
**Technology, Energy &
Communications Committee**

HB 1459

Brief Description: Authorizing oil and gas regulatory cost-reimbursements.

Sponsors: Representatives Kretz and B. Sullivan.

Brief Summary of Bill

- Authorizes oil and gas regulatory cost-reimbursements.

Hearing Date: 2/2/07

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 significant reserves of natural gas.

The Department of Natural Resources (Department) regulates oil and gas exploration in Washington. The Department imposes conditions and restrictions as necessary to protect the public interest and to ensure compliance with state law, rules, and orders. 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 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 the State General Fund, which were adequate when annual drilling applications numbered one or two a year.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

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:

Cost-Reimbursement Agreements

In order to expedite and facilitate the permitting and compliance processes for oil and gas development, the Department may enter into a written cost-reimbursement agreement with an applicant, permit holder, or project operator. Applicants must request cost-reimbursement agreements.

The agreement may be used to recover the reasonable costs incurred in carrying out regulatory requirements related to oil and gas development such as permit coordination, environmental review, application review, technical studies in support of permit processing, or orders issued by the oil and gas supervisor, and permit compliance. The cost-reimbursement agreement must identify the specific tasks, costs, and schedule for work to be conducted under the agreement.

Third Party Contracting

The Department must use any funds required by the agreements to contract with third-parties to carry out the work specified in the cost-reimbursement agreement. The state ethics laws apply to the agreements and to persons hired as a result of the agreements.

The Department must review and oversee the work performed by the third party. Oversight activities must be recovered through application fees and not through cost-reimbursement agreements. Final decisions that involve policy matters must be made by the Department and not by the third party consultant.

Interim Measure

Cost-reimbursement agreements are considered an interim measure until oil and gas development activities necessitate additional Department staffing resources.

Appropriation: None.

Fiscal Note: Available.

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