EXHIBIT 5
DATE 3/6/15
HB 420 & 591

Duane Catlett Testimony in support of HB420.

Mr. Chairman and members of the House Taxation Committee,

My name is Duane Catlett.

I am a private Montana citizen, and I rise to strongly support the passage of HB420 to raise the Oil and Gas Tax Holliday rate from 0.5% to 4.5%.

My education background and business experience tells me that the existing oil and gas tax holiday is a very bad deal for the people of Montana, and it needs to be corrected.

I am a PhD nuclear scientist and an expert on materials designed and fabricated for use by energy sources under extreme operational conditions. I have a strong interest in all energy sources, and especially oil and gas with the extreme stress that production places on the their drilling environment and the boom communities and their citizens.

The minimal increase HB420 provides is desperately needed to finance infrastructure needs of the impacted communities, and it is still a good deal for the oil and gas producers. It is the responsibility of the industry that extracts our nonrenewable resources to provide that infrastructure, and should not be an additional tax burden on Montana citizens.

It is one thing to provide incentives for businesses to move to Montana to advance sustainable growth in our main street economy; it is quite another thing to give away our non-renewable treasure to outside corporations that will only invest the additional profits realized by the tax holiday outside our state's borders.

We Montanans are rightly proud of our Treasure State. But we are keenly aware of the fact that like any boom and bust economic cycle, natural resource extraction is always a boom followed by a bust. Simply put, oil is "black gold" and gold rushes are economic bubbles that always burst. The oil and gas extraction from "Tight Oil" formations, like the Bakken, will be the same except that the bust will arrive much sooner than for conventional vertical oil wells of the past.

When the drilling music stops, the impacted communities will be left holding the bag. Montanans know from experience what ghost towns look like and how quickly communities expanded to accommodate the oil boom can return to dust*.

Corporations profiting from our nonrenewable resource must be held responsible for financing the community infrastructure required to support their profit generating endeavors.

The Bakken oil play consists of horizontal drilling and subsequent hydraulic fracturing (fracking) of the shale formations to release the oil held tightly in the shale pores. The fracking provides interconnectivity of the pores to allow the trapped oil to escape to the wellbore to be pumped to the surface. But the very nature of tight oil formations limits the total volume of oil that can be released per fracture event, and it is rapidly depleted.

The past eight years of tight oil production in the US has produced copious quantities of data to enable accurate projections of (1) the amount of oil that will be recovered from these systems and (2) the rate of peak production after which the production rate falls off to non-profitability.

Figure 1 shows the depletion rates for Bakken horizontal wells from 2005 to 2011. 2012 to 2014 depletion rate curves are similar except that the first month's production increases, but the rate of production drops off significantly faster. At the end of one year a fracted well depletes by 67% to 72% of the total recoverable oil from the fracted zone. Another 30% to 20% of the total recoverable oil per well is removed by the end of three years and the remainder dribbles out over the next four to seven years.

Montana under the present tax holiday is giving corporations ~70% of each new well's total lifetime production free to add to corporate bottom line profit at our expense. This makes absolutely no sense.

Data accumulated over the past eight years also projects peak oil from the Bakken to be reached by 2015 (**Figure 2**). Tight Oil contribution to US oil production will be short lived. **Figure 2** shows the production rate fall off out to 2019. The Bakken oil bust is imminent.

Figure 2 tells us that we have already given away roughly 40% of the total Tight Oil recoverable in the Bakken nearly tax free. This give-away is doubly bad because the fact that supporting infrastructure costs have been so high and the boom will be so short lived.

Under these circumstances, at best the existing oil and gas tax holiday is bad business practice, and at worst it is stealing nonrenewable resources from Montana taxpayers. We give the oil away, and then turn around and tell the state's taxpayers to pick up the tab for the infrastructure corporations require to support their production operations to take our free oil.

The so-called oil and gas tax holiday is a very bad deal for the Montana people!

Adding insult to injury, existing property rights law gives superiority of the mineral rights owner over the surface owner, so that the drillers can drill almost on top of the surface owner's house and compromise his water sources leaving the surface owner with no recourse to justice.

The oil/gas industry lobbyists will rise in strong opposition to HB420. They will say that "at these market prices for crude, they will not be able to continue drilling if their tax is increased to 4.5%."

But here are the facts.

Oil and Gas corporations will only drill where there is oil and when it is profitable at market prices. Montana must set its tax rates for nonrenewal resources at a fair value and that rate then becomes only one of the expenses that industry must include in its production financial planning. If it makes business sense, they will drill in Montana; and if it doesn't make business sense, they will not.

I don't need to remind anyone that we operate as a free market, so if corporate profit objectives are met, they will drill; and if it is not profitable, they will not drill. We do not serve Montana well if we give away our nonrenewable resources for free. At some point economics will turn in our favor. Our legislators should set a fair tax basis that rewards taxpayers adequately, and the free market price of crude will determine the timing of extraction.

HB420 is a fair tax rate.

You, as our legislators, will vote either for corporate friendly policies like the oil and gas tax holiday give-away, or you will vote to support the policies that protect the economic freedom of individual Montanans. That is the choice you will make.

The US Constitution was written by the Founders to form a government of, for, and by the people. Corporations were subsequently formed to do the work in support of the people, not the other way around.

The right vote on this bill should be obvious. Your job as legislators is to protect the individual freedoms of Montana citizens. It is not to protect the profits of oil and gas industry owners.

Continuing the oil and gas holiday as currently structured makes no ethical or business sense. A vote for continuing the current oil and gas tax holiday is a vote for the industry lobby.

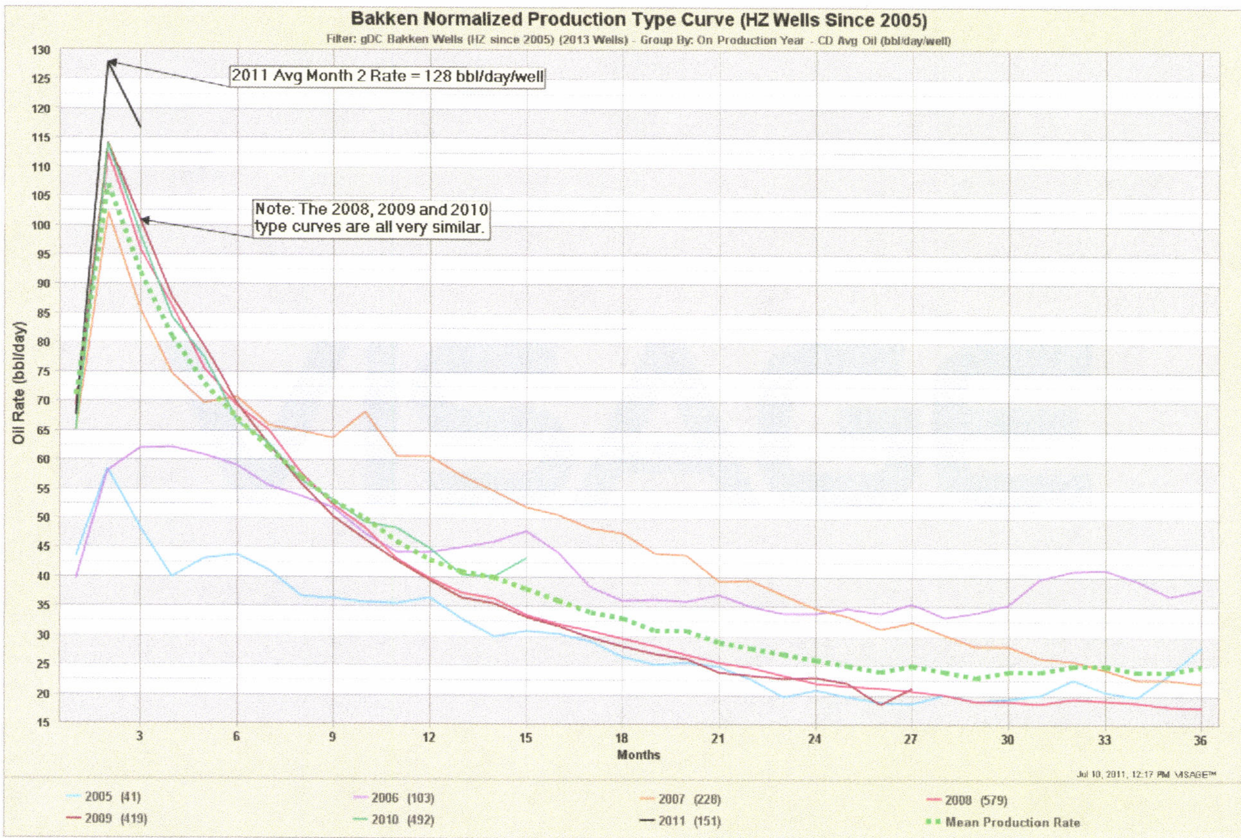
I strongly urge you to support HB420.

Thank you for allowing me to testify today.

* From BloombergBusiness:

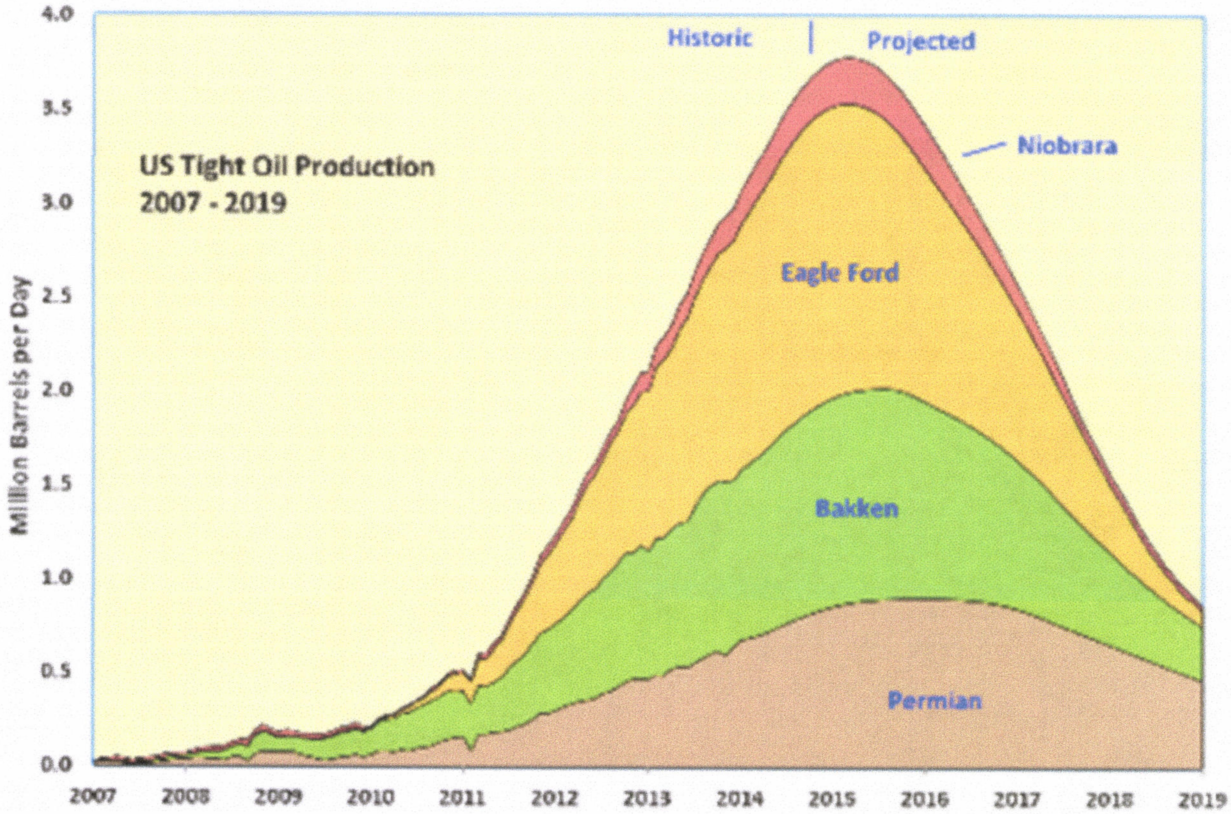
"Oklahomans know about oil boom bubbles. In the Osage Nation, a tribal territory, derelict oil pumps rust away on the prairie, part of the Burbank oil field. Discovered in 1920, the field saw its production peak in 1923 at a daily average of 72,000 barrels. A town of thousands, including 300 businesses, sprang up. The locals called it Whizbang. Today, other than a few farmhouses and a street sign, Whizbang has vanished into the grass."

Figure 1.



Bakken Normalized Production Type Curve (HZ Wells Since 2005)
Filter: gDC Bakken Wells (HZ since 2005) (2013 Wells) - Group By: On Production Year - CD Avg Oil (bbl/day/well)
2011 Avg Month 2 Rate = 128 bbl/day/well
Note: The 2008, 2009 and 2010 type curves are all very similar.
Oil Rate (bbl/day)
Months
Jul 10, 2011, 12:17 PM VISAGE™
2005 (41)
2006 (103)
2007 (228)
2008 (579)
2009 (419)
2010 (492)
2011 (151)
Mean Production Rate

Figure 2.



US Tight Oil Production
2007 - 2019
Historic
Projected
Niobrara
Eagle Ford
Bakken
Permian
Million Barrels per Day
4.0
3.5
3.0
2.5
2.0
1.5
1.0
0.5
0.0
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019