
**Technology, Energy &
Communications Committee**

SSB 5445

Brief Description: Regarding cost-reimbursement agreements.

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

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.

Hearing Date: 3/28/07

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 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 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 of

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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.