MINUTES

MONTANA SENATE
52nd LEGISLATURE - REGULAR SESSION

COMMITTEE ON TAXATION

Call to Order: By Senator Mike Halligan, Chairman, on March 19, 1991, at 8:00 a.m.

ROLL CALL

Members Present:

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

Members Excused: None

Staff Present: Jeff Martin (Legislative Council).

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

Announcements/Discussion: None

HEARING ON SENATE BILL 466

Presentation and Opening Statement by Sponsor:

Senator Brown, District 2, sponsor, said the recent war in the Gulf has reminded us once again that the United States is too dependent on overseas energy. He said the state and the nation needs to adopt an energy policy which will increase production of domestic energy resources, make more efficient use of domestic energy, and actively encourage the use of clean alternative energy sources. Senate Bill 466, introduced by request of the Governor, addresses these three components in a coordinated and fiscally responsible manner. The bill also reinstates the oil

and gas tax incentives which were removed last August due to a sudden, but temporary, increase in oil prices. The bill contains conservation components which will increase the energy efficiency of new residential buildings. The third facet of the bill is a tax incentive which will encourage ethanol production and clean alternative fuel use in Montana. The full text of Senator Brown's comments can be found in his attached testimony (Exhibit 1A).

Proponents' Testimony:

Senator Crippen, District 45, co-sponsor of the bill, said this bill is a three-prong approach to solving Montana's energy problems. Neither the nation nor the State of Montana has a comprehensive energy plan and this is our opportunity to begin to formulate a program for future energy development and conservation. He acknowledged the homebuilders have concerns about the bill and he hoped they would propose amendments that addressed those concerns. He said the bill, while perhaps not perfect, is a place to start to develop a plan that will be acceptable to all the parties concerned.

Art Wittich, Governor's Office, presented testimony for the Stephens Administration regarding SB 466 (Exhibit #1).

Bob Anderson, Public Service Commission, said energy conservation is extremely important and is the cheapest form of energy supply available. He felt the conservation standards for buildings are good as they include both new and existing structures. The bill does address development of an energy policy and passage of the bill will indicate the legislative intent for integrated resource planning. He presented a mock fiscal note prepared by the PSC (Exhibit #2). He suggested two amendments on page 29, line 21, and page 30, line 3, changing "shall" to "may". He said the PSC's stance is neutral on the bill. The Commission does feel the development of an energy policy is most important.

Gordon Morris, Montana Association of Counties, presented his testimony in support of the bill (Exhibit #3).

Jim Jensen, Environmental Information Center, expressed very strong support for the bill. It is an attempt to show that bickering and opposition can end and acknowledge that consumption and energy needs are both important and can be addressed in an equitable manner. He said there are very important things in the bill such as the tax credit for energy conservation. The energy code drives the energy conservation section of the bill. He urged the committee to pass the legislation as it is progressive and establishes energy policy in a fair way.

Peggy Schmidt, Missoula, presented her testimony in support of the bill (Exhibit #4).

Don Sterhan, Alcotech Partnership, Ringling, said Alcotech is the only ethanol producer in the state. They are pleased to see an energy policy develop in the state. Ethanol and alternative fuel consumption and development is a key component of the bill. He urged the committee to give the bill positive consideration as it is a bright step forward.

Gene Phillips, Pacific Light and Power, said he supports the adoption of model conservation standards. He suggested the bill be amended on page 26, lines 8 and 9, by changing "certify to the utility" to "certify to the electrical inspector". He said he also supports the amendments proposed by Mr. Jensen.

Kay Norenberg, WIFE, said her organization supports the bill in terms of ethanol production.

Bob Stephens, Montana Graingrowers, expressed support for the ethanol production portion of the bill.

Mike Zimmerman, Counsel for Montana Power, expressed support for the bill and presented some proposed amendments as contained in (Exhibit #5).

William Ballard, President, Balcron Oil, Billings, presented his testimony in support of the bill (Exhibit #6).

John Alke, MDU Resources Group, Inc., said there is a technical problem with the conservation code. He said the conservation code is not driven by what is best for the individual homeowner, but rather by the theory of encouraging conservation so that utilities can defer construction of major generating stations. He said this should be a building code for the whole Northwest. He said Montana Dakota Utility is a summer peaking load utility. They would not be able to defer generation based on the code as very few people in their service area heat their homes electrically. He felt the tax credit is wrong as it applies only when the homeowner installs conservation investments that are greater than those required by the building codes. If the purpose is to get homeowners to retrofit their home, credits should be given to get them to bring their homes up to code. It was intended to be a cost effective code.

Karen Barclay, Director, Department of Natural Resources, said the DNRC has been very actively involved in the development of a regional and national energy policy over the years. It has been a frustrating process because they have all fallen flat. They are excited about this bill because it gives Montana a chance to develop its own energy policy and direct its own future. Development and consumption are both addressed in the bill. She stressed the bill must be looked at as a whole and the short term costs are necessary for the long term good.

Bill Vaughey said he is an individual oil producer from Havre and the incentives have worked well for him. He presented testimony in support of the bill from Dean Swanson, T Bar S Oil, and Larry Swanson, Director of Economic Analysis, University of Montana (Exhibits #7 and 7a).

As the time for proponents was closing, Senator Halligan asked the remaining proponents to identify themselves for the record. They were:

Doug Abelin, Northern Montana Oil and Gas
Rex Manuel, Cenex
Lorna Frank, Montana Farm Bureau
Wilbur Anderson (Exhibit #8)
Jim Norton, Human Resource Council of Missoula
Rick Brown, Ravalli County Cooperative
Warren McConkey, Flathead Electrical Cooperative
Gary Mahugh, Flathead Electrical Cooperative
Senator Larry Tveit, District 11

Opponents' Testimony:

Representative Sonny Hanson, District 87, said he would like to see Sections 9, 10, and 11 stricken from the bill and replaced with an amendment as per sub (a) on the attached Exhibit #9. He felt the Model Energy Code already on the books is sufficient and workable and is updated every three years and is fuel blind. It addresses energy conservation in its entirety and allows an individual to choose a fuel. The MCS code is not financially available unless it has financial assistance and, in Mr. Hanson's opinion, no code should be driven by financial assistance. The MCS code cannot be applied carte blanche to commercial development. Each system has to be individually evaluated. The main purpose of the codes is the reduction of energy consumption. He said he felt the tax credits in Section 14 are not necessary.

Mark Lindsay, contractor in Helena, and Vice President of the Montana Building Industry Association, presented his testimony in opposition to the bill (Exhibit #10).

Don Chance, Executive Director of the Montana Building Association, presented his testimony in opposition to the bill (Exhibit 11).

Jerry Hamlin, a homebuilder and real estate broker in Helena, said he agrees with the previous testimony in its technical aspects. He was very concerned about the impact of the new MCS codes on the new home buyers, as well as the negative effect on the appraisal process and lenders. He said the increased costs of meeting the codes will add $2500 to $3000 to the cost of every new FHA financed home. It will add .5 - 1% to the mortgage insurance premiums. These are horrendous costs for the new home buyer and it will have the effect of forcing them to

buy mobile homes. People don't buy what they don't see and mobile home codes are much lower than regular building codes. Appraisers are not including energy efficiencies in their values. Adopting these codes will not save energy. It will cost energy as people are driven to mobile homes which are much less energy efficient and COST energy.

James Lechner, Executive Director, Yellowstone Contractors Association, presented his testimony in opposition to the bill (Exhibit #12).

Jeff Engle, a builder from Billings, presented his testimony in opposition to the bill in Exhibit #13 in which he compared the costs of a home he built and the costs of bringing it up to the proposed MCS codes.

Neil Ganser, President, Corebound Corporation, Bozeman, presented his testimony in opposition to the bill (Exhibit #14).

Due to time constraints, the Chairman asked the remaining opponents to introduce themselves for the record. They were:

Dale Davis, Dee's Insulation, Billings
F. Woodside Wright, Montana Homemover's Association
Steve Cramer, Billings Real Estate Appraiser
Gene Groff, Bozeman Homebuilders
Tim Dean, Bozeman
Ann Prunuske, Alliance for Progressive Policy
Chuck Drate, Log Home Builders
Bill Pierce, Helena Homebuilders
Stan Helegeson, SD Helegeson Homes, Billings

Questions From Committee Members:

Senator Towe said since 1983 the building industry has progressed a great deal in terms of energy efficiency. He asked if the urgency and concern of ten years ago is still applicable.

Mr. Jensen replied said it "is a misconception that the building industry has led any part along the way of the way for improving energy conservation in construction standards". "They have been dragged kicking and screaming to the point that they are today....." When the standards were first adopted they went to court to overturn them. He said the legislature should set policy and that should drive practice.

Senator Towe said regardless of the opposition, the standards have come a long way.

Mr. Jensen they have improved marginally, but they are a long way from achieving conservation standard levels.

Senator Van Valkenburg asked if the State Energy Policy Act has to have all three components. In order to give relief to the oil and gas industry, he asked if the legislature has to adopt the energy conservation standards.

Mr. Wittich said the Governor wants all three components. He said they are willing to look at changes as long as the three goals are actually achieved.

Closing by Sponsor:

Senator Brown closed by saying adopting the MCS standards would increase the costs of building a new house by $3500. A house built to the MCS would be 54% more efficient and would pay for the cost within five to six years. He noted there will be an amendment presented to address the concerns of the log home builders. He further told the committee this is the sixth draft of the bill. It is a cooperative bill developed over a span of time in an attempt to mitigate the concerns of all the parties affected by the bill.

ADJOURNMENT

Adjournment At: 9:55 a.m.

SENATOR MIKE HALLIGAN, Chairman

JILL D. ROHYANS, Secretary

MH/jdr

ROLL CALL

SENATE TAXATION COMMITTEE

DATE 3/19/91

53RD LEGISLATIVE SESSION

NAME	PRESENT	ABSENT	EXCUSED
SEN. HALLIGAN	X		
SEN. ECK	X		
SEN. BROWN	X		
SEN. DOHERTY	-1		
SEN. GAGE	X		
SEN. HARP	X		
SEN. KOEHNKE	X		
SEN. THAYER	Y		
SEN. TOWE	Y		
SEN. VAN VALKENBURG	X		
SEN. YELLOWTAIL	X		

Each day attach to minutes.

DATE 3/19/81

COMMITTEE ON Taxation

SB 466

VISITORS' REGISTER

NAME	REPRESENTING	BILL #	Check One: Support	Check One: Oppose
WM (Bill) VAUGHEY JR	SELF, AN INDEP O&G PRODUCER. HAUTE	SB 466	✓	
Wilbur Anderson	Vigilante Electric Co-op	SB466	✓	
Richard J. Brown	Ravalli County Electric Co-op	SB466	✓	
Mack McConnell	Montana Electric Coops	SB466	✓	
DON CHANCE	MT. BUILDING IND. ASSN.	466		✓
STAN HELGESON	S.D. HELGESON HOMES	SB466		✓
Jim Hodson	Reynolds Mfg.	SB466		✓
W. W. BALLARD	BALCRON OIL	SB466	✓	
Marilyn Ballard	Balcron	SB466	✓	
GENE PHILLIPS	PACIFIC POWER & LIGHT	SB466	✓	
W. James Kembel	Public Safety Div / DOC	SB466	Information	
Bob Stephens	MT. Grain Growers Ass'n	466	✓	
[illegible]	Shell Western E&P Inc	466	✓	
Walter Webb	Shell Western E&P Inc	466	✓	
William T. Pollard	Meridian Oil Inc	SB466	✓	
Gary Melyn	Flathead Electric Co-op	SB466	✓	
Warren McCONKEY	Flathead Electric Co-op	SB466	✓	
EUGENE SHAFER III	MT. BLDG IND.	SB466		✓
Steven L Kramer	MBIA	SB466		✓
Malcolm Haap	MBIA	SB466		✓
Harlan Thompson	MBIA	SB466		✓
Charles H Brodruff	MBIA	SB466		✓
Bill Pierce	MBIA	SB 466		✓
Robert L Kenson	MBIA	SB466		✓
Peggy Schmidt	Grad student at UM (not representing UM)	SB 466	✓	
Tim DeAN	MONTANA Building IND. Ass	SB466		✓

(Please leave prepared statement with Secretary)

DATE 3/19/91

COMMITTEE ON Taxation

SB 466

VISITORS' REGISTER

NAME	REPRESENTING	BILL #	Check One: Support	Check One: Oppose
Dale Davis	D's Insulation	SB 466		✓
Robert Nisbet	Nisbet Const	SB 466		✓
Sam Gates	Gates Construction	SB 466		✓
Mark Lindsay	Lindsay Const.	SB 466		✓
Gene Mostad	Mostad Const Inc	SB 466		✓
David Edgell	Edgell Constr.	SB 466		✓
Ann Clyatt	Clyatt Const. Co	SB 466		✓
Gene Clyatt Jr.	Clyatt Const. Co.	SB 466		✓
Susan Pojorle		SB 466		
Jim Morton	HRDC / NCAC	SB 466	✓	
John Hines	NWPPC	466	✓	
Jim Jensen	MEIC	466	X	
Dan Nottingham	Golden Eagle Const Inc	466		✓
David Curd	Helena Homebuilders	SB 466		✓
Bob Nelson	Consumer Council	SB 466	✓ amend.	
Mark Blair	M. Blair Const	SB 466		✓
Rod Huft	Huft Const	SB 466		✓
K. Woodside Wright	Mont. Homebuilders Ass	SB 466		✓
Christine Holmes	Mont. Homebuilders Assoc	SB 466		✓
Grant Egbert	SWMBA			✓
Neal Gauger	Commons Corp	SB 466		✓
James F. Lemby	Yellowstone Contractors Association	SB 466		✓
Jeff Manuel	CENEX	SB 466	✓	
Lorna Frank	Mt. Farm Bureau	SB 466	✓	
Denise Blake	MT Home Blds	SB 466		✓
Earle Feist	Helena Home Builders	SB 466		✓

(Please leave prepared statement with Secretary)

DATE 3/19/91

COMMITTEE ON Taxation

SB 466

VISITORS' REGISTER

NAME	REPRESENTING	BILL #	Check One Support	Check One Oppose
Barbara Gleason	Home Builders C.F.	SB 466		X
Kurt Kessner	HOME BUILDERS	✓		X
Harvey Pappin	Home Builders	✓		X
John Rosenbaum	Home Builders	✓		X
Jerry Hamlin	Home Builder	✓		X
Larry Tveit	Senator	✓	✓	
Janelle Fallan	Mt Petroleum Assn	SB466	✓	
Dean Swanson (written statement)	T Bar S	SB466	✓	
Don Prunuske	MAPP	466		X
CAROL MOSHER	MT. CATTLEWOMEN	SB 466	✓	
Susan Brooke	Stockgrowers/Woolgrowers	"	✓	
David A. Shea	STEEN BUILDERS	"		✓
Brett Dahl	Dept of Admin.	H.B 419	✓	

(Please leave prepared statement with Secretary)

DATE 3/19/91

COMMITTEE ON Taxation

SB 466

VISITORS' REGISTER

NAME	REPRESENTING	BILL #	Check One: Support	Check One: Oppose
Russell G. EKlund	EKlund Const	SB466		✓
Don Eblen	Intermountain Lumber	SB466		✓
John Norrish	Norrish Bros Const	SB466		✓
JOSEPH NORRISH	" " "	SB466		✓
Tom Helgeson	Tomlin Const.	SB466		✓
FRANK ARMINIECHT	VALLEY GLASS	SB466		✓
Gordon G Aldinger	Aldinger Homes	SB466		✓
Jeff Engel	ENGEL CONST., INC.	SB466		✓
Jim Caras	Caras Cabinet	SB466		✓
Lloyd Twite	Twite Const - Mssla.	SB466		✓
M E Zimmerman	MPC	SB466	✓	
[illegible]	[illegible]	SB466		
[illegible]	Foley Thompson Const	"		✓
STEVEN LABER	INTERMOUNTAIN LUMBER	"		✓
Gordon Foley	Foley Thompson Const	✓		✓
EUGENE CLYATT	CLYATT CONST-CO.	SB466		✓
Doug Abelin	Northern Mont. Oil & Gas	SB466	✓	
Gordon Morris	MACo	466	Sections	
ART WITTICH	GOVERNOR'S OFFICE	466	✓	
Karen Barclay	DNR&C	466	✓	
Jon Stephan	Alcotech	466	✓	
Russ Waltman	Waltman Const	466		✓
Kay Nyenberg	WIFE	466		
Stan Bradshaw	MEIC Board	466	✓	

(Please leave prepared statement with Secretary)

WITNESS STATEMENT

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

Dated this 19th day of March, 1991.

Name: Warren McConkey

Address: 2510 Hwy 2 East

Kalispell, MT 59901

Telephone Number: 752-4483

Representing whom?

Flathead Electric Cooperative

Appearing on which proposal?

SB 466 MESPA

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

Comments:

Oral comments with written Testimony to follow.

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY

WITNESS STATEMENT

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

Dated this 19th day of MARCH, 1991.

Name: GARY MAHUGH

Address: 2510 HWY 2 EAST

KALISPELL, MT 59901

Telephone Number: 406-752-4483

Representing whom?

FLATHEAD ELECTRIC COOPERATIVE, INC.

Appearing on which proposal?

SB 466

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

Comments:

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY

WITNESS STATEMENT

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

Dated this 19 day of March, 1991.

Name: Peggy Schmidt

Address: 328 W. Spruce St.
Missoula, MT 59802

Telephone Number: 542-1257

Representing whom?

Appearing on which proposal?
SB 466

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

Comments:
Support especially the adoption of the N.W. Power Planning Council's model conservation standards

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY

WITNESS STATEMENT

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

Dated this 19 day of March, 1991.

Name: Richard J. Brown

Address: P.O. Box 190 Corvallis Montana 59828

Telephone Number: 961-3001

Representing whom?

Ravalli County Electric Co-op. Inc.

Appearing on which proposal?

S.B. 466

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

Comments:

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY

WITNESS STATEMENT

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

Dated this 19 day of MARCH, 1991.

Name: WILLIAM W. BALLARD

Address: BOX 20174

BILLINGS, MT 59104

Telephone Number: 259-1860

Representing whom?

BALLARD OIL

Appearing on which proposal?

SB466

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

Comments:

Written & Oral Testimony

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY

WITNESS STATEMENT

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

Dated this 19TH day of MARCH, 1991.

Name: W.M. (BILL) VAUGHEY JR

Address: P.O. Box 46
HAVRE MT 59501

Telephone Number: (406) 265-5421

Representing whom?

SELF, AN INDEPENDENT OIL & GAS PRODUCER

Appearing on which proposal?

SB 466

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

Comments:

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY

SENATE TAXATION
EXHIBIT NO. 1A
DATE 3/19/91
BILL NO. SB 466

Intro. -

I. The U.S. is too dependent on overseas sources of energy

A. - dramatically illustrated by recent events in the Persian Gulph
→ caused radical fluctuations in price - uncertainty in supply

B. If our nation is to reduce its unacceptably high dependence on foreign energy sources we must develope a coherent and ballanced energy policy which includes:

1 - increasing production of domestic energy resources

2 - making more efficient use of domestic energy

3 - actively encouraging the use of clean alternative energy sources

C - Senate Bill 466 ← by request of the Governor addresses these three components in coordinated and fiscally responsible manner

D - In the area of increasing energy production S.B. 466 would reinstate the oil and gas tax incentives which were removed last August due to a sudden but temporary increase in oil prices.

Components of this permanent incentive would include:*

1 - restoration of the 24 month ~~tax holiday~~ state severance tax holiday on new production

2 - reduced taxation on marginally producing stripper wells

3 - allowing for the application or removal of these two incentives based on a quarterly averaged price received by Montana mineral owners of

EXHIBIT NO. 1A
DATE 3/19/91
BILL NO. SB 466

II S.B. 466 would also aid greatly in increasing the energy efficiency of new residential buildings. Conservation components of the bill include:

A - requiring the periodic revision of the state energy code, with the eventual adoption of the Model Conservation Standards by the Montana Department of Commerce on the construction of new residential buildings

B - ~~And,~~ Applying the state energy code on a statewide basis, rather than the current sporadic geographic areas

C - ~~To avoid compliance~~ the need for additional F.T.E.'s, compliance with the standards would be insured through a self certification program by builders, with random inspections by state or local officials

D - And, encouraging the ~~application~~ of new building technology by revising the current state income tax credit for home conservation expenditures to a sliding scale credit, based on home size, and applicable only for expenditures exceeding current home requirements

→ E - S.B. 466 would also establish a Conservation Retrofit program applicable for existing buildings

DATE 3/19/91
SB 166

III In order to encourage the use of clean alternative sources of energy SB 466 extends the tax incentive for ethanol production facilities in Montana (S.B. 77)

→ ~~Also~~ The bill would also require the state to purchase gasohol for state vehicles when available and cost competitive.

Other proponents, Mr. Chm, Sen Gilpin will follow me.

Fiscal note - Hopefully here by end of this morning early

TESTIMONY FOR SENATE BILL 466
FOR THE STEPHENS ADMINISTRATION
BEFORE SENATE TAXATION COMMITTEE
TUESDAY, MARCH 19

While Senator Brown has explained what provisions are in Senate Bill 466, I would like to explain why these provisions were included in the bill and how this legislation was put together. Hopefully, this story about the why and how of this bill will help you in understanding the bill and shed light on the value and reasons for such energy policy.

In early August of last year, Governor Stephens was required by state law to permanently remove the tax incentives for the new production of oil and gas and the continued production from stripper wells. How ironic, for if there was ever a time and a need for increased production of domestic petroleum, it was early August of last year.

In formulating the strategy to correct such misguided policy, we saw an opportunity to augment the strong, traditional argument that state tax policy influences the number of jobs here, and our state's overall economic health.

The need for energy production, and secure energy supplies, goes beyond such well-established arguments. Energy production is needed for the benefit of the people of Montana. The people are the ones that drive to work in the winter. The people are the ones that drive and fly on family vacations. The people are the ones that eat fresh produce transported from California and chicken from Arkansas.

But increasing production alone will not solve our energy security problems. The real solution to energy security is analogous to a three-legged stool. In order to increase the domestic energy security of this state and country, we must make a concerted effort not only to (1) increase the production of traditional energy supplies, but also (2) increase the conservation and efficiency of energy use and (3) increase the availability and use of alternative energy sources.

Therefore, the Administration began developing state policies that could achieve actual results and accomplish the three above goals. While it is true that many policies might achieve greater results, many of those are purely federal in nature due to international and interstate commerce constraints (i.e., mobile home energy use, automobiles, appliances, etc.) However, the state does have unique authority over certain issues, and such authority is exercised in this bill, and will achieve results (not just more and mere studies).

Now, seven months later, after countless hours of communication with various interest groups, after innumerable compromises and changes to accommodate utilities, builders and conservationists, after six rough drafts and many Legislative Council redrafts, you have before you Senate Bill 466. It is a "made in Montana" solution for unique Montana problems and opportunities. It is the Legislature's opportunity to address the energy market instability from Persian Gulf nations and Third World countries. It is your opportunity to affect the current load resource balance in the Pacific Northwest region. And it is your opportunity to send a message to Washington that while energy policy is grueling and confrontational, it is also necessary and achievable.

If you are serious about improving our energy security, just one part of this bill, or just one philosophy, or just one priority, will not suffice. While the parts of this bill may be controversial, the "sum of the parts" are necessary and worthy of passage.

Many people testifying here today will probably offer amendments to this bill. Consistent with our formulation of this bill, I ask that you only support those changes that actually achieve greater or equal amounts of increased traditional production, increased conservation and increased alternative energy sources.

Thank you.

SENATE TAXATION
EXHIBIT NO. 2
DATE 3/21/91
BILL NO. SB 466

2

STATE OF MONTANA

FISCAL NOTE WORKSHEET

Form BD-14

AUTHORITY: Title 5, Chapter 4, Part 2 of the Montana Code Annotated (MCA).

TO: Public Serv Comm
Agency or Unit

Completed worksheets are due in the Office of Budget and Program Planning on or before 3/18/91.
Note: The copy of the proposed legislation must be returned to the Budget Director with the completed worksheets.

A Fiscal Note estimate and statement are requested for:

S.B. 466
H.B. ______

X As Originally Introduced Bill
___Second Reading (yellow) Copy
___Third Reading (blue) Copy
___Salmon Reference Copy
___Ivory Final Reference Copy

___Senate Amendments (pink)
___House Amendments (green)
___Other, as described_____

I. Estimated Effect on Revenue and/or Expenditures	First Fiscal Year of Next Biennium FY -92: Estimated Amount Under Current Law	Estimated Amount Under Proposed Law	Estimated Increase (Decrease)	Second Fiscal Year of Next Biennium FY -93: Estimated Amount Under Current Law	Estimated Amount Under Proposed Law	Estimated Increases (Decrease)
A. Effect on Revenue by Source: (List in Detail)						
TOTAL REVENUE	-0-	-0-	-0-	-0-	-0-	-0-
B. Effect on Expenditures by Category:						
Personal Services	-0-	39,589	39,589	-0-	41,474	41,474
Operating Expenses	-0-	54,000	54,000	-0-	3,000	3,000
Capital Outlay		8,500	8,500	-0-	500	500
Local Assistance, Grants						
Benefits & Claims						
TOTAL EXPENDITURES	-0-	102,089	102,089	-0-	44,974	44,974
NET EFFECT (A LESS B)	-0-	(102,089)	(102,089)	-0-	(44,974)	(44,974)
C. Fund Information:						
*General Fund	-0-	(102,089)	(102,089)	-0-	(44,974)	(44,974)
Earmarked Special Revenue Fund						
Fed & Private Special Revenue						
Capital Project Fund						
Proprietary Fund						
Other (describe)						

* P.S.C. Tax Monies Reimburse the General Fund.

STATE OF MONTANA

FISCAL NOTE WORKSHEET

REQUEST NO. _____

Form BD-14

II. ASSUMPTIONS USED IN OBTAINING ESTIMATES:
(Please list clearly and in detail; use extra sheets if necessary).
List assumptions made during preparation of the fiscal note. If certain costs associated with the proposed legislation can be absorbed without additional funds, indicate this as an assumption. If no dollar estimates have been presented, list reasons in this space.

Section 12 requires conservation expenditures to be in accordance with utility integrated resource planning. In order to determine whether such expenditures are cost effective for rate payers, the Public Service Commission will need to be knowledgeable about utility integrated resource planning. This activity will require extensive effort. At a minimum, one Rate Analyst III, a half-time Grade 8 clerical person, and $50,000 in consulting monies are needed.

III. DERIVATION OF ESTIMATES:
Show basic calculations or provide a brief description of the techniques used to obtain estimates; also, cite sources of basic data used for projections.

	Fiscal Year 1992		Fiscal Year 1993	
Rate Analyst III and half-time Grade 8 clerical		$ 39,589		$ 41,474
Consultant Funds	50,000		-0-	
Travel, Registration, Telephone	4,000	$ 54,000	3,000	$ 3,000
Desks, PC's, Software, Chairs, Calculators, etc.		$ 8,500		$ 500
TOTAL		$102,089		$ 44,974

STATE OF MONTANA

FISCAL NOTE WORKSHEET

REQUEST NO. _____

Form BD-14

IV. EFFECT ON COUNTY OR OTHER LOCAL REVENUE OR EXPENDITURES:
Provide an estimate of the local impact.

Unknown

V. LONG-RANGE EFFECTS OF PROPOSED LEGISLATION:
Use this space to describe any potentially significant effects the proposed legislation might have on expenditures and/or revenues for subsequent fiscal years, give quantitative estimates whenever possible.

Unknown

VI. TECHNICAL OR MECHANICAL DEFECTS OR CONFLICTS WITH EXISTING LEGISLATION:
Explain.

None known

Agency Representative Who Prepared Estimates:

Dan Elliott
(Name)

Administrator, Utility Division
(Title) (Phone No.

3/18/91 6187
(Date)

Office of Budget and Program Planning:

Received _____
Analyzed by _____

Fiscal Note by _____
Date _____

STATE OF MONTANA - FISCAL NOTE

Form BD-15

In compliance with a written request, there is hereby submitted a Fiscal Note for _____, Version:_____

_____

BUDGET DIRECTOR DATE
Office of Budget and Program Planning

PRIMARY SPONSOR DATE

Fiscal Note for_____

BILL: Senate Bill 466
HEARING: Senate Taxation
TIME: Tuesday, March 19, 1991 8:00 a.m.
PLACE: Room 413/415

[Halligan, Mssla, Gage, Cut Bank, Eck, Bozeman, Brown, Whitefish Doherty, G Falls, Harp, Kalispell, Towe, Billings, Thayer, G Falls Van Valkenburg, Mssla, Koehnke, Twnsnd, Yellowtail, Wyola]

The Montana Local Government Energy Committee is in support of three sections of SB 466 which most directly address energy conservation, namely the amended Section 9, new Section 12, and amended Section 13. and Section 16.

Amended Section 9, 50-60-203 of the bill, the Northwest Energy Code, would require assurance of considerable improvement in the energy efficiencies in the construction of all new Montana homes. Both the Montana Association of Counties and the Montana League of Cities and Towns have long endorsed increased energy efficient building standards for Montana, recognizing long-term cost-effective energy conservation as an important goal for Montana, and responsible public policy for elected municipal and county officials.

The Energy Committee encouraged local adoption of these higher standards for several years, and the city of Missoula adopted the Northwest Energy Code for all new residential construction and remodels in 1988. However, in Missoula's case the Northwest Energy Code only has application to electrically-heated homes.

The Northwest Energy Code is nothing new. The issue is whether the state of Montana will take necessary action to maximize the benefits on behalf of future generations of home buyers. The current administration has already initiated a residential energy efficiency

committee which can go a long way towards educating and informing the public, as well as help with more specific efforts should the Northwest Energy Code be adopted.

One of the problems in Montana is that a large number of new houses are not in code enforcing areas -- only about 50 municipalities enforce building codes. Hence, Montana local governments will be the first to say that traditional building codes are not the answer for many of the new homes built in the rural areas or small non code enforcing communities. The proposed code does address that problem by requiring the builder to certify the home.

Like it or not, in order to capture the energy savings in a consistent manner throughout the state for all new construction, some type of standardized, regulatory process is necessary. The longer we wait, the more opportunities for savings are lost, and more amounts of new energy resources will have to be added, which certainly have associated economic impacts and environmental consequences.

Furthermore, the provisions of Northwest Energy Code will call for the state to establish ventilation standards for new residential construction which will have a very positive affect on the indoor air quality of new homes.

Ex 3

Local governments believe it is in the best interests of the public to reduce long-term personal energy expenditures to the home buyer, and simultaneously contribute to reducing the region's future needs for electrical and fossil fuel resources.

The new section 12 of the bill is also supported by the Energy Committee because it allows for rate-basing for overall utility energy conservation efforts which are tied to a utility's resource and acquisition plans. The Energy Committee would like to think that this is the type of signal our legislature can give the utilities, for the utility role remains critical in the success of energy conservation.

Section 13 addresses the equally important preferential rate treatment and cost recovery mechanisms necessary for utilities to tackle energy conservation. The provisions of this section put a premium on energy conservation purchases or investments made by utilities, allowing utilities a "bonus" rate of return from the Public Service Commission for energy conservation which passes the test of being a least-cost resource. If we expect the utilities to fully participate in all dimensions of resource acquisition we must create reasonable mechanisms for them to operate from.

The rate treatment reforms and the Northwest Energy Code embrace a principle which this nation needs to more strongly adhere to. Energy

conservation is a resource, and one that we can ill-afford to neglect both now and in the future.

EXHIBIT NO 4
DATE 3/19/91
BILL NO SB 466

Peggy Schmidt
328 W. Spruce St.
Missoula, MT 59802
3/19/91

Testimony on Senate Bill 466: The Montana Energy Security Policy Act

I support S.B. 466 because it would benefit both the environment *and* the citizens of Montana by saving a tremendous amount of electrical energy through the incorporation of the Northwest Power Planning Council's **Model Conservation Standards (MCS's)** into the Montana Energy Code.

1. How would MCS's benefit Montanans?

Dollars invested in building more efficient homes in Montana profit Montana citizens; homebuyers aquire more efficient, higher quality homes, and efficiency improvements pay for themselves in a matter of years. The alternative to saving energy is to build more power plants. Most of the money spent by Montana ratepayers to build additional power plants is *not* funneled back to Montanans–instead, much of it goes to stockholders in other states.

2. How have MCS's affected the state of Washington so far?

In Washington, many local jurisdictions have adopted the N.W. Power Planning Council's MCS's in the last year. According to Tom Eckman, Senior Conservation Analyst of the N.W. Power Planning Council Staff, 70% of new housing built in that state since mid-summer 1990 were covered by such jurisdictions. "They've probably saved on the order of three and a half to four average annual megawatts since the adoption of their MCS equivalent code," says Eckman. The Montana Power Company conservatively estimates that this equals about

(over)

SENATE BILL NO. 466

This bill is comprised of three main sections--one dealing with tax incentives for oil and gas producers, one dealing with building codes to promote increased energy efficiency in residential and other structures, and one providing an incentive for the use of alternative automotive fuels such as gasahol. If these sections were separated into three individual bills, The Montana Power Company would support the first, recommend the amendment of the second, and take no position regarding the third.

Oil and Gas Tax Incentives

The Company's utility and nonutility divisions both invest in the exploration and development of oil and gas properties in the State of Montana. Both could benefit from the passage of this bill. The nonutility division, however, is most illustrative of the need for this bill.

Presently the nonutility division invests very little of its time and capital in Montana. Decisions to invest in the drilling of oil and gas properties are economic decisions. They result from analyses undertaken to determine the financial return that can be expected to result from the investment. Taxes are costs that bear directly on the outcome of these analyses. Unfortunately, given the instability and high rates associated with that taxation, the investment opportunities in other states and nations have been better than the opportunities in Montana. (Significantly, Montana imposes production taxes that rank fourth highest in the nation.) Thus, we support this portion of Senate Bill No. 466 because we believe it would provide an effective incentive which would increase the opportunity for investment in Montana.

Promotion of Energy Efficiency

While we support the policy decision to promote energy efficiency in residential and other building structures and believe it to be a laudable policy objective, we disagree with the means set out in this bill to accomplish the goal. Without amendment, this bill would cause consumers to make choices that are inefficient from both an economic and energy use point of view.

By requiring the adoption of a single code, applicable to all fuel types, this bill inappropriately ignores important differences in the costs of different fuel types. Building codes should not ignore the best available information on future fuel prices, nor should they impose standards on all fuels which are based on the most expensive fuel.

An unwanted result would follow the adoption of Senate Bill No. 466 in its present form. Faced with higher construction costs, consumers may select electricity in areas where other fuels provide greater economy. Construction of only one home heated

with electricity which otherwise would have been heated with natural gas, would eliminate efficiency gains achieved in four electric homes built to the Model Conservation Standards. Thus, incentive encouraging the choice of electricity may unwisely, prematurely, increase reliance on thermal electric generation resources. This result is contrary to the policy objective of avoiding early acquisition of thermal electric generation resources.

We encourage you, therefore, to further the energy efficiency policy goals of this bill by adopting the amendments attached to this testimony. These amendments would permit the adoption of separate building codes which properly account for the differences in costs of alternative fuel types. At the same time, these amendments would permit the adoption of building codes that would encourage achievement of new levels of cost-effective energy efficiency in residential and other building structures.

The Montana Power Company
March 19, 1991

MEZ18
attachment: proposed amendments

EX. 5

MONTANA POWER COMPANY PROPOSED AMENDMENTS
March 18, 1991
SENATE BILL NO. 466

1. Page 3, line 24.
Following: "on"
Insert: "determinations of cost-effectiveness made in accordance with methods used to develop"

2. Page 4, line 2 and 3.
Following: "of"
Strike: "rules that attain comparable energy efficiency"
Insert: "a similar code or codes"

3. Page 4, line 3.
Following: "1993"
Strike: the remainder of lines 3 through line 9.
Insert: "."

4. Page 25, line 24.
Following: "on"
Insert: "determinations of cost-effectiveness made in accordance with methods used to develop"

5. Page 26, line 2.
Following: "of"
Strike: "rules that attain comparable energy efficiency"
Insert: "a similar code or codes"

6. Page 26, line 3.
Following: "1993"
Strike: The remainder of line 3 and 4.
Insert: ". The revisions may set out different cost-effective energy efficiency standards to account for differences in the cost of different fuels and other relevant economic factors."

7. Page 27, line 19.
Following: "state"
Strike: "that receive service from an electrical utility"

8. Page 29, line 9.
Following: "shall"
Strike: "ensure that the energy conservation investments by utilities are included in the utility's rate base"
Insert: "allow a just and reasonable profit on prudent cost-effective energy conservation investments by utilities in a manner that shall not result in reduced profits, but conversely shall provide the most profitable course of action."

9. Page 29, line 16.
Following: "commission"
Insert: "may"

10. Page 29, line 21.
Following: " shall"
Insert: "may"

MONTANA ENERGY BILL

TESTIMONY BY W. W. BALLARD

3-19-91

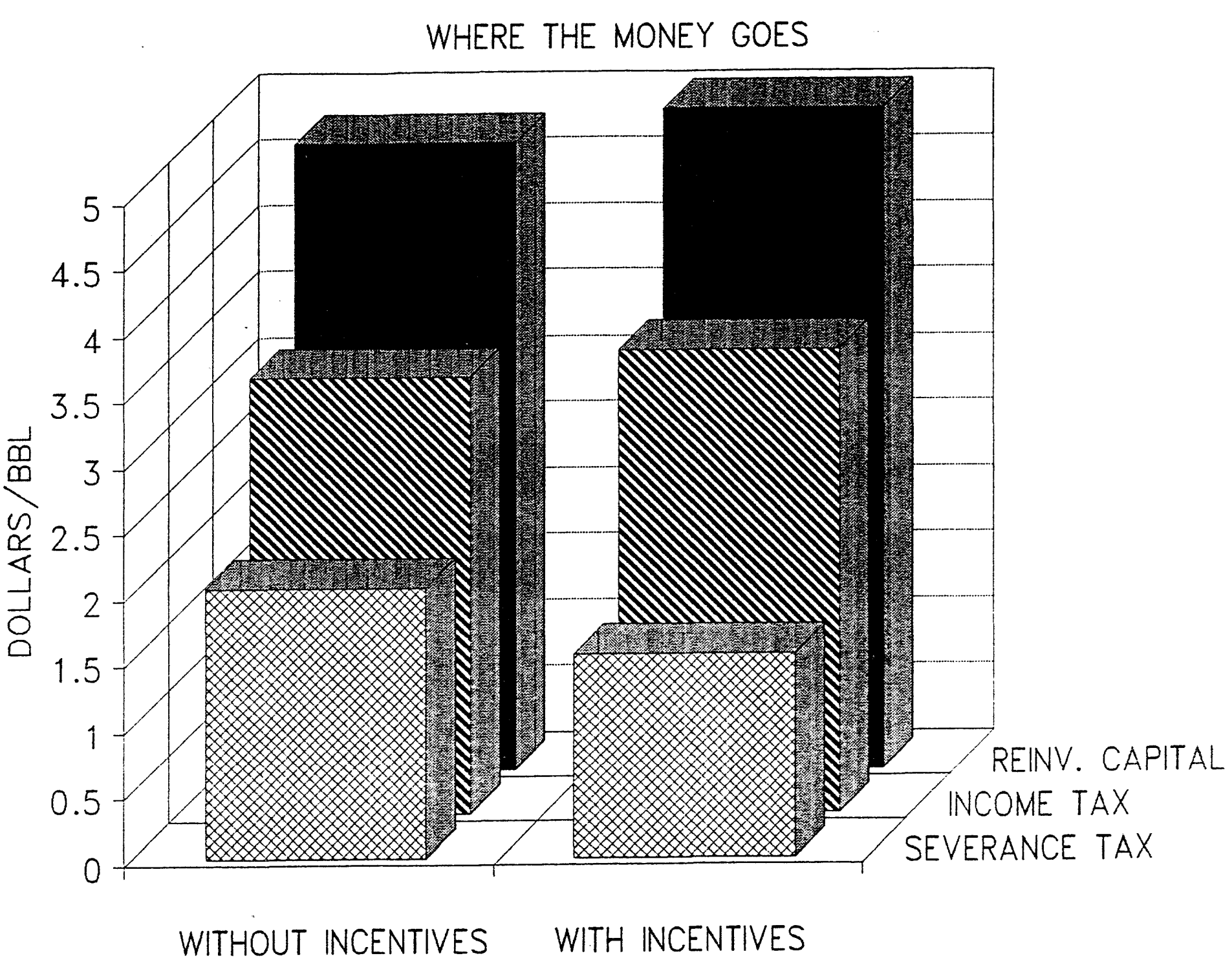
I support this bill as a balanced approach to a comprehensive energy policy for Montana. As an independent oil and gas operator I will address the drilling and stripper incentive portion of the bill in my Testimony.

The exploration part of Montana's oil and gas industry is made up primarily of independents. Independent operators depend on two sources to fund their operation: (1) cash flow from production and (2) their ability to sell ideas to sources of capital, most of whom reside outside the State. This bill restores the severance tax incentive lost when the oil price reached $25 per barrel as a result of the Persian Gulf Crisis. Restoration of this incentive helps both (1) and (2) above by providing additional investment capital and by helping to restore confidence in outside investors that Montana is a good place to do business.

A bar graph is presented which compares revenue distribution with and without the severance tax incentive. Note that with the incentive in place the loss in severance tax is partially offset by an increase in income tax, and that reinvestment capital (profit) is increased by $.25 per barrel. A typical Williston Basin well will produce 300,000 barrels over its productive life and at $20 per barrel this will result in an additional $75,000 available for investment in another well. This is a very significant incentive and will unquestionably spur increased drilling, particularly inasmuch as independents typically spend 100% of their production income on new drilling. (Over the past four years Balcron spent 117% of our net production income on new wells.)

Montana presently has about 3000 producing stripper oil wells. Two graphs and a table are included with this testimony which illustrate the need for reinstatement of the stripper incentive. Note that the incentive will result in 17 months of additional productive life for an average stripper well and will produce 807 additional barrels of oil. Note also on the table that for every $1 cut in taxes the economy gains $31.60. With these numbers the 3000 active stripper oil wells will produce 2.4 million barrels of oil that would otherwise be lost. This will give the State's economy a $43,524,000 boost.

I urge the committee to pass this legislation and thereby help put the Montana oil industry back on its feet.


WHERE THE MONEY GOES
DOLLARS/BBL
5
4.5
4
3.5
3
2.5
2
1.5
1
0.5
0
REINV. CAPITAL
INCOME TAX
SEVERANCE TAX
WITHOUT INCENTIVES
WITH INCENTIVES

EXH. 6

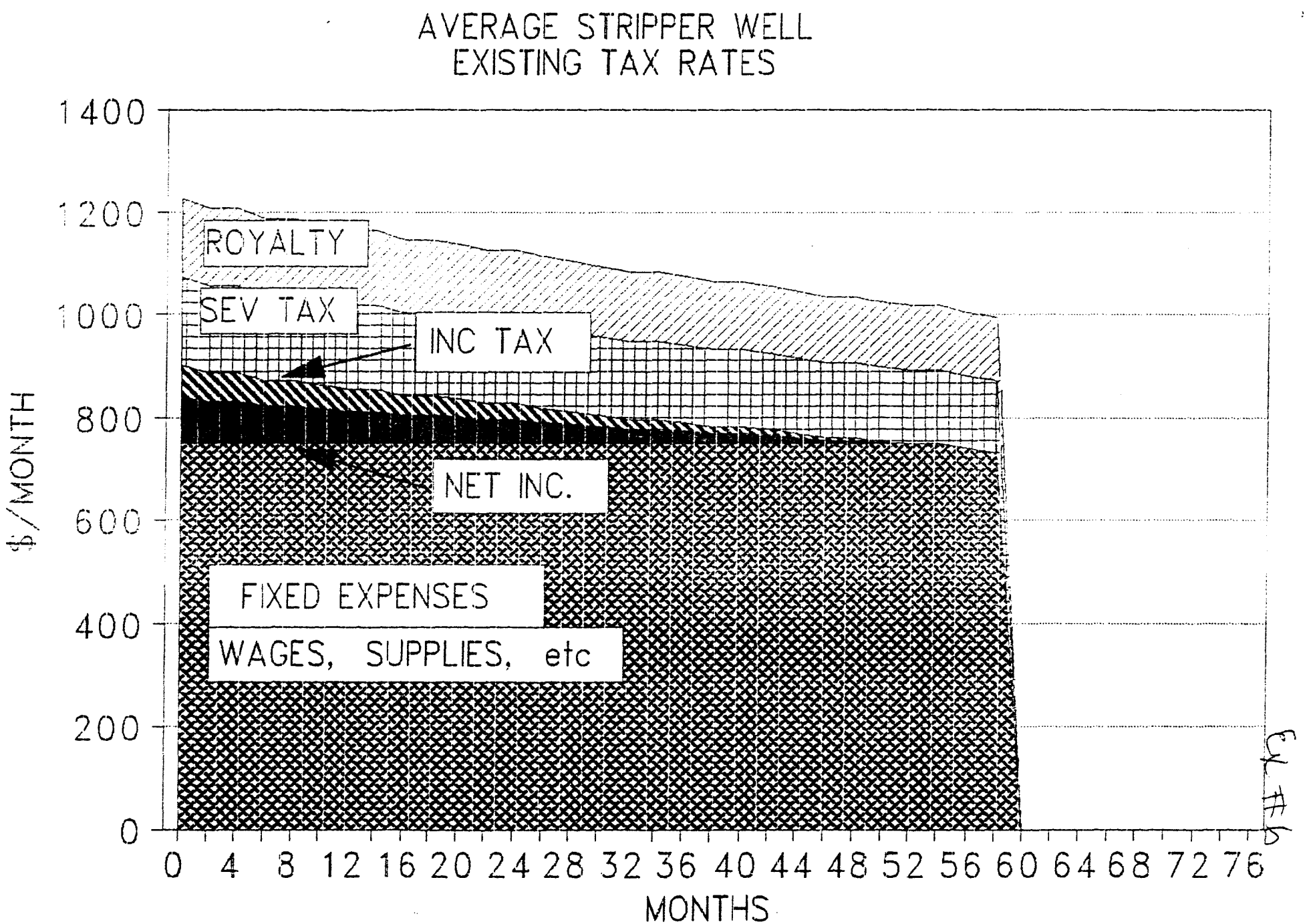
Average Montana Stripper Well

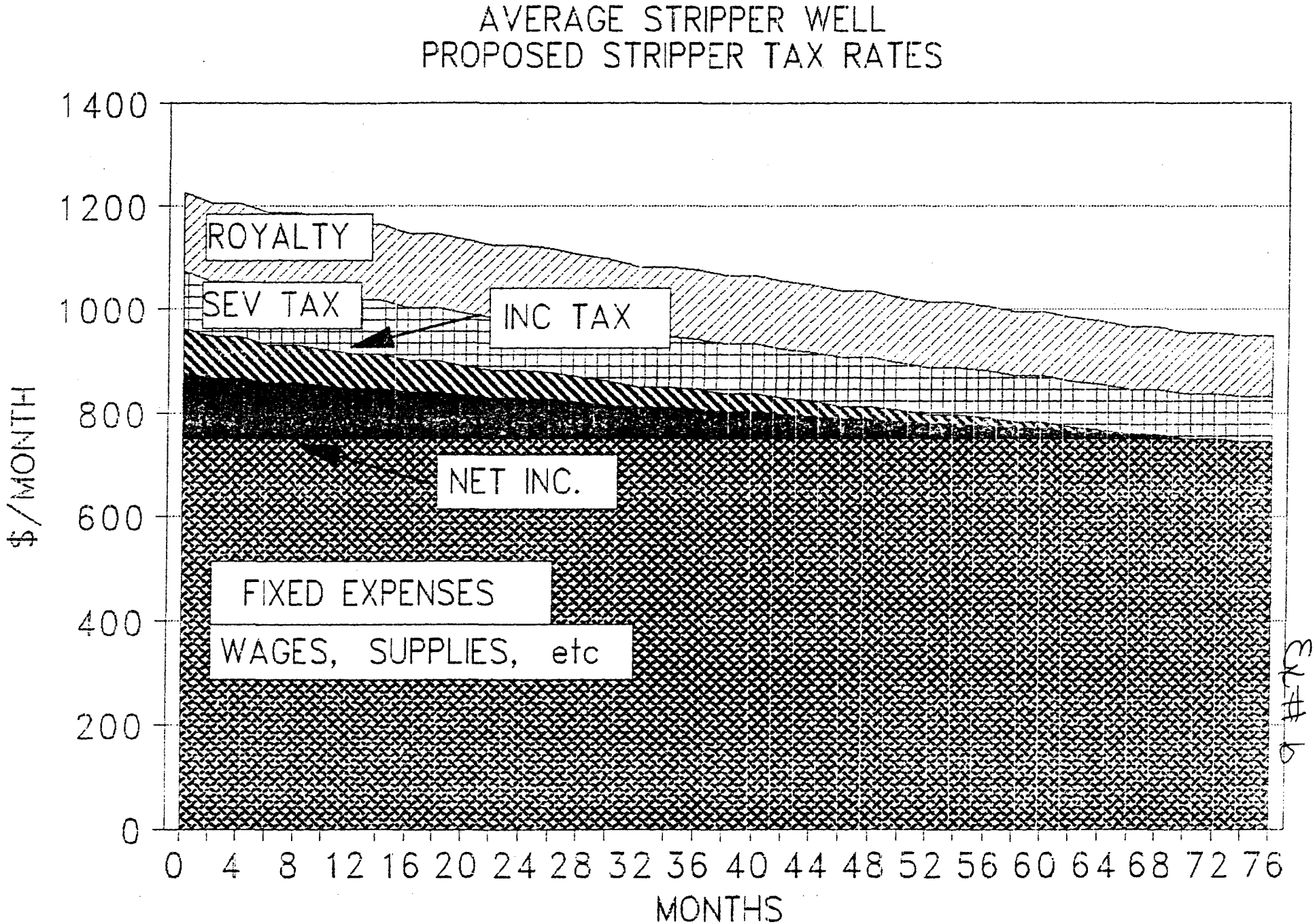
	Current Tax Rate	Proposed Stripper Rate	+/-
Economic Life	58 mos	75 mos	+17 mos
Barrels Produced	3216 bbls	4023 bbls	+807 bbls
Severence Tax Paid	$7,938	$6,407	-$1,531
Income Tax Paid	$888	$1,251	+$363
Property Tax Paid	$2,416	$3,125	+$709
Total Taxes	$11,242	$10,783	-$459

Contributions to State Economy

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

$1 tax cut yields $31.60 boost to economy


AVERAGE STRIPPER WELL
EXISTING TAX RATES
1400
1200
1000
800
600
400
200
0
$/MONTH
ROYALTY
SEV TAX
INC TAX
NET INC.
FIXED EXPENSES
WAGES, SUPPLIES, etc
0 4 8 12 16 20 24 28 32 36 40 44 48 52 56 60 64 68 72 76
MONTHS


AVERAGE STRIPPER WELL
PROPOSED STRIPPER TAX RATES
1400
1200
1000
800
600
400
200
0
$/MONTH
ROYALTY
SEV TAX
INC TAX
NET INC.
FIXED EXPENSES
WAGES, SUPPLIES, etc
0 4 8 12 16 20 24 28 32 36 40 44 48 52 56 60 64 68 72 76
MONTHS

7

T Bar S Oil, Inc.

Oil Properties

P.O. Box 2337
Billings, MT 59103-2337
(406) 259-7661

G.H. (CY) Tanner
Dean A. Swanson

SENATE TAXATION
EXHIBIT NO. 7
DATE 3/19/91
BILL NO. SB466

March 18, 1991

TO: Senate Taxation Committee

RE: SB 466

I am an independent petroleum landman and co-owner of an oil and gas lease brokerage service. I have been in the business in Montana for 30 years and have watched the oil and gas industry to its present state of near extinction. I also serve on the Board of Oil and Gas Conservation but I am making this statement strictly for myself.

The reinstatement of tax incentives for the oil and gas industry is a must, and although the incentives alone cannot guarantee increased activity and production, the message is positive to the industry. We must do all we can to save an industry that HAS PAID it's fair share.

One thing we must remember,

ENCOURAGEMENT CAN REAP BENEFITS

DISCOURAGEMENT NEVER WILL!!

The entire country has been crying for a national energy policy since the gas lines of 1973. Montana can lead the way by passage of this Bill. Please give this Bill a DO PASS recommendation.

Dean A. Swanson

University of
Montana

Bureau of Business and
Economic Research
Missoula, Montana 59812-1110
(406) 243-5113

February 15, 1991

Janelle Fallan
Montana Petroleum Association
2030 Eleventh Avenue, Suite 23
Helena, MT 59601

Dear Janelle:

Regarding your inquiry concerning economic impacts associated with changes in oil and gas activity in the state, I can offer the following analysis from research we have done on the oil and gas industry under the Bureau's Natural Resource Industry Research Program.

First, with regard to employment impacts, the greatest factor affecting oil and gas industry employment in the state is exploration and drilling activity, not oil and gas production. Using actual data for 1977 through 1989, the extent of this relationship has been estimated (see page one of accompanying documentation). In general, oil and gas employment in the state on an annual basis increases by about 53 workers for every increase of 10 wells in drilling activity.

Based upon actual labor earnings data for workers employed in oil and gas exploration and extraction (Industry SIC 13), I estimate that each of these 53 additional workers would earn about $30,000 (average annual compensation). Thus, a drilling increase at the margin of 10 wells raising employment by 50 workers would generate about $1.6 million in added labor income in the oil and gas industry.

Next, this increase in labor earnings among oil and gas workers may have additional impacts on the income of others in the region where they work as well as the state as a whole. However, the degree to which these secondary impacts are felt depends upon the source of the payroll funds and how much of the increased income is spent in the area and state. If the added oil and gas workers are largely composed of out-of-state work crews who spend most of their earnings back at their place of residence, this secondary impact will be minimal.

If the initial increase in labor income by oil and gas workers is largely paid with funds from sources outside of the state (nonresident investors in oil and gas exploration) and most of these dollars do not quickly leave the state, secondary labor income of $1 to $1.5 should accrue to other workers in the state for each $1 in additional income among oil and gas workers. This labor income multiplier ranging from 2 to 2.5 (composed of the initial dollar increase in labor income by oil and gas workers and subsequent dollar to a

dollar and a half increase among other workers in the state through spending and respending of this income) is fairly conservative and an acceptable assumption for most purposes.

Thus, with an increase in drilling activity of 10 wells resulting in an initial increase in labor income among oil and gas workers of about $1.6 million, the probable ultimate effect on labor income in the state would range from $3.2 million ($1.6 mil. x 2) to $4 million ($1.6 mil. x 2.5).

Any additional secondary effects on income in Montana beyond the one noted above would depend upon the added requirements this drilling activity places on other sectors of the state's economy (e.g., purchases of supplies, materials, and equipment, etc.). This, too, results in additional labor earnings by workers in the state who are employed in supplying these needs. However, this varies from case to case and cannot be generalized.

Possible effects on state tax revenues as a result of this drilling activity would stem from both the increase in taxable income among Montana resident workers discussed above and the increased value of oil and gas production that can be linked to this increased drilling activity. Regarding this second area, it is difficult to gauge the effect increased drilling activity will have on oil and gas production in Montana. The number of oil producing wells in the state steadily increased from 1977 to 1986 (from 3.4 thousand wells to 5.2 thousand wells, see accompanying documentation), while total crude oil production largely declined (from 32.7 million barrels a year to 27.2 million barrels during the same period). With very low levels of drilling since 1985, this slow rate of oil production decline has accelerated and annual production dropped to about 20 million barrels in 1990.

During this same period, natural gas production gradually increased from 48.2 billion cubic feet to 54.2 bcf in 1985, fell back to 48.2 bcf in 1986, but grew to about 55 bcf in 1990 with increased development drilling in the last two years.

Based upon recent experience, increased oil and gas drilling in Montana will not result in increased oil production, but will slow the rate of decline in oil production while continuing to gradually increase natural gas production. The impact this will have on state tax revenues not only depends upon possible oil and gas production gains from increased drilling, but upon the level of oil and gas prices when this new production is marketed.

Virtually all forms of state and local governmental revenue derived from oil and gas production are based upon the "value" of production, not the shear amount. If some estimates can be made of possible impacts on oil and gas production through increased drilling, corresponding estimates of what the value of this may be when marketed could

Ex #7

be made. These, in turn, could be used in estimating state and local revenue impacts tied to oil and gas production gains.

I hope this information is helpful. If you have questions regarding any of this analysis, please contact me.

Sincerely,

Larry

Dr. Larry D. Swanson
Director of Economic Analysis

cc: oil and gas file

Ex # 17
FEB 1[illegible]

OIL AND GAS INDUSTRY ANALYSIS: PAGE 1

Relationship Between Oil and Gas Employment and Drilling Activity

There is a fairly strong relationship between the level of drilling activity in Montana and employment in oil and gas extraction (SIC 13). The extent of this relationship is demonstrated below.

YEAR	DRILLING All O&G Wells	Change	Oil & Gas Ext. EMPLOYMENT (SIC 13)	Change	Change in Workers Per Well	
1977	678		2860			
		+120		+ 670	+ 5.6	
1978	798		3530			
		+ 5		+ 254	+50.8	(omit)
1979	803		3784			
		+149		+1270	+ 8.5	
1980	952		5054			
		+197		+2226	+11.3	(omit)
1981	1149		7280			
		-244		-1374	- 5.6	
1982	905		5906			
		-372		-1631	- 4.4	
1983	533		4275			
		+268		+ 545	+ 2.0	(omit)
1984	801		4820			
		-161		- 946	- 5.9	
1985	640		3874			
		-235		-1141	- 4.9	
1986	405		2733			
		- 57		- 298	- 5.2	
1987	348		2435			
		- 26		- 115	- 4.4	
1988	322		2320			
		- 80		- 236	- 3.0	
1989	242		2084			

Source: O&G drilling (State Dept. of Natural Resources & Conservation), O&G employment (Bureau of Economic Analysis, U.S. Dept. of Commerce).

If the two relatively high and one low numbers are omitted from the right colum showing the change in employment per well as the number of wells drilled changed, the average change in employment per well with increases and decreases in drilling activity is 5.3 workers per well (47.5 divided by 9). Thus, if drilling increased by 10 wells during the year, employment could be expected to increase by about 53 workers.

Workers in this industry had annual earnings averaging $32,144 in 1983, $29,276 in 1986, and $30,284 in 1989 (all in 1989 dollars). [Source: BEA, U.S. Dept. of Commerce]

Ex #7

Oil and Gas Production and Drilling in Montana

The table below shows annual production levels of oil and gas in Montana in relation to drilling activity and the addition of new oil and gas producing wells.

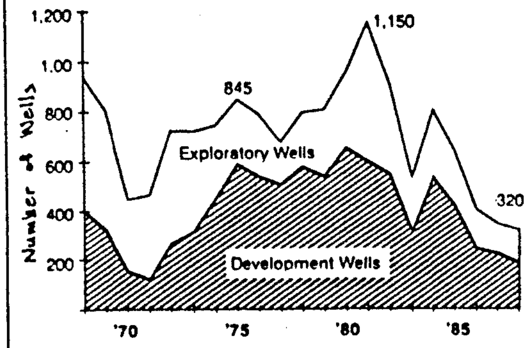
YEAR	Oil Production	Oil Wells	Gas Production	Wells Drilled	New Wells Oil	New Wells Gas	Dry Holes
1977	32.7	3.4	48.2	678	122	239	317
1978	30.5	3.5	47.1	798	144	238	411
1979	30.0	3.6	53.9	803	155	255	393
1980	30.0	3.8	53.8	952	271	215	466
1981	30.8	4.0	50.1	1149	302	218	629
1982	30.9	4.4	50.9	905	327	191	387
1983	29.7	4.8	52.4	533	185	71	277
1984	30.1	4.8	53.0	801	360	120	321
1985	29.9	5.1	54.2	640	243	86	311
1986	27.2	5.2	48.2	405	101	91	213
1987	25.1	4.9	47.8	348	93	84	171
1988	23.4	4.8	53.0	322	82	73	167
1989	21.0	4.6	52.6	242	40	127	75
	Mil.Bbls.	(Thous)	Bil.Cu.Ft.				

As well drilling increased between 1977 and 1981, crude oil production in the state fell from 32.7 million barrels to 30.8 million barrels, even though the number of oil producing wells increased from 3,400 to 4,000. Gas production increased in 1979 and 1981, but fell back in 1981. Thus, it's not clear that the state could increase production with increased drilling activity.

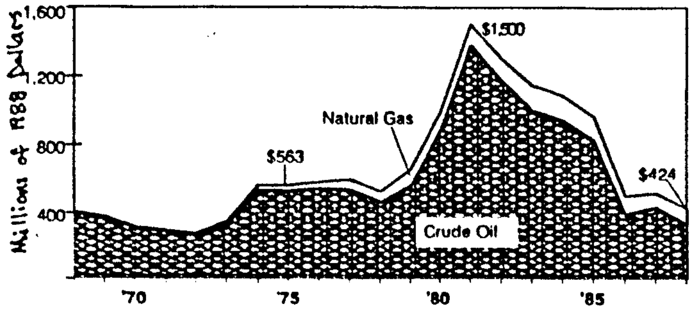
However, it is clear that oil production in the state falls off more rapidly as drilling activity declines. When drilling activity decreased considerably after 1985, the rate of decline in oil production accelerated and oil production fell by one-third between 1985 and 1990 (the State DNRC preliminary estimate for oil production last year is 20 million barrels).

These data suggest that most of the new oil and gas wells coming on line in recent years (as well as existing producing wells) are increasingly made up of marginal producers. According to estimates by the National Stripper Well Association, Montana had 3,300 stripper wells in 1987, up from less than 2,000 in the late 1970s (a stripper well is a marginal well producing less than 10 barrels of oil per day).

Oil and Gas Drilling in Montana



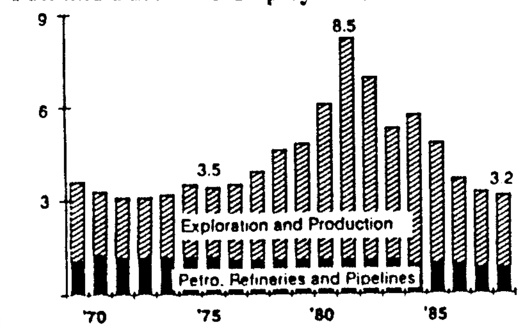
Wellhead Value of Montana Oil and Gas Production



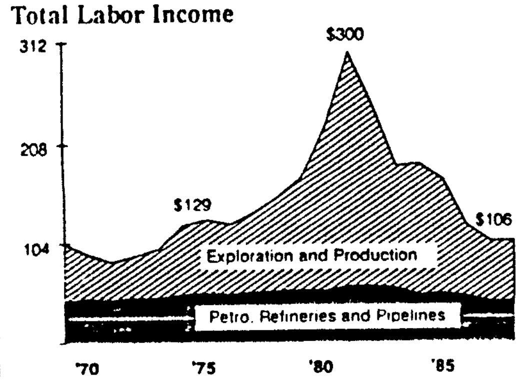
Source: MDR/1 and DNRC/1

Oil & Gas Industry Employment and Worker Earnings

Full and Part-time Employment



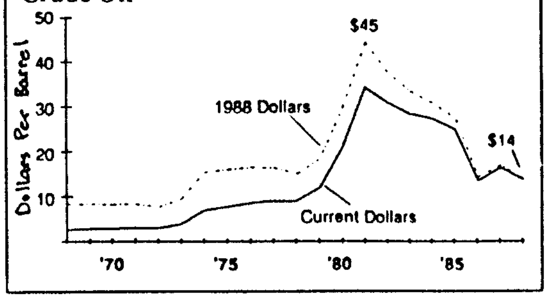
Total Labor Income



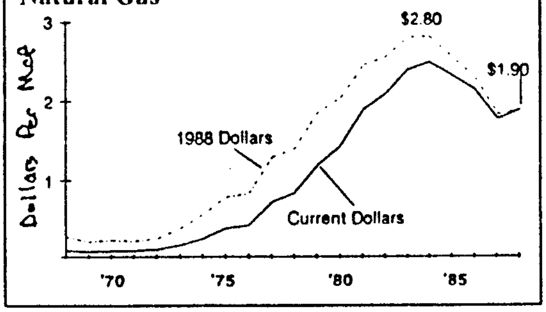
Source: BEA/1

Wellhead Prices in Montana

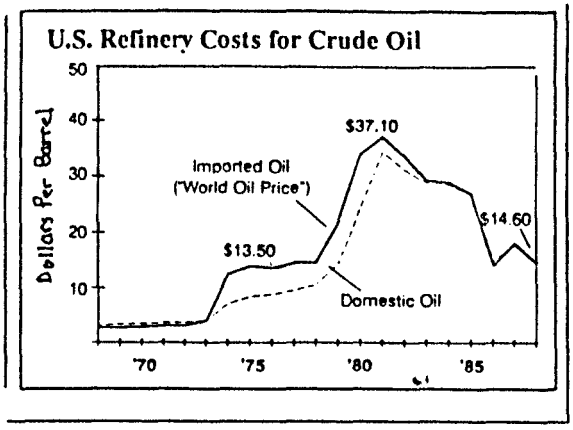
Crude Oil

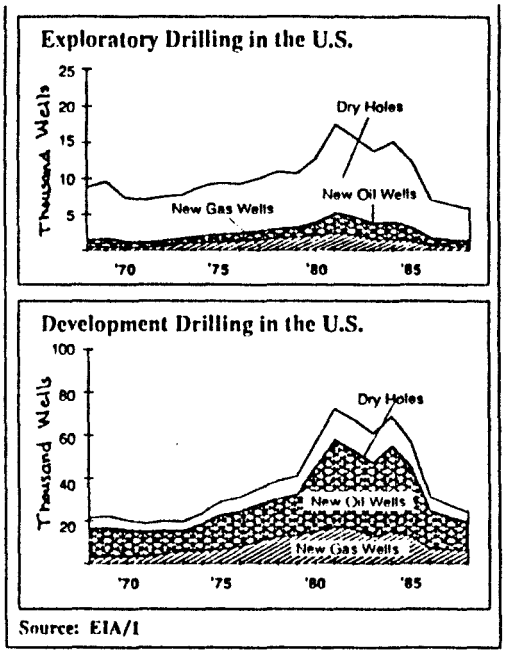


Natural Gas



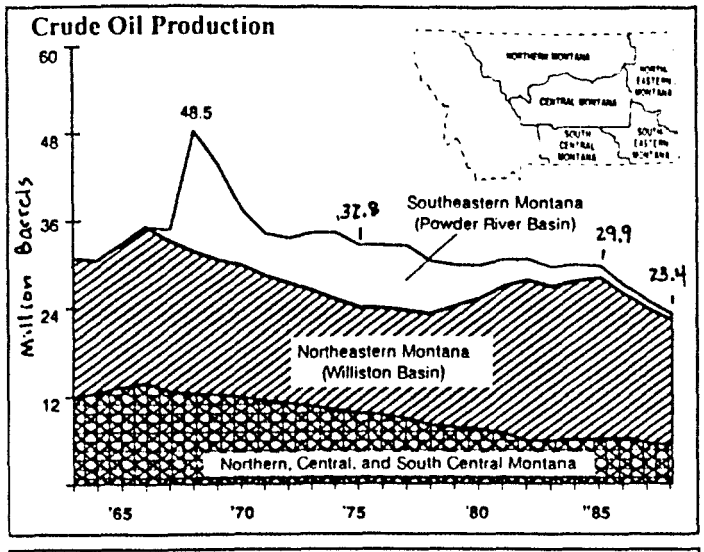
Source: MDR/1

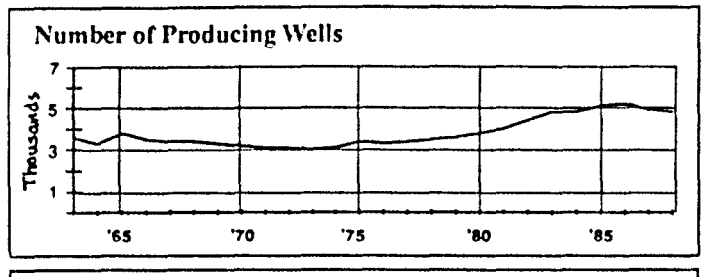


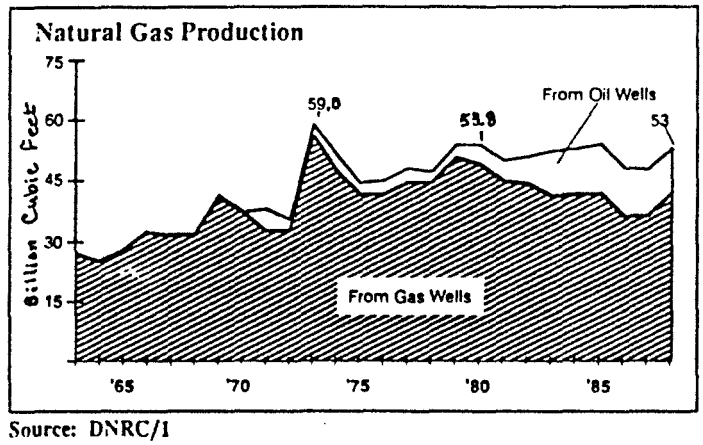


Source: EIA/1

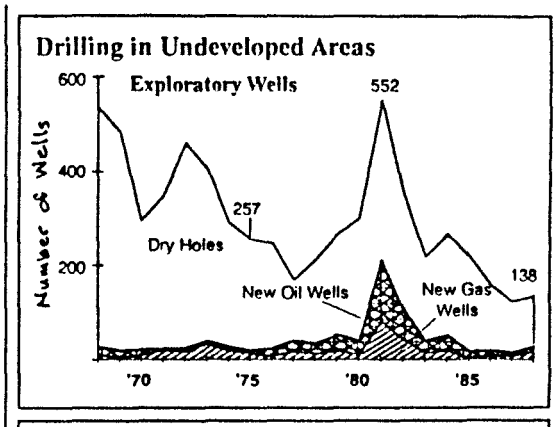
Historical Production Levels

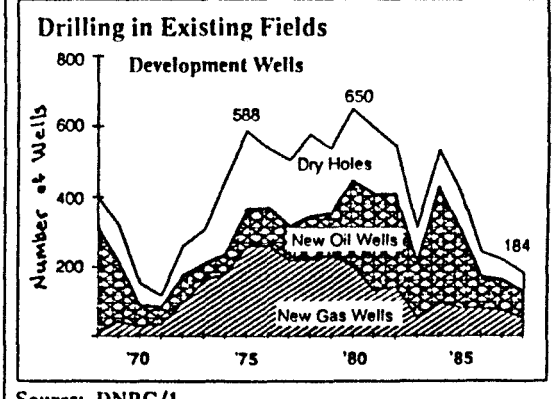






Source: DNRC/1





Source: DNRC/1

EXHIBIT NO. 8
DATE 3/19/91
BILL NO. SB 466

WITNESS STATEMENT

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

Dated this 19th day of March, 1991.

Name: Wilbur Anderson

Address: Box 71 Dillon, Mont. 59725

Telephone Number: 683-2327

Representing whom?

Vigilante Electric Cooperative

Appearing on which proposal?

SB466

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

Comments:

Copies of my testimony in support of SB466.

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY

EXHIBIT NO. 8
DATE 3/19/91
BILL NO. SB 466

VIGILANTE ELECTRIC COOPERATIVE INC.

225 E. BANNACK STREET • P.O. BOX 71 • DILLON, MONTANA 59725-0071
PHONE (406) 683-2327 • IN STATE (800) 221-8271 • FAX (406) 683-4328

Hearing
SB NO. 466
MONTANA ENERGY SECURITY POLICY ACT LC 1833
Helena, Montana
March 19, 1991
Senate Taxation Committee

Good morning Mr. Chairman and members of the Committee. For the record, my name is Wilbur Anderson, and I am General Manager of Vigilante Electric Cooperative with headquarters in Dillon, Montana. Our service area includes portions of nine counties in southwestern Montana, and Clark County, Idaho. I also serve on the Legislative Committee of the Montana Electric Cooperative Association, and am past President of the Northwest Public Power Association.

Vigilante is one of eight Bonneville Power customer systems in western Montana, and have worked hard in the areas of energy conservation for many years. Our staff has worked in the Super Good Cents Program since its inception, irrigation pump testing for efficiency since the start of the pilot program, provided free efficiency water heater wraps for 10 years, shower flow restrictors, and helped on irrigation conversion from electric pumping to a gravity system where 2,600 H.P. was removed. We have also provided free energy audits of residential and commercial buildings and plans for over 10 years. We also participated in an insulation study testing types and amounts of insulation in 1965, in Montana.

We believe in, and have practiced energy conservation, on a voluntary basis for over 25 years. Now we are being told that mandatory Model Conservation building standards are necessary in

Montana. If you fail to construct your home to these specifications, the Department of Commerce will not allow the electric utility to hook up to your new home.

Perhaps we could support this type of legislation if this same law will apply equally to all forms of energy used for residential and commercial heating in the state. This would include oil, gas, electricity, propane, or other heating energy forms used. Our systems would have to be assured that the utilities would not have to enforce this type of rules and regulations and that it would be fuel blind across the entire state.

[redacted]

The only exception seems to be in Section 11, paragraph (1) in SB 466 where it states, "Administrative Rules of Montana, apply to all residential buildings located within the state that receive service from an electric utility except those buildings for which the state building code is preempted by operation of federal law." We assume this would mean the exempted areas would be the seven (7) Indian reservations, the National Park Service and Forest Service residential areas, and others such as the U.S. Fish and Wildlife Service residential facilities.

Thank you.

50-60-102. Applicability. (1) The state building codes do not apply to:

(a) residential buildings containing less than five dwelling units or their attached-to structures, any farm or ranch building, and any private garage or private storage structure used only for the owner's own use, located within the municipality's or county's jurisdictional area, unless the local legislative body or board of county commissioners by ordinance or resolution makes the state building code applicable to these structures; or

(b) mines and buildings on mine property regulated under Title 82, chapter 4, and subject to inspection under the Federal Mine Safety and Health Act.

(2) The state may not enforce the state building code under 50-60-205 for the buildings referred to in subsection (1). Local governments that have made the state building codes applicable to the aforementioned buildings may enforce within their jurisdictional areas the state building code as adopted by the respective local government.

(3) Where good and sufficient cause exists, a written request for limitation of the state building code may be filed with the department for filing as a permanent record.

(4) The department may limit the application of any rule or portion of the state building code to include or exclude:

(a) specified classes or types of buildings according to use or other distinctions as may make differentiation or separate classification or regulation necessary, proper, or desirable;

(b) specified areas of the state based upon size, population density, special conditions prevailing therein, or other factors which make differentiation or separate classification or regulation necessary, proper, or desirable.

History: En. Sec. 4, Ch. 366, L. 1969; amd. Sec. 2, Ch. 226, L. 1974; R.C.M. 1947, 69-2104; amd. Sec. 2, Ch. 555, L. 1981; amd. Sec. 1, Ch. 194, L. 1987; amd. Sec. 60, Ch. 83, L. 1989.

Compiler's Comments

1989 Amendment: In (2) substituted "buildings referred to in subsection (1)" for "aforementioned buildings" and deleted last sentence that read: "The state may not enforce the state building code under 50-60-205 for those buildings."

Cross-References

Municipal power to regulate, restrain, or prevent dangerous factories, 7-33-4207.

Part 2

State Building Code

Part Cross-References

Municipal adoption of building, electrical, and plumbing codes, 7-15-4121.

Municipal adoption of fire code, 7-33-4208.

Seal of professional engineer, professional land surveyor, or architect required, 18-2-122.

Department of Commerce approval of sch building plans required prior to construction alteration, 20-6-622.

Construction requirements for mausoleur columbariums, and crematories, 35-21-7 through 35-21-712.

Municipal building regulations — municip zoning commission, Title 76, ch. 2, part 3.

50-60-201. Purpose of state building code. The state building co shall be designed to effectuate the general purposes of parts 1 through 4 a the following specific objectives and standards to:

(1) provide reasonably uniform standards and requirements for constru tion and construction materials consonant with accepted standards of desig engineering, and fire prevention practices;

(2) permit to the fullest extent feasible the use of modern technic methods, devices, and improvements which tend to reduce the cost of co struction consistent with reasonable requirements for the health and safety the occupants or users of buildings and, consistent with the conservation energy, by design requirements and criteria that will result in the efficie utilization of energy, whether used directly or in a refined form, in buildings;

(3) eliminate restrictive, obsolete, conflicting, and unnecessary buildi regulations and requirements which tend to increase unnecessarily constru tion costs, retard unnecessarily the use of proven new materials which ha been found adequate through experience or testing, or provide unwarrante preferential treatment to types or classes of materials, products, or metho of construction;

(4) ensure that any new buildings constructed with public funds are acce sible to and functional for physically handicapped persons according to th principles applicable to accessibility to public buildings for handicapped pe sons adopted, recommended, or issued as Part II, Uniform Federal Accessibi ity Standards, as it reads in the Federal Register dated August 7, 1984, an as the department may amend by rule to reflect changes in the principles;

(5) encourage efficiencies of design and insulation which enable building to be heated in the winter with the least possible quantities of energy and t be kept cool in the summer without air conditioning equipment or with the least possible use of such equipment;

(6) encourage efficiencies and criteria directed toward design of building envelopes with high thermal resistance and low air leakage and toward requiring practices in the design and selection of mechanical, electrical, and illumination systems which promote the efficient use of energy.

History: En. Sec. 7, Ch. 366, L. 1969; amd. Sec. 4, Ch. 226, L. 1974; amd. Sec. 1, Ch. 116, L. 1975; R.C.M. 1947, 69-2110; amd. Sec. 1, Ch. 65, L. 1985.

MARCH 19, 1991

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE

MY NAME IS MARK LINDSAY AND I AM A GENERAL CONTRACTOR HERE IN THE HELENA AREA. I AM ALSO VICE PRESIDENT OF THE MONTANA BUILDING INDUSTRY ASSOCIATION. THIS ASSOCIATION WHICH REPRESENTS 530 FIRMS ACROSS THE STATE IS RISING IN OPPOSITION TO THIS BILL.

WE HAVE NO QUARREL WITH THE NEED FOR AN ENERGY POLICY IN THIS STATE NOR DO WE HAVE A PROBLEM WITH OUR INDUSTRY BEING A PART OF THAT POLICY. IN FACT WE WOULD SUPPORT SUCH AN ACTION. WHAT WE DO HAVE A PROBLEM WITH IS LEGISLATION THAT WILL HAVE A VERY SERIOUS IMPACT ON NEW HOME CONSTRUCTION IN MONTANA. THIS BILL IMPOSES VERY EXPENSIVE NEW ENERGY CODE STANDARDS ON ALL NEW CONSTRUCTION. THE BILL HAS THE POTENTIAL OF FINANCIALLY SQUEEZING WELL OVER 10,000 MONTANA FAMILIES OUT OF THE NEW HOME MARKET, AND COSTING THE INDUSTRY HUNDREDS OF JOBS.

OUR INDUSTRY HAS BEEN IN THE FOREFRONT OF ENERGY CONSERVATION IN NEW CONSTRUCTION FOR MANY YEARS AND WE ARE DIRECTLY RESPONSIBLE FOR THE HIGH ENERGY CODE STANDARDS THAT WE CURRENTLY HAVE IN EFFECT.

WE HAVE ALWAYS SUPPORTED CHANGES TO THE ENERGY CODE THAT ARE COST EFFECTIVE AND IN THE BEST INTERESTS OF THE CONSUMER AND WHICH RECOGNIZE THE REALITIES OF HOUSING AFFORDABILITY IN MONTANA. THIS BILL SIMPLY DOES NOT MEET THAT CRITERIA. THIS BILL WILL ADD A MINIMUM OF $4,000. TO $5,000. DOLLARS TO THE COST OF NEW CONSTRUCTION. WITH OUR STATE'S DEPRESSED INCOMES THERE WILL BE A SIGNIFICANT IMPACT ON THE TYPICAL FIRST TIME HOMEBUYER

EXH 10

WHO SIMPLY WILL NOT BE ABLE TO MAKE THE FINANCIAL STRETCH. THE BILL IS FUEL BLIND WHICH MEANS THAT THE SAME HIGH ENERGY CODES WILL APPLY REGARDLESS OF WHETHER THE HOME IS HEATED WITH GAS OR ELECTRICITY. ANALYSIS AFTER ANALYSIS HAS CONFIRMED THAT IT IS JUST NOT COST EFFECTIVE TO APPLY THESE HIGH ENERGY CODES TO A HOME HEATED WITH NATURAL GAS.

THIS INDUSTRY HAS ALWAYS PUSHED FOR THE HIGHEST ENERGY CODES THAT ARE COST EFFECTIVE FOR THE CONSUMER AND WHO'S VALUE IS RECOGNIZED IN THE MARKET PLACE. ONCE WE MANDATE CODES BEYOND THAT WE DENY A CERTAIN PERCENTAGE OF THE MARKET THE AMERICAN DREAM OF OWNING A HOME.

WE ADVOCATE EDUCATING THE CONSUMER ON ENERGY EFFICIENT CONSTRUCTION SO HE CAN MAKE AN INTELLIGENT DECISION ON THE CONSTRUCTION TECHNIQUES USED IN HIS HOME BASED ON HIS OWN FINANCIAL CAPABILITIES. OUR INDUSTRY HAS WORKED HARD TO MAKE SURE THE CONSUMER IS MAKING AN EDUCATED DECISION.

MEMBERS OF OUR ASSOCIATION AND BUILDERS ACROSS THE STATE HAVE BEEN PARTICIPATING IN TRAINING SEMINARS FOR THE PAST SEVERAL YEARS TO INCREASE THE ENERGY EFFICIENCY OF NEW HOMES IN MONTANA. THE DEPT. OF NATURAL RESOURCES, BPA, THE NORTHWEST POWER PLANNING COUNCIL, THE UTILITIES, AND THE BUILDING INDUSTRY HAVE ALL BEEN PARTICIPATING IN THIS EDUCATIONAL PROCESS. I HAVE BEEN INVOLVED IN THIS PROCESS SINCE THE EARLY 1980'S WHEN I PARTICIPATED IN THE CONSTRUCTION OF SOME OF THE FIRST MODEL ENERGY HOMES. I WAS ALSO INVOLVED IN SUBSTANTIATING THE ACTUAL COSTS ASSOCIATED WITH THE VARIOUS ENERGY COMPONENTS.

Ex #10

THIS EDUCATIONAL PROCESS THE STATE HAS EMBARKED UPON IN THE LAST 7 OR 8 YEARS SHOULD BE ALLOWED TO CONTINUE IN LIEU OF HIGH COST MANDATED CODES THAT WILL FORCE THE LOW OR EVEN AVERAGE INCOME CONSUMER OUT OF THE MARKET. MAJOR PROGRESS HAS BEEN MADE IN THIS CAPACITY AND IS SUBSTANTIATED BY THE FACT THAT AVERAGE NEW CONSTRUCTION IN THE STATE EXCEEDS CODE REQUIREMENTS. OUR EXPERIENCE IS THAT MOST CONSUMERS THAT CAN AFFORD IT, DO TAKE OUR RECOMMENDATIONS ON ELECTRICALLY HEATED HOUSES TO GO TO A HIGHER STANDARD THAT WE BELIEVE TO BE COST EFFECTIVE. BUT MANY CONSUMERS CANNOT AFFORD THE ADDITIONAL COST. IT IS IRONIC THAT WHEN THIS HAPPENS THE RESULT IS THE PURCHASE OF MOBILE HOMES OR POSSIBLY LESS ENERGY EFFICIENT EXISTING HOUSING STOCK THUS ACTUALLY INCREASING ENERGY CONSUMPTION.

THE BUILDING INDUSTRY CONTINUES TO HAVE BOTH TECHNICAL AND INSTITUTIONAL PROBLEMS WITH THESE HIGHLY CONTROVERSIAL CODE STANDARDS. WE HAVE VERY SERIOUS CONCERNS REGARDING INDUSTRY LIABILITY USING SOME OF THESE TECHNIQUES. WE ALSO HAVE CONCERNS ABOUT THE UNFAIR APPLICATION OF THESE STANDARDS TO ONLY CERTAIN SEGMENTS OF THE HOUSING MARKET, PLACING THE STICK BUILT BUILDER AT A SERIOUS COMPETITIVE DISADVANTAGE. AND OF COURSE WE ARE CONCERNED WITH THE AFFORDABILITY OF THE STANDARDS.

I WOULD ENCOURAGE YOU TO REJECT THIS BILL IN ITS PRESENT FORM, BUT WE ARE WILLING TO DISCUSS AMENDMENTS TO THIS BILL TO MAKE IT ACCEPTABLE TO THE BUILDING INDUSTRY AND THE FUTURE HOME BUYERS IN THIS STATE. THERE ARE A VARIETY OF EDUCATIONAL AND MARKET PENETRATION STRATEGIES WHICH IF PURSUED WOULD EFFECTIVELY ACCOMPLISH THE SAME OBJECTIVES WITHOUT THE SERIOUS SIDE AFFECTS WHICH I HAVE REFERENCED. WE STAND READY TO WORK ON ANY SUCH APPROACH.

SENATE TAXATION
EXHIBIT NO. 11
DATE 3/19/91
BILL NO. SB466

TESTIMONY BY DON CHANCE, EXECUTIVE DIRECTOR
MONTANA BUILDING INDUSTRY ASSOCIATION
SB 466
MARCH 19, 1991
SENATE TAXATION COMMITTEE

INTRODUCTION
1. Building industry has been a leader in energy conservation.

2. Industry has been supportive of energy construction which was cost effective, safe, technically feasible, and financially affordable for the consumer.

3. MBIA formal policy that builder has an obligation to master available information and techniques. He also has the obligation to convey such information to the consumer such that the consumer has the ability and right to make an educated decision based upon there individual circumstances.

4. Industry has backed that position with plenty of effort, courses, articles, seminaries, cooperative studies, etc.

5. Industry currently builds beyond the code when the consumer can afford it and it makes sense.

6. Industry opposition to the code provisions of the bill is not based upon some general opposition to energy conservation in general. this is clearly not the case, as the industry has an economic incentive to "sell more conservation" if the consumer can afford it. the opposition which the industry holds toward the code features of this bill is based on a variety of technical, liability, affordability, safety, and consumer cost effectiveness considerations.

ENERGY COMPARISONS - THE BIG PICTURE
1. Residential sector only consumes 17% of the state's total energy consumption budget.

2. Residential electrical sector constitutes only 3.7% of the total BTU consumption in the state.

Exh 11

3. Approximately half of the 3.7% is in the area of lights, hot water, and appliances. All of which would be unaffected by this proposal.

4. The bottom line is that less than 2% of the state's total energy consumption is in the area of residential electrical space heating. Imposition of the MCS on residential construction would constitute a savings of less than 1/10 of 1 percent of the total state energy consumption budget on an annual basis.

5. Notice that the bill makes no substantive improvement in energy conservation in any of the other critical energy sectors.

THE COST FOR THESE VERY SMALL IMPROVEMENTS
1. NAHB mortgage finance analysis using standard assumptions and Montana income data:

* 10,000 families who previously could have afforded to purchase a new home, would not be able to afford such a purchase.

*Estimated 300 housing starts a year would be lost (15% to 20% of state housing starts)

* 600 to 1,000 construction jobs could be lost.

* 13.5 million in potential lost wages.

* 5.6 million in potential lost fed., state, local taxes per year.

COST EFFECTIVENESS

1. Cost effectiveness does not equate into affordability for the consumer, nor the technical or institutional capacity to implement such standards.

2. Cost effectiveness is highly subject to house type, heating source, and your assumptions.

3. DNRC spent several days last year with the industry where we did nothing but confirmed each other's numbers and played what if games in computer models. The results:
* Net present value on electric homes ranged from a couple of dollars to approximately $600 after 10 years.

* gas MCS was most often a net loser for the consumer.

Cy # 11

AFFORDABILITY ISSUE

1. Cost effectiveness does not mean the consumer can afford it. It only only means he is better off if he can afford it.

2. Oregon study - cost incentive to built more electric homes under the MCS if the standard is applied to gas homes.

3. Other market concerns:
 manufactured housing
 log homes

4.Cost factors

5. Technical issues

6. Institutional issues

Summary

Housing's Direct Economic Impact

Residential construction stimulates the economy directly by generating jobs, wages and tax revenues and indirectly as the demand for goods and services created by the construction of new homes "ripples" through the economy.

Although it's difficult to gauge the indirect impact, the direct impact of residential construction on the economy is profound.

Five-Year Impact

From 1985 to 1989, the nation's home builders constructed 8.03 million new houses and apartment units, creating 2.35 million full-time jobs and generating $61 billion in wages in each year. Local, state and federal tax revenues generated by the new construction totaled $125 billion over the five-year period.

One-Year Impact

The construction of 1,000 single-family homes generates 1,759 worker-years of employment in construction and construction-related industries; $45.7 million in wages; $18.8 million in combined federal, state and local tax revenues; $1.6 million in local property taxes during the first year and $19 million in local property taxes over 20 years assuming a five percent annual increase in property values.

The construction of 1,000 multifamily units generates 826 worker-years of employment in construction and construction-related industries; $21.5 million wages; $9.8 million in combined federal, state and local tax revenues; $1 million in local property taxes during the first year; and $11.4 million in local property taxes over 20 years assuming a five percent annual rise in property values.

SENATE TAXATION
EXHIBIT NO. 12
DATE 3/19/91
BILL NO. SB 466

YELLOWSTONE CONTRACTORS ASSOCIATION, INC.

P.O. BOX 875
BILLINGS, MT 59103

(406) 259-1703

March 19, 1991

TO: Members of the Montana Senate Taxation Committee

SUBJECT: SB 466

Dear Senators:

For you information, in addition to my verbal remarks, I am attaching prepared material for your use as prepared from National Statistics by the National Association of Home Builders. This is their latest publication of what is known as the Housing Backgrounder.

This will be the third (3) time since 1983 that the Northwest Power Planning Council Commissioners have attempted to "saddle" the Montana residential construction industry with the Model Conservation Standards as the residential code. This particular proposed MCS is what is known as the Zone 3 code which calls for much heavier insulation requirement than say the Zone 1 code for the Seattle, Washington area.

The first time the attempt was made to make this a building code for Montana, the legislature, in its wisdom rejected it. The second attempt to make the MCS (Zone 3) a residential code for Montana the Federal Commissioners from Montana rejected it. Now we have a third attempt to make it a residential code which would affect all residential construction no matter what the space heating fuel would be. In addition, its provisions are placed in the Governor's Energy Bill which has some other provisions which could be good for the state and its citizens. This is the only state that I know of in the Northwest which is proposing the MCS as a "fuel" blind code. It has always been proposed as a code for electrically heated residences.

The MCS, as being proposed, is not even COST EFFECTIVE for residences that are heated by electricity let alone natural gas. The additional cost from the 1986 CABO Model Energy Code to the MCS is estimated at $5,200.00 in additional labor, insulation, and equipment. The current rate of mortgage interest is 9.5% on an FHA loan. Amortizing $5,000.00 over 30 years amounts to $17,784.00. If the MCS reduced the electrical charges by 50%, which it is doubtful it would do, it would create a savings to the customer who has electric space and domestic water heating of roughly $408.00 per year.

I urge the Senators of this committee to reject the MCS as a residential energy code for Montana.

Sincerely,

James F. Lechner

James F. Lechner
Executive Director

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Ex #12
3-19-91

Employment and Wage Impacts of Constructing 1,000 Housing Units in 1989

(In Millions of Dollars)

	Single Family		Multifamily	
	Additional Employment (Man-Years)	Additional Wages ($Million)	Additional Employment (Man-Years)	Additional Wages ($Million)
All Industries	1,759	$45.7	826	$21.5
Construction	627	16.3	318	8.3
On-Site	525	13.7	273	7.1
Off-Site	102	2.7	45	1.2
Land Development	235	6.1	65	1.7
Other Industries	897	23.3	443	11.5
Manufacturing	397	10.3	240	6.2
Trade, transport., services	355	9.2	153	4.0
Mining & Other	145	3.8	50	1.3

Employment estimates are based on unpublished data from the Bureau of Labor Statistics, U.S. Department of Labor, of the employment requirements for building housing during 1981; NAHB assumes these employment requirements also apply to housing constructed in 1989. Average wages for each type of industry in 1989 are used to convert man-years into equivalent wages.

Building Codes

Construction in most jurisdictions throughout the U.S. is regulated at the local level by building and related codes which set forth specific requirements for materials, fire protection, structural design, light and ventilation, heating and cooling, sanitary facilities and energy conservation.

A few municipalities (mostly major cities) write and revise their own codes. However, most state, county or local jurisdictions adopt one or more of the major model codes, sometimes with local amendments.

These are codes which are written, maintained, revised and distributed by several major model code writing organizations. However, the jurisdiction has total authority for adoption and enforcement. Some states also have mandatory statewide building codes.

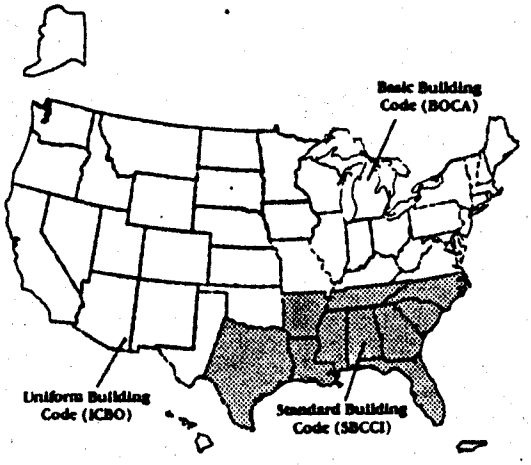
There are several major model code writing organizations. They include:

- **The Building Officials & Code Administrators International (BOCA)**, which publishes the BOCA National Codes and is headquartered in Country Club Hills, Ill.
- **The International Conference of Building Officials (ICBO)**, which is headquartered in Whittier, Calif., and publishes the Uniform Building Codes.
- **The International Association of Plumbing and Mechanical Officials**, which publishes the Uniform Plumbing and Mechanical Codes, and is located in Walnut, Calif.
- **The Southern Building Code Congress International (SBCCI)**, which publishes the Standard/Southern Codes and is headquartered in Birmingham, Ala.

All of these groups write, maintain, revise and distribute a building code, a plumbing code, a mechanical code, a housing code, a fire prevention code and other documents. Model codes are usually printed in new editions every three years with annual supplements published in the interim.

The Council of American Building Officials (CABO), which is headquartered in Falls Church, Virginia, was formed by the other code groups to publish the CABO One & Two Family Dwelling Code, which many jurisdictions have adopted for single-family houses and duplex units. It also publishes the CABO Model Energy Code.

The approximate areas of model code usage are shown on the map below.



EY #.12
3-19-91

Residential Energy Efficiency

Residential energy efficiency has improved dramatically since the two energy crises of the 1970s. In 1980, the average annual energy consumption for a single-family unit was 138 million Btu. By 1987, the overall average consumption had dropped to 115 million Btu.

Recent increases in fuel costs, along with growing environmental concerns, may again put energy efficiency at the top of the consumer agenda and provide the necessary impetus to speed up development and acceptance of new energy efficient products and construction techniques.

Residential Energy Use Per Household

(In Millions of Btu)

	1980	1985	1987
Average Per Household	126	105	101
Average by Type of Unit			
Single-Family Detached	138	117	115
Single-Family Attached	135	112	99
Multifamily - 5 or more	77	71	64
Average by Year House Was Built			
1939 or earlier	148	126	120
1940-1949	123	106	104
1950-1959	127	107	110
1960-1969	111	100	100
1970-1974	108	90	95
1975-1979	98	87	86
1980-1984	NA	74	71
1985 or later	NA	NA	71

Source: U.S. Energy Information Administration

Housing Affordability and Interest Rates

Mortgage interest rates have a profound effect on housing affordability. As rates increase, the number of families able to purchase a home decreases as shown in the following examples. Conversely, when rates drop, housing becomes more affordable and more households have the income needed to purchase a home.

Sales Price: $75,000

Based on a fixed-rate, 30-year mortgage of $67,500 (10 percent downpayment)

Interest Rate	Monthly Principal & Interest Payment	Property Taxes & Insurance	Total Monthly Expenses	Annual Income Needed to Afford	Number of Households w/Income Needed	Percent of Households w/Income Needed
8%	$495	$125	$620	$26,591	50,469,040	54.1
9	543	125	668	28,645	47,273,838	50.6
10	593	125	718	30,756	44,098,226	47.2
11	643	125	768	32,926	41,033,318	44.0

Sales Price: $150,000

Based on a fixed-rate, 30-year mortgage of $135,000 (10 percent downpayment)

Interest Rate	Monthly Principal & Interest	Property Taxes & Insurance	Total Monthly Expenses	Annual Income Needed to Afford	Number of Households w/Income Needed	Percent of Households w/Income Needed
8%	$ 991	$125	$1116	$47,824	23,868,215	25.6
9	1087	125	1212	51,932	20,341,624	21.3
10	1185	125	1310	56,156	17,144,874	18.4
11	1287	125	1412	60,495	14,599,630	15.6

Sales Price: $225,000

Based on a fixed-rate, 30-year mortgage of $202,500 (10 percent downpayment)

Interest Rate	Monthly Principal & Interest Payment	Property Taxes & Insurance	Total Monthly Expenses	Annual Income Needed to Afford	Number of Households w/Income Needed	Percent of Households w/Income Needed
8%	$1486	$125	$1611	$69,058	10,486,683	11.2
9	1630	125	1755	75,219	8,336,549	8.9
10	1778	125	1903	81,555	6,628,642	7.1
11	1930	125	2055	88,064	5,291,830	5.7

Source: NAHB

Ex #13
2-19-91

Comparison of Housing Affordability in 1989 and 1970

Housing affordability is a growing problem throughout the nation, especially for young households.

The following example compares affordability of median priced homes in 1989 and 1970.

Affordability of a Median Priced House in 1989

Based on a fixed-rate, 30-year mortgage of $108,000 ($120,000 purchase; 10% downpayment).

Interest Rate	Monthly Principal & Interest Payment	Property Taxes & Insurance	Total Monthly Expenses	Annual Income Needed to Afford	Number of Households w/Income Needed	Percent of Households w/Income Needed
10%	$948	$125	$1,073	$45,996	25,503,178	27.3%

Affordability of a Median Priced House in 1970

Based on a fixed-rate, 30-year mortgage of $21,060 ($23,400 purchase; 10% downpayment)

Interest Rate	Principal & Interest Payment	Monthly Property Taxes & Insurance	Total Monthly Expenses	Annual Income Needed to Afford	Number of Families w/Income Needed	Percent of Families w/Income Needed
8.45%	$161	$ 50	$211	$ 9,047	31,268,851	48.2%

Source: NAHB

Mortgage Payment Tables

Principal and Interest Payment for a Fixed-Rate 15-Year Loan

Interest Rate

Loan Amount	8%	8.5%	9%	9.5%	10%	10.5%	11%	11.5%	12%
$ 5,000	$ 48	$ 49	$ 51	$ 52	$ 54	$ 55	$ 57	$ 58	$ 60
10,000	96	98	101	104	107	111	114	117	120
15,000	143	148	152	157	161	166	171	175	180
20,000	191	197	203	209	215	221	227	234	240
25,000	239	246	254	261	269	276	284	292	300
30,000	287	295	304	313	322	332	341	350	360
35,000	334	345	355	365	376	387	398	409	420
40,000	382	394	406	418	430	442	455	467	480
45,000	430	443	456	470	484	497	511	526	540
50,000	478	492	507	522	537	553	568	584	600
55,000	526	542	558	574	591	608	625	643	660
60,000	573	591	609	627	645	663	682	701	720
65,000	621	640	659	679	698	719	739	759	780
70,000	669	689	710	731	752	774	796	818	840
75,000	717	739	761	783	806	829	852	876	900
80,000	765	788	811	835	860	884	909	935	960
85,000	812	837	862	888	913	940	966	993	1,020
90,000	860	886	913	940	967	995	1,023	1,051	1,080
95,000	908	936	964	992	1,021	1,050	1,080	1,110	1,140
100,000	956	985	1,014	1,044	1,075	1,105	1,137	1,168	1,200

Ex #17
3-19-91

Mortgage Payment Tables

Principal and Interest for a Fixed-Rate 30-Year Loan

Interest Rate

Loan Amount	8%	8.5%	9%	9.5%	10%	10.5%	11%	11.5%	12%
$ 5,000	$ 37	$ 38	$ 40	$ 42	$ 44	$ 46	$ 48	$ 50	$ 51
10,000	73	77	80	84	88	91	95	99	103
15,000	110	115	121	126	132	137	143	149	154
20,000	147	154	161	168	176	183	190	198	206
25,000	183	192	201	210	219	229	238	248	257
30,000	220	231	241	252	263	274	286	297	309
35,000	257	269	282	294	307	320	333	347	360
40,000	294	308	322	336	351	366	381	396	411
45,000	330	346	362	378	395	412	429	446	463
50,000	367	384	402	420	439	457	476	495	514
55,000	404	423	443	462	483	503	524	545	566
60,000	440	461	483	505	527	549	571	594	617
65,000	477	500	523	547	570	595	619	644	669
70,000	514	538	563	589	614	640	667	693	720
75,000	550	577	603	631	658	686	714	743	771
80,000	587	615	644	673	702	732	762	792	823
85,000	624	654	684	715	746	778	809	842	874
90,000	660	692	724	757	790	823	857	891	926
95,000	697	730	764	799	834	869	905	941	977
100,000	734	769	805	841	878	915	952	990	1,028

*For mortgages over $100,000 add the appropriate figures. For example, the principal and interest on a 30-year $100,000 mortgage at 10 percent interest is $878 and the principal and interest on a 30-year $5,000 mortgage at 10 percent is $44. Thus the total principal and interest payment on a $105,000 mortgage is $878 plus $44 or $922 per month.

NATIONAL ASSOCIATION
OF HOME BUILDERS

HOUSING BACKGROUNDER

THE PUBLIC AFFAIRS DIVISION
(202) 822-0406

FEBRUARY 1991

SENATE TAXATION
EXHIBIT NO. 13
DATE 3/19/91
BILL NO SB 466

PROPOSED MCS STDS.

1700 Sq. Ft. Home
3410 Perth Circle
Briarwood Subdivision
Billings, MT 59101

BUILDER: ENGEL CONSTRUCTION AND REMODELING, INC.
P.O. BOX 2096
BILLINGS, MT 59103
256-0004

Homeowner: Toni Pingree
Phone: 248-5021
Original Sales Price: $ 125,000.00
Year Built: 1989

Heat Loss Comparison:
Existing B.T.U. Heat Loss Calcs: 67,474
Proposed B.T.U Heat Loss Calcs: 57,701

B.T.U. Savings: 9,773
Percentage Savings: 14.5%

ELECTRIC $147.84

GAS

Average Gas Heat Bill Now (Average over last 12 months) =$35

Added Costs to bring this house to proposed MCS Standards:

1. Insulation w/labor — Existing: $2,024.00; Proposed: $4,108.00 *

*Incl. framing to fir bsmt. walls. Add $ 2,084.00

2. Windows-low 'E' — Existing: $6,212.00; Proposed: $7,144.00

Add $ 932.00

3. Doors are O.K. with current 'R' Value of Apprx. '15'

4. Heat Exchanger w/Labor & Cold Climate Attachments — Add $ 2,130.00

5. High 'R' Sheathing — Add $ 1,308.00

6. Blower Door Test to insure Infiltration Goal — Add $ 250.00

Total Additional Costs To Homebuyer * $ 6,704.00

* Price includes 10% O.H. and 10% Profit Markup

Proposed savings per month:
(14.5% of $35.00 gas bill existing)

GAS $ 5.42 — 103 YEAR PAYBACK

14.5% OF $147.84

ELECTRIC $ 21.44 — 26 YEAR PAYBACK

EXHIBIT NO. 14
DATE 3/19/91
BILL NO. SB 466

(1) 14

Mr chairman, Members of the Committee I'm Neal Ganser, president of Consovus corporation of Bozeman. My Co is the manufacturer of the Consovus performance Insulation System, a technology designed to replace fiberglass in building walls.

This new building technology is a relative to that which allowed the refrigerator industry, in the mid '60's, to go to 1½" thick walls after having used 4 or 5" thick fiberglass filled walls for years. Some of you may remember the old round top fridgidairs. Even w/ the thinner walls, these new refers were ~~not~~ several times more efficient because of the

insulating material used. Coolbots is generically similar to that insulating material & economics now make it attractive to do w/ housing what was done previously for refrigeration.

Several immediate benefits accrue when you build a thinner more efficient house wall.

- less waste of usable floor space which would otherwise be covered by thick walls
- less labor to build & insulate
- less finish work around doors & windows
- smaller framing lumber which means fewer trees are needed.

Further - based on results recorded during BPA's RSOPs in 1985, w/ our technology, we are achieving energy savings in 2x4 walls similar to those

achieved in ~~the~~ R-31 fiberglass insulated house walls over 8" thick.

Im here to address the proposed ucs.

First I would like to caution against any new minimum standards regarding buildings. ~~that don't go through~~. while we can all agree that building codes are a good & necessary thing, the minimum standards stated therein have come to be widely accepted as Maximums. The code has removed the natural market force toward higher quality because what you are going to get or what the builder has bid 'meets code'

Similarly in the insulation board industry when the American Society of Heating & Air Conditioning Engineers (Ashrae) adopted a standard R-Value of 6.25 for 1½ foam boards. The quality board producers were dismayed because regardless of there superior chemistry & construction, the market could no longer recognize it & thus they had no continuing economic incentive to invest plant & material in quality. The low quality producers were elated however because whatever they made would automatically be perceived as at least as good as the stated 'Standard'.

As I'm sure BSA would attest after administering the RSBP, the same is true of

the proposed MCS. The installed quality of the system varies so widely that it can approach the ridiculous. Because a 'Standard' will now exist, there is no longer the assurance of a good job that liability on the part of the installer tends to create. I have witnessed this very thing ~~in~~ while doing business in other States w/ R-Value Standards. This legislation has removed that liability by saying that if you throw certain R-Value components @ a house — you have met the MCS

But have you really?

You see the building market will overall ~~always~~ tend to select the cheapest method of reaching a legal Standard because those persons building to that standard are no longer

responsible for the result.

With an R-26 MCS the cheapest recipe is one R-19 fiberglass batt + ISO board or an R-22 batt + Extruded Poly Styrene board. The boards are insulating foam sheathings which w/o question, ~~bypass~~ enhance the efficiency of house walls when properly installed.

The main reason that this foam sheathing technology has been shipped in Montana up to now, is that siding manufactures will not warrant their products applied directly over these boards. The resulting excessive solar heat build ups destroys the siding product or their paint coatings or both.

what energy savings have been achieved, if one must reside all our new houses in 2 to five years? & who is liable?

To dig deeper, are you also going to legislate the dew points & the formation or avoidance of a vapor trap w/ this bill? These conditions can & often do generate wall rot. Will the State of Montana assume liability for this or will it remain w/ these builders?

Regarding Legislation & Regulation — it is a political fact that any large industry wishing to perpetuate itself will resort ~~the~~ to these methods at the point of its market obsolecence.

For example: when the fiberglass insulation industry

was faced w/ stiff competition from new technologies in the mid 70's following the oil embargo, they successfully lobbied the Federal Trade Commission to effect the infamous R-Value Rule & thus statutiged certain testing. While this appeared noble on the surface, a closer look showed that the test parameters were not only unrealistic, but were set a temperatures ~~that~~ and conditions where fiberglass looks very good— that is 75° above 0 w/ no wind or moisture.

Cold climate States have suffered incredible energy resource waste ever since.

Hoxtonia's mean temperature is 44° ± depending on location in the State, w/ occasional lower going

to minus 60 before wind is added in.

Recent tests @ oak ridge national labs in Tennessee, conducted by a former Owens Corning Technician indicate that glass fiber has lost 50% of its R-Value @ 18° below 0 in attics. Our own tests, conducted @ Architectural testing in York PA indicate a 40% Reduction in R-Value of batts in walls @ minus 25°.

Further Tests show that the effects of Wind can & sometimes do totaly negate the very existance of the glass fiber in the building wall

Do you recall the 30 below / 40 mph windy weather of 2 winters ago?

Montana Power called me to ask if we had

any information on fiberglass performance in cold weather to help them understand the apparent failure of the cumulative R-Value of all the insulation in their entire service area. The spike in power needed to cover for that failure was totaly out of proportion to the severity of the weather. The prevalent product used for insulating for the last 40 yrs, glass fiber, has virtually no R-Value, or insulating power @ 80 or 90 below wind chill. In fact the fibers are a heat sink!

In Bozeman there were brand new fiberinsulated homes that would not stay above 40°. Some people moved out of there homes ~~temporarily~~ until it passed.

There peak or spike loads are what this HCS is supposed to help minimize but won't.

The effect of this legislation is to statutize an R-Value which can be most cheaply achieved by utilizing traditional glass fiber products. Therefore you are essentialy statutizing these products. Even today these are under ~~study~~ suspicion of sharing the cancer causing characteristics of Asbestos. This information is so stated in the recently issued Manville Material Safety data sheet, revision #7.

Is the State of Montana culpable if its legislature virtually statutizes the use of this product by removing the element of choice a building owner, builder, or architect can now exercise in achieving energy efficiency?

Perhaps the most effective energy legislation

that could pass this session would be a resolution to encourage the Montana Attorney Generals office to investigate the falsly advertized performance & health hazards of glass fiber insulation and the institution of a Heat loss performance test requirement for those insulation producers wishing to sell product in Montana. Tests from 100 above 0 to at least 25 below — not just 75° above.

In conclusion, it is my opinion that this committee may yet need copious amounts of information regarding the environmental offset effect, insulation products, Product performance & testing, building science & thermal Dynamics before an intelligent & comprehensive HCS could be adopted that

would preempt already active market forces.

The R-Value, in this case the MCS, is <u>not</u> an any where near accurate measure of Insulation performance in buildings & becomes even less so once institutionalized by law.

If traditional products ~~opera~~ performed @ their Stated R-Value levels we would not need to be here today.

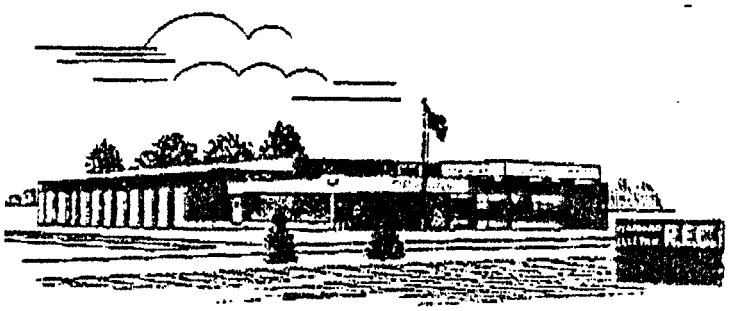
New technology can provide~~s~~ 2 to 3 times better performance w/ ~~equal~~ similar R-Value & @ a much lower cost. 6 - 800/unit The market is just beginning to recognize this as the over 1200 Homes We have insulated w/ carbond indicates. The enactment of this MCS could demolish this building

Technology & overall, <u>reduce</u> the energy efficiency of Montana's New & Future Housing Stock - this is just the opposite of its intent, of course, & would be, I feel, a great shame.

Thanks for

Flathead Electric Cooperative Inc.

2510 HIGHWAY 2 EAST, KALISPELL, MONTANA 59901
PHONE (406) 752-4483



19 March 1991

Re: Montana Energy Security Policy Act

I am Warren McConkey, General Manager of Flathead Electric Cooperative, a 9000+ member owned utility. I appreciate this opportunity to discuss residential building standards which will afford an opportunity to preserve a valuable resource - energy - all energy, to serve our future needs. In the past five (5) years I have completely changed my opinion on the necessity and propriety of building codes. I have always felt that government should only do what individuals could not do for themselves, but based upon approximately 12 years in electric utility management, 8 of those in the BPA power supply area, I have seen an evaluation of the need for building codes. We need an energy policy that makes wiser use of the limited energy supplies that are available to our society. We all know that energy is critical to our modern society; to living, commerce and especially our basic industry. Our economic future and competitive ability depends on continued, reliable, reasonably priced, energy supplies.

I am now convinced that we must look to government, to you, to provide the leadership in looking at the whole energy picture and setting policy that can ensure that we have low cost energy in our future. We see this MESPA as a crucial step in Montana that is being taken throughout the region to ensure that the unnecessary waste of energy is curtailed.

This effort is an opportunity to make a significant contribution to reliable long term conservation of energy supplies. We should certainly be responsible to ensuring that energy will be available to future residents and businesses at a time when we are reminded of the finite limits of low cost energy. A mechanism such as residential building codes can significantly reduce the energy consumption of new construction while also providing other quality of living improvements in the residence.

The electric utility industry has expended a large effort to gain voluntary understanding and compliance with the efficiency based standards. The compliance has been widely variable. Some areas have seen very good designer, builder, financier acceptance and very satisfied home owners. Other areas have seen poor acceptance due to skeptical, even pessimistic designers and builders.

We must get beyond the emotional, short term oriented arguments and look at longer term benefits of true energy conservation and better liveability of the homes we build. That is where state government enacted conservation codes have become necessary. We have consumers and builders that don't see the future limitations in energy supply - folks, they are real.

There are two very effective means of providing reliable conservation: (1) run out of energy and allow high prices for energy to force consumers to conserve; or (2) lead the way to building a residence that is energy efficient and encourage use of appliances that are the most efficient in their energy consumption. This will allow energy for old and new homes and businesses of the future.

I certainly encourage you to adopt this legislation as introduced. I am sure you recognize that cost effectiveness of a building must include lifetime benefits and costs. Long term projections for energy costs certainly are for significant increases.

The energy blind aspects of this bill must be retained. The current prices of natural gas, a finite non-renewable resource, will definitely increase. As applied in today's utility service practices, natural gas is a very discriminating energy source, available primarily to urban, high density residential areas. There are much fairer methods of providing the relative costs to all energy consumers in Montana.

Warren G. McConkey

WARREN G. MCCONKEY
General Manager

Tom Yates - Yates Construction. Vice President Missoula Building Industry Association

First off we do support Energy Efficiency and the industry by far exceeds Standards in the present codes.

Tax Incentives for retrofitting Older Homes that do not meet the Current.

Adoption of 89 CABO Code.

Adoption of Code to cover and bring up to present Code to include Manufactured housing

There is a need to have Homes built outside of present Inspection Districts to be under an Inspection State wide district to bring those new homes up to the code that is currently used in the urban area of the State.

Those people buying homes for the first time will be even more likely to buy existing homes that do not meet code or Manufactured housing that does not come under present Mt. Codes.

Let's give Young 1st Time Buyers a chance to have Quality and efficiency. Let's create a bill that helps first time buyers Make the wise choice and gives them the opportunity to buy energy Efficient housing built to current codes and make incentives available to bring older Homes up to current standards. without forcing people to make a ~~[illegible]~~ poorer efficiency choice.

WITNESS STATEMENT

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

Dated this 19th day of March, 1991.

Name: Edwardside Wright

Address: 405 N. Last Chance Gulch
Helena, Mont.

Telephone Number: 406 449-6022

Representing whom?
Montana Housemovers Assoc

Appearing on which proposal?
SB 466

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

Comments:

Small industry which is adversely impacted by rise in costs; profit requirements have an apparent impact on cost of buying a moved home in compliance with local building codes; this increased cost will reduce the attractiveness of to home buyers of buying and moving a residential building.

Times are tough for new home owners and they have been tough on housemovers. This bill effect two small groups that can't handle much more costs.

The building codes we have are good let's let them work for us.

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY

united-western
MORTGAGE CORPORATION

MARCH 18, 1991

SB466

To Whom It May Concern,

After analizing the income and monthly payments for the people who applied for financing for the Joint Venture For Affordable Housing project completed by Twite construction, I have determined that if we had to add $3500 to the sales price to cover MCS standards, that more than 50 percent of the applicants would have not qualified for the loans.

People in the category of low to moderate income housing would have to make at least $150 per month more in income to qualify for the additional payment.

If I can be any further assistance please give me a call.

Sincerely,

Roger W. Linhart
Branch Manager

RWL/dt

2502 Brooks / Missoula, Montana 59806 / (406) 549-4191

Ravalli County Electric Co-op

NE 1051 Eastside Highway
P.O. Box 109
Corvallis, MT 59828-0109

March 19, 1991

RE: Senate Bill 466
Montana Energy Security Policy Act

Good Morning Mr. Chairman and members of the Committee. For the record, my name is Richard Brown - General Manager of Ravalli County Electric Cooperative at Corvallis, Montana. We serve 5000 members with 3900 being residential accounts. I would like to make several comments supporting SB 466 and, more specifically, sections 9-14 as relates to a State Building Code.

1. We support a Building Code developed under the guideline of the Model Conservation Standards (MCS) developed by the Northwest Power Planning Council. It would make no sense to waste money to design a new plan.

2. We support a Fuel Blind Code as electricity and wood are the only renewable fuel sources available today.

3. We support a Builder Certification with the Department of Commerce providing inspections and enforcement if needed. This should ensure consistent practices.

4. We support adopting Administrative Rules consistent with MCS and with input from utilities as they have the best consumption data on residences.

5. We support allowing utilities to rate base a percentage of investments in energy efficiency programs for their members or consumers.

6. We support tax incentives for rate payers that invest in energy efficiency programs beyond code standards.

The Co-ops have a rich legacy of providing the latest in energy efficient technologies to their members. Some examples are irrigation pump testing, high efficiency water heater rebates, water heater wraps for existing tanks, weatherization programs, and Super Good Cents building incentives. Our latest program is Ground Source Heat Pumps with efficiencies in the 400 to 600 percent range. All these programs benefit the end use consumer and, after some initial load reduction for the utilities, help stabilize loads which allows for better system planning.

Thank you for the opportunity to comment.