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Passage of HB 2177 will add more oil, gas revenue to state coffers

At a time when the state is experiencing the lowest collection of gross production tax revenues since 1999, lawmakers have the opportunity to pass long-lateral legislation that will expand oil and gas development in the state and result in more gross production tax revenue.

HB 2177, a bill that modernizes Oklahoma laws that govern the drilling of long horizontal wells in non-shale formations, stalled before the Legislature last year. However, lawmakers can still pass the legislation this year, said Chad Warmington, president of the Oklahoma Oil & Gas Association.

“House Bill 2177 is the single biggest economic development legislation before lawmakers this session, and it doesn’t cost the state anything,” Warmington said. “In April, the state recorded a 17-year low in gross production tax collections. This legislation will add millions of dollars of gross production revenue to the state, if lawmakers will pass it.”

The bill expands the very successful Shale Reservoir Development Act, a collaborative effort in 2011 that modernized horizontal drilling laws in shale formations. With further advances in horizontal drilling techniques for other non-shale formations, operators found their horizontal development efforts in non-shale formations to be constrained by the same factors that led to the Shale Reservoir Development Act.

HB 2177 gives unprecedented protections to small, non-operating interest owners by providing them subsequent well elections, meaning that after an operator participates in the first horizontal well, it can make a well-by-well election instead of what exists now that requires an operator to keep participating in order not to relinquish rights under the unit.

Finally, the current version of the bill protects the up-hole rights of those who opt out of participation in a horizontal well. This was language that was strongly desired by those owners who feared losing their ability to continue to drill vertical and other horizontal wells.

“Removing unnecessary regulatory impediments is essential to promote the continued exploration and development of Oklahoma’s important natural resources,” Warmington said.

The bill is co-sponsored by House Speaker Jeff Hickman, R-Fairview, and Senate President Pro Tempore Brian Bingman, R-Sapulpa. HB 2177 easily passed the Senate last year, by a vote of 37-7. The bill now awaits consideration by the House of Representatives.