

Montana Bureau of Mines and Geology

EXHIBIT 3
DATE 4/7/2005
HB _____

DP 68: Technical Assistance to Small Oil and Gas Operators

If funded, a petroleum geologist would be hired to maintain a small but steady program to compile and map regional data that will encourage exploration, and to offer other technical assistance to small operators.

State Need:

- Oil and gas taxes are a significant source of State and local tax revenues.
- Discovery of additional reserves and subsequent production will result in:
 - Increased royalties and taxes collected.
 - New jobs and ancillary economic benefits both in the field and in downstream activities.
 - Additional supplies to meet State and national energy needs.

Market Reality:

- Montana is regarded as highly prospective for hydrocarbons, particularly shallow "tight" gas, but development of this type reservoir is high-risk until geology and engineering factors are well understood. The mid-sized and smaller exploration and production companies that comprise our oil industry are reluctant to risk large amounts of money to explore these targets until success has been demonstrated.
- Oil and gas production and ensuing tax revenues have risen dramatically since 1998, reflecting a combination of price increases and tax revisions (1999) that have encouraged new drilling. *These numbers confirm that additional production (revenues) can be obtained, given proper industry support; better technical support is an important component that can be added.*

Current Problem:

- Montana lacks many basic maps that are routinely used by oil explorationists to develop new prospects and small companies do not have the resources or staff to compile and develop these maps.
- As the State's geological survey, the Montana Bureau of Mines and Geology is capable of generating these maps, and following work would focus on providing better understanding of geologic strata. Current work by the Bureau is limited to contract-funded projects, and is narrow in scope to comply with limitations imposed by the funding source.

Return on Investment

- Increased State income from direct taxes on oil and gas production. Discovery of a single new oil field that would produce 100,000 barrels per year would generate about \$400,000 in taxes annually at current prices.
- New jobs, each averaging nearly \$50,000 per year.
- Increased sales and jobs by service and supply companies.
- Increased support for local economies and infrastructure, in predominantly rural areas of Montana.

Funding Request:		
	FY 06	FY 07
Salary	\$60,000	\$62,400
Benefits	17,160	17,846
Operations	<u>12,840</u>	<u>13,354</u>
Total	\$90,000	\$93,600
Less 20% non-state match	<u>(18,000)</u>	<u>(18,720)</u>
State cost	\$72,000	\$74,880
Total biennial cost	\$183,600	
Less matching funds	<u>(36,720)</u>	
Total state biennial cost	\$146,880	