SESSION OF 2005

SUPPLEMENTAL NOTE ON HOUSE BILL NO. 2390

As Amended by Senate Committee of the Whole

Brief*

HB 2390 would amend a statute that sets out the requirements to be met by an applicant for an operator's or contractor's license to drill or service oil and gas wells. An applicant for a license or license renewal must satisfy the Corporation Commission that such person has, among other requirements, provided assurance of financial responsibility through meeting any one of six options set out in the law. In the option of furnishing a blanket performance bond or letter of credit, the amount of the bond or letter of credit is increased for both wells less than and more than 2,000 feet in depth. For the option of having a demonstrated acceptable record of compliance and paying a fee, the fee is increased from $ 50 to $100 annually. For the option of paying a nonrefundable fee based on a percentage of the blanket performance bond requirement, the percent is raised from 3 percent to 6 percent. If enacted, HB 2390 would also delete the option of paying a cash bond fee in lieu of an individual bond based on the total aggregate depth of the wells.

In addition, the bill would provide for a partial diversion of oil and gas severance tax receipts from the State General Fund (SGF) beginning in FY 2009 relative to collections in those counties with severance tax receipts of at least $100,000 in FY 2005. For such counties, an increasing portion of receipts would be diverted from the SGF beginning in FY 2009 into a new fund, the Oil and Gas Valuation Depletion Trust Fund (OGVDTF). Each participating county would have a separate trust account established on its behalf within the OGVDTF.

The portion of severance tax receipts from the affected counties earmarked for deposit in the OGVDTF would be 4.96 percent in FY 2009; 7.44 percent in FY 2010; 9.93 percent in FY 2011; and 12.41

---

*Supplemental notes are prepared by the Legislative Research Department and do not express legislative intent. The supplemental note and fiscal note for this bill may be accessed on the Internet at http://www.kslegislature.org percent in FY 2012 and thereafter. Under current law, the SGF receives 93 percent of severance tax receipts, while the County Mineral Production Tax Fund (CMPTF) receives the other 7 percent. Under the provisions of the bill, the CMPTF would continue to receive 7 percent of severance tax receipts, while the SGF's 93 percent share would be reduced relative to the new earmarking of receipts for the OGVDTF.

Beginning in 2009, counties would be entitled to receive distributions from their accounts within the OGVDTF by January 15 when the previous tax year's oil and gas leasehold property valuation was less than 50 percent of such valuation in the second succeeding tax year. Each distribution would be exactly 20 percent of all moneys credited to a county's trust account.

Background

The original HB 2390 was introduced at the request of a representative of the Corporation Commission who also appeared before the House Committee to support the bill. In testimony, it was noted the financial assurance structure supports the Well Plugging Assurance Fund which provides assurance that wells drilled after 1996 will be plugged as required by law. Due to increased activity in the oil and gas industry, there is a sharp increase in the number of wells that may need to be plugged from the Fund in the future. The increase in drilling and normal inflation will result in higher plugging costs per well which will increase pressures on the Fund, which currently has a balance of approximately $1.3 million. The number of wells covered currently stands at 15,000 wells, representing a rapid increase in numbers over the past two years. No one appeared in opposition to the bill.

The Senate Committee of the Whole amended the bill to add the provisions of SB 128, as amended by the Senate Committee on Ways and Means, relating to the establishment of the Oil and Gas Valuation Depletion Trust Fund.

The fiscal note on HB 2390 indicates the bill would increase revenue in the Well Plugging Assurance Fund in an amount estimated to be $247,500 above 2004 revenue, making a total deposit in the Fund for 2006 of $430,500. The amount would vary depending on the number of oil and gas operators. The revenue increase would be in addition to amounts recommended in the *FY 2006 Governor's Budget Report.*

The fiscal note on the portion of the bill dealing with the creation of the Oil and Gas Valuation Depletion Trust Fund (SB 128) contains the following information.

Based on an analysis of FY 2003 severance tax receipts conducted by the Legislative Research Department, an estimated 46 counties, which produce 98.37 percent of severance tax receipts, would qualify for the OGVDTF trust accounts.

Based on additional assumptions regarding continuing gas production declines and estimated future prices of oil and gas, the bill would be expected to reduce SGF receipts by the following amounts (which also represent the amounts that would be diverted to the OGVDTF):

($ in millions)

	FY 06	**FY 07**	**FY 08**	**FY 09**	**FY 10**	**FY 11**	**FY 12**
Gas	—	—	—	($2.718)	($3.944)	($4.907)	($5.687)
Oil	—	—	—	($0.854)	($1.281)	($1.710)	($2.137)
Total	**—**	**—**	**—**	**($3.572)**	**($5.224)**	**($6.616)**	**($7.823)**