

House Energy and Natural Resources Committee

Honorable Rep. Porter, Chair

SB 2217

March 18, 2021

Senator Brad Bekkedahl, District 1

Chairman Porter and Committee Members,

SB 2217 is a bill that was requested to be submitted by oil and gas royalty owners. In the 2019 Session, study language was passed that would have had public hearings on royalty issues as well as industry input during the interim. Unfortunately, Legislative Management did not select this for an interim committee review subject. This bill seeks to address some of the issues that could have been reviewed in that process. With the introduction of this bill, it is hoped the result will be improved transparency and communication between industry operators and their royalty owners. Chairman Porter, I appreciate you and your committee for providing this public hearing opportunity, taking testimony, and considering the bill today.

Originally, the bill had 6 sections. Section 1 had key word definitions that were used in context in subsequent sections. Section 2 was a provision that sought to clarify when postproduction costs from royalty owners can and cannot be assessed. Section 3 differentiated between when arms-length and non-arms-length transactions occurred and consequent pricing issues. Section 4 dealt with limiting postproduction deductions to no more than the value of the product sold that month and a corresponding violation provision. Section 5 was an audit provision that upon proper request granted access to operator records for a royalty owner and stipulated that the burden for any requested audit be borne by that royalty interest owner. Section 6 set out penalty provisions for a non-compliant party, including being subject to a civil penalty and allowing for recovery of underpaid royalties and potentially other expenses incurred.

In consideration in the Senate Finance and Tax committee, they engaged with industry representatives to work out provisions they felt amenable to their members in the bill. What you see before you today is the result of their recommendations to the bill. As the prime sponsor, I was afforded the opportunity to see the changes in consideration and offer my input. Unfortunately, the substantive changes I sought in language to preserve some of the original intent of the bill were not accepted, and as such I would request the committee consider an amendment I have prepared to offer to the committee today that removes Section 1 of the bill and retains only Section 2, which is the study portion. Input I have had with some of the industry representation is that they are supportive of this amendment as well.

Chairman Porter and Committee, I sincerely appreciate the input and cooperation extended to me from both the royalty owners and the industry representatives in this bill discussion. Please agree to the amendment and recommend a Do Pass on Senate bill 2217 as amended. The study will provide an opportunity for the issues to be debated in the interim and bring the public and industry testimony opportunities necessary for resolution to the issues originally brought forth in the bill.