

KANSAS ASSOCIATION OF WELL SERVICE CONTRACTORS, INC.

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Testimony in Support of House Bill 2264 John D. Beverlin II House Taxation Committee February 3, 2016

Chairman Kleeb and Members of the House Taxation Committee:

Thank you for the opportunity to appear in support of House Bill 2264. The Kansas Association of Well Service Contractors is a trade group of oil and gas well service contractors throughout Kansas.

HB 2264 is not a tax exemption for the oil and gas industry. The majority of equipment that works at a well site at any given time is currently exempt from ad valorem property taxes. **HB 2264 removes arbitrary application of K.S.A. 79-329 by clearly defining what equipment is used in operating an oil and gas well.** For years, the Department of Revenue has classified mobile equipment used by some oil and gas contractors as part of the leasehold estate¹ but has classified similar equipment as commercial and industrial machinery and equipment allowing those contractors to take advantage of the CIM&E ad valorem property tax exemption enacted in 2006². The arbitrary classification has resulted in the favoring of certain contractors not by the services they provide but simply because of the way the Department of Revenue has decided to classify their equipment.

Not only is some equipment classified as part of the mineral leasehold, but they are assessed at the highest possible rate. Mineral leasehold interests are assessed at 30% unless average daily production is five barrels of oil or less or 100 mcf of natural gas or less.³ Equipment with no relation to the production levels from the wells they service are assessed at the greater rate.

¹ K.S.A. 79-329 – For the purpose of valuation and taxation, all oil and gas leases and all oil and gas wells, producing or capable of producing oil or gas in paying quantities, together with all casing, tubing or other material therein, and all other equipment and material used in operating the oil or gas wells are hereby declared to be personal property and shall be assessed and taxed as such.

² K.S.A. 79-223

³ Subclass 2 of Class 2 of Subsection (a) of Section 1 of Article 11, Constitution of State of Kansas.

HB 2264 classifies equipment used at a well on a *temporary basis* and which is *not attached to the real property* as commercial and industrial machinery and equipment. HB 2264 applies only to equipment that is not attached to the wellhead and not used in the actual extraction of the minerals. Equipment used in *operating* the oil or gas well would remain classified as part of the leasehold estate. Most of the equipment used at an oil and gas well site on any given day at any given location is currently classified as commercial and industrial machinery and equipment.

As an example: A well service contractor will pull rods and tubing from an oil well. A wireline contractor will perforate the casing at a new zone in order to produce minerals from a different location. There may be fracturing of the zone. An acid contractor and cement company may also be involved in getting that well to again produce minerals. Of all of the contractor equipment on that wellsite, only the well service contractor currently pays ad valorem property taxes.

Workover rigs used by the well service industry are not used in operating an oil or gas well. Well service contractors do not produce oil and gas, they do not own any interest in the mineral leasehold estate. Workover rigs are used on water wells, storage wells and disposal wells but they are taxed as part of a piece of property from which they receive no benefit.

HB 2264 is necessary to clearly define what oil and gas equipment is used in operating an oil and gas well.

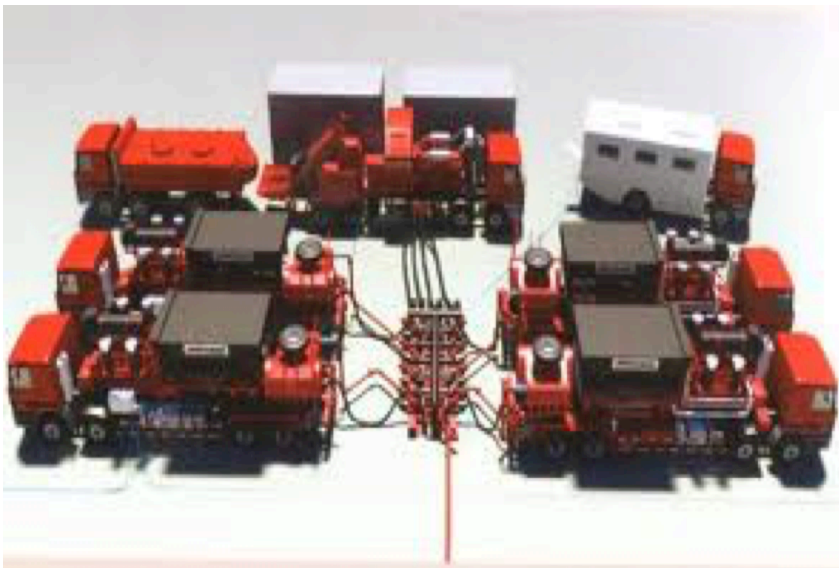
John D. Beverlin II
Stull, Beverlin, Nicolay & Haas, LLC
Kansas Association of Well Service Contractors, Inc.



Workover / Well Service Rig

TAXED

Classified as part of the mineral leasehold estate.



Frac Trucks and Bed

~~TAXED~~

Classified as commercial machinery and equipment.



Wireline Truck

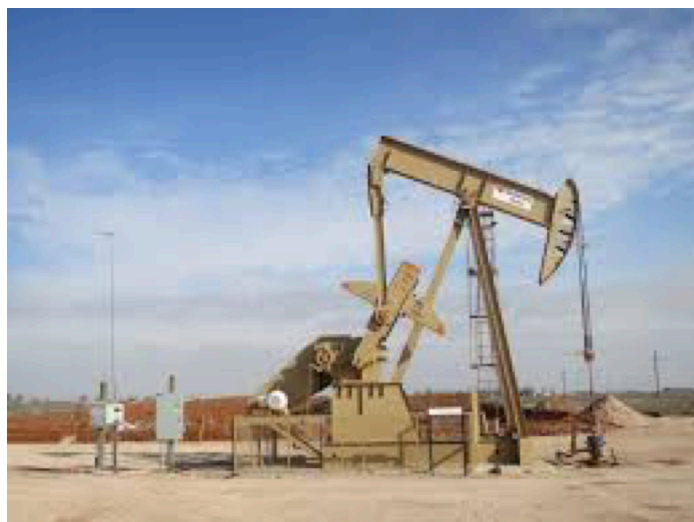
~~TAXED~~

Classified as commercial machinery and equipment.



Workover Rig / Well Servicing Rig

TAXED — As part of the mineral leasehold estate.



TAXED — Part of the mineral leasehold.
Pumpjack, tanks and tubing.