HOUSE BILL REPORT
HB 3193

As Reported by House Committee On:
Technology, Energy & Communications

Title: An act relating to fossil fuel production.

Brief Description: Collecting royalties for fossil fuel production.

Sponsors: Representatives Morris and Anderson.

Brief History:
Committee Activity:
Technology, Energy & Communications: 1/31/06, 2/2/06 [DPS].

Brief Summary of Substitute Bill

- Directs the Commissioner of Public Lands to establish the royalty rate for oil and gas production from state lands at between 5 and 30 percent.

- Establishes an oil and gas severance tax of 5 percent.

HOUSE COMMITTEE ON TECHNOLOGY, ENERGY & COMMUNICATIONS

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 12 members: Representatives Morris, Chair; Kilmer, Vice Chair; Crouse, Ranking Minority Member; Haler, Assistant Ranking Minority Member; Ericks, Hankins, Hudgins, Nixon, P. Sullivan, Sump, Takko and Wallace.

Staff: Jason Callahan (786-7117).

Background:

The Department of Natural Resources (DNR) oversees both the regulation of oil and gas exploration and production in Washington, as well as the leasing of proprietary interests in oil and gas. The DNR is authorized to lease state lands for oil and gas production, as long as a single lease does not cover more than 640 acres. All oil and gas produced under a lease issued by the DNR is subject to a royalty payable to the state. This royalty may be no less than 12.5 percent of the gross production of oil or gas. Revenues generated from the royalties are paid to the beneficiaries of the state land trusts.

The state does not assess a severance tax for oil or gas production.

Summary of Substitute Bill:

Royalties From State Land

The Commissioner of Public Lands (Commissioner) is directed to establish a royalty rate for oil and gas production on state lands at such a level that allows the state to receive a fair share of revenue from the resource while the production company receives a fair rate of return on its investment. The Commissioner may establish a royalty rate of between 5 and 30 percent of the gross production of oil, gas, or other hydrocarbons.

The Commissioner may determine which point in the recovery process is used for determining royalties, and may establish different royalties for different gas types or different oil or gas fields. The Commissioner may also establish royalties that change over the lifetime of a well.

Oil and Gas Severance Tax

The Department of Revenue (Department) must collect a 5 percent severance tax on the removal of oil or gas from any land or water in the state. The measure of the tax is the value of the oil or gas at the time and point of production. The Department may require the tax to be paid based on the prevailing price being paid for oil or gas at the time of production if the revenue reported to the Department by the producer does not match expectations.

Oil and gas values that are tax exempt due to federal laws or negotiated compacts with a tribal government are not subject to the severance tax. Likewise, the value of oil or gas that is reinjected for storage is exempt from the severance tax.

Revenue generated through the severance tax must be deposited into the Energy Freedom Account proposed in pending legislation. If the pending legislation fails to become law, then revenue will be deposited into the General Fund.

Substitute Bill Compared to Original Bill:

The original bill only stated legislative intent to establish a methodology for the collection of royalties from fossil fuels.

Appropriation: None.

Fiscal Note: Requested for proposed substitute on January 31, 2006.

Effective Date of Substitute Bill: The bill takes effect 90 days after adjournment of session in which bill is passed, except sections 3 through 8, relating to the establishment of the excise tax, which takes effect January 1, 2007.

Testimony For: (In support) Gas exploration has already started in this state but there is not a solid royalty or tax structure set up for the state. A royalty and tax framework should be put in place prior to the initiation of production.

(With concerns) Many states provide incentives to encourage oil and gas production when drilling conditions are difficult, as they are in Washington due to the geology of the Columbia basin. The higher the tax rate a state sets, the less interest in exploration the state will see from the oil and gas companies. Caution should be urged to avoid any large increases in taxes or royalties.

Testimony Against: None.

Persons Testifying: (In support) Representative Morris, prime sponsor.

(With concerns) Steve Gano, Shell Oil; and Greg Hanon, Western States Petroleum Association.

Persons Signed In To Testify But Not Testifying: None.