HOUSE BILL REPORT
HB 3308

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

Title: An act relating to revenue from fossil fuel production.

Brief Description: Concerning revenue from fossil fuel production.

Sponsors: Representative Morris.

Brief History:
Committee Activity:
Technology, Energy & Communications: 2/10/06 [DP].

Brief Summary of 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: Do pass. Signed by 10 members: Representatives Morris, Chair; Kilmer, Vice Chair; Haler, Assistant Ranking Minority Member; Ericks, Hankins, Hudgins, Nixon, P. Sullivan, 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 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 re-injected 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.

Appropriation: None.

Fiscal Note: Requested on February 10, 2006.

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

Testimony For: None.

Testimony Against: None.

Persons Testifying: None.

Persons Signed In To Testify But Not Testifying: None.