

**MINUTES OF THE
SENATE COMMITTEE ON NATURAL RESOURCES**

**Seventy-Eighth Session
February 26, 2015**

The Senate Committee on Natural Resources was called to order by Chair Don Gustavson at 1:30 p.m. on Thursday, February 26, 2015, in Room 2144 of the Legislative Building, Carson City, Nevada. [Exhibit A](#) is the Agenda. [Exhibit B](#) is the Attendance Roster. All exhibits are available and on file in the Research Library of the Legislative Counsel Bureau.

COMMITTEE MEMBERS PRESENT:

Senator Don Gustavson, Chair
Senator Pete Goicoechea, Vice Chair
Senator James A. Settelmeyer
Senator David R. Parks
Senator Mark A. Manendo

STAFF MEMBERS PRESENT:

Alysa Keller, Policy Analyst
Matthew Nichols, Counsel
Lynn Berry, Committee Secretary

OTHERS PRESENT:

Richard Perry, Administrator, Division of Minerals
Dennis Bryan, Vice Chair, Commission on Mineral Resources
Paul Enos, Noble Energy
Jordan Davis, Western States Petroleum
Kyle Davis, Nevada Conservation League
Joe Johnson, Sierra Club

Chair Gustavson:

I will open the hearing on Senate Bill (S.B.) 44.

SENATE BILL 44: Makes various changes to provisions related to oil and natural gas. (BDR 46-344)

Richard Perry (Administrator, Division of Minerals):

The Division of Minerals (DOM) is the State agency that administers the provisions in *Nevada Revised Statutes* (NRS) 522, which are the statutes regarding oil and gas. I have provided you with a copy of my written testimony and proposed amendment ([Exhibit C](#)).

Senate Bill 44 is proposing a change to the way permit fees are established for oil and natural gas wells. The Commission on Mineral Resources establishes fees for the permits to drill an oil or gas well. The current fee of up to \$200 was set by regulation in 1999. The Mineral Commission establishes administrative fees for the operation of the DOM inspection and compliance program, as well as payment of dues to the Interstate Oil and Gas Compact Commission. This fee was not to exceed 20 cents per barrel of oil or 50,000 cubic feet of natural gas produced. The current fee is 15 cents.

Senate Bill 44 would remove the \$200 permit fee, allowing the Mineral Commission to prescribe, by regulation, a fee that includes reasonable administrative costs of the Division. Senate Bill 44 proposes to increase the administrative cap from 20 cents to 50 cents per barrel of oil or 50,000 cubic feet of natural gas produced.

Senate Bill No. 390 of the 77th Session required the DOM and the Division of Environmental Protection, jointly, to develop a hydraulic fracturing program for the State. This program was developed and approved as part of a major update to the State's oil and gas code within the *Nevada Administrative Code* (NAC) 522 in 2014.

The Mineral Commission reviewed the workload associated with the permitting process and determined the \$200 permit fee does not cover actual DOM costs. In fiscal year (FY) 2014, DOM collected \$35,000 in oil and gas permits and administrative fees, and spent approximately \$161,000 administering the program. The deficit was subsidized by DOM revenues from mining claim fees, which are intended to be used for the abandoned mine lands program. The Division of Minerals is 100 percent fee-funded.

The Mineral Commission recommends a reasonable fee schedule be developed by regulation with industry and other stakeholder involvement. The criteria would be: the depth of the proposed well, whether or not the well is on federal

or nonfederal lands and, will the well be a conventional well or to be hydraulically fractured.

The proposed increase in the administrative cap fee is necessary to support the operation of DOM and ongoing field inspections and compliance programs. This includes the costs of hearings and orders necessary to carry out the provisions of NRS 522 for establishing drilling units and unitization.

The Division of Minerals has received support from the industry for the development of a new fee structure.

With the approved regulations addressing hydraulic fracturing along with the new fee schedule, Nevada will be prepared to handle increased oil and gas exploration and development activity in the future.

The table on page 2 of [Exhibit C](#) shows actual program costs for FY 2014. This program is run jointly with our geothermal program. Large diameter bore holes and geothermal and oil drilling have commonalities; therefore, the cost is split between the two programs.

Page 3 shows the proposed amendment, which includes statutory caps on permit fees and a lower cap on administrative fees than what originally was in the bill. Language was added allowing applications to make changes to a permit. These sundry applications typically happen after a well has been drilled and the company wants to reenter the well and make modifications. This can be 5 to 15 years after the well has been drilled. We look at whether the original design intent has been met, making sure the well is safe to operate and what the company wants to do. It is a reengineering step triggered after the well has been drilled.

The amendment addresses fee caps. The fee for a conventional well, not intended to be hydraulically fractured, shall not exceed \$2,000 and the fee for an unconventional well intended to be hydraulically fractured, shall not exceed \$5,000. It also caps the fee at \$400 for the applications for changes to permits. We based our calculations on the most expensive conventional or unconventional wells using the previously mentioned criteria: wells that were greater than 10,000 feet deep, on private ground, and whether or not they would be conventional or hydraulically fractured.

Chair Gustavson:

Are you charging a fee for the permit and then an additional fee for an application for change of permit?

Mr. Perry:

The change permit is requested after the well is drilled. It is triggered by the operator wanting to reenter the well.

Chair Gustavson:

Does this raise enough revenue to cover costs?

Mr. Perry:

Yes, it does.

Dennis Bryan (Vice Chair, Commission on Mineral Resources):

The Commission on Mineral Resources supports S.B. 44 and the proposed amendment. The Commission was involved in updating the oil and gas code in 2014. The Commission gave final approval on the new regulations. The industry, other states and the federal government consider the new regulations on hydraulic fracturing to be a model for protecting the environment while providing industry with a sound basis for conducting business in Nevada.

The Commission required the DOM to provide details on oil and gas program costs. It was clear the current permit fee of \$200 did not cover the cost of processing a permit and conducting the field inspections required to ensure oil and gas wells are drilled and completed in accordance with code. It also did not cover the ongoing compliance program necessary to ensure environmental protection during the operating life of that well.

The Division of Minerals operates its oil and gas program together with its geothermal drilling program. As the drilling of large-diameter and deep wells is common to both oil and gas, and geothermal, there has been synergy between the two programs. Geothermal well drilling fees are set by regulations in NAC 534A. Senate Bill 44 proposes allowing the Commission to establish a fee table based on depths and well types, similar to the geothermal codes. Deeper wells require more time to process applications; wells on federal lands require less time, as the Bureau of Land Management is the lead agency, and wells that will be hydraulically fractured require more engineering evaluation checks and several field inspections.

The Commission would like the DOM to be ready if there is an increase in oil and gas activity. The Division of Minerals and the Division of Environmental Protection did an impressive job of completing the regulations in less than a year. Now we need to fund the DOM so the resources are available to administer these regulations. It would not be prudent to end up testifying before the Interim Finance Committee requesting funds because we did not adequately plan ahead. Additional information is in my written testimony ([Exhibit D](#)).

Paul Enos (Noble Energy):

Noble Energy supports S.B. 44 and the proposed amendment. Noble Energy has leased over 370,000 acres in Elko County. We have drilled four wells and hydraulically fractured three of them. Senate Bill No. 390 of the 77th Session brought stakeholders together to develop good regulations regarding hydraulic fracturing. We have the most stringent regulations in the Country that protect Nevada's resources and environment, while still allowing responsible parties to develop resources. The DOM reached out to the industry when contemplating the fee increases. Noble Energy agrees the fees are reasonable and gives the DOM the wherewithal to continue the proper regulation of hydraulic fracturing and the oil and gas program in Nevada.

Jordan Davis (Western States Petroleum):

Western States Petroleum supports S.B. 44 and the proposed amendment.

Kyle Davis (Nevada Conservation League):

We support S.B. 44 and the proposed amendment. We agree the fee structure should be adequate to cover the costs incurred by the DOM.

Joe Johnson (Sierra Club):

The Sierra Club supports S.B. 44. I do have some concerns with the proposed amendment and would prefer the bill process in its original form. However, we understand the reasons and will support the bill with or without the amendment.

Chair Gustavson:

I have noted that you would prefer the bill without the proposed amendment, but will support it either way. Is that correct?

Mr. Johnson:

Yes, we will support it either way.

Senator Parks:

I have a question for Mr. Perry. Is this rate structure similar to regulations in other parts of the Country?

Mr. Perry:

We spent a lot of time researching that very question. We queried the Interstate Oil and Gas Compact Commission and received responses from 28 states and 2 Canadian provinces. You cannot really compare as each state is very different. Some states fund their oil and gas programs from severance taxes, which is equivalent to Nevada's Net Proceeds of Minerals Tax. Some are similar with permit and production fees, and others pay royalties to the state. The caps we are requesting are consistent with the states that are 100 percent fee-funded.

Senator Parks:

Will there be ample time for public notice comment?

Mr. Perry:

Yes, there will. If this bill passes, we will begin the process following the Administrative Procedures Act guidelines. We would create the draft, go through the Legislative Counsel Bureau, then hold public hearings. We would address the stakeholders at that time. A small business impact statement would be prepared. We anticipate this being completed in the latter half of this year, so the codes could be implemented by the beginning of 2016.

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Chair Gustavson:

I will close the hearing on S.B. 44. There being no further business, the Senate Committee on Natural Resources is adjourned at 1:53 p.m.

RESPECTFULLY SUBMITTED:

Lynn Berry,
Committee Secretary

APPROVED BY:

Senator Don Gustavson, Chair

DATE: _____

EXHIBIT SUMMARY				
Bill	Exhibit		Witness or Agency	Description
	A	1		Agenda
	B	2		Attendance Roster
S.B. 44	C	3	Richard Perry	Written Testimony and proposed amendment
S.B. 44	D	1	Dennis Bryan	Written Testimony