

PRESENTATION TO LEGISLATIVE COMMITTEE
Revenue and Transportation Committee for the oil and gas property tax
study

- I. Opening comments – Jeff has asked Omimex to provide this group information related to its Montana activities specifically items that are the focus of the study committee. Before doing so I need to preface what I say by acknowledging the existence of litigation on related matters between the DOR and Omimex. For this reason my comments will be general in nature with the intent to provide relevant information to the committee without talking specifically about the issues before the Courts.

- II. a brief corporate history and how and when you acquired your operating property in Montana;
 - a. Omimex is an independent exploration & production company engaged in the exploration, development, acquisition and operation of oil and gas properties and gathering and gas processing facilities related to these operations. Omimex's strategy is to acquire producing oil and gas properties where economic value can be enhanced through the utilization of modern production techniques and exploitation activities, and exploration acreage where existing geophysical data indicates significant hydrocarbon potential.
 - b. Omimex is a private Company with its main office in Fort Worth Texas. Montana offices are located in Butte and Cutbank with field offices located consistent with production areas. Omimex employees 45 in Montana.
 - c. About 2/3rds of Omimex's daily production is located outside of the U.S. Omimex's current producing property base in Colombia which is located approximately 125 miles northwest of Bogota, exceeds 16,000 BOPD, gross, and 7200 BOPD net.
 - d. Omimex is pursuing a comprehensive exploration and development plan in Colombia which includes a seismic program and the drilling of approximately 350 oil wells between 2001 and 2006.

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- e. The remaining 1/3 of Omimex's oil and gas properties are in North America. Omimex owns an interest in approximately 2,200 wells located in seven states in the U.S. Approximately 1,400 of those wells are located Montana. In 2004 the U.S. wells produced an average of 1,350 Bopd and 14,200 net Mcfd.
- f. Montana Properties were acquired in 2003 from Encana Oil & Gas. Omimex began operating the properties in November 2003.
 - i. History of properties -- Encana acquired the properties in a merger with Pan Canadian Oil and Gas in 2002. Pan Canadian acquired the properties primarily from unregulated subsidiaries of the Montana Power Company in 2000 (MP Gas and North American Resources or NARCO). The Battlecreek property was purchased separately in 2001 from an independent Company called Xeno.

II. location of property in the state depicted on a map if you have it;

- A. Map shows the locations of the various properties in Montana

III. the process of getting gas from well head to transmission line;

- a. Tom Richmond provided group info about the process of finding and drilling for natural gas but now we need to try to get the gas to the burner tip.
- b. Natural Gas -- is a gas and as such cannot be reduced to physical possession. This means gas must remain in a gaseous state until it is consumed. It must remain in an enclosed and continuous system from well to burner tip.

- c. Basic value chain for natural gas:
- i. Wellhead – costs of exploring, developing and producing gas
 - ii. Gathering and Processing – small diameter pipes and facilities moving gas to progressively larger pipes and facilities designed to get gas to a uniform quality and pressure adequate to enter an interstate or intrastate transmission system. If gas is not of burner tip quality it requires processing to remove NGL's – propane, butane and natural gasoline – prior to entering a transmission line.
 - iii. Transmission & Storage – larger diameter and higher pressure pipelines designed to get large quantities of consumable gas to market areas
 - iv. Marketing – Companies which acquire rights to natural gas from Producers or other Marketing Companies and sell to LDC's , Consumers or other users of natural gas
 - v. Distribution – gas taken from large transmission lines and brought into smaller diameter pipelines with reduced pressure and delivery systems sized to allow the natural gas to be burned in a safe and efficient manner.

B. Refer to the Battlecreek Map – on the theory that a picture is worth 1,000 words I have a map of the Battlecreek area. To me this area is a good example of some of the different situations encountered in trying to get gas from the well to a transmission line.

- a. Wellhead – Omimex owns an interest in roughly 350 wells in the Battlecreek area.

- b. Gathering – there are two primary gathering arrangements for gas in this area.
 - i. Battlecreek Gas Gathering – is comprised of about 20 miles of 2”, 4”, & 6” pipelines starting at the wells flowing together and delivering about 3.5mmcf of gas into Northwestern Energy’s pipeline. Battlecreek Gas Gathering is owned by a Joint Venture and operated by Helis Oil & Gas. Omimex owns roughly 25% of the Joint Venture.
 - ii. Second Gathering arrangement – is comprised of roughly 40 miles of Omimex owned 2”, 4” & 6” lines which deliver roughly 3.3mmcf of gas to the Many Islands / Trans Gas system which interconnects with the Transcanada system in Canada.
- c. Marketing – the Helis operated joint venture markets the gas from this system directly to Northwestern Energy. The gas moving to the Trans Gas system in Canada is sold by Omimex to WPS at the interconnect to the Many Islands system.
- d. Gas Ownership – in each of the gathering arrangements in Battlecreek area there are multiple parties which have an ownership in the various streams of gas flowing through the gathering lines. In fact the ownership of the gas varies in almost every well.

C. “Regulation - I guess it makes sense to mention the role of regulation as it relates to the process noted above.

- a. Exploration and Production Companies are regulated primarily in the drilling and exploration process. (E&P Companies for instance, are required to obtain the proper authorization and permitting before beginning to drill, particularly on federally-owned land.)
- b. There is oversight of Marketing companies by FERC however the prices they charge are a function of competitive markets, and are no longer regulated by the government.

- c. Interstate pipeline companies, on the other hand, are regulated in the rates they charge, the access they offer to their pipelines, and the siting and construction of new pipelines.
- d. Similarly, local distribution companies are regulated by state utility commissions, which oversee their rates, construction issues, and ensure proper procedure exists for maintaining adequate supply to their customers.” (Natural Gas Supply Association)

IV. markets and customers, including transportation of gas of other parties, if any, and purchasers of gas, served from activities in Montana;

Gas Markets Related to Montana Activities

In Montana, Omimex operates gas gathering systems in five (5) counties and on these systems it gathers the gas from its own operated wells (which may have other working interest owners in addition to the royalty owners) and also gas from wells operated by 3rd parties located in the same geographical areas.

Omimex currently utilizes a 3rd party gas marketer, WPS Energy Services, a division of Wisconsin Public Service Co., to market Omimex's Montana gas. WPS takes title to our gas at various delivery points and then markets the gas either to other marketers or directly to end users.

Omimex's gas connects via our company owned gathering lines to 3rd party Transmission Lines. Omimex doesn't own or operate any 3rd party Transmission lines. This is typical of E & P companies. In fact the FERC actually mandated the separation of these activities with order 636.

V.any thing else you may consider relevant for the committee's consideration

This has been a quick walk through of the process of getting natural gas from the well to the burner along with some specific information about Omimex's business in Montana.

Omimex applauds the Committee's efforts to understand the gas business and the issues associated with taxing natural gas facilities in Montana. Critical elements in Omimex's view to this understanding are:

- Natural gas must remain in an enclosed and continuous system of pipelines in order to be consumed at the burner tip
- The role of the Producer, Gatherer and Processor is to get the gas from the well to a transmission entity
- Title to natural gas passes from one party to the next through a series of sometimes complicated contractual arrangements
- When examining the distinction between gathering and transmission one source to look to is FERC it has dealt extensively with this issue.
- The industry uses its own unique terminology to describe the process and depending on who you talk to in the value chain the use of the terms may vary. Be careful about ascribing too much meaning to a term unless you know the context of its use.

SUMMARY – The natural gas business and its structure is driven by the product it produces and sells. Gas moves from the well through a series of pipes which start out small and get progressively larger until it reaches a large transmission line. Once the gas has been collected and moved to the market areas it moves into progressively smaller pipes until it reaches the burner tip.

Omimex's role in the process is restricted to finding the gas and in some cases getting the gas from the well to either a transmission line or another gathering line.

Thanks for the opportunity to address this committee hopefully this has helped to demystify some of the issues before the committee.