EXHIBIT 17
DATE 1·10·05
HB 43

KLABZUBA OIL & GAS, INC.

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January 10, 2005

Re: HB43

To the Federal Relations, Energy & Telecom Committee,

In my opinion, HB43 has several shortcomings. The major problem with HB43 is that the language of this bill shows a lack of understanding of the business functions of the Oil & Gas Industry.

The proposed changes to the existing legislation call for the Operator to itemize deductions to the Royalty Owner's check. In my experience, Oil and Gas Operators are showing all deductions on the revenue disbursement checks. An Operator, who follows normal industry standards, sells oil or gas to 3rd party purchasers pursuant to a "sales contract". Any deductions made by the Operator from the revenue received pursuant to the sales contract will be reflected on the revenue disbursement check. The only deductions on the Royalty Owners checks which are different than those found on the working interest owners (WIO*) checks are attributable to the variance in production tax rates as developed by the Montana Department of Revenue. The production tax rates in the State of Montana are higher for royalty owners than they are for WIO. The gross revenue for a royalty owner is calculated in the same manner as gross revenue for any other type of owner in a particular well.

Royalty owners are not burdened by the operating expenses associated with the physical operating functions relative to an oil or gas well. These costs are the responsibility of the WIO only and are not deducted from Royalty Owner's checks. The WIO are normally invoiced monthly by the Operator for these recurring costs. In some cases the Operator will deduct these costs from the WIO revenue check in lieu of the invoicing procedure. Royalty Owners can verify that they are paid the same revenue as other owners in a particular well. This can be done by reviewing the oil and gas production tax reports filed quarterly by an Operator with the Montana Department of Revenue. These Tax reports are public record.

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To be honest, I am un-convinced that we have a problem that needs solving. If there is a problem, it is not of significant magnitude to require legislative recourse. If there are a large number of Royalty Owners with major concerns about deductions to their gas checks, I am unaware of them. During the past seven years that I have managed Klabzuba Oil & Gas, Inc., I have received very few calls from Royalty Owners who had questions about their revenue checks. Most of these calls dealt with a change in beneficiary—not with concerns about deductions. In each case, I directed the Royalty Owner to our accounting department in Fort Worth where the financial information resides. Klabzuba personnel are more than willing to take the time to explain the specifics about a royalty check.

Because of these inherent flaws plus the difficulties of enforcing the bill as written, I believe that HB43 should be killed. The Oil & Gas Industry has many procedures in place to insure openness, and in the majority of cases these procedures are working well.

Cole T. Chandler
Operations Manager

*Working Interest Owners are "partners" in the wells who are different and separate companies/individuals from the Operator.