Approved February 23, 1983
Date

MINUTES OF THE Senate COMMITTEE ON Energy and Natural Resources.

The meeting was called to order by Senator Charlie L. Angell at
Chairperson

8:00 a.m.XXXX on Tuesday, February 22, 1983 in room 123-S of the Capitol.

All members were present XXXXX:

Committee staff present:
Ramon Powers, Research Department
Don Hayward, Revisor's Office
LaVonne Mumert, Secretary to the Committee

Conferees appearing before the committee:
Dick Brewster, Standard Oil Company
Preston Payne, Amoco Production Company
Jack Byrd, General Counsel, Interstate Oil Compact Commission

The minutes of the February 21, 1983 meeting were approved.

Dick Brewster introduced Preston Payne, Gas Sales Manager for Amoco Production Company.

Mr. Payne said that natural gas prices have been controlled since 1954 when the Supreme Court handed down its decision in the Phillips case. This decision kept prices artifically low. From 1954 until 1978, there was no control on intrastate sales. The 1978 Natural Gas Policy Act accomplished several things. Prior to 1978, producers who were developing gas for sale were committing that gas to intrastate sales because intrastate sales were unregulated and therefore the price was higher. As a result, the interstate companies were not able to compete. The Natural Gas Policy Act eliminated any differentiation between interstate and intrastate sales of natural gas. The only natural gas that is decontrolled at the present time is gas below 15,000 feet, which makes up about 5% of the total production. The Natural Gas Policy Act was designed to induce development to curb shortages; and it did, in fact, bring forth additional gas supplies. Shortly after the Natural Gas Policy Act was passed, the recession that developed, along with conservation by users, caused a very sharp decrease in demand for natural gas. Mr. Payne explained the bias that exists in contract negotiations because the maximum lawful price is set by the Federal Regulatory Energy Commission and eliminates any incentive for negotiating for lower prices. "New" gas refers to all gas discovered since 1977. The "new" gas is scheduled to be decontrolled January 1, 1985, but the "old" gas such as the Hugoton Field is not scheduled for decontrol at all. Mr. Payne said with the bias caused by the maximum lawful prices and the fact that those prices increase each month, the price base continues to increase. Adding to this problem is the fact that when No. 6 fuel oil is lower priced than natural gas, industrial users switch to the oil. The base for fixed costs of the pipeline companies is then narrowed, placing additional costs on the residential users who comprise only 25% of the total usage. Mr. Payne said the only way to solve this problem is to decontrol all prices of all natural gas, thereby allowing the free market to work. He said if gas were decontrolled, there would be immediate confusion in negotiations because all the present guidelines of the maximum lawful prices would be gone. Answering a question from Senator Hess, Mr. Payne said he thinks decontrol of gas is politically unpopular because natural gas companies have a poor image and people do not trust them. He said take-or-pay contracts are actually take-or-prepay contracts. The gas must be paid for but the gas company then has the right to take that gas in the future by only paying any increase in price. This can be a savings for the gas companies because they can store their gas in the field rather than having to build storage. About 90% of the Hugoton Field is dedicated to interstate commerce. The Federal Energy Regulatory Commission would have to give authorization for that gas to be taken out of interstate commerce. In 1978, the Amoco sales out of Hugoton were 75% of capacity; in 1982, the sales were 25% of capacity. Mr. Payne said decontrol of gas would cause royalty owners to be paid in line with what everybody else receives. Chairman Angell asked what the real market value of natural gas would be. Mr. Payne said he would say $4.00, based on the competition, which is No. 6 fuel oil. Subtracting transportation costs, this would make the wellhead value close to $3.00 on the average.

Jack Byrd stated he was not representing any clients but was appearing on behalf of the Interstate Oil Compact Commission. Kansas has been a member of the Compact since 1935. The purpose of the Compact is to assist state legislatures and regulatory agencies with the problem of preventing physical waste of oil and gas. Mr. Byrd commented on the Point by

Unless specifically noted, the individual remarks recorded herein have not been transcribed verbatim. Individual remarks as reported herein have not been submitted to the individuals appearing before the committee for editing or corrections.

Point Explanation of the Administration's Natural Gas Proposal (Attachment 1). He said he understands this may be the administration's proposal to Congress. It would require that all natural gas contracts be renegotiated by 1985. This would affect Kansas significantly because most of the Kansas gas is "old" gas; and even if there were complete deregulation of natural gas, contracts would still be in effect at the cheaper prices. The proposal would further provide that if a new contract cannot be agreed upon, the seller would have the option to sell his gas elsewhere with the pipeline being required to provide transportation for that gas at an incentive rate. The proposal would set a "gas cap" price which would be an average of all gas sold during a particular month. Mr. Byrd said Item No. 18 of the proposal was inconsistent with other provisions of the proposal. The proposal would also put limits on take-or-pay clauses as well as providing for the repeal of some of the restraints on the use of natural gas. In addition, the proposal would strike automatic pass-through of costs for a certain period. Mr. Byrd said he felt the proposal was an attempt to include certain provisions that would be attractive to all segments of people affected by natural gas. Mr. Byrd said Kansas has ended up in the absolute worst possible position because Kansas gas is the cheapest in the United States but Kansas consumers are faced with paying average or above average prices. Further, producers and royalty owners are being paid on the basis of the cheap gas. Because of conservation efforts, the business recession and take-or-pay contracts, less and less Kansas gas is being produced. Mr. Byrd explained that under the Natural Gas Policy Act, if it is determined that a second well is needed to drain the unit, that second well is entitled to the on-shore development price. That price for the month of February is $2.73. Mr. Byrd said that a lot of reservoir engineers feel that because of the tight permeability of the Hugoton Field, one well will not adequately drain the field. The effect of drilling 4,000 second wells in the Hugoton Field would be unbelieveable, according to Mr. Byrd. He said the cost of drilling, completing and putting into production a new well is $225,000. This would equate to 880 billion dollars spent on the drilling alone of new wells, and the additional payments to royalty owners would be increased in excess of 3 billion dollars. Answering a question from Chairman Angell, Mr. Byrd said one well is presently limited to 640 acres. He does not think this would have a significant effort on the price of natural gas to Kansas consumers, because most of this gas is interstate. Mr. Byrd emphasized that Kansas produced gas has not caused the dramatic increase in price.

The meeting was adjourned at 9:04 a.m. by the Chairman. The next meeting of the Committee will be at 8:00 a.m. on February 23, 1983.

Note: Mr. Byrd's written testimony has been received and attached hereto (Attachment 2).

Senate Energy + Natural Resources
Feb. 22, 1983

Name	Organization
Dick Brewster	Standard Oil (Ind.)
Preston Payne	Amoco Prod. Co.
Gene Bell	MAPCO Inc.
Robert A. Anderson	Ind Oil & Gas
Richard C. Byrd	KOCC
David Nichel	KCC
Phil R. Dick	KCC
Patti Gorham	KCC
Don Schnacke	KIOGA
Bill Perdue	KPL
Lon Stanton	KPL
Dale Satterthwaite	The Gas Service Co
Jan Meyers	Senate
Don [illegible]	Walker Enterprises
Ross Martin	Ks Petroleum Council
Walter Dunn	Ent of Oil & Gas ass
Amos Kramer	KPL
Ed Reinert	LWV Sierra Club
Roland Wicke	KNRC
Paul Johnson	PACK
Deb Miller	Gov's office
Bob Clawson	Energy Office
Diane Luber	University Daily Kansan
Jan Johnson	Budget Division
William W. Hambleton	KGS
Carol Larson	KCC
Ron Cook	Petroleum Consultant
Glenn D. Cogswell	Northwest Central Pipeline Corp

Ed Peterson	KCC
Don Boyer	EKOGA
Jim Hageman	L.P.G.

Point by Point Explanation

Administration's Natural Gas Proposal

Attached to this summary is a point-by-point listing of DOE specifications for possible comprehensive natural gas legislation. The following explanation was prepared by IPAA staff based on discussions with DOE officicals and others and represents an early assessment of the impact of the various provisions!

1. Decontrolled would be gas not covered by a binding contract. This would be wells drilled before enactment, but never committed to a contract. It would be new wells drilled after enactment on acreage not subject to and bound by an existing contract on that acreage. A new contract replacing any expired contract on any gas would be decontrolled.

2. If both parties, a buyer and a seller, agree (as in any contract for any commodity or labor) a contract may be opened and renegotiated. If so, that gas would be subject to no federal controls. Currently, even if both parties agree that say, an old 50 cent contract should be moved to $1 to save a declining, marginal field, NGPA and the Natural Gas Act prohibit them from doing it.

3,4,14. Most existing NGPA era and old intrastate gas contracts contain escallator clauses. Those clauses typically call for periodic price increases reflecting either market changes or increases in allowable NGPA prices. After date of enactment, a new ceiling or "cap" would be placed on action of these clauses. This "gas cap" would be based on the volume-weighted average of all decontrolled gas contracts for some recent period. It is not yet clear whether the "cap" will be a single national cap, or one covering traditional gas marketing areas. Once this new cap is established, prices under existing contracts could be no higher than allowed NGPA prices or the "gas cap", whichever is lower. This provision continues until 1-1-86 or until such time as covered contracts are renegotiated. It is reasonable to assume that so-called anti-market aspects of current clauses would be removed in any renegotiation, thus "cap" would no longer be needed.

5. On 1-1-85, for any existing contract, high cost and old low priced alike, there will be a one time, bilateral "market out". In the case of a high priced contract, it is presumed the purchaser would "opt" out. In the case of low cost old gas, presumably the seller would "opt" out. If this option is exercised and pipeline purchaser and seller cannot agree on a new contract, the seller will have the option to sell his gas elsewhere with the pipeline being required to provide transportation for that gas at some incentive rate formula to be determined. This provision would be affected only if both parties had failed to voluntarily renegotiate the contract. Presumably producers of high priced gas would want to entertain reasonable renegotiation terms rather than risk a potentially chaotic situation if he waits until "D-Day". On the other hand, pipelines use reserves under contract, many times old gas reserves, as collateral for loans and bonds. They would be motivated to renegotiate rather than run the risk of losing those reserves on "D-Day".

Atch. 1

6. NGA and NGPA contain a number of non-price regulations such as dedication of certain reserves to the interstate market, prior approval by FERC to abandon an old well, etc. If not dealt with in voluntary renegotiation sooner, they will cease to be a factor after 1-1-85.

7. Section 122 of NGPA currently provides a 2 year window after 7-1-85 when either House of the Congress or the President can reimpose NGPA controls through 1-1-89. That authority would be repealed.

8. This is pretty much self-explanatory and is opposed by virtually no one. Repeal would remove major impediments to the use of natural gas by industrial and utility customers enacted in 1978 under the misguided assumption that the U.S. was about to deplete its gas supplies.

9. All natural gas found in the federal offshore domain is currently reserved to the interstate pipeline system. This provision would allow intrastate pipelines as well as industrial and utility users to contract directly for these offshore supplies.

10. A large number of old interstate contracts were written during a period in the 1960's when the old Federal Power Commission would allow no price adjustment clauses. Subsequently, FPC provided "area rate clauses" to allow some price adjustment. Absent those "area rate clauses", those contracts would inadvertently revert to a low fixed-rate price. This simply provides for and tells the Courts that the "gas cap" will work to sustain "area rate clauses" until 1-1-86.

11,12,13. It is said by many pipelines that recent sharp increases in their rates are a result of contract clauses which requires them to "take" from 85 to 100 percent of the gas from certain wells regardless of a drop in demand. This provision, which runs through 1-1-86 would permit a pipeline to reduce that "take" as low as 70 percent without otherwise violating the contract terms. If that option is taken to any degree, however, the seller has the option of abrogating the entire contract and selling his gas elsewhere. If that option is taken, the pipeline has a "transportation obligation" similar to the one described under point 5 above.

15. This is the provision which has been described by the public media as a "price freeze for consumers". Traditionally, pipelines must file with and get approval of basic rates from FERC. Elements of those rates include such things as fixed costs, rate of return on investment and debt structure and adjustment for taxes. In addition, actual pipeline charges are adjusted automatically under Purchased Gas Adjustment filings. Under those filings, pipelines are given automatic passthrough of increased gas purchase costs. Under this provision, each pipeline would have a "base PGA" based on its last preenactment filing. Any increase in purchased gas costs, above inflation, after enactment and until 1-1-86, could not be automatically passed on to consumers. Any such increased costs would have to be approved by some sort of public FERC proceeding before it could be passed on to consumers in pipeline rates. Obviously, this would work to deter pipelines from actively contracting for additional high cost gas,LNG and imports and cause them to aggressively seek lower priced supplies from domestic producers.

16. This provision would set up a new FERC procedure whereby pipelines with available capacity could be required for an incentive transportation rate to transport gas sold directly by a producer to a local gas utility or to an industrial or electric utility user. Some describe this as the provision to "cut out the middle man". It is designed to create more competition at both the wellhead and the burner tip.

17. It has been the practice of some pipelines to use their own company or company affiliate owned production first, regardless of price. This provision would prohibit a pipeline from taking a higher percentage of that gas than it took of any less expensive gas available to it.

18. Deep gas is decontrolled under NGPA. Very expensive to find, it has been selling at relatively high prices. Wellhead prices for that gas would be frozen at current levels until the "gas cap" reaches those levels or until they are renegotiated. Existing contract provisions which could bring about lower prices, however, would be allowed to work in conjunction with the cap.

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1) As of date of enactment, any new contract may be signed and may operate by its terms.

2) Any contract may be renegotiated and may operate by its new terms.

3) The volume-weighted average of the price for natural gas in all contracts under (1) and (2), for the most recent month with available data, is called the "gas cap".

4) Pending renegotiation, prices for all regulated gas are the lower of the Natural Gas Policy Act (NGPA) price ceiling or the "gas cap".

5) On 1/1/85, for any contract that has not been renegotiated, either party may exercise a "market out" (abrogate the contract). In that event, purchaser must carry gas for seller to any other purchaser at an incentive rate.

6) All gas is decontrolled from the non-price regulations of the Natural Gas Act (NGA) and the NGPA on 1/1/85, or on renegotiation, if sooner.

7) Section 122, which gives the President or Congress the power to reimpose controls, is repealed.

8) Immediately repeal Fuel Use Act (forbidding some uses of natural gas) and Incremental Pricing.

9) All buyers have equal access to offshore and interstate gas.

10) Latest gas cap is considered a federally-approved rate for area rate clauses.

11) Purchasers may reduce all "take-or-pay" contracts to 70 percent of deliverability (conservation exception for associated gas).

12) If option is exercised, seller can abrogate contract and sell gas elsewhere. In that event, the buyer must transport the gas at an incentive rate.

13) Option to reduce takes expires on 1/1/86.

14) All escalator clauses of all types in pre-enactment contracts are limited by the "gas cap". This limitation continues until 1/1/86.

15) Through 1/1/86, an interstate pipeline may not immediately pass-through purchased gas costs above its last preenactment level plus inflation. Any additional cost must be specifically approved by FERC after a public proceeding with appropriate standards.

16) FERC, on application, can require a pipeline with available capacity to carry gas under contract between producer and purchaser at an incentive rate.

17) No pipeline may take gas from its own production or from an affiliate at a rate <u>higher</u> than its rate of take for any <u>less expensive</u> gas.

18) Prices for currently deregulated gas ("Section 107") that are above the "gas cap" are frozen until or unless the cap rises above them.

Mr. Chairman and Members of the Committee:

On behalf of the Interstate Oil Compact Commission and Governor Ed Herschler of Wyoming, who is the present Chairman, I want to thank you for the opportunity of appearing here this morning. Kansas has been a member of the Interstate Oil Compact Commission since its inception in 1935. In fact, if my memory serves me correct, Kansas was the third (3rd) state of the original five (5) to approve the Compact Charter. Since 1935, membership in the Compact has grown for the original 5 states to a total of thirty (30), with 5 associate members.

As most of you know, the Compact has as its purpose the prevention of physical waste of oil and gas. Although we are not a lobbying organization, we do stand ready to assist state legislatures and state regulatory commissions on matters relating to the prevention of waste of oil and gas.

Senator Angel has suggested that I comment to you briefly about the 18 point natural gas legislative proposal which the Reagan administration supposedly will urge Congress to enact. For your convenience, there is attached hereto an abstract of the 18 points covered by the proposed legislation. I hasten to point out that although these 18 points have been frequently referred to in the press and in the trade association literature, the actual language of the bill has not to my knowledge been written. The 18 points are so abstract that it is difficult to formulate an opinion on the merits of any of the points until detail language implementing that point has been examined. It seems clear from what has been said and written that new gas not

presently subject to a contract will be permitted to be sold under conditions and prices negotiated at arms length between the purchaser and the producer. It is further clear that all existing contracts may be renegotiated and upon renegotiation, those contracts will operate in accordance with the provisions and the terms of the renegotiated contract.

There will be determined, under the proposal, what is referred to as a "gas cap", a price established by ascertaining a volume weighted average price for all deregulated and renegotiated gas contracts. This gas cap will be redetermined monthly and for gas that is not deregulated, the price becomes the lower of the price for which the gas is entitled to under the Natural Gas Policy Act or the gas cap price. It is not certain at this time whether or not the gas cap price will be a national price or whether it will be calculated on a market area or regional basis. The effect of this particular provision of the proposed legislation is to prevent gas prices from exceeding the gas cap price as a result of escalations provided for in the NGPA. The proposed legislation also will provide that for any contract that has not been renegotiated by 1985, either party, the purchaser or the producer, may exercise a "market out" clause and in that event, if the producer exercises its right to terminate the contract, the pipeline purchaser must transport the gas for the producer to another purchaser at a rate that will be determined by the FERC. All gas would be decontrolled from the non-price regulations of the Natural Gas Act and NGPA on 1-1-85 or upon renegotiation if that occurs before that date. The legislation would also repeal the power of the President or Congress

to reimpose controls; repeal the fuel use act which forbids the use of natural gas for certain purposes and would repeal the incremental pricing provisions of the NGPA. A provision in the act would permit purchasers to reduce their obligation under take-or-pay contracts to 70% of deliverability, except on associated gas that is produced with oil. However, if the take-or-pay option is exercised by the purchaser, the seller has the right to abrogate the contract and sell the gas elsewhere and in that event, the purchaser or pipeline must transport the gas at an incentive rate to the new buyer. The option on reduced takes in a take-or-pay clause expires on 1-1-86. Escalation clauses of all types in contracts signed prior to the date of enactment will be limited by the gas cap price. This limitation continues until 1-1-86. In addition, until 1-1-86, interstate pipelines may not automatically flow through increased purchase gas costs above the level of their last adjustment, plus inflation, without approval and after notice and hearing by the FERC. As the law presently stands, to prevent a pipeline from flowing through its actual purchase gas cost, you must show fraud and abuse on the part of the pipeline. It is my understanding that this provision will apply even though the pipeline company is not paying higher prices than the gas cap price. In addition, the proposed legislation will require pipelines with available capacity to carry gas under a contract between a producer and a direct purchaser of the gas. There is also a proposal in the act that would prevent a pipeline from taking its own production or production from an affiliate company at a rate higher than its rate of take from any less expensive gas.

As I previously stated, it is difficult to really analyze the effect of this legislation until detailed language implementing these 18 points have been written.

It is obvious that this legislation will have impact upon the gas industry in Kansas. As to the natural gas, Kansas has ended up in a position that could not be worse had we deliberately attempted to design the worse scenario, Kansas produced gas is the cheapest gas in the world. Approximately 70% of the gas that is produced in Kansas comes from the Chase formation of the Hugoton Field. The average price of this gas is approximately 57¢. Some of it selling for as low as 26.5¢. Unfortunately, a great percent of this cheap gas is exported out of the state, or before consumed within the state is mixed with interstate gas which must be paid for by the Kansas consumers at the average rolled in cost of the pipeline. Historically, the interstate pipeline serving Kansas have had low cost gas, in recent years we have seen those gas prices escalate so today they are at the average or slightly above the average price of gas for all interstate pipelines. Thus, Kansans end up in a situation where we are selling our gas for a pittance and yet burning gas that is costing in excess of $5.00 per Mcf. And what is even worse, with the contract restraints and present price regulations, we can't even market our low cost gas. Royalty owners receive no royalty, taxing districts are hurt because of reduced tax revenue, producers that have production only in Kansas are struggling and the consumers are still paying national average prices. It is no wonder that you have some 50 bills introduced in this session of the legislature dealing with natural gas.

With the exception of the consumers on the Kansas Power and Light mainline system, the consumers of this State are up in arms about the cost of natural gas. The problem is further complicated by the fact that as the price goes up, conservation and fuel switching decreases the volumes of gas sold, thus increasing the per unit fixed cost to the pipeline and the distribution company. It also causes the pipeline purchaser that has take-or-pay obligations to cut back on cheaper priced gas further raising the cost.

Some of the provisions of the proposed federal legislation could be significant in removing some of the problems. Any legislation that will permit competitive market pricing of natural gas will bring the price down in Kansas. Interstate pipelines are selling gas to distribution companies in Kansas at prices in excess of $4.00. The price of number six fuel oil in Kansas for purposes of incremental pricing under NGPA was $3.86 for the month of February. There is no way that natural gas costing in excess of $4.00 can compete for industrial or commercial markets when fuel oil is selling 40¢ to 45¢ below the cost of natural gas. The most expensive wellhead gas that we have in Kansas is stripper well gas. The February price for stripper gas is $3.56. New gas price is $3.32. 103 gas price is $2.73 and 109 gas price is $2.26.

Section 104 gas, at which most Hugoton gas is sold was 45.7¢. It is obvious that Kansas produced gas, if permitted to compete, would bring the cost of gas down in Kansas. It is not Kansas produced gas that has caused the increase in natural gas prices in Kansas.

There has been much concern expressed about the reduced volumes of gas produced in the Hugoton Field. This concern is not

new. In the late 50s and early 60s while I was a member of the Kansas Commission, there was concern about the volume of gas produced from the Hugoton Field. I will agree that the reasons for the concern have changed. Then, it was a concern about the gas being drained from the Kansas portion of the field to Oklahoma and Texas. Today the concern is that the reduced volumes deprive the consumer of low cost gas. It also had a detrimental affect on the economy of southwest Kansas. Its been my experience that its difficult, if not impossible, to legislate or regulate increased production from a gas reservoir. We were successful in the late 50s and early 60s in getting the runs up, but that was during a period when all the purchasers in the field had expanding markets. That situation does not exist today. About all that can be done today is to assure that the deliverability of the field is maintained and that the market demand, thus allowables are sufficient to meet the requirements of the purchasers when they need the gas.

Something can be done, however, about the ridicuously low price that is presently being paid for Kansas Hugoton gas. The Hugoton field has been developed under regulation that permits one well per each 640 acres. Many reservoir engineers question whether one well in a formation as tight as the Hugoton Chase will adequately drain 640 acres. The drilling of an additional well on each unit under present NGPA regulations, if it is determined that the 2nd well is necessary to adequately drain the unit, would permit the gas from the new well to be sold at the current 103 NGPA price of $2.73. The gas produced from the original well on the unit would remain at the current 104 price

or the contract price whichever is the lower. The average price would increase from 47¢ to approximately $2.00. Although little control can be exercised over the volumes of gas, something can be done about the price. At the same time by infill drilling you would be assuring the purchasers of the gas that the deliverability would be available when they needed additional gas. With five (5) principle interstate purchasers buying gas from the Hugoton Field, it was difficult, under the interpretation of the proration formula that existed prior to 1961, for any of the purchasers to plan ahead to meet their market requirements from the Hugoton Field. The increase in their market requirements did not coincide and when one purchaser increased its nominations, the four other purchasers, not needing the additional gas that resulted from an increase in market demand, could not run their higher allowables. The practice at that time was to subtract the underproduction from the current allowable, thus, even the purchaser that needed the additional gas did not have it available.

It has been estimated that by infill drilling the field, the deliverability life of the field can be extended from five (5) to seven and one-half (7 1/2) years. That additional volumes of gas would ultimately be recovered goes without saying. The economic impact upon the State of Kansas of drilling one additional well on each section in the Hugoton Field is astronomical. The estimated cost of drilling and completing a Hugoton well is approximately $220,000 per well. Four thousand (4,000) wells would pump $880 million dollars into the economy in southwest Kansas. The yearly salary for rig personnel alone would be in excess of $12 million dollars per year. The salary of support personnel would probably be in excess of $30 million dollars per year. Over the

remaining life of the field, this would increase the royalty payments to the royalty owners by more than $3 billion dollars. The annual increase in tax revenue would approximate $20 million dollars per each 1% of tax based on an annual production of 500 Bcf.

Why hasn't this been done? In all probability, it should have been done several years ago. It was only with the enactment of the NGPA that permitted the increase price for gas produced from a second well that there was a real incentive for the producers to drill the additional wells. From a conservation standpoint, it should not be delayed. The one detriment that I see to the State of Kansas in the proposed 18 point program is that it would permit the renegotiation of the low contract price for Hugoton gas without the necessity of the producers drilling a second well. Without this incentive, it is possible that the four thousand additional wells that may be needed to efficiently drain the Hugoton reservoir will never be drilled. If this should happen, there will be a lot of gas left in the ground in southwest Kansas.

Again, I wish to thank you for the invitation to appear before your committee. The views that I have expressed are my personal views and not the views of the IOCC or any clients that I represent. If the Committee members have any questions, I'd be glad to answer them.

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