioxide water flooding;

(I) immiscible carbon dioxide displacement;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(b) "Stripper well" means a well that produces less than 10 barrels per day, and, if otherwise not specifically determinable, 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.

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

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

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

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

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

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

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

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

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

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

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

-End-

STANDING COMMITTEE REPORT

SENATE

APRIL 11 19 87

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

DO PASS

DO NOT PASS

4-11

Chairman.

April 11 19 87

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

4-11-87

[signature]

SENATOR McCALLUM, CHAIRMAN

4141001p.cwr

COMMITTEE OF THE WHOLE AMENDMENT

4-14-87
DATE

SENATE

10:01
TIME

MR. CHAIRMAN: I MOVE TO AMEND House Bill No. 776

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.

NK

ADOPT

REJECT

Senator Gage

4141002n.cwo

COMMITTEE OF THE WHOLE AMENDMENT

4-14-87
DATE

10:02
TIME

MR. CHAIRMAN: I MOVE TO AMEND House Bill No. 776

third reading copy (blue) as follows:
Color

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

NB

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-

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

REFERENCE BILL: INCLUDES GOVERNOR'S AMENDMENTS DATED 4-22-87

subsequent withholdings from the proceeds of royalty interests."

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

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

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

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

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

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

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

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

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

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

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

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

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

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

required by the department; and

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

(A) miscible fluid displacement;

(B) steam drive injection;

(C) micellar/emulsion flooding;

(D) in situ combustion;

(E) polymer augmented water flooding;

(F) cyclic steam injection;

(G) alkaline or caustic flooding;

(H) carbon dioxide water flooding;

(I) immiscible carbon dioxide displacement;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

definitions apply:

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

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

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

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

(b) "Stripper well" means a well that produces less than 10 barrels per day, ~~and,-if-otherwise-not--specifically determinable,--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.

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

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

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

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

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

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

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

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

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

STREET JOURNAL.

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

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

-End-