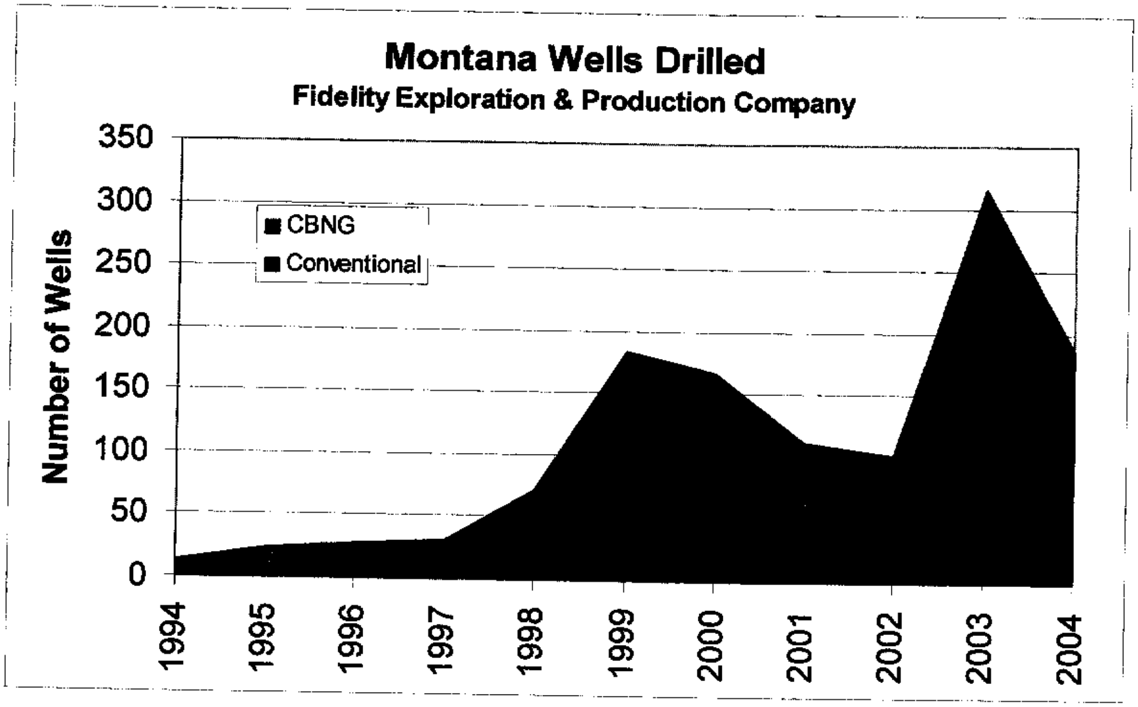
SENATE TAXATION
EXHIBIT NO. 10
DATE 3-29-05
BILL NO. SB 522

Written Testimony of Fidelity Exploration & Production Company
Senate Bill No. 522 - Removal of Oil and Gas Production Tax Incentives
Senate Taxation Committee
March 29, 2005

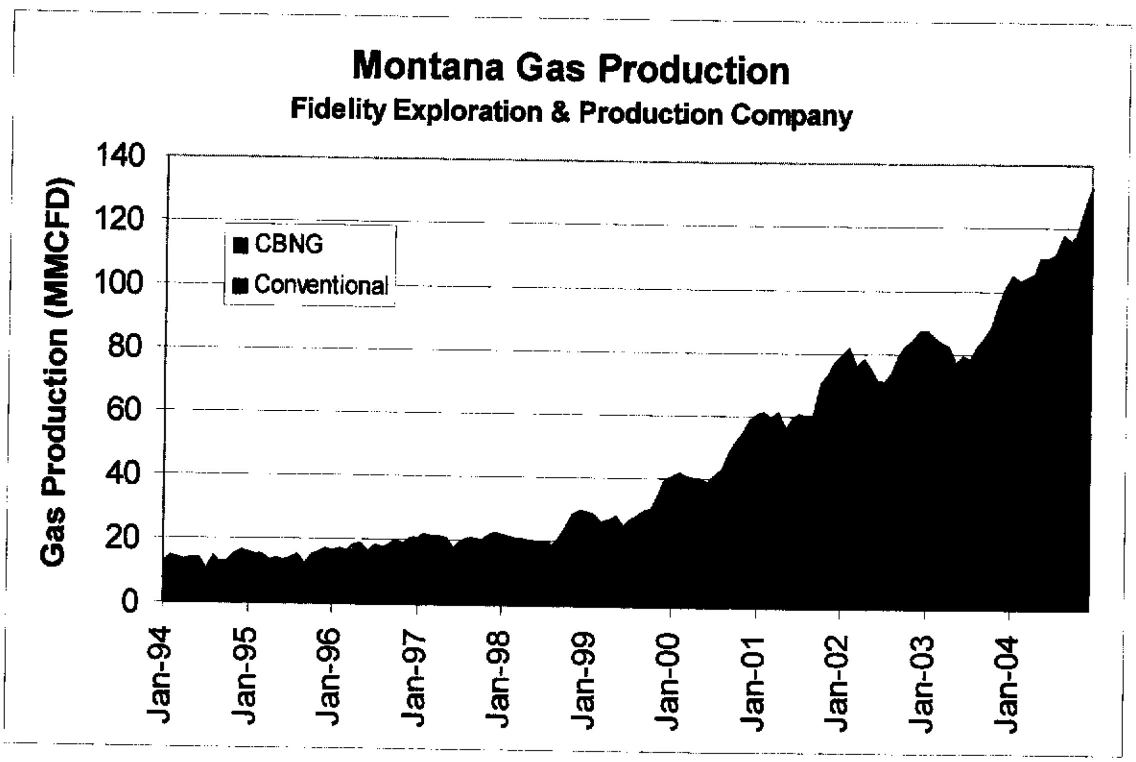
Fidelity Exploration & Production Company, the largest producer of natural gas in Montana, opposes Senate Bill 522. Montana is currently experiencing increases in oil and gas exploration and development activities which benefit Montanans in many different ways (e.g. employment opportunities, federal royalty revenue, state tax and royalty revenue). During the 1990s the Montana State Legislature realized that its oil and gas tax policy was punitive and was a deterrent to exploration and development in Montana. Competitive incentives and the Tax Simplification and Competitiveness Legislation of 1999 were passed to encourage development. **Montana's revised oil and gas tax policy has worked.** SB 522 would reverse the positive incentives put in place and serve to drive industry away from the state.

S.B. 522 proposes to eliminate all oil and gas production tax incentives and increase oil and gas production taxes to pre -1999 levels. Since Montana passed the Tax Simplification and Competitiveness Legislation of 1999, Montana has realized a dramatic increase in oil and gas production as a result of the increase in exploration and development activities. This increase in production, coupled with an increase in oil and gas prices, has resulted in dramatic new oil and gas tax revenues for the state. S.B. 522 would strip Montana of all gains realized since the passage of the 1999 legislation.

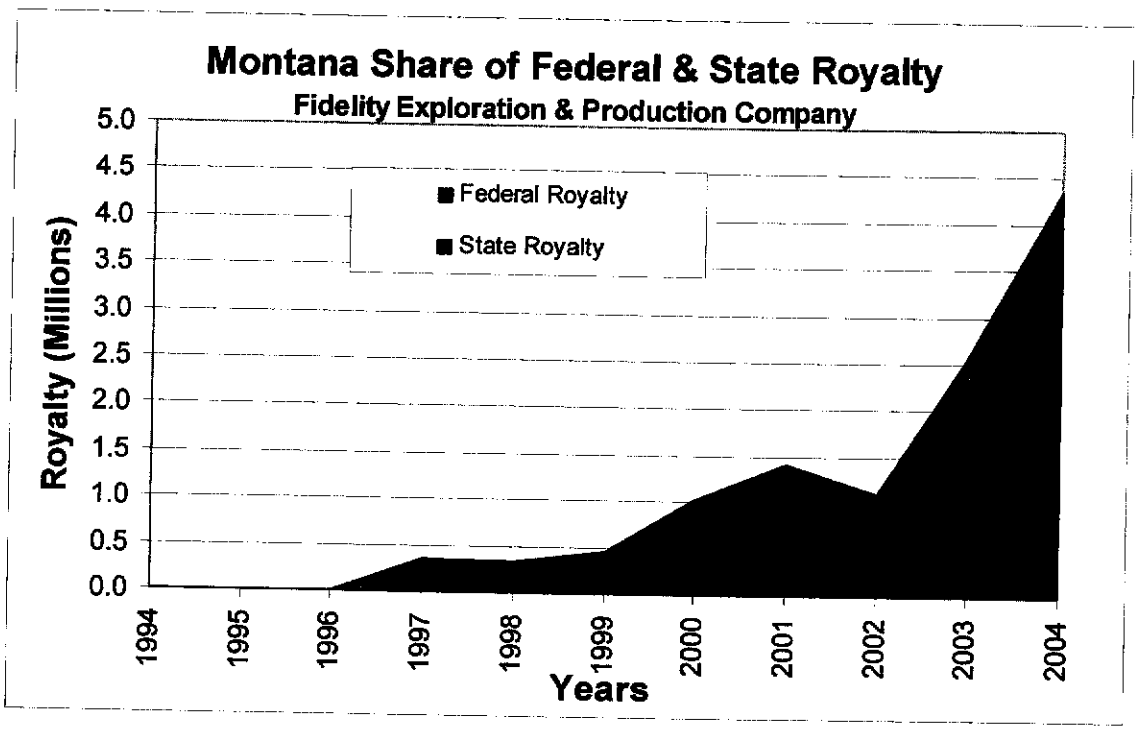
Below is a historical chart showing Fidelity Exploration & Production Company's drilling activities in Montana since 1994. The chart demonstrates a significant increase in Fidelity's drilling activities since the passage of the 1999 legislation. While competitive tax rates and tax incentives are not the only drivers for the increased drilling activity, they play a key role in ensuring that Fidelity commits its capital dollars to development in Montana and not elsewhere.



Correspondingly, the chart below shows Fidelity's natural gas production over the same period of time. The increased drilling, supported by the competitive tax rates and new-well incentives, has resulted in a dramatic increase in production and a corresponding increase in production taxes.



In addition to production taxes, there is an economic benefit to Montana from federal and state royalties. About half of Fidelity's natural gas operations in Montana are occurring on federally administered minerals. One half of the federal royalty revenues are returned to Montana. The chart below shows Montana's share of federal and state royalty revenue generated from Fidelity's natural gas production in Montana. This additional economic benefit has also grown as a result of increased drilling activity.



The model here is simple and it works. Tax incentives and tax rates which are competitive with those in other producing states lead to increased drilling. Increased drilling activity leads to increased production which leads to increased revenue for the people of Montana. If it works, don't fix it. Returning to tax policies of the past will only hurt Montanans.

An important fact to recognize is that every dollar of additional tax paid to Montana is a dollar not available for investment in drilling new wells in Montana. In Fidelity's case, as many as 65-75 fewer wells might be drilled annually because the money needed to drill and complete the wells was paid to Montana in taxes. This tax policy is one of economic non-development.

Fidelity is concerned that this proposed legislation will discourage the growth of responsible development of oil and gas in Montana. Montana already has the strictest, most complex laws, rules and regulations affecting natural resource development. During the 2005 legislative session, we have seen several proposals that would only lead to a more complicated and onerous regulatory structure in Montana. When oil and gas capital investors see a state that has a very cumbersome regulatory environment, coupled with a non-competitive, punitive tax policy, it will seek other investment opportunities. Precious capital will be invested in other states that have a regulatory and tax structure supportive of sustainable oil and gas development.

You need to consider the cumulative cost of doing business in Montana and also evaluate the cumulative economic impact that SB 522 may have on Montana's economy.

VOTE NO ON SB 522!!!