

61st Legislative Session Montana Petroleum Association End of Session Report

It is hard to pick a place to start this end of session review, so I guess we should start at the beginning. From the start this has proven to be a very difficult and busy legislative session. MPA monitored 396 bills and bill draft requests to determine if a bill had impact to the oil and gas industry. Of those 396 bills, MPA worked and reported on 70 separate pieces of legislation. Throughout the session MPA developed and kept a status sheet on the bills we were engaged in and that sheet was updated every day. MPA appreciates the support of all of the members who testified during the session and who provided input and feedback on the various bills that were introduced. In one sentence I would tell you that the oil and gas industry fared extremely well this session; this report gives you the details.

For those of you not familiar with the makeup of the 2009 Montana legislature, the House of Representatives was tied at 50 Democrats and 50 Republicans. The Senate had a 27-23 Republican majority and our Governor is a Democrat. This makeup is important when trying to understand the political dynamics of the session. Notice the number of bad bills killed in the Senate. Also worth noting is the number of bills that died in the process on tie votes. These bills were particularly concerning because with a tie vote they remained alive, and if one member decided to change a vote the bill could easily become active. SB 475 is an example, and fortunately it was a bill that was not a problem for industry.

From a broad sense the 61st session had four big issues that dominated the news. As always, the budget for the next two fiscal years was at the top of the list, but the Federal stimulus program was tied to the budget. The other two issues were funding the Children's Health Insurance Program (CHIP) that was approved by 70% of the Montana electorate in November, 2008; and the 6 year property tax reappraisal. While on the surface these bills may not be seen to impact our industry, that is not the case. Montana was one of a few states in the country that had a positive general fund balance coming into the session in January. The CHIP program has a cost in excess of \$20+ million, funded from the general fund. Consequently, every month during the session the revenue estimates fell, and each time they fell the general fund balance got tighter. Education and health care were areas where belt tightening was necessary because they are such a huge share of the general fund expenditures. The political reality of not funding CHIP or limiting education funding led some to look to the oil and gas industry for tax increases to increase available funds. Obviously the stimulus funding helps shore up falling anticipated revenue without having to increase taxes.

The property tax reappraisal bill was another key piece of legislation that was difficult to resolve. Every 6 years residential property is reappraised. Given the growth experienced in Montana over the last cycle, property values are as much as 55% higher in many parts of the state. Every legislator was concerned about possible increases of a significant nature across the state. In the end, the solution was to increase the homestead and com-stead exemptions on a statewide basis, and lower the rate. The gap between the homestead and com-stead exemptions grew, which in actuality will shift more of the property tax burden to commercial property over the next six years. MPA will be watching how this impacts our industry in the years to come.

Now let's drill down to the bills we worked each and every day for the last 90 days. The newspapers focused on the oil and gas taxes, as did several liberal groups in an attempt to increase these taxes. However, to state that the session was only about taxes misses all the efforts to dramatically increase environmental and regulatory burden on the industry. Truly, this session had some very gruesome bills that were stopped, and a few positive measures that were passed.

TAX ISSUES:

| Bill # | Sponsor | Tax Bills | MPA Position | Outcome |
|--------|-----------|---|-------------------|------------------|
| SB 36 | Erickson | Revise Waters Edge provisions of corporation taxes | Oppose | Tabled |
| SB 258 | Kauffman | Revise oil and gas tax holiday by using a price trigger | Oppose | Tabled |
| SB 260 | Gillan | Revise tax on publicly traded partnerships | Support | Passed |
| SB 489 | Essmann | Revise taxation laws related to pipelines | Support | Passed |
| HB 113 | Villa | Revise taxation of new or expanded business enterprise property | Neutral-favorable | Tabled |
| HB 240 | Lake | Reduce business equipment property tax | Neutral-favorable | Died on tie vote |
| HB 388 | Van Dyk | Oil/Gas surtax for education a.k.a the "Buck a Barrel Bill" | Oppose | Died on tie vote |
| HB 416 | MacDonald | Exempt bio-diesel from road taxes made by micro producers | Neutral | Passed |
| HB 535 | Stahl | Require bonding for certain gas wells. | Oppose | Tabled |

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|--------|----------|--|---------|------------------|
| HB 642 | French | Centrally assess Pipelines | Oppose | Died on tie vote |
| HB647 | Barrett | Tax withholding for non-resident sales of Montana real estate | Oppose | Died on tie vote |
| HB 650 | French | Tax withholding on mineral lease conveyance | Oppose | Died on tie vote |
| HB 651 | Cohenour | Generally revise laws related to taxation | Oppose | Died on tie vote |
| HB 654 | Brown | 25% of new resource development revenue earmarked to education | Neutral | Tabled |
| HB 657 | Stahl | Study taxation on oil and natural gas property | Support | Passed |
| HB 675 | Wiseman | Remove production tax holiday and fund statewide school trust fund | Oppose | Died on tie vote |

The above tax bills can be lumped into several categories that will make them easier to explain.

There were three bills that would have changed production taxes on oil and gas.

- **SB 258** placed a price trigger on oil and gas at which point the reduced tax rate for 18 months on horizontal wells and 12 months on vertical wells increased to the standard rate. On any tax bill that increased taxes on our industry the proponents used economic studies from the University of Wyoming and the Headwaters Economic Group to support the concept that higher production taxes do not deter exploration and production. SB 258 was probably the most difficult of the production tax bills to stop because it was hard for legislators to grasp the impact such a trigger has on reinvestment. SB 258 was stopped in the Senate Tax Committee with a bipartisan two vote margin.
- **HB 338**, sponsored by Rep. Kendall Van Dyk from Billings, added a flat \$1 tax on each barrel of oil and \$.08 on each mcf of natural gas. This surcharge dedicated expected revenue to the quality educator program. The bill was heard in the House Education committee, which illustrates the politics of the session given it is a tax bill. The Montana Education Association-Montana Federation of Teachers made a large effort supporting this bill, while the other education groups like the Rural Education Association did not take a position. All groups knew that education needs stable funding and oil and gas production taxes are not a stable source. This bill was highly politicized by the sponsor. The “buck a barrel” bill was not moved from the committee and died on a tie vote.

- **HB 675** by Rep. Brady Wiseman, removed the reduced production tax rate for vertical and horizontal wells, and used the proceeds to establish a trust fund to support education. The Headwaters Economic Group's study was the basis for proponent testimony. HB 675 was unable to move out of committee or be tabled because of a tie vote.

HB 654 required that 25% of the revenue from all new production be dedicated to education and property tax relief. Given the declining production occurring in Montana there was no will to make such a significant change to the production tax revenue distribution and this bill was tabled. At the end of the day it was a tough battle avoiding some increase in production taxes or changes to the current incentive.

Three other bills dealt with the central assessment of pipeline property. It is important to understand several points regarding property taxation. Oil production equipment has always been taxed as class 8 business property at a 3% rate. This property was locally assessed using trended depreciation methods. Vertically integrated utilities and transmission pipelines crossing multiple counties have been taxed as class 9 property at a 12% rate. Class 9 property is centrally assessed using a unitary valuation method. Studies show that unitary valuation methods place a higher value on property than trended depreciation. For the last 8 years the Montana Department of Revenue (MDOR) has been placing more oil and gas production property under central assessment and class 9 property which means at least a 400% increase in property taxes paid. One issue with the definitions of class 8 and 9 property is that there is no mention of gathering and flow lines and inadequate definitions of all pipelines. One lawsuit filed by Omimex Ltd. made its way to the Montana Supreme Court. Omimex asked the court to determine if MDOR had inappropriately taxed their oil and gas production facilities, including gathering lines, at 12%. The Supreme Court ruled that MDOR had not correctly taxed Omimex assets and that the property of natural gas companies without a major distribution system in the state is appropriately taxed at the class 8 3% rate. This decision would have had a major negative revenue effect on a number of counties and school districts in northern and eastern Montana.

- MDOR introduced **HB 642**, sponsored by Rep. Julie French of Scobey, to address what they saw as a court order that would place all pipelines in the lower tax bracket. HB 642 would have increased the number of pipelines centrally assessed in Montana and quadrupled their taxes on these properties. And it would not have clarified definitions of pipeline facilities. HB 642 would have given MDOR free rein in grabbing more production property in the higher class 9, centrally assessed property class. With strong support from the teachers' unions and strong opposition from MPA, HB 642 died in the House Tax committee on a tie vote.

- **SB 489**, sponsored by Sen. Jeff Essmann of Billings, took the Omimex decision and amended current law to clarify the current tax structure on pipelines. SB 489 defined transmission, gathering and flow pipelines and clarified the class to which these properties belong. The effort was to leave transmission pipelines in class 9 and ensure that gathering/flow line and production property stayed in class 8. This bill had a rough start because it was opposed by several eastern Montana county commissioners who would see some reduction in tax revenue if it passed. School groups opposed the bill as well, but the opposition from the Rural Education Association was primarily because there was no fiscal impact information available. In fact the absence of credible fiscal impact statements from the MDOR and the Budget office plagued many bills through out the session. Once HB 642 died; SB 489 was seen as the bill that was necessary to correct central assessment concerns, but the MDOR still testified in committee that certain properties would still be centrally assessed. MPA steadfastly disagrees. Senate Bill 489 was eventually passed and sent to the Governor.
- Because of the conflicting testimony between the MDOR and industry, Rep. Stahl introduced **HB 657** to study oil and gas property taxation issues, which MPA supported.

There were several revenue enhancer/tax cheater bills, two terms coined by the current administration to make changes to Montana tax law. All made significant changes to everything from water's edge elections, reportable and listed transactions, composite state tax returns, individual multi-state tax filings and the like. Each of the House Bills failed to pass or be tabled based on tie votes. Of special note was **HB 650**, that required the seller of a mineral leasehold to a non-resident withhold 6% of the gain or the total sale price and remit that tax to the Department of Revenue. This bill also required a realty transfer certificate for mineral transfers (as did **HB 647**). HB 650 was directed at out of state transfers of mineral estates in Montana, and again failed in committee on a tie vote.

ENVIRONMENTAL ISSUES/CLIMATE CHANGE

| Bill # | Sponsor | Environmental/Climate Change | MPA Position | Outcome |
|--------|------------|--|---------------------|---------|
| SB 66* | Erickson | Carbon sequestration framework | Oppose | Tabled |
| SB 95 | Brueggeman | Temporary nutrient criteria for discharge permits. | Support with Amend. | Passed |
| SB 109 | Hawks | Restrict outdoor lighting | Oppose | Tabled |

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|---------|-----------|---|------------------|--|
| SB 118 | Jackson | Create an invasive and destructive species council | Oppose | Pulled by Sponsor |
| SB 147 | Hawks | Revise the comprehensive environmental cleanup and responsibility act | Oppose | Tabled |
| SB 180* | Erickson | Establish Emission Standards | Oppose | Tabled |
| SB 206 | Barrett | Eliminate term restrictions on EQC | Neutral | Tabled |
| SB 288 | Hinkle | Require bond for challenge to natural resource development | Support | Passed Senate. Died on tie vote in House |
| SB 343 | Jackson | Regulation of zebra mussel and other invasive species | Oppose | Amended and passed |
| SB 387 | Bales | Revise laws related to the BER | Support | Tabled |
| SB 417 | Keane | Revise environmental impact laws | Support | Passed Senate, died in House on tie vote |
| SB 427 | Laslovich | Create the MT contaminated property compensation and restoration act | Support w/amend. | Amended and passed |
| SB 440 | Gebhardt | Exempt air quality permits from MEPA review | Support | Passed Senate, died in House on tie vote |
| SB 449 | Keane | Establish Oil and Gas Education Acct. | Support | Passed |
| SB 457 | Branæ | Revise Scenic Byways Laws | Oppose | Amended and passed |
| SB498* | Bales | Establish laws governing carbon sequestration | Support | Passed Heavily amended |
| SB505 | Bales | Temporary permit for CBM water | Support | Passed Senate failed House on tie vote |

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|---------|-----------|--|---------|--|
| SJR24* | Hawks | Endorse Western Climate Initiative | Oppose | Tabled |
| SJR 36* | Gebhardt | Study impacts of Federal climate change programs | Support | Passed Senate, failed in House on tie vote |
| HB 20* | Dickenson | Create a weatherization account using current oil and gas production taxes | Oppose | Failed House on tie vote |
| HB 41 | Cohenour | Revise water Quality laws for aquifer recharge or mitigation | Oppose | Passed w/amend |
| HB 254* | Phillips | Monitor and Report on GHG emissions | Oppose | Tabled |
| HB 338* | Ankney | Carbon Dioxide pipelines as common carriers | Support | Passed |
| HB 375* | Phillips | Create bipartisan committee to evaluate climate change initiative | Neutral | Passed House tabled in Senate |
| HB 483 | Jones | Revising laws governing BER related to energy projects | Support | Passed |
| HB 502 | Phillips | Revise fossil fuel development laws | Oppose | Tabled |
| HB 506 | Phillips | Wildlife habitat conservation with oil and gas | Oppose | Never held a hearing |
| HB 566 | Jones | Revise EIS laws | Support | Failed in House on tie vote |
| HB 575 | McChesney | Revise water laws relating to CBNG | Support | VETOED |
| HB 641* | Noonan | Energy Efficiency weatherization standard | Oppose | Failed in House on tie vote |
| HJR 10* | Phillips | Urge support for revenue to support wildlife adaptation to climate change | Oppose | Tabled |

The list of environmental bills in the table above can essentially be separated into two large groups; one dealing with climate change related issues and the other with attempts to improve the business climate in Montana by streamlining environmental regulation. The discussion below will focus on the more significant bills in these categories.

Climate change related bills are marked with an asterisk.

- **SB 66** and **HB 502** sought to establish a framework for carbon capture and storage (CCS). Both these bills gave regulatory authority to the Department of Environmental Quality (DEQ) and Board of Environmental Review (BER). Given the past performance of the BER there were fears among most industry advocates that this would result in rules that would be unworkable. Pore space ownership was also in both these bills. Governor Schweitzer brought up the issue of the need for a CCS framework in his State of the State address in late January. The Governor praised Senator Erickson, the sponsor of SB 66, and derided Republicans for tabling the bill. SB 66 gave pore space ownership to the surface owner, and HB 502 tried a novel concept and gave it to the State. HB 502 was primarily the Governor's bill that his staff spent a good deal of time lobbying. MPA opposed both the bills. HB 502 was tabled in the House Natural Resources Committee, and SB 66 was tabled in the Senate Energy and Telecommunications Committee.
- Senator Keith Bales who lives in southeastern Montana, coal country, thought that some type of regulatory framework was a good idea and necessary for future coal development in Montana. He asked a group of various industry folks, including MPA, to help him draft a bill. That effort was introduced as **SB 498**, and gave the primary regulatory responsibility to the Montana Board of Oil and Gas Conservation (MBOGC) and creates a mechanism to transfer ownership and liability to the State. While the introduced version of the bill declined to define pore space ownership, the House insisted that a definition be included. A pore space ownership definition was agreed upon and states; "if the ownership of the geologic storage reservoir cannot be determined from the deeds or severance documents related to the property by reviewing statutory or common law, it is presumed that the surface owner owns the geologic storage reservoir." SB 498 was amended in the House to give the DEQ more authority once CO2 injection is complete and the operator begins to seek a certificate of completion and transfer liability to the state. SB 498 will require the MBOCC to seek primacy from the EPA for a CSS program and develop operational rules.

Other climate change bills were introduced. MPA opposed all of these bills and they all died during the process.

- **SB 180** would have established emission standards.
- **SJR 24** would have endorsed the western climate initiative.
- **SJR 36** would have required the legislature to study the costs involved in climate change initiatives.

- **HB 20** would have created an account to weatherize homes for low income families using a portion of oil and gas production taxes.
- **HB 254** would have required monitoring and reporting of GHG emissions over 10,000 tons complete with fees.
- **HB 375** would have created a bipartisan committee to evaluate climate change.
- **HB 641** would have created an energy efficiency program and a decoupling mechanism to compensate utilities for reduced energy sales.
- **HJR 10** supported a revenue stream dedicated to helping wildlife adapt to climate change.

HB 338, which allows CO2 pipelines to get common carrier status and use of the state's eminent domain laws, was passed. HB 338 was considered an important requirement for a future CCS program in Montana and received broad support.

Clearly, the issue of climate change and how Montana addresses this issue will be shaped by Federal action between now and the 2011 legislative session; but keep in mind that many of these issues will be included in the work plans of various interim committees and will see further legislative debate over the next 18 months in the Interim Committee hearings.

There were several attempts by various legislators to change the process for permitting or the criteria for legal challenge to permits. SB 288, SB 417, SB 440, and HB 566 sought ways to streamline the process and limit the ability for legal challenge. All died in the House.

- **SB 288** would have strengthened existing laws and required that that groups filing suits challenging resource development secure a bond to cover costs incurred from the delay.
- **SB 417**, based on a failed bill from 2007, would have limited environmental challenges to the substantive environmental law and not the process involved with MEPA. The environmental community, led by the Natural Resource Defense Council, Montana Environmental Information Center, Northern Plains Resource Council, and the League of Conservation Voters opposed all of these bills on the basis of degradation of Montana's strict environmental law structure.
- **HB 483**, sponsored by Rep. Llew Jones, did pass and helps streamline larger energy projects.

There were two bills crafted to address the need for ranchers to secure a water use permit in order to use the water from CBNG development. A recent ruling by Judge Honzel determined that a ground water right is required in order to beneficially use produced water. The Northern Plains Resource Council fought the concept fiercely, and dishonestly stated that the bills rewrote 140 years of water law.

- **HB 575**, sponsored by Rep. Bill McChesney, appeared dead due to a tie vote in the House Agriculture Committee, despite strong support from industry and senior water rights holders like the Montana Stock Growers Association, Montana Farm Bureau and Montana Water Resources Association. After general bill transmittal, HB 575 was amended to add a fee and a study. These amendments reclassified the bill as a revenue bill and allowed the bill to be moved from the committee. With help from the Governor's office and DNRC, HB 575 moved from the House to the Senate and was passed. While the Governor's Chief Policy Advisor and the DNRC helped get this bill back off the table, the Governor vetoed the measure, so people who have relied on the produced water for the last seven years will need to secure a water right for the water.
- **SB 505**, sponsored by Sen. Bales was introduced after HB 575 tied up in the House committee. The bill passed in the Senate but got hung up on a tie vote in the House Natural Resources Committee.

SB 95 also merits discussion. The federal court has ordered Montana to implement a TMDL system. DEQ is proposing to adopt numeric nutrient standards that it acknowledges could not be attained economically or technically by most water dischargers at this time. Cities and towns with municipal sewer systems have been arguing that this will be unaffordable. This bill authorizes a variance process and temporary nutrient criteria for discharges of phosphorous and nitrates. Industry also would not be able to meet the standards being considered, and was further concerned because as rivers and streams are studied under the TMDL requirements, industry might be held responsible for a greater burden than cities and towns in order to bring a water body into compliance. Everyone recognized that the threat of the EPA pushing the state without this bill and wanted some version to pass. The bill was amended to include the requirement that an advisory group be formed from both the public and private sectors, and that the advisory group must be consulted before nutrient standards and rules are adopted and implemented. This "Nutrient Work Group" will have significant interaction with DEQ as they develop nutrient criteria. The DEQ is also required to report to the Environmental Quality Council (legislative interim committee that oversees DEQ activities).

SB 427 was introduced with the intention of offering some protection against unreasonable actions on lawsuits over remediation. The focus of the bill was petroleum contamination. One of the more important protections was to allow

evidence of state and federal approved remediation programs to be introduced in legal actions; which was denied in a significant case last year. SB 427 passed the Senate handily and then was amended in the House by the trial lawyer lobby. The amendments made the protections apply only to retail facilities and prevent industrial facilities, refineries, oil and gas production sites and rail related fueling stations from the benefits in the bill. Our fear was that since we are specifically exempted that there was an implication that the protections could not apply to us. It was a fine point of legal argument on the issue, but MPA got involved with the bill at that time and had the section on evidence of clean up removed from the bill. This new language merits watching in the future to assure that the new language does not cause any issue with remediation of oil and gas sites.

One surprise of the session was **HB 506**, which required the Board of Oil and Gas to coordinate with the Department of Fish, Wildlife and Parks. The bill, patterned after one that passed in Colorado, was drafted and introduced; but never heard. The bill was drafted by Rep. Kendall Van Dyk (whose regular job is energy coordinator for Trout Unlimited) and then handed off to Rep. Mike Phillips (whose regular job is managing wildlife for the Ted Turner Ranch). Since Rep. Van Dyk was Chair of the House Fish, Wildlife and Parks committee, it was a recipe for disaster. MPA spent considerable resources last fall before the session educating legislators about the pitfalls of the Colorado experience. HB 506 promised to be an ugly fight; apparently it was one nobody wished to take on. Rep. Van Dyk has expressed a desire to discuss the issue of wildlife coordination with MPA during the interim.

STATE LAND BILLS

| Bill # | Sponsor | Alternative Fuel Issue Bills | MPA Position | Outcome |
|--------|--------------|--|--------------|---------|
| HB 423 | Pomnichowski | Revise state land law relating to oil and gas leases | Oppose | Tabled |
| HB 424 | Pomnichowski | Revise state land law to clarify public information | Oppose | Tabled |
| HB 425 | Pomnichowski | Public notice for oil/gas leases on state land | Oppose | Tabled |
| HB 448 | Pomnichowski | Revise state land law relating to inventory and classification | Oppose | Tabled |
| SB 475 | Esp | Require notice on State Lease Sale | Support | Passed |

As a result of the nomination of four parcels in the high end area of Gallatin County called Bridger Canyon, Rep. J.P. Pomnichowski unleashed an assault against oil and gas leasing on state lands.

- **HB 423** provided for an increase in the rental rate of a non-producing lease equal to the average royalty or amount received from the three top producing wells in the county. She felt the State was getting the dirty end of the stick on leases that were never produced, so this was the Montana version of drill it or lose it.
- **HB 424** did two things regarding public information. First it required the name of the nominator be made public upon nomination, not after the auction. Second, it required that all geologic, seismic, geophysical and other proprietary information on state lands be made public, even though much of the information in the bill is already public and stored at the Montana Board of Oil and Gas Conservation.
- **HB 425** dramatically increased public notice for all state land leases, including ads in local papers, certified notice to surface owners and adjacent landowners, written notice to every land owner within 1 mile and public hearings. HB 425 was heavily amended and passed the House but was killed in the Senate because the sponsor insisted on holding public meetings on oil and gas lease sales.
- **HB 448** required the DNRC to perform current use and condition surveys on all state lands and restrict leasing if it conflicted with other uses. DNRC would have been in the subjective position of determining conflicting use.

MPA opposed all four bills, which were all tabled.

SB 475 was introduced to address issues with public notice of oil and gas leases on state lands. SB 475, sponsored by Sen. John Esp contained common sense requirements for advertising by the DNRC when they lease oil and gas properties. MPA supported the bill, but Trout Unlimited wanted the public meeting provision and the bill was held in the House Federal Relations, Energy and Telecommunications. In the last days, Trout Unlimited decided that the public meeting issue was not that important and resurrected the bill which passed out of committee and is awaiting signature by the Governor.

LOCAL GOVERNMENT/ZONING

| Bill # | Sponsor | Alternative Fuel Issue Bills | MPA Position | Outcome |
|--------|----------|--|--------------|----------------------------------|
| HB 231 | Glaser | Revise laws on incorporation of cities and towns | Oppose | Tabled |
| HB 406 | Reinhart | Revise interim zoning law | Oppose | Tabled |
| HB 455 | Reinhart | Big Sky Rivers Act | Oppose | Unable to pass House on tie vote |

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|--------|----------|----------------------------------|---------|------------------------|
| HB 486 | MacLaren | Revise Land Use and Planning Law | Oppose | Passed w/amend |
| HJR 42 | Reinhart | Interim Study on land use laws | Neutral | Died in process Senate |

This session we saw an emergence of more zoning laws that affect oil and gas.

- **HB 486** contained language that weakened the protection that industrial and manufacturing facilities have from being annexed by a city. Current law requires the consent of the owner of the facility, but HB 486 changed existing law to allow annexation under a growth policy. MPA worked with the sponsor and others to strike these provisions so industrial facilities have the protection of making their own decision to be annexed into a jurisdiction.
- Along those same lines, **HB 231** sought to remove the requirement that a group of citizens who want to create town have to have a post office. Our fear was that during the incorporation process, the new city can lay claim to property that is wants inside its boundaries without the protections of giving consent. These bills have large tax consequences for MPA's industrial members. HB 231 was tabled after the legislature rejected amendments to offer industrial sites the same protection they have under annexation laws. MPA watched zoning laws very closely since we are seeing the use of zoning to potentially stop the ability to develop minerals in Gallatin County.
- **HB 406** and **HB 455** were aimed at housing and subdivisions, but had provisions that would impact us. HB 455 was a key measure for Trout Unlimited in their efforts to protect Montana's rivers to standards they deem appropriate. They were unsuccessful this session, but setback issues on rivers and streams will be back in front of the 2011 session.

OTHER BILLS

| Bill # | Sponsor | Alternative Fuel Issue Bills | MPA Position | Outcome |
|--------|--------------|---|--------------|---------|
| SB 12 | Steinbeisser | Clarify short term interest on county share of productions taxes goes to the counties | Support | Tabled |
| SB 76 | Black | Revised enhanced recovery of oil and gas laws. | Support | Passed |
| SB 136 | Gebhardt | Clarify oil well unit spacing requirement law | Support | Passed |

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| SB 290 | Jackson | Revise duties of the energy and telecommunications interim committee | Neutral | Passed |
| SB 318 | Kauffman | Code Corporate Responsibility | Opposed | Tabled |
| SB 462 | Steinbeisser | Crete lien on oil and gas proceeds for owners interest | Support | Passed |
| HB 41 | Cohenour | Revise water quality laws for aquifer recharge or mitigation | Oppose | Passed w/Amend |
| HB 374 | Arntzen | Revise Electrician Licensing Law | Oppose | Passed w/amend |
| HB 586 | Beck | Deposits .5% oil and gas tax proceeds in senior care fund | Neutral | Died in Process |

MPA's actively engaged in the discussions on these bills as well.

- **SB 76** and **SB 136** were introduced at the request of the Montana Board of Oil and Gas Conservation and MPA supported their effort. SB 76 reduces the percentage of agreement when trying to unitize a field. The current 80% threshold was reduced to 70% of the working interest owners and 60% of the non-working interest holders.
- **SB 462** allows a producer to place a lien on the oil and gas or the proceeds from the sale of product to the first purchaser. HB 41 merits attention. This bill requires a water quality discharge permit for an aquifer recharge or mitigation plan approved by the Department of Natural Resources. The introduced bill had impact to the oil and gas industry, which MPA successfully had removed in the House Natural Resources Committee. This bill was a by product of the Interim Water Policy committee, which is a reminder of the importance of the interim committee efforts.
- **SB 318** is yet another example of the anti-corporate mentality of the Progressive Democratic Caucus. Fortunately this bill was stopped dead in its tracks in the Senate Judiciary Committee.

CLOSING

At the time this report was distributed the following bills had yet to be signed by the Governor:

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| SB 489 | Essmann | Revise Pipeline Taxation |
| HB 657 | Stahl | Study Pipeline Taxation |
| HB 483 | Jones | Revise laws regarding the BER on Energy Projects |
| SB 475 | Esp | Require Notice on State Lease Sale |
| HB 486 | MacLaren | Revise Land Use Planning Laws |
| SB 290 | Jackson | Revise duties of ETIC Interim Committee |

It is still possible that these bills could be vetoed and MPA will send notice to members and update this report that will be posted on our website.

This interim promises to be a busy one. MPA will be monitoring the activities of the following interim committees:

Environmental Quality Council (EQC)
Energy and Telecommunications (ETIC)
Water Policy (WPIC)
Revenue and Transportation (RATIC)
District and Apportionment Commission

There is a possibility that the legislature may be called into special session if the economy continues to worsen. Several legislators expressed concern that our industry will be the target of tax increase in the event additional revenue is needed. Given the actions at the Federal level that statement comes at no surprise.

A list of studies that have been included in legislation is attached. The list was prepared by Legislative Council Staff. Legislators will be surveyed and asked to rank the studies by level of importance. The Legislative Council meets on May 27th and will decide what studies will be funded or suggested to be reviewed by particular interim committees. The EQC has will have its first meeting on May 28th and 29th.

MPA enjoyed representing our members in the Montana 61st legislative session and wishes to thank all of the people involved representing the oil and gas industry and the energy industry in general.

We had a good session. Thank you for all your help and support!