

MINUTES OF THE Senate COMMITTEE ON Energy and Natural Resources

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

7:30 a.m. ~~pm~~ on Tuesday, March 1, 1983 in room 123-S of the Capitol.

All members were present ~~except~~:

Committee staff present:

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

Conferees appearing before the committee:

Joe Harkins, Kansas Water Office
Mary Ellen Conlee, City of Wichita
Louis Stroup, Kansas Municipal Utilities
John Blythe, Kansas Farm Bureau
Barbara Sabol, Kansas Department of Health and Environment
Chris McKenzie, League of Kansas Municipalities
Senator Bill Mulich
Senator Jack Steineger
Senator Charlie Angell

The minutes of the February 28, 1983 meeting were approved.

Joe Harkins explained a resolution directing the Kansas Water Authority and Kansas Water Office to complete studies on minimum desirable streamflows (Attachment 1). He said this resolution would negate the need for S.B. 273 (dealing with minimum desirable streamflows).

Senator Hess moved that the Committee introduce the resolution. Senator Kerr seconded the motion, and the motion carried.

S.B. 62 - Interbasin transfers of water

Chairman Angell suggested that the following amendment be added to the bill after the definition of "water transfer": "Such term shall include the diversion and transportation of water in a quantity of 1,000 acre feet or more per year from multiple diversion points for the same beneficial use at a point 10 miles or more from any diversion point of such multiple diversion points." This amendment would preclude circumvention of the extraordinary hearing process by having multiple diversion points.

Senator Feleciano made a motion that the amendment be made to the bill. Senator Chaney seconded the motion, and the motion carried.

Mary Ellen Conlee said they have reviewed the Subcommittee Report and are now much more comfortable with the procedure that now includes all major water transfers. They would like to see legislative overview of all recommendations of the hearing panel and Water Authority. Ms. Conlee said Wichita is more than 10 miles wide, and she also raised the question of how emergency needs would be covered in S.B. 62. It was discussed that lines 46-68 of the bill provide for emergencies which can be so designated by either the Governor or the Water Authority.

Louis Stroup urged that all decisions on water transfers have legislative overview. He said they like the Subcommittee Report but do want the Legislature to have the final say on either denials or approvals. Answering questions from Chairman Angell, Mr. Stroup said they don't want to change the policy on water contracts, only on water transfers. This is because they think these matters could become politically influenced.

John Blythe read the written statement of Paul Fleener (Attachment 2). They urged that the bill provide that, "No water transfer shall be approved unless the applicant has implemented a conservation plan for all water presently available to and being used by the applicant." Further, they recommend that the hearing panel must reach unanimous agreement.

Barbara Sabol proposed amending lines 71 through 76 (Attachment 3). She said she believes this would insure that the responsible individual for the department has an opportunity to

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.

CONTINUATION SHEET

MINUTES OF THE Senate COMMITTEE ON Energy and Natural Resources,
room 123-S, Statehouse, at 7:30 a.m. ~~XXX~~ on Tuesday, March 1, 1983

designate an appropriate person or they themselves may participate, therefore maintaining it at the appropriate policy level. Answering questions from members of the Committee, Mrs. Sabol said the bill presently provides that the representative of the Division of Water Resources be the chairperson of the panel. Also, the present bill does not contain any protection against changing the designee for different hearings.

Chris McKenzie said the League does not have a formal policy recommendation. He stated that the City of Wichita and the City of Kansas City, Kansas are more than 10 miles wide, and possibly the City of Topeka. He mentioned that Hays currently has a water transfer of 343 acre feet per year which moves 12 miles and the City of Dodge City is proposing a transfer of 3,500 acre feet going 12 miles. Mr. McKenzie said the bill does not contain any standards for the Chief Engineer to consider in his request for the formation of the hearing panel on water transfer not covered by the extraordinary hearing process.

S.B. 236 - Natural gas; maximum price of residential users

Senator Mulich explained this bill would set a maximum price for natural gas for persons over 62 years of age or disabled persons whose household income is \$8,000 or less. This price would be applicable to the first 30 m.c.f. of natural gas per month purchased by such users. Answering a question, Brian Moline of the Kansas Corporation Commission, said Sections 104 and 105 of the Natural Gas Policy Act referred to one line 38 of the bill speak to "old" gas. Senator Mulich agreed that the bill was speaking to the wellhead price of "old" gas without the transportation costs. Brian Moline said the Commission does not have authority to take this action now because it would be inherently discriminatory.

S.B. 209 - Kansas natural gas price control act

Senator Steineger read his written testimony (Attachment 4). He said this bill was introduced again this year, as last year, at the request of the Governor. He testified exact figures are not available, but this bill could save Kansas consumers nearly \$100 million dollars through 1985. Expected price increases in intrastate natural gas would be delayed and there would be savings on electric bills because cheaper gas would be available to electric companies using intrastate natural gas. The effect of the bill would be to freeze for one year any price increases on intrastate natural gas. After this time, the Kansas Corporation Commission could review the prices and allow any necessary increases.

S.B. 214 - Certificate of value required upon transfer of oil and gas working interest

Senator Steineger read his testimony (Attachment 5). He said this bill differs from a similar bill last year which would have required the certificates of value to be filed with the local Register of Deeds. Under S.B. 214, the certificates would be filed with the Division of Property Valuation. Senator Steineger said because mineral interests are exempt from the assessment-sales ratio study and the requirement for filing a certificate of value, it cannot be determined whether mineral interests are being assessed at 30% of fair market value. He referred to testimony of Dr. Terrell in the Four-R case (Attachment 6) regarding assessed values of leases. Senator Steineger answered questions of Committee members.

S.B. 146 - Natural gas well underproduction cancellation

Senator Angell said this bill would provide that when a Hugoton well has accumulated three times its allowable, that underage would be cancelled. He said after this bill was introduced, the Kansas Corporation Commission issued an order taking this action except that the underages have to be six times the allowable.

S.B. 143 - Reversion of unused mineral interests

Senator Gordon made a conceptual motion that the bill be amended as follows: lines 58 and 59 shall read: "vided in subsection (a) shall cause a mineral interest to be extinguished."; lines 60 through 91 shall be stricken; lines 93 and 94 shall read: "section 4, the register of deeds shall record the filing in a book to"; line 98 shall read: "notice or the lack of filing of said claim as set out in Section 4."; and lines 99 through 101 shall be stricken. Senator Vidricksen seconded the motion, and the motion carried. Senator Kerr moved that the bill be reported favorably, as amended, for passage. Senator Rehorn seconded the motion, and the motion carried 10-0.

The meeting was adjourned at 9:01 a.m. by the Chairman. The next meeting of the Committee will be at 7:30 a.m. on March 2, 1983.

Senate Energy & Natural Resources

Mar. 1, 1983

<u>Name</u>	<u>Organization</u>
Cindy Entriken	Sen. News
Jeanellus Knight	Governor's Office
Ed Remert	DWR Sierra Club
Mary Fund	Ks. Rural Center
Kerry Wedel	Ks. Natural Resource Council
Ken Kern	State Conservation Commission
CR Duffy	BWA Staff
Bill Anderson	Water Dist #1, Jo Co.
James Power	KDHE
Leland E. Rolfs	KSBA - DWR
Allen Boyd	City of Lawrence
Jim Aiken	KDHE
John A. Henderson	Ks. Water Office
Bill Henry	KS Engineering Society
Martha Margelsdag	Kansas Water Authority
Don Stanton	KPC
Bill Perdue	KPC
Lock Alexander	K.W.H.
Rosemary O'Leary	KS. Corporation Commission
JOE HAMMAN	KS. Elec. Power Coop.
Brian J. Malone	KCC
Arno Kramer	KPC
ROSS MARTIN	KPC
Bunge	Mobil
Don Willoughby	INTI
LOWELL CASE	MOBIL
Norma Daniel	Senator
Thomas Sloan	Game
Glen Cogswell	Northwest Central Pipelines Corp

A CONCURRENT RESOLUTION directing the Kansas Water Authority and Kansas Water Office to complete studies on minimum desirable streamflows in Kansas.

WHEREAS, K.S.A. 82a-703 states: "Whenever the legislature enacts any section or amendment of the state water plan which identifies a minimum desirable streamflow for any watercourse in this state, the chief engineer shall withhold from appropriation that amount of water deemed necessary to establish and maintain for the identified watercourse the desired minimum streamflow."; and

WHEREAS, K.S.A. 82a-928(9) of the State Water Plan calls for "...the identification of minimum desirable streamflows to preserve, maintain or enhance in-stream water uses relative to water quality, fish, wildlife, aquatic life, recreation and general aesthetics;"; and

WHEREAS, the Kansas Water Authority is concerned that minimum desirable streamflows are major factors in estimating the availability of future water supplies and over appropriation of water can preclude the option to achieve such minimum streamflows; Now therefore,

BE IT RESOLVED by the Senate of the State of Kansas, the House of Representatives concurring therein: That the Kansas Water Office proceed to prepare the methodology, monitoring and administering procedures of minimum desirable streamflows, in accordance with the state water plan; and

BE IT FURTHER RESOLVED: That the Kansas Water Office shall conduct field tests of minimum desirable streamflows on the Marais des Cygnes and Neosho basins in order to gain experience on how such minimum streamflows can be designated and achieved under the proposed policies of the Kansas Water Authority; and

BE IT FURTHER RESOLVED: That under provisions of K.S.A. 82-903 and K.S.A. 74-2610, all state agencies shall cooperate with the office so that the office may meet its aforementioned responsibility regarding minimum desirable streamflows; and

BE IT FURTHER RESOLVED: That the Kansas Water Office shall seek assistance from federal agencies in meeting its responsibilities regarding minimum streamflow; and

BE IT FURTHER RESOLVED: That the Kansas Water Authority shall report the results of these studies and make recommendations for minimum streamflows as part of the State Water Policy Plan to the 1984 regular session of the legislature.



Kansas Farm Bureau, Inc.

2321 Anderson Avenue, Manhattan, Kansas 66502 / (913) 537-2261

M E M O R A N D U M

TO: Senator Charlie Angell, Chairperson
Senate Committee on Energy and Natural Resources

FROM: Paul E. Fleener, Director, Public Affairs Division, Kansas Farm Bureau

SUBJ: S.B. 62 - Water Transfer Legislation

DATE: March 1, 1983

Senator Angell, we would appreciate it greatly if you would share with members of your Committee two concerns that we have with the proposed Water Transfer Legislation. We testified originally on S.B. 62 when it was called "Interbasin Transfer" piece of legislation. Two of the concerns we had then are with us still. One of the concerns has been addressed only partially in our view.

Our concerns are that those who propose to transfer water have a conservation plan for the water they are presently using, and, given the nature and sensitivity of transferring water from one location to another whether it is three miles or 300 miles, we believe the three experts, the hearing panel established by this legislation, should be able to agree that the transfer is appropriate. There may well be disagreement on the Water Authority when it reviews the recommendation of the hearing panel. There may well be differing points of view in the Legislature when the Legislature considers the recommendation of the Authority. That is to be expected and would certainly be understood. It is something less than desirable, in our view, that the three experts should not be required to agree to the propriety of any transfer, the magnitude of which is contemplated by this transfer legislation.

Therefore, in keeping with our concerns we would respectfully request favorable consideration by your Committee of appropriate language to accommodate those two concerns. We would suggest that on line 36, following the period after the word "act" that a new sentence be added to read as follows: No water transfer shall be approved unless the applicant has implemented a conservation plan for all water presently available to and being used by the applicant. We know that you have incorporated a conservation practice implementation plan requirement on page 3, line 102 as a new number 7 in the list of requirements. However, we feel it appropriate that a plan be in place for water presently available to and being used by any applicant for additional water supplies.

We respectfully request that the language on lines 76, 77, and 78 be amended to require a unanimous agreement by the three panel members on any proposed water transfer matter.

Atch. 2

Memo to Senator Charlie Angell
March 1, 1983
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Thank you very much for your consideration of these ideas. I regret being unable to be in attendance when you consider this bill, perhaps to be able to respond to questions about our concerns. My work will take me out of state on the day you have planned to hear proponents and opponents discussing the subcommittee report which has changed S.B. 62 rather substantially.

pr

Attachment 3

PROPOSED AMENDMENTS TO SB 62

Barbara J. Sabol, Secretary Kansas Department of Health and Environment

Lines 0071 - 0076 amended as follows:

The interbasin transfer hearing panel shall consist of the secretary of the state board of agriculture or the chief engineer if so designated by the secretary, the director of the Kansas water office, and the secretary of the department of health and environment or the director of the division of environment if so designated by the secretary. The state board of agriculture representative shall serve as chairperson of the panel.



TOPEKA

SENATE CHAMBER

JACK STEINEGER
MINORITY LEADER
SENATOR, SIXTH DISTRICT
STATE CAPITOL BLDG.
TOPEKA, KANSAS 66612
(913) 296-3245

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COORDINATING COUNCIL
INTERSTATE COOPERATION
LEGISLATIVE BUDGET
POST AUDIT

REMARKS BY SENATOR JACK STEINEGER
S. B. 209, ENERGY & NATURAL RESOURCES COMMITTEE
MARCH 1, 1983

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE, THE SECOND BILL I'M PRESENTING TO THE COMMITTEE THIS MORNING IS ANOTHER BILL DEALING WITH THE EXORBITANT PRICE OF NATURAL GAS SOLD IN KANSAS. YOU'VE SEEN THIS BILL BEFORE, TOO. IT WAS INTRODUCED LAST YEAR AT THE REQUEST OF THE GOVERNOR, JUST AS IT WAS REINTRODUCED THIS YEAR AT HIS REQUEST.

SENATE BILL 209 WOULD CREATE THE KANSAS NATURAL GAS PRICE CONTROL ACT OF 1983. ALTHOUGH EXACT FIGURES ARE NOT AVAILABLE, IT APPEARS THIS LAW COULD SAVE KANSAS CONSUMERS NEARLY \$100 MILLION DOLLARS THROUGH 1985.

THESE SAVINGS WOULD COME FROM TWO AREAS. FOR SOME KANSANS, EXPECTED PRICE INCREASES IN INTRASTATE NATURAL GAS WOULD BE DELAYED. THIS WOULD BE THE DIRECT CONSUMER SAVING. SECONDLY, KANSAS ELECTRIC CONSUMERS COULD EXPECT TO SAVE SUBSTANTIAL AMOUNTS

Att. 4

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FEBRUARY 28, 1983

ON THEIR ELECTRIC BILLS BECAUSE CHEAPER GAS WOULD BE AVAILABLE TO ELECTRIC UTILITIES USING INTRASTATE NATURAL GAS FOR GENERATION. FOR ONE UTILITY ALONE---KANSAS GAS AND ELECTRIC WHICH SERVES WICHITA, PITTSBURG AND SOUTHEAST KANSAS---THE SAVINGS WOULD BE MORE THAN \$18 MILLION.

WHEN A REPRESENTATIVE OF THE GOVERNOR'S OFFICE TESTIFIES LATER, I'M SURE YOU WILL BE GIVEN MORE COMPLETE FIGURES. LET ME GIVE YOU JUST A FEW EXAMPLES OF THE DIRECT SAVINGS, HOWEVER: JUNCTION CITY, \$1.4 MILLION; PRATT, \$1.5 MILLION; SALINA, \$3.4 MILLION; MANHATTAN, \$3.2 MILLION.

I SHOULD POINT OUT THAT THIS BILL WILL NOT AFFECT THE GAS RATES OF EVERY SINGLE KANSAS CONSUMER. SOME OF US DON'T BURN INTRASTATE GAS. WE GET TO BURN EXPENSIVE "TAKE OR PAY" GAS FROM OKLAHOMA, WYOMING AND TEXAS--AT MUCH HIGHER PRICES.

BUT THE FACT REMAINS THAT, IN THIS CASE, WE CAN TAKE MEANINGFUL ACTION TO HELP AT LEAST PART OF OUR STATE'S CITIZENS WITH THEIR GAS BILLS. I SUBMIT TO YOU THAT THE FACT THAT WE CAN'T HELP EVERY KANSAS GAS CONSUMER DOESN'T MEAN THAT WE SHOULDN'T TAKE ACTION TO HELP THE ONES WE CAN.

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AS FOR THE BILL ITSELF, IT WOULD IMPOSE A FREEZE OF AT LEAST ONE YEAR ON ANY FURTHER PRICE INCREASES FOR INTRASTATE NATURAL GAS. BACK IN 1979, WHEN WE PASSED THE KANSAS PRICE PROTECTION ACT, WE PUT CONTROLS ON THE OPERATION OF INDEFINITE PRICE ESCALATOR CLAUSES IN INTRASTATE CONTRACTS. THIS BILL GOES ONE STEP FURTHER AND FREEZES ALL INTRASTATE GAS PRICES FOR A YEAR. AFTER THAT TIME, THE KANSAS CORPORATION COMMISSION COULD REVIEW THE PRICES AND ALLOW ANY NECESSARY INCREASES.

AS FOR AUTHORITY, IT'S LIKELY YOU'LL HEAR THE USUAL "CONSTITUTIONAL" ARGUMENTS RAISED BY OPPONENTS. IN THIS CASE, I DON'T THINK THERE'S ANY DOUBT WHATSOEVER THAT THIS LEGISLATURE HAS FULL POWER TO CONTROL THESE INTRASTATE PRICES. WE ARE CLEARLY GRANTED THE POWER UNDER THE FEDERAL NATURAL GAS POLICY ACT.

WE HEARD THE VERY SAME KIND OF ARGUMENTS WHEN WE PASSED THE PRICE PROTECTION ACT. IN FACT, OPPONENTS HAULED THE PRICE PROTECTION ACT STRAIGHT INTO COURT. THE OUTCOME? IN FIVE DECISIONS BY COURTS INCLUDING THE KANSAS SUPREME COURT AND SUPREME COURT OF THE UNITED STATE, THE LEGISLATURE AND THE PEOPLE WON. WE WILL WIN ON THIS BILL, TOO.

THANK YOU VERY MUCH.

STATE OF KANSAS



TOPEKA

SENATE CHAMBER

JACK STEINEGER
MINORITY LEADER
SENATOR, SIXTH DISTRICT
STATE CAPITOL BLDG.
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REMARKS BY SENATOR JACK STEINEGER
SENATE BILL 214, ENERGY & NATURAL RESOURCES COMMITTEE
MARCH 1, 1983

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE, AGAIN THIS MORNING I APPRECIATE THE OPPORTUNITY TO APPEAR BEFORE THIS COMMITTEE ON A BILL DEALING WITH OIL AND GAS. THE QUESTION SENATE BILL 214 ATTEMPTS TO ANSWER IS SIMPLE: ARE OIL AND GAS PROPERTIES IN KANSAS BEING ASSESSED AT THE STATUTORY 30 PER CENT?

SENATE BILL 214 ATTEMPTS TO ANSWER THAT QUESTION BY REQUIRING THE FILING OF CERTIFICATE OF VALUE IN ALL TRANSFERS OF OIL AND GAS WORKING INTERESTS. THIS BILL IS DIFFERENT FROM A SIMILAR BILL YOU HEARD LAST YEAR, HOWEVER. UNDER THAT BILL WE WOULD HAVE REQUIRED THE CERTIFICATES TO BE FILED WITH THE LOCAL REGISTER OF DEEDS. THEY FELT STRONGLY, WHEN THEY TESTIFIED BEFORE THIS COMMITTEE, THAT THE LOCAL FILING WOULD BE BURDENSOME TO THEM. CONSEQUENTLY, AFTER DISCUSSING THE BILL WITH THE DIVISION OF PROPERTY VALUATION, WE HAVE CHANGED OUR APPROACH. UNDER THE BILL BEFORE YOU, THE CERTIFICATES WOULD BE FILED WITH THE DIRECTOR OF PVD IN TOPEKA, NOT LOCAL REGISTERS OF DEEDS.

Feb. 5

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FEBRUARY 28, 1983

A BIT OF BACKGROUND MIGHT BE HELPFUL. UNDER CURRENT LAW, CERTIFICATES OF VALUE MUST BE FILED WITH REGISTERS OF DEEDS IN ALL TRANSFERS OF REAL ESTATE. THE STATE, IN TURN, DEVELOPS STATISTICAL INFORMATION BY COMPARING SALES PRICES REPORTED IN THE CERTIFICATES WITH THE PROPERTY'S ACTUAL ASSESSED VALUE.

FOR EXAMPLE, IF YOU BOUGHT OR SOLD A HOME FOR \$100,000, THE STATE WOULD COMPARE THIS PRICE WITH YOUR ASSESSED VALUE. AT THIRTY PERCENT, THE ASSESSED VALUE SHOULD BE \$30,000. IF THE ACTUAL ASSESSED VALUE IS ONLY \$15,000, THE STATE WOULD CONSIDER THE HOME ASSESSED ONLY AT 15 PERCENT. THIS FIGURE, IN TURN, WOULD BE INCLUDED IN THE ANNUAL ASSESSMENT-SALES RATIO STUDY AND INCORPORATED IN THE PERCENTAGE FIGURES FOR YOUR COUNTY.

UNDER CURRENT LAW, TRANSFERS OF MINERAL INTERESTS ARE EXEMPT FROM BOTH THE RATIO STUDY AND THE REQUIREMENT THAT A CERTIFICATE OF VALUE BE FILED WHENEVER A MINERAL INTEREST IS TRANSFERRED. THIS MEANS THAT WE CANNOT DETERMINE WHETHER OUR MINERAL ASSESSMENT STATUTES ARE ACTUALLY PRODUCING ASSESSED VALUES EQUALLING 30 PERCENT OF FAIR MARKET VALUE.

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THERE ARE SEVERAL REASONS THAT THIS BILL WOULD IMPROVE OUR LAW. I THINK WE'RE ALL AWARE OF THE CURRENT DEBATE IN THE LEGISLATURE CONCERNING CLASSIFICATION. THROUGHOUT THIS DEBATE, THE OIL INDUSTRY HAS CONSISTENTLY MAINTAINED THAT THEIR PROPERTY IS NOW ASSESSED AT 30 PERCENT OF FAIR MARKET VALUE. IN TRUTH AND IN FACT, NOBODY IN THE ENTIRE STATE ACTUALLY KNOWS IF THIS IS TRUE. AFTER A FEW YEARS OF COLLECTING SALES INFORMATION, HOWEVER, THIS LEGISLATURE WOULD BE ABLE TO DETERMINE IF OUR CURRENT METHOD IS WORKING PROPERLY.

SECOND, IT WOULD INJECT AN ADDITIONAL ELEMENT OF FAIRNESS INTO LEGISLATIVE DISCUSSIONS OF OUR ENTIRE PROPERTY TAX SYSTEM. MINERAL INTERESTS WOULD BE PUT ON EXACTLY THE SAME FOOTING AS FARMS OR HOMES OR ANY OTHER KIND OF PROPERTY COMMONLY BOUGHT AND SOLD IN THE MARKETPLACE.

THIRD, THERE'S SOME REASON TO BELIEVE THAT OUR STATUTES ARE NOT ACTUALLY PRODUCING ASSESSED VALUES EQUALLING 30 PERCENT OF FAIR MARKET VALUE. I WOULD LIKE TO GIVE ONE EXAMPLE.

IN 1982, KANSAS PRODUCED MORE THAN 70 MILLION BARRELS OF OIL. WHEN WE DIVIDE THIS TOTAL BY 365 DAYS, WE SEE THAT THE AVERAGE DAILY PRODUCTION OF OIL WAS SLIGHTLY MORE THAN 193 THOUSAND BARRELS. THIS

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IS A SIGNIFICANT FIGURE BECAUSE OIL LEASES ARE COMMONLY VALUED---
AND BOUGHT AND SOLD---BASED UPON THEIR AVERAGE DAILY PRODUCTION.

ON THE OTHER HAND, THE TOTAL ASSESSED VALUE OF OIL LEASES IN
1982 FOR KANSAS WAS 940 MILLION DOLLARS. COMPUTING TO FAIR MARKET
VALUE, THE TOTAL VALUE OF ALL KANSAS OIL LEASES LAST YEAR---AS
REPORTED BY THE DIVISION OF PROPERTY VALUATION---WAS 3 BILLION
133 MILLION DOLLARS (\$3.133 BILLION).

DIVIDING THIS TOTAL VALUE BY THE NUMBER OF DAILY BARRELS---
193 THOUSAND--AN AVERAGE DAILY BARREL OF PRODUCTION IN KANSAS WAS
VALUED AT \$16,230 PER BARREL.

IN TERMS OF ACTUAL VALUE, THIS FIGURE MAY BE RIGHT OR IT MAY
BE WRONG. AND BECAUSE SALES OF OIL LEASES ARE EXEMPT FROM THE
ASSESSMENT-SALES RATIO STUDY, WE SIMPLY HAVE NO WAY TO DETERMINE
WHETHER \$16,230 REFLECTS THE FAIR MARKET VALUE OF THE MINERAL
INTEREST---OR WHETHER IT'S TOO HIGH OR TOO LOW.

I DON'T KNOW THAT THERE'S ANY CONCRETE ANSWER TO THE BASIC
QUESTION OF WHETHER OUR CURRENT LAW RESULTS IN VALUATIONS WHICH
ACCURATELY REFLECT THE PRICES PAID IN THE MARKETPLACE. IT'S MY
UNDERSTANDING, HOWEVER, THAT OIL LEASES OFTEN BRING PRICES IN THE
NEIGHBORHOOD OF \$25,000 TO \$30,000 FOR EACH DAILY BARREL OF
PRODUCTION.

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ATTACHED TO THIS TESTIMONY IS A MEMORANDUM FROM SENATOR JOE WARREN--A SUPPORTER OF THIS BILL-- OF LAST MARCH. AT THE TIME SENATOR WARREN CHECKED ON PRICES PER DAILY BARREL OF PRODUCTION, LEASES IN HIS AREA WERE SELLING FOR BETWEEN \$30,000 AND \$40,000 FOR EACH DAILY BARREL.

FOR THE SAKE OF ARGUMENT, LET'S ASSUME THAT THE PRICE IN 1982 WAS NOT \$40,000. LET'S ASSUME, WITH THE PRICE OF OIL GOING DOWN, A DAILY BARREL WAS ONLY WORTH \$25,000. IF THAT'S TRUE, THEN THE ACTUAL FAIR MARKET VALUE OF KANSAS OIL LEASES SHOULD HAVE BEEN \$4.8 BILLION. THIS WOULD MEAN THAT KANSAS OIL LEASES, ON THE AVERAGE, ARE ASSESSED AT 19.4%---NOT THE 30% AS REQUIRED BY KANSAS LAW. IN TRUTH AND IN FACT, WE SIMPLY DON'T KNOW.

LET ME GIVE YOU ANOTHER EXAMPLE. I HAVE PASSED OUT SOME TESTIMONY FROM DR. TERRELL WHO TESTIFIED ON BEHALF OF THE RAILROADS IN THE FOUR-R CASE IN FEDERAL COURT. DR. TERRELL COMPARED THE ASSESSED VALUES OF SEVEN LEASES WITH THEIR SALES VALUE. HE FOUND THEY WERE ASSESSED AS FOLLOWS: NINE-TENTHS OF ONE PER CENT, 9.4%, 14.1%, 15.4%, 20.2%, 28% AND 41.6%. WITH THE EXCEPTION OF ONE LEASE, NONE WERE EVEN CLOSE TO THE STATUTORY 30%.

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I RECOMMEND THIS BILL FOR FAVORABLE CONSIDERATION. ALTHOUGH IT'S NOT A SOLUTION TO POSSIBLE UNDERASSESSMENT, IT WOULD PROVIDE A VALUABLE TOOL IN FUTURE YEARS TO MAKE SURE THAT MINERALS IN KANSAS PAY THEIR FAIR SHARE OF KANSAS PROPERTY TAXES. IT IMPOSES NO HARDSHIP ON ANYONE. HOLDERS OF MINERAL INTERESTS WOULD SIMPLY BE TREATED LIKE EVERYONE ELSE BUYING AND SELLING PROPERTY IN KANSAS.

THANK YOU VERY MUCH. I BELIEVE PHIL MARTIN, THE DIRECTOR OF PROPERTY VALUATION WILL TESTIFY LATER IN THE WEEK AND ANSWER ANY TECHNICAL QUESTIONS ABOUT THE BILL.

1982 KANSAS OIL PRODUCTION

$$\frac{75,525,000 \text{ BBLs}}{365 \text{ DAYS}} = 193,210 \text{ DAILY BARRELS}$$

TOTAL ASSESSED VALUE KANSAS OIL
(WORKING INTERESTS) (30%)

\$940 MILLION

FAIR MARKET VALUE KANSAS OIL
(WORKING INTERESTS) (100 %)

\$3.133 BILLION

TOTAL FAIR MARKET VALUE

\$3.133

=

= \$16,230 PER DAILY
BARREL

AVERAGE DAILY PRODUCTION

193,000 BBLs

$$193,000 \text{ DAILY BARRELS} \times \$25,000/\text{BBL} = \$4.830 \text{ BILLION FAIR MARKET VALUE}$$

\$940 MILLION ASSESSED VALUE

$$\frac{\$940 \text{ MILLION ASSESSED VALUE}}{\$4.830 \text{ BILLION ACTUAL VALUE}} = 19.4\% \text{ ASSESSMENT}$$

\$4.830 BILLION ACTUAL VALUE

STATE OF KANSAS



TOPEKA

SENATE CHAMBER

JOE WARREN
SENATOR, THIRTY-SECOND DISTRICT
MAPLE CITY, KANSAS

COMMITTEE ASSIGNMENTS
MEMBER AGRICULTURE AND SMALL BUSINESS
WAYS AND MEANS
EDUCATION
POST AUDIT

Memo

Date: March 1, 1982

From: Senator Joe Warren

To: Energy Committee Members

Re: S.B. 679 (Certificates of Value)

I checked with a friend who handles oil leases and he tells me that in two recent transactions in Cowley County (one for \$1.7 million and one for \$2.5 million) the leases were valued at \$30,000 to \$40,000 per average daily barrel. These were good leases with "chat" wells, which usually hold up for a long time, so I think these figures represent average to good leases.

JW; cw

Take
Page

1 Q. All right, sir. Did you proceed to get the rendition
2 on those oil and gas leases that were auctioned?

3 A. Not on all 11 of them.

4 Q. Why not?

5 A. Well, there was some discrepancy for some between
6 the legal description on the rendition and the legal
7 description on the auctioneer's forms. That is, the
8 auctioneer was offering one part of the parcel and
9 they would have the same lease name, but the--there
10 might be an 80 acres difference, and I never could
11 reconcile that on some of them. For others the--there
12 wasn't a rendition at the lease according to the
13 County Appraiser's office and the rendition didn't
14 exist because that lease in 1980 may have been--he
15 could have had a stamp "inactive" on it or something
16 like that or somehow it wasn't a producing lease.
17 Others we just never could get the renditions for.

18 Q. How many leases did you end up finding--I am sorry.
19 How many sales did you end up finding renditions for
20 those particular properties?

21 A. I got renditions in hand for five of them, and the
22 one County Appraiser's office provided the assessed
23 valuation for two of them.

24 Q. So you had renditions for five, assessed valuations for
25 two and how many total leases were there?

- 1 A. There was 11 leases described as being sold.
- 2 Q. All right.
- 3 A. We were able to get assessed valuations for seven of
- 4 them either from renditions I had in hand or in two
- 5 cases directly from the appraiser's office.
- 6 Q. So of the four sales you were--there were four sales
- 7 that you don't have a comparison; right?
- 8 A. Yes, sir, that's correct.
- 9 Q. All right. Now, in what counties were the leases
- 10 that were sold?
- 11 A. Well, if I understand your meaning, you are interested
- 12 in the seven for which we have sales?
- 13 Q. Yes.
- 14 A. Okay. Greenwood County, Greenwood County, Butler County,
- 15 Butler County, Pratt County, Pawnee County, Barton
- 16 County.
- 17 Q. All right, Dr. Terrell, will you tell us please how
- 18 you found the sales price on these leases compared
- 19 with the assessed value, the auction price compared?
- 20 A. For these seven leases I took the sales price and
- 21 divided it into the assessed value and I recorded the
- 22 following ratios--is that proper?
- 23 Q. Yes.
- 24 A. .009; .154; .280; .094; .141; .416; .202.
- 25 Q. All right. Were some of them about 30 percent of

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the value?

A. One of these seven was in excess of 30 percent of the selling--the sales price.

Q. All right. Where were the rest of them?

A. The rest of them were below 30, but you recall I read over a .28 which by any means one would have to accept as being right nearly on target, but five of them are well below .21 or something thereabouts, some of them even going down to near one percent.

Q. And you have the assessments there in your file there; do you?

A. No, sir, here I have the only auctions, you know, the auctioneer's reports on the description and properties of the well and the sales price. The renditions that I used I believe are in a folder that--you know, I last saw it in your office.

Q. All right. But you do have those facts available to you?

A. Yes, sir; I made a note of those--of those leases that I could verify by legal description from the rendition and whose assessed valuation came from renditions versus the two that the Butler County Appraiser's office provided to us.

MR. FOULSTON: Thank you, Dr. Terrell, I think that is all I have.

MR. O'CONNOR: I move to strike the question on

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the oil and gas leases. There has been no foundation to tell us when the sales occurred. There has been no foundation to show whether or not these were fair market value transactions, and it constitutes hearsay. For those reasons we move that all that testimony be stricken.

THE COURT: Well, the Court is going to overrule your objection and we will allow the testimony in.

I believe it's probably pretty late now to start with cross examination so I think we'll now recess until 9:30 in the morning and commence again at that time.

Doctor, it will be necessary for you to be back for cross examination at that time.

Mr. Bailiff, let's recess the Court.