

HOUSE BILL REPORT

SSB 5445

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

Title: An act relating to cost-reimbursement agreements.

Brief Description: Regarding cost-reimbursement agreements.

Sponsors: Senate Committee on Water, Energy & Telecommunications (originally sponsored by Senators Jacobsen, Morton and Rasmussen).

Brief History:

Committee Activity:

Technology, Energy & Communications: 3/28/07 [DP].

Brief Summary of Substitute Bill

- Authorizes the Department of Natural Resources to enter into cost-reimbursement agreements for activities needed to establish oil and gas development units and pooling agreements.

HOUSE COMMITTEE ON TECHNOLOGY, ENERGY & COMMUNICATIONS

Majority Report: Do pass. Signed by 11 members: Representatives Morris, Chair; McCoy, Vice Chair; Crouse, Ranking Minority Member; McCune, Assistant Ranking Minority Member; Eddy, Ericksen, Hankins, Hudgins, Hurst, Takko and VanDeWege.

Staff: Scott Richards (786-7156).

Background:

Recent high prices and increased demand for oil and natural gas have renewed interest in gas exploration in Washington. Parts of the state, such as the Columbia Basin, show promise for reserves of natural gas.

The Department of Natural Resources (Department) regulates oil and gas exploration in Washington. The Department issues permits to drill wells and ensures compliance with applicable laws, rules, and orders. The cost of a permit is set in statute and ranges from \$250

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to \$1,000 depending on the depth of the drilling. Revenues from permits go into the State General Fund.

The Department may seek reimbursements for costs associated with pre-permitting regulatory activities, such as the preparation of environmental impact statements. But the Department lacks such authority for post-discovery activities, such as engineering analysis for reservoir size; locating and spacing of wells and operations; and reclamation and clean up of all well sites. Consequently, the Department's post-discovery regulatory activities have been funded out of the State General Fund, which were adequate when annual drilling applications numbered one or two a year.

Renewed exploration and drilling over the past year has increased. The Department reports that it is currently processing 14 applications for drilling permits, with at least five more expected before the end of the fiscal year. Three wells are actively drilling, and another five to 10 are expected to be drilled or drilling before the end of Fiscal Year 2007. Lacking the authority for post-discovery cost reimbursements, and without adequate State General Fund monies, the Department asserts it can no longer adequately regulate post-discovery drilling activities.

In 2006, the Legislature directed the Department to study and make recommendations for improving the existing legislation affecting the oil and natural gas industry. The study results were submitted to the Legislature in January 2007. Among the recommendations was one authorizing cost-reimbursement agreements for all the stages of oil and gas drilling, from exploration through production.

Summary of Bill:

The Department of Natural Resources may enter into cost-reimbursement agreements for activities needed to establish oil and gas development units and pooling agreements, including monitoring for permit compliance. The current prohibition that the Department may not enter into cost-reimbursement agreements after July 1, 2007, is removed. The term "applicant" is replaced with "proponent" making no substantive change.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date: The bill takes effect 90 days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony:

(In support) This bill is important to the state because there are some potential natural gas discovery opportunities in Washington. This bill would help the Department expedite post-

discovery regulatory activities. This bill could be very beneficial, especially if there are discoveries of significant natural gas resources.

This bill addresses the cost-reimbursement needs the Department has testified on before this committee. The language in the bill is nice clean language that has been added to existing statutory language related to departmental activities and used by various agencies for some time. The general language found in this bill is very consistently applied across the Department. There are many examples of how cost-reimbursement agreements have been used in state government, so the industry is comfortable with the language, people are familiar with it, and it's easy to apply. The terms of cost-reimbursement agreements are negotiated with the proponent ensuring that costs are concerned early in the process and in a transparent manner. This bill represents a great opportunity. Natural gas development activities are not quite at a level yet where the Department can make a reasonable proposal for full-time staff to run this program. This is a great interim solution.

Shell Oil is very excited about the possibility of this bill moving forward. Shell Oil, along with one of our partners, are doing natural gas exploration in eastern Washington. We want to make sure the agency has the tools necessary to make sure that adequate staff is there to process these permits in a timely fashion.

(Opposed) None.

Persons Testifying: Senator Jacobsen, prime sponsor; Ron Teissere, Department of Natural Resources; and Steve Gano, Shell Oil.

Persons Signed In To Testify But Not Testifying: None.