Montana State Legislature

Exhibit Number: 8

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EXHIBIT 8
DATE 2.8.05
HB 535

320 South Illinois Street
Conrad, Montana 59425
Phone: 278-3191

February 7, 2005

Representative Llew Jones
1102 4th Avenue SW
Conrad, Montana 59425

RE: Stripper Oil Production Tax MCA 15-36-303(22) and 15-36-307(6)(c)

Dear Llew:

Of huge concern to the Montana oil industry is the oil production tax on stripper wells. When the price of West Texas crude as quoted in the Wall Street Journal averages $38 a barrel for a quarter, the oil production tax for Montana 1 to 3 barrel stripper wells goes from .8 percent to 12.8 percent. An example of the impact of that tax we have experienced: the tax of a previous quarter was $3,065. The following quarter was $21,000, when the average price in the Wall Street Journal was $38.3126. Then the price of oil dropped back down to the basement and the stripper producers were left, once again, in the hole. As shown in the enclosed "Crude Oil Price Bulletin Summary", the price for Pondera oil never reaches the Journal quote. It is now 9 to 9.50 dollars less. We are taxed for dollars we never receive.

We strongly need to have this ceiling of $38 West Texas Crude as quoted in the Journal or anywhere else and the 12.8 percent on 1 to 3 barrel stripper wells eliminated. We can continue in business, if the tax remains AT ALL TIMES no more than the incentive tax of .8 percent.

People not in the oil industry see the price of oil in the papers, hear it in the news and think the oil people are making a huge profit. The fact is, the price of oil is decided by a lot of factors: the gravity of the oil, speculation on the futures market, world events, natural disasters, NAFTA etc., therefore, the price fluctuates all the time and can go from $50 a barrel to $9 a barrel in a very short time.

Our profits come after refinery and transport charges, royalties, taxes and the overhead of keeping up old wells. The first well in the Pondera Oilfield was drilled by my Dad, Ted Hawley, in 1927 and these, now-old-wells have produced until they make only 1 to 3 barrels a day. The cost of supplies has skyrocketed, the price of steel doubled, competition of oil service and supply companies has evaporated, all costs have gone up, so the cost of keeping the wells going is very high.

Hawley-Desimon Inc. had to turn a producing oil well into a water input well at the cost of over $14,000. That well is no longer a producer. The wells are making more water and less oil and we have to put the water back into the ground, because of EPA regulations. Other producers do the same.

The politicians don't take into consideration:

1. The refinery takes out 9 to 9.50 dollars a barrel
2. Trucking oil to refinery
3. Royalties
4. EPA expense
5. Taxes besides production tax
6. Well and equipment maintenance
7. High cost of equipment and labor

The stripper oil producers are still reeling from the last depression in oil prices. Many of our equipment and maintenance suppliers are no longer in business, because we couldn't afford to use them.

Cut Bank is a good example of what such high oil taxes have done to the economy of Montana. Cut Bank has lost most of its income, people and businesses, because of the collapse of the oil industry. The collapse was due to the last few years, when oil price was so low and then the high tax when the price did go up. Lose the oil industry and Montana loses a huge group of consumers.

In the Pondera Field, some locations could be drilled, but the cost is too prohibitive, when producers are never given the opportunity to accumulate enough income.
Instead of drilling, old producing wells are being abandoned. (Higher prices make possible drilling, however, drilling doesn't always produce a well... so further expense.)

We can weather the storm of low oil prices and the overhead, because the market does send prices up for awhile. But, when the price goes up for a quarter, the 12.8 percent tax comes in and then the next quarter the price of oil goes down and then <u>way</u> down, the result is a crippled industry. Isn't it better for the state to get .8 percent than nothing at all? Montana has a history of driving small business out of the state, which affects our schools and every aspect of our economy.

The national TV news reported that Colorado is having a new awakening due to the activity of wells being drilled and old wells reactivated. Sleepy, nearly-ghost towns are coming alive and the people are excited. Rock Springs, Wyoming, is experiencing the same growth and people there are excited. The price of oil is making it possible for producers to drill and startup shutdown wells. Oil prices will go back down again, but the new wells will help the state and the producers.

Montana can't see this growth, because the producers are never given a chance to reactivate wells that were shut down, because they were too expensive to run when the price of oil was so low.

I talked with the Conoco refinery manager in charge of the price the producer is paid for oil. He said he used to be a producer, but because of all I mentioned above, he couldn't make it and now is working for Conoco. He told me that we might think of just shutting down and doing something else. Would that be all that good for Montana and Pondera County, to lose the stripper oil industry: the producers, suppliers, service people all moving to other states to find a living? Why stay here when we have been robbed of our livelihood? The domino affect would cost far more than what would be gained by that 12.8 percent tax.

We oil producers would appreciate you spreading the word to other Montana congressmen/women and commissioners about the need to drop this destroying tax of 12.8 percent for 1 to 3 barrel wells on any price of oil... no matter how high. Commissioners and congressmen/women of counties that don't have oil think that since the oil people are removing resources and are glutted with such high profits, they should have to pay for Montana. Montana has made billions off the industry and that is fine. We aren't opposed to taxes, just destroying taxes that destroy our incentive and ability to produce oil and cripple our business.

The people of the United States believe the price of oil is the sole factor in the price of gasoline. Gasoline price is determined by federal and state law decisions for tax added. (John Kerry wanted to add another tax of 50 cents a gallon.) They decide what additives and what taxes to imposed per gallon per state. Those factors are added to the price of oil. The oil producers must receive dollar-per-barrel equal to inflation or it can't continue to operate..........the same as with all other businesses.

The Great Falls Tribune reported, February 7, that North Dakota oil-drilling rigs are heading to eastern Montana. Lynn Helms, the state Oil and Gas Division director, said the state of North Dakota charges a 12.5 percent tax for each new well that is drilled. "That same new well in Montana is taxed 1.5 percent for the first two years and then it jumps to 9.5 percent." He further said, "An 11.5 percent tax is unhealthy for any industry, in any situation."

Why is Montana taxing stripper oil producers out of business? Why is Montana taxing so unreasonably these little wells at 12.8 percent and on money we never see. Why does it just grab a figure out of the air and then decide that 12.8 percent is a good figure. These old fields to survive should be left at .8 percent period. We can survive on that, stay in Montana, set aside for our families and help build Montana.

This letter is long,, but not as long as we oil people want to stay in the oil industry and in Montana.

Very sincerely,

Lois H. Miller

Lois H. Miller, Secretary
Hawley-Desimon Inc.

Kurt Garman, President James Finlayson, Vice President

Shannon Garman, Director Kit Finlayson, Director