

Senate Finance and Taxation Committee

Honorable Senator Bell, Chair

SB 2217

February 8, 2021

Senator Brad Bekkedahl, District 1

Chair Bell 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. Chair Bell, I appreciate you and your committee for providing this public hearing opportunity, taking testimony, and considering the bill before you.

I will now concisely lay out the provisions of the bill before you today. The bill begins in Section 1 with key word definitions that are used in context in subsequent sections. Section 2 is a provision that seeks to clarify when postproduction costs from royalty owners can and cannot be assessed. Section 3 differentiates between when arms-length and non-arms-length transactions occur and consequent pricing issues. Section 4 deals with limiting postproduction deductions to no more than the value of the product sold that month and a corresponding violation provision. Section 5 is an audit provision that upon proper request grants access to operator records for a royalty owner and stipulates that the burden for any requested audit be borne by that royalty interest owner. Section 6 sets 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.

Before completing my testimony, I would like to provide the committee with an amendment to section 3 of the bill that puts into better context that provision and recommends language for pricing in transactions that are determined to not be at arms-length between parties. Agreeing to this amendment puts the entire bill in the form it was intended. I request your consideration of the amendment prior to final consideration of the bill.

Chair Bell and Committee, I have sincerely appreciated the input and cooperation extended to me from both the royalty owners and the industry representatives in this bill discussion. I look forward to further input and the committee deliberation on these relevant matters. I will stand now for committee questions if there are any I can answer, understanding I may defer to others present if needed.