

Good Morning, my name is Terry Holzwarth – I am Vice President of Business Development for Nance Petroleum Corporation in Billings. Today, I would like to share my company's view of SB 522 and why I feel it is necessary to oppose this bill.

First, I am a native Montanan – I grew up in Townsend and attended Montana Tech. After working in various locations outside of Montana for 10 years, I was hired by Nance Petroleum 12 years ago. I may have been the first of Nance's technical staff to return to Montana, but not the last – since 1999, we have brought home 7 professionals that grew up in Montana and were working in other states.

I feel it is necessary for the State of Montana to maintain a consistency with the severance taxes -- the current tax rates have been in effect since 1999 when the Department of Revenue & Industry worked together on severance tax simplification and an extension of the tax incentives. We perceived this as a partnership between the State of Montana and Industry. I feel Nance Petroleum has done its part to maintain this partnership. Since 1999, we have drilled 37 wells in Montana with 13 of those being drilled in 2004. In 1999, we did not drill any wells in Montana. In 2000, we drilled 5 wells in Montana for a net capital investment of \$5.0 MM. In 2005, our Montana net capital drilling budget exceeds \$40MM. In addition to our drilling efforts, we have made three large acquisitions since late 2001. Whether the investment is drilling or acquisitions, the economics for that investment were modeled with the present severance tax rates, not the proposed tax rates.

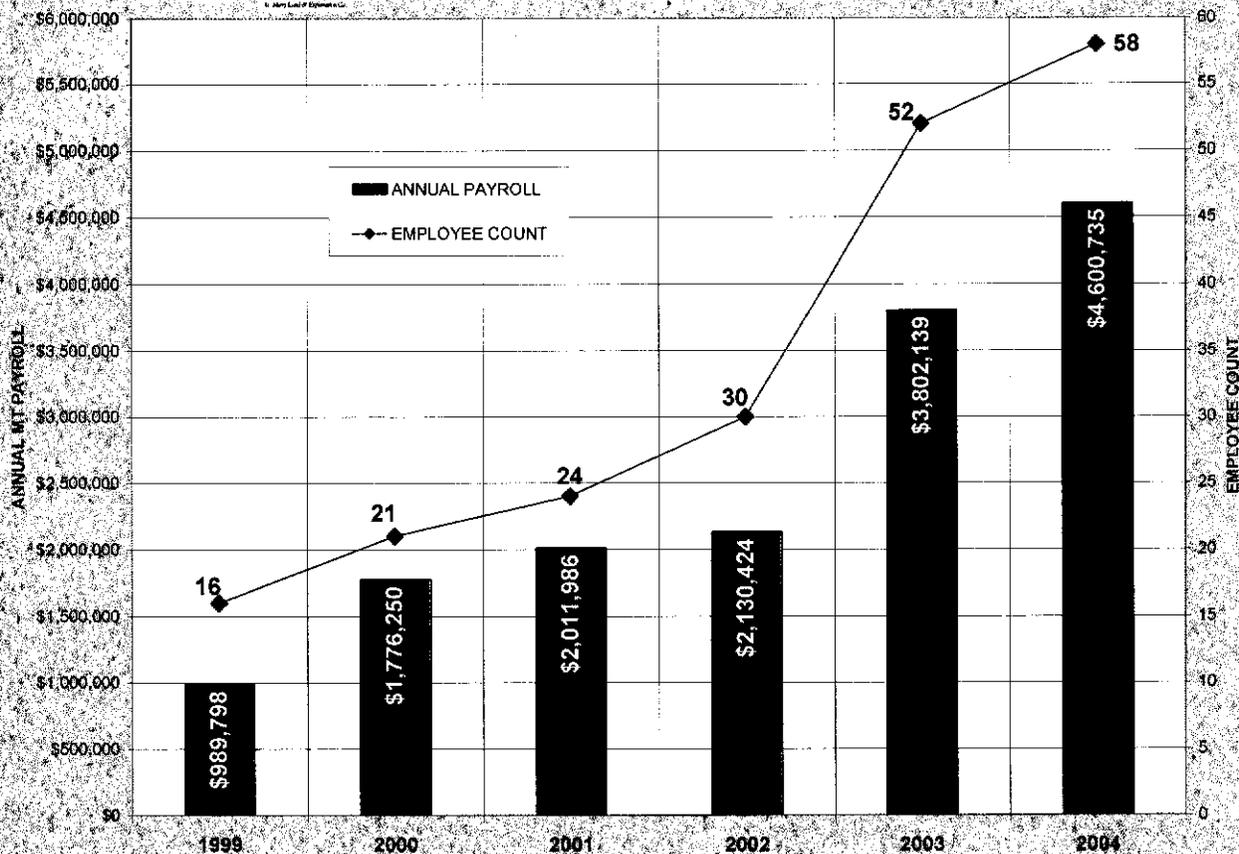
Nance Petroleum has been operating in the State of Montana for 30+ years. Since 1999, Nance Petroleum has increased its staff in Billings from 16 employees to 60 employees presently. In addition, we have opened an office in Sidney that employs another 5 people. We have an annual payroll which exceeds \$5.0MM. In addition to our own staff, in order to manage our field operations, we employ a number of contract employees including lease operators, drilling consultants and workover consultants. In the 4th quarter of 2004, Nance paid \$1.7MM to the State of Montana in severance taxes which brought our 2004 total to 6.4MM.

Our business is a complex one – economics are continually being analyzed to determine which projects give us the best returns. In Billings, we analyze our opportunities and compare between Wyoming, North Dakota, South Dakota, and Colorado to determine where we should be deploying our capital. Although product price has risen dramatically, costs associated with drilling and producing oil & natural gas have also increased and are continuing to increase at an unprecedented pace. For example, costs to drill, complete and equip a 12,500' Red River test have increased from \$1.4MM to \$2.0MM over the last 18 months. In Montana, its good news / bad news, rig rates are increasing at a very high rate as rig companies try to maintain their workforce. People are at a premium, which is very good news for the economy in eastern Montana.

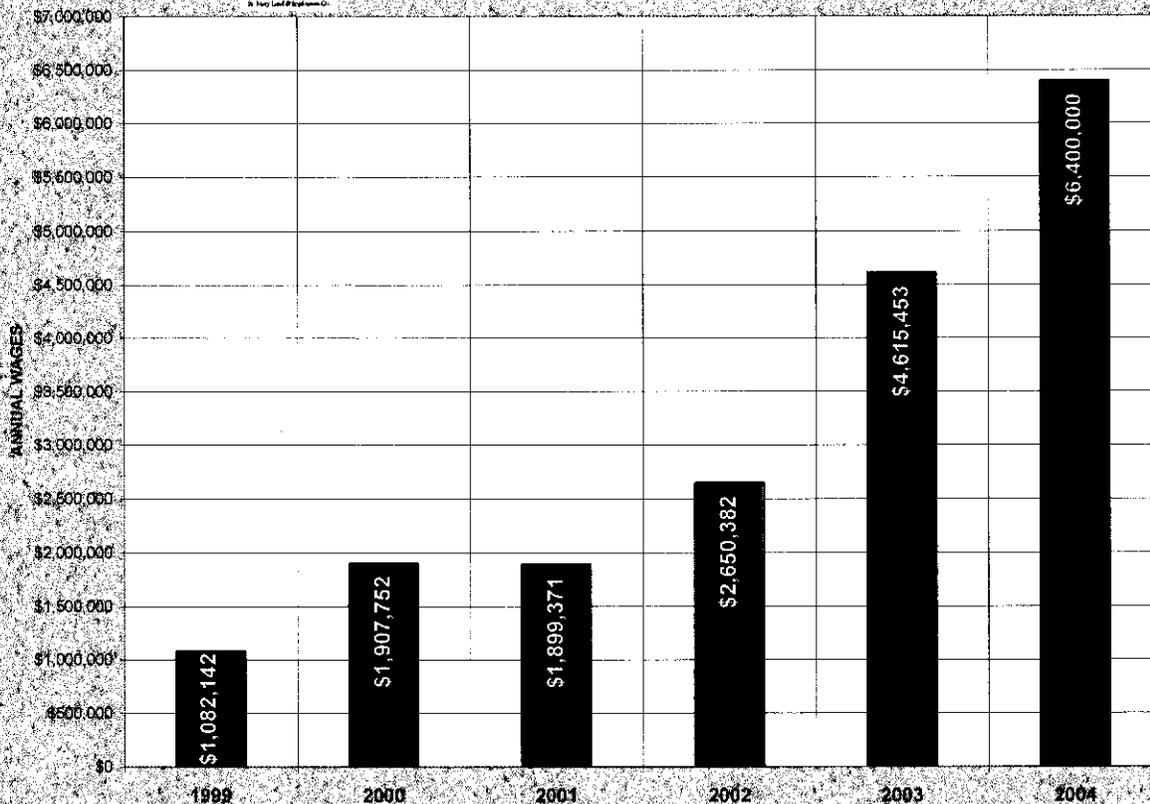
I feel it is important that we send a clear signal to the industry that Montana wants to remain competitive and wants companies to actively explore for oil & gas within its borders. I urge you to retain the 1999 legislation and vote to not pass this bill.



NANCE PETROLEUM CORPORATION ANNUAL MONTANA PAYROLL & EMPLOYEE COUNT 1999-2004



NANCE PETROLEUM CORPORATION ANNUAL MONTANA OIL & GAS SEVERANCE TAXES 1999-2004



Job outlook strong for petroleum grads

By TOM HOWARD
Of The Gazette Staff

It didn't take long for Mills Bale to put his new petroleum engineering degree to good use.

During his final semester at Montana Tech last fall, he interviewed with many of the 17 oil and gas companies that made recruiting visits to the Butte campus. He traveled to Houston and Oklahoma four times to meet with prospective employers before agreeing to work for Chesapeake Energy Corp. of Oklahoma City, the nation's sixth-largest independent natural gas producer. Bale will start his new job at Chesapeake in late January.

"My choices were really good," said Bale, 23, a 2000 graduate of Billings Senior High. "We were told that this was the best year it's been to get out of college with a petroleum engineering degree."

Bale always liked science classes during middle and high school, and that planted the seed for an engineering career.

"I was decent at math and took a lot of science," he said. He looked into engineering programs at Montana State University, but by his senior year, he had pretty much made up his mind in favor of Montana Tech's petroleum engineering program.

"I wanted to get a college education that would be worth something after I graduated, and the oil industry looked like it was doing well," he said.

Bale's father has worked around the oil and gas industry as a pipefitter, he said, but "I decided on this on my own."

Prospects have seldom been better for petroleum engineers and related professions, said Leo Heath, a visiting assistant professor at Montana Tech. New graduates like Bale can expect to make between \$55,000 and \$70,000 a year on their first job. Despite the generous starting salaries and 100 percent job placement, Montana Tech's petroleum engineering department isn't seeing a big jump in enrollment, Heath said.

"We're staying fairly steady," with about 160 undergraduates in the program, Heath said. He hopes that news of the program's success rate will attract new students.

Bale said Montana Tech is all business, and his major was challenging. "If you want to go to college for the social life, you can always go to Missoula or Bozeman," he said, adding that he always figured that he would have more time for fun after he graduated and landed a good job.

Aside from the good job prospects for graduates, many petroleum engineering students get practical on-the-job training during the summer, Heath said.

"A lot of companies offer internships and summer jobs that pay well, so that allows students to finance their college educations without too much borrowing," Heath said.

Bale said he earned between \$12,000 and \$20,000 a year with summer internships in Texas and in Wyoming. He graduated with little debt, and even earned enough to help pay for his wife Jessica's nursing degree. They were married in August.

"Everything points to there being a lot of demand for petroleum engineers because the world oil and gas markets are favoring a more active industry," Heath said. "We tell our students and graduates that they couldn't be entering the industry at a better time. We don't know how long it will last, but the outlook has been strong for a number of years."

While new petroleum engineers can expect plenty of job offers, most of the jobs are in industry hubs like Houston and Oklahoma.

Bale said the job prospects within Montana are more limited. In general, Montana companies are looking for petroleum engineers who have five to seven years of experience, he said.

After working out of state, **Adam Gollofon** is glad to be back in Montana.

Gollofon, who graduated from Montana Tech in 2000 with a degree in petroleum engineering, lived in Houston for 3½ years before moving to Billings to work for **Nance Petroleum**.

"Yeah, moving back to Montana was always in the back of my mind," said Gollofon, who grew up near Missoula. "Having lived here, obviously it's a place you love to get back to. It happened that



the industry was picking up, and I knew somebody who knew somebody here, so I got an opportunity to move back."

Gollofon said he was one of 27 petroleum engineers who graduated from Montana Tech in 2000. "It was considered a tough year. We had 90 percent placement, but people usually had multiple offers and were in the driver's seat."

The consolidation craze that overtook the industry starting in the late '90s limited job prospects, but Gollofon is happy that the industry is making a turnaround.

Gollofon said he went into petroleum engineering for practical reasons.

"The fact of the matter was I wanted to graduate in four years and be able to support a family on one income. No other four-year degree can offer that," he said.

Brad Thompson, a geologist for **Nance Petroleum**, has seen his share of peaks and valleys in the oil and gas industry. He graduated from the University of Montana with a degree in geology in 1979 and earned a master's at Idaho State in 1982.

"At that time the Rocky Mountain region was pretty dead, and in 1986 the overall industry took a major hit," Thompson said. "There were some difficult times, and I consider myself to be a survivor. But right now we're on an upswing."

Brian Cebull, manager of reservoir engineering and technology for **Nance Petroleum**, said the current market makes it a challenge to attract qualified professionals to Montana.

"We're not in the same market as places like Denver and Houston, where there's a lot of competition," Cebull said. "In Billings, we can offer a lifestyle that other companies can't offer. You can raise a family here and it's still a relatively small town compared to other oil towns."

Aside from the recent rebound in the oil and gas industry, there's a lot of talk about an enormous demographic change in store for the oil and gas industry. The average age for petroleum engineers is 51 - meaning that thousands of vacancies are expected to open up as engineers from the Baby Boom generation reach retirement age, said Heath of Montana Tech.

For young engineers like Bale, that's one more reason to be optimistic about the future.