Approved 4/28/84
Date

MINUTES OF THE House COMMITTEE ON Energy and Natural Resources.

The meeting was called to order by Rep. David J. Heinemann at
Chairperson

3:30 a.m./p.m. on March 28, 1984 in room 519-S of the Capitol.

All members were present except

Committee staff present:

Ramon Powers, Legislative Research

Theresa Kiernan, Revisor of Statutes Office

Pam Somerville, Committee Secretary

Conferees appearing before the committee:

Lee Banks, Banks Oil Company
Senator Charlie Angell, Kansas State Legislature
R. D. Randall, KIOGA
Robert Edmiston, RAM Petroleum
Carol Walkup, Maurice L. Brown
L.E. Geoffroy, Jr., Texas Energies, Inc.

The minutes of February 6, 7, 8, 9, 13, 14, and 23, 1984 were distributed for the committtee's review.

Hearing continued on SCR 1642 - A concurrent resolution memorializing the President of the United States Congress to decontrol natural gas prices.

Senator Angell began his testimony with the question "Why is the price of natural gas so high?" Senator Angell said that three years ago, irrigators had a 24-40¢ increase in price while farmers next door paid $4.00/mcf. He said he found it hard to understand the logic, and that SCR 1642 is an attempt to address the problem.

Senator Angell submitted a report provided by staff detailing the impact of natural gas price deregulation on state and local taxes. (See Attachment 1). He also provided written documentation on the 10 largest gas producing states in the United States (See attach. 1A. A brief question and answer period followed Senator Angell's testimony. Hearing concluded on SCR 1642.

Hearing on: SB 540 - An act relating to natural gas; providing to continue certain provisions for one year.

Mr. R. D. Randall, KIOGA, appeared in opposition to SB 540. He said that price controls on natural gas do not work and always result in reduced supply and higher prices. (See Attachment 2).

Robert K. Edmiston, RAM Petroleum Corporation, spoke in opposition to SB 540. He said that in the past five years intrastate producers had had their prices frozen and taxes raised, and with enactment of SB 540, a total deterioration of the market (See Attach. 3).

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.

Carol C. Walkup, Maurice L. Brown Company, opposed SB 540 stating that approximately half of their total gas production comes from Kansas wells of which 67% comes from wells dedicated to intrastate sales. She stated that it should be realized that the price freeze had already resulted in the loss of revenues to the State of Kansas in severance taxes and with the loss of sales, the severance tax would be reduced even further. She urged the committee to consider the ramifications of the measure (See Attachment 4).

L. E. Geoffroy, Jr., Texas Energies, Inc., spoke in opposition to SB 540 reiterating previous remarks (See Attachment 5).

Lee Banks, Banks Oil Company, expressed opposition to SB 540 and asked that the bill be referred adversely (See Attachment 6).

A brief question and answer period followed each of the presentations.

Representative Fox moved to approve the mintues of February 6, 7, 8, 9, 13, 14, and 23, 1984 as written. Representative Kent Ott seconded the motion. Motion carried.

There being no further business before the committee, the meeting was adjourned at 4:50 p.m.

The next meeting of the House Energy and Natural Resources Committee will be held March 29, 1984 at 3:30 p.m.

DJ Heinemann

David J. Heinemann, Chairman

KANSAS LEGISLATIVE RESEARCH DEPARTMENT

Room 545-N - State House

Phone 296-3181

Date February 15, 1984

TO: SENATOR CHARLIE ANGELL Office No. 355-E

RE: IMPACT OF NATURAL GAS PRICE DEREGULATION ON STATE AND LOCAL TAXES

This memorandum is in response to your request for initial estimates as to the impact of the deregulation of natural gas prices on state and local tax collections in Kansas.

Based on the data, assumptions, and methodologies presented below, it is estimated that the deregulation of natural gas prices, if effective July 1, 1984, might increase severance, property, income, and sales tax collections in Kansas by some $60 million to $162 million. It should be understood, however, that these estimates are preliminary and are most useful in illustrating the ways in which deregulation would impact tax collections.

The price and production estimates used are presented first, and then the impact on each of the above four taxes is estimated separately.

Price. The consensus estimate for the severance tax as to the average price of natural gas in Kansas in FY 1985 is $1.35 per m.c.f. You have stated that other experts in the energy field are estimating that, if deregulated, natural gas prices in Kansas could increase to between $2.40 and $2.60 per m.c.f. At your request, I have prepared estimates using each of the two new estimated prices. These prices would be an increase of between $1.05 and $1.25 per m.c.f. over the current estimated price.

Production. The consensus estimate as to natural gas production volume in FY 1985 is 420,000,000 m.c.f. I will therefore use that production figure for one set of estimates. In addition, however, it is a general principle of economics that, other things being equal, an increase in the price of an item will lead to more production of that item. Thus, it should be expected that an increase in the price of natural gas from $1.35 to either $2.40 or $2.60 per m.c.f. would lead to an increase in the production of natural gas. Furthermore, the impact on production might be expected to be felt most strongly in the Hugoton field because that area is one of the oldest producing fields in the state and has some of the lowest-priced gas in the state and nation. To estimate the impact of price deregulation on Hugoton production, I have calculated the capacity of Hugoton by taking its highest production in the past seven years (1978) and reducing it by the percentage decline in Hugoton field pressures; this methodology should approximate maximum production unaffected by price restraints. This result is almost 500,000,000 m.c.f., an increase of about 250,000,000 m.c.f. from the current estimate of Hugoton production. Thus, this estimated increased production would result in potential total state production of 670,000,000 m.c.f. (if deregulation were accompanied with infill drilling, production might be higher).

Attachment I
3-28-84

Increased Income. By multiplying the most conservative price increase above with the current FY 1985 estimate of production, one may develop a conservative estimate as to the impact of price deregulation in Kansas, as follows:

420,000,000	m.c.f.
$x 1.05	m.c.f.
$441,000,000	

Likewise, by multiplying the higher estimated price increase with the increased estimate of production, one may develop an upper limit estimate as to the impact of price deregulation in Kansas, as follows:

250,000,000	m.c.f. (added production)	420,000,000	m.c.f. (current estimate)
$x 2.60	m.c.f.	$x 1.25	m.c.f.
$650,000,000		$525,000,000	

$ 650,000,000
525,000,000
$1,175,000,000

Thus, it is estimated that price deregulation in Kansas could result in an increase in gross receipts for producers of between $441 million and $1.175 billion.

Severance Tax. The net severance tax rate on natural gas of 7 percent (8 percent minus 1 percent credit for property taxes) is applied against the wellhead price. Therefore, the estimated increase in gross receipts will have a direct impact on severance tax receipts, as estimated below:

$441,000,000		$1,175,000,000
x 94.5%	(percent taxable)	x 94.5%
$416,745,000		$1,110,375,000
x 7%	tax rate	x 7%
$ 29,172,150		$ 77,726,250

Property Tax. Higher production prices would, other things being equal, increase property taxes on natural gas properties because the calculation of a lease's gross reserves is the most important step in valuing the gas lease. That value is calculated by multiplying the total annualized production for the previous year times a net price figure times a present worth factor. The last three years the estimated property taxes on gas leases have averaged approximately 6 percent of the value of production from the preceding year. Thus, using that percentage against the increased production values, property taxes might increase as follows:

$441,000,000		$1,175,000,000
-29,172,150	severance tax	-77,726,250
$411,827,850		$1,097,273,750
x 6%	average property tax as percentage of prior year's value	x 6%
$ 24,709,671		$ 65,836,425

However, the higher property tax estimate presented above would apply only after any increase in production had worked through the valuation process. If production in the Hugoton field increased as a result of deregulation in (for example) 1985, then the valuations for 1986 levies would increase substantially because the decline factors would be distorted. In subsequent years the decline factors presumably would return to normal.

Income Tax. Increased production receipts could be expected to increase individual and corporation income tax collections in Kansas. Royalty owners are assumed to be individuals, and their shares are not subject to expenses, but are subject to severance and property taxes. Assuming all royalty owners are Kansans and that all hold one-eighth interests, individual income tax collections might be expected to increase as follows:

$387,118,179	total net increase (after severance and property taxes).	$1,031,437,325
x 12.5%		x 12.5%
$ 48,389,772	increased state individual income	$ 128,929,666
x 4.5%	assumed marginal tax rate	x 4.5%
$ 2,177,540		$ 5,801,835

Working interest owners are assumed to be corporations, and approximately 80 percent of Kansas natural gas production is from out-of-state producers. The amount of increased income taxes from corporations under deregulation might be as follows: 87.5 percent x 20 percent (Kansas corporations) ÷ 2 (to account for some additional expenses and the fact that Kansas-owned gas is already somewhat higher priced than the average price of gas in Kansas) = 8.75 percent of total additional income subject to tax in Kansas.

$387,188,179	total net increase (after severance and property taxes)	$1,031,437,325
x 8.75%		x 8.75%
$ 33,872,841	increased state corporate income	$ 90,250,766
x 6.75%	corporate tax rate	x 6.75%
$ 2,286,417		$ 6,091,927

Income from out-of-state corporations owning Kansas production rights would also be subject to Kansas income taxes, but it is assumed that total, nationwide production values would not increase under deregulation — that higher priced gas in other states would fall to the estimated prices listed above.

Sales Taxes. Based on the above figures the additional amount of income retained in the state by individual Kansans and Kansas corporations after severance, property, and income taxes might be \$78-\$207 million. Assuming that all such additional net income is spent in taxable sales but not taking into account a multiplier or "ripple" effect, state sales tax collections might conservatively be expected to increase as follows:

\$78,000,000	\$207,000,000
x 3%	x 3%
\$ 2,340,000	\$ 6,210,000

Summary. The above tax estimates are summarized below:

Low Estimate (in millions)	Source	High Estimate (in millions)
\$ 29	Severance Tax	\$ 78
25	Property Tax	66
4	Income Taxes	12
2	Sales Tax	6
\$ 60		\$ 162

I hope this information is useful to you. Please contact me if I may be of further assistance to you.

Wayne D. Morris
Principal Analyst

WDM/pb

Cumulative Rts. Allowable. Taxes

Energy Information Administration
Office of Oil and Gas
U.S. Department of Energy
Washington, D.C. 20585

The interstate natural gas sales levels for the 10 largest gas producing States are provided in Table 4. States whose revenues would benefit from decontrol in the interstate market are Texas, New Mexico, and Kansas. Those States with significant levels of high-cost gas, such as Oklahoma, Wyoming, and Mississippi (with this category of gas representing 15, 30, and 52 percent of the gas produced in their respective States) would be affected by the falling price levels. Not only might such a situation portend a decrease in natural gas production in these States, but might also result in a decrease in exploration and development activity and loss of valuable tax revenues.

Table 4. Interstate Sales Levels for the 10 Largest Producing States: Projected Quantities and Price Levels for Late 1982 to Early 1983[a]
(Quantities in Billion Cubic Feet, Prices in Dollars per Mcf)

State Name	Old Gas[b]		New Gas[c]		High-Cost Gas[d]		Miscellaneous[e]		Total	
	Sales Quantity	Average Price	Sales Quantity	Average Price	Sales Quantity	Average Price	Sales Quantity	Average Price	Sales Quantity	Average Price
Louisiana	2,717	1.53	1,627	3.26	328	8.08	36	2.55	4,709	2.60
Texas	1,239	1.27	1,089	3.37	117	6.53	22	4.38	2,468	2.47
New Mexico	421	1.36	407	3.43	49	5.93	f	NA	876	2.57
Oklahoma	230	1.02	352	3.24	105	8.23	19	3.34	706	3.27
Kansas	256	0.73	50	2.90	4	5.33	2	2.65	313	1.15
Wyoming	87	1.21	113	3.59	88	6.49	1	3.36	288	3.72
Colorado	41	1.62	87	3.23	23	5.89	3	2.27	155	3.17
Mississippi	21	1.76	38	3.35	86	6.83	3	3.08	148	5.14
West Virginia	28	1.03	77	3.16	12	6.09	f	NA	117	2.96
Pennsylvania	3	1.46	42	3.01	12	5.52	f	NA	58	3.43
All Others States[g]	93	1.18	204	3.30	81	6.31	5	1.45	383	3.40
Total Projected Sales[h]	5,136	1.38	4,087	3.31	907	7.22	91	3.19	10,221	2.69

[a]Includes only data for PGA filings with an effective date falling between July 1, 1982, and December 31, 1982.
[b]Old gas includes natural gas reported under NGPA categories 104 and 106.
[c]New gas includes natural gas reported under NGPA categories 102, 103, 108, and 109.
[d]High-cost includes natural gas reported under NGPA category 107.
[e]Miscellaneous includes natural gas reported under NGPA section 105 and gas not identified as to NGPA category.
[f]No data reported.
[g]Includes Alabama, Arkansas, Arizona, Florida, Illinois, Indiana, Kentucky, Maryland, Missouri, Montana, Nebraska, Neveda, New York, Ohio, Tennessee, Utah, Virginia, and unidentified sources of gas.
[h]Totals may not sum due to independent rounding.
NA - Not applicable.
Note: California and Michigan are not represented because natural gas from these States does not enter the interstate market.
Source: Purchased Gas Adjustment (PGA) filings of the 20 major interstate natural gas pipeline companies with the Federal Energy Regulatory Commission (FERC). See Appendix B for details.

Interstate production constitutes the majority of sales in many States see Table 5). These States will, of course, be affected by altered market conditions under decontrol.

Attachment 1A
3-28-84

TO: House Committee on Energy & Natural Resources
BY: R. D. Randall, KIOGA
RE: Opposition to S.B. #540

March 28, 1984

STATEMENT

Mr. Chairman and members of the Committee, I am Dick Randall, General Counsel for Petroleum, Inc., and Chairman of the KIOGA Legislative Committee. We are opposed to passage of S.B. #540.

My company is a Kansas based, independent oil and gas producer, owning and operating oil and gas wells in Kansas and several other states. We currently operate 65 gas wells in Kansas, with 36 of them selling gas in the intrastate market.

The natural gas industry has been politicized. It has now been 30 years since the 1954 Phillips case decision mandated Federal regulation by price. The severe nation-wide gas shortage in 1977 was a direct result of that unwise regulation. The Kansas natural gas industry now suffers from restrictive price regulation and from a severance tax which impacts unequally and unfairly on intrastate natural gas.

Natural gas exploration in the State of Kansas has declined sharply and will continue to decline in the present hostile political climate. My company is in the natural gas business, but we have not drilled a gas deal in Kansas for nearly 3 years. We will not drill for gas here until price controls are terminated.

Passage of S.B. #540 would continue to be unfair to:

Producers - by abrogating private contracts, by penalizing intrastate gas wells, by reducing profits and cash flow, by discouraging gas exploration and drilling.

The Natural Gas Industry - by causing underpricing in the short run which reduces drilling, by causing overpricing in the long run which results in lost markets, by reducing the ability of gas to compete with other forms of energy.

Kansas Consumers - by discouraging sales of gas to intrastate markets, by forcing some utilities to buy gas supplies in other states at higher prices, by weakening the industry's ability to supply future residential heating markets.

Counties and Local Units of Government - by reducing exploration budgets and numbers of employees, by reducing economic activity in businesses serving the natural gas industry, by reducing property taxes collected.

The State of Kansas - by reducing severance taxes collected from gas, by contributing to long term decline in natural gas supplies, by reducing economic activity and employment in this state.

Price controls on natural gas do not work and always result in reduced supply and higher prices. Price regulation of intrastate natural gas should be allowed to terminate this year as planned. We urge you to vote No on S.B. #540.

* * * * *

3-28-84
Attachment 2

RAM

PETROLEUM CORPORATION

March 27, 1984

Re: SB540

Gentlemen:

In 1979, I appeared before the legislative committee hearings on the Kansas Natural Gas Price Protection Act.

At that time I stated that due to Kansas Power & Light Company's part in initiating and promoting the act, my company would refrain from selling new gas to KP&L and would attempt to avoid drilling in areas where KP&L was the sole gas purchaser.

I can report to you today that I have been successful in that effort. Though my companies have discovered 15 wells in KP&L territory we have contracted the gas with other companies. I will continue to do so.

In the past 5 years we intrastate producers have had our prices frozen (an action taken by only two other states) our taxes raised to the highest taxes on gas in the nation, and we now are facing the deterioration of our markets, while we face potentially higher ad valorem taxes due to classification.

Had the Kansas Legislature consiously embarked in 1979 on a series of measures to drive the intrastate gas producer out of business it could not have chosen a swifter path.

Continuing this kind of legislation has led and will continue to lead to a deterioration of our intrastate gas reserves and severe hardships on Kansas consumers in the future.

We were told in 1979 that the freeze would sunset in 1984; then in 1983, the freeze was extended to newer wells. Now you propose to extend it further. Hardly an act of good faith.

We intrastate gas producers are Kansans too as are our royalty owners and most of our investors. Continual promotion an "us versus them" attitude by the Kansas Legislature is not conducive to the cooperation necessary to assure Kansas consumers of adequate gas supplies.

Thank you,

Robt K. Edmiston

Robt K. Edmiston

1260 KANSAS STATE BANK BLDG. • (316) 265-5241 • Wichita, Kansas 67202

Attachment 3

3-28-84

March 28, 1984

House Energy and Natural Resource Committee

Re: Senate Bill 540

The Maurice L. Brown Company operates oil and gas wells in six states. Approximately half of our total gas production comes from our Kansas wells of which 67% of that Kansas gas comes from wells dedicated to intrastate sales. Therefore, we are very much concerned with regard to the consideration being given to Senate Bill 540.

It is right that the prime objective of the government be to protect the people whom it represents. The people are dependent and place their faith in their representatives to act responsibly, with foresight and knowledge on subjects which are varied and complex. Certainly, no easy task. When the public is also dependent on industry for its jobs, resources and production, we must question how a government that would consider legislation that would result in the reduction of state revenues and the choking off of industry can be serving its public's best interest.

Indiscriminate freezing of gas prices be they $.26 or $4.00, the ad valorem tax biased against industry and the additional burden of severance taxes are strong disincentives to oil and gas producers in Kansas. In addition to these burdens we are now faced with a serious and real problem of curtailment in gas sales. Currently, 80% of our intrastate gas sales are being reduced to half of what they should be.

It should also be realized that the price freeze has already resulted in the loss of revenues to the State of Kansas in severance taxes and with the loss of sales, the severance tax revenues will be reduced even further. As shown in Exhibit A, The Maurice L. Brown Company alone would have paid a minimum of an additional $2,000 in severance taxes for the 8 months of 1983, and again at minimum another $6,000 in 1984.

The contradiction of freezing the prices upon which severance tax revenues are based, the serious and injurious effect upon industry which will ultimately be felt in Kansan homes must be realized now. The additional realization that utilities will continue to justify increasing their rates regardless of the price of gas as discussed in Exhibit B and by the continuance of legislation which in light of the associated penalties, severely limits the economics of developing new reserves, the amount of interstate gas burned in Kansan homes will be increased. We urge you to consider the ramifications of this bill, and with foresight to truly protect the people of Kansas, oppose Senate Bill 540.

Thank you.

THE MAURICE L. BROWN COMPANY

Carol C. Walkup

Carol C. Walkup
Regulatory and Marketing Department

CCW/sw 3/1

3-28-84
Attachment 4

March 28, 1984

EXHIBIT A

The Maurice L. Brown Company Specifications

Oil/Gas Producing Wells - 540 in the States of Kansas, Texas, Oklahoma, New Mexico, Louisiana and Mississippi.

Kansas Oil/Gas Producing Wells - 216.

Total Kansas Gas Produced - 4,110 (approximation) thousand cubic feet per day.

Kansas Gas Dedicated to Intrastate - 2,800 thousand cubic feet per day.

For The Maurice L. Brown Company Alone:

1983 Loss of Revenues - $27,300 (adjusted on average and prorated for effective date).

Loss of State Revenues - $2,000.

1984 Loss of Revenues - $81,760.

Loss of State Revenues - $6,000.

It should be noted that additional increases in revenues which would result in additional loss of State revenues are not reflected in the above figures (i.e. changes in well status which would increase the value paid both to the operators and State).

CCW/sw 3/2

EXHIBIT B

THE MAURICE L. BROWN COMPANY

P. O. BOX 11320 KANSAS CITY, MISSOURI 64112 (816) 361-6000

March 19, 1984

House Energy & Natural Resource Committee
House of Representatives
c/o State Capitol
Topeka, KS 66612

Re: S. B. 540

Dear Representative David Heinemann, Chairman:

We find it ironic that while the Senate Bill 540 is being considered by the distinguished Representatives of Kansas, we should receive a copy of the Application of Producers Gas Equities, Inc., for increases in their gas revenues.

Please understand we are making no comment at this time on the justification for such an increase by a utility company, but in that we, as an oil and gas exploration and production company operating in the State of Kansas and having had our intrastate gas sales prices frozen, are concerned in the apparent contradiction. The utilities may increase their prices to customers even while the cost of intrastate gas to the utilities is frozen.

Kansas natural gas producers and royalty owners have been denied their contractually agreed upon price increases since the 1979 enactment of the Kansas Natural Gas Price Protection Act and the 1983 Kansas Natural Gas Price Control Act. In looking to the future we have relied on restoration of operations under long established contracts, as legislation mandated the termination of these acts be December 31, 1984. We urge you to vote AGAINST Senate Bill 540, whereby this legislative injustice be ended and the basis of faith in our legislative mandates be restored, maintaining the promise of an end to this abrogation of contracts by legislation.

Sincerely,

THE MAURICE L. BROWN COMPANY

Christopher A. Glenn/ccw

Christopher A. Glenn
Assistant Vice President,
Administration

CAG/sw

TEXAS ENERGIES, INC.

March 28, 1984

TO: Honorable Members of the House Energy
and Natural ~~Reserves~~ Resource Committee

Ladies and Gentlemen:

I am Lloyd E. Geoffroy, Jr., President of Texas Energies, Inc. Texas Energies is a publicly held independent oil and gas company headquartered in Pratt, Kansas. Even though our name implies a Texas company, we do not own or operate a single oil or gas well in the State of Texas.

I moved my family and Texas Energies' operations to Pratt from Amarillo, Texas in 1974 after acquiring an oil and gas lease block in Western Pratt County.

The main reason for relocating our operations was economics; the finding and production costs associated with a barrel of oil in Kansas versus the same costs in Texas.

From 1974 through 1979 our company drilled a total of 30 wells in South Central Kansas. In 1980, with adequate exploration incentives, we sold our company to the public and raised additional capital to expand our operations.

Texas Energies and its subsidiaries currently employ 160 people, primarily in Pratt, Great Bend and Wichita. Our exploration activities have increased from drilling 17 wells in 1980 to the drilling of in excess of 100 wells annually, all within the State of Kansas. Our exploration expenditures increased 400%, yet our net present value of oil and gas reserves increased only 14% over this period of time, reflecting the effects of declining oil prices, windfall profit taxes, the State severance tax, and the effects of a gas price freeze on intrastate gas sales, of which 90% of all Texas Energies' natural gas sales are within the State.

However, even worse than this is the reduction of oil and gas revenues we have experienced over the last nine months due to poor natural gas takes from our intrastate markets, with no relief in sight. As a producer of oil and natural gas in the state and as President of a public company, I cannot continue to risk our shareholders' dollars within the state with added burdens being placed on our industry by this State Legislature.

Attachment 5
3-28-84

P.O. Box 947 Pratt, Kansas 67124 Telephone (316) 672-7581

Without the Kansas independent exploration companies such as Texas Energies being able to economically explore for and produce oil and gas within this state, the Kansas energy consumer will ultimately suffer from lack of intrastate oil and gas reserves and production. Therefore, the energy costs in the future will rise dramatically as demand will once again exceed supply. This legislative body is responsible for making long term decisions for all of Kansas and not short term decisions for the benefit of ~~the electorate~~ those elected.

If State regulatory actions do not cease to be a burden on our industry, our company will be forced to move out of the State and into areas which prove to be more rewarding for the risk dollars incurred. I came to Kansas because of the economics ten years ago, and it will be the economics that drive me away.

Thank you,

L.E. Geoffroy, Jr.
President

HEARING ON S.B. 540

House Committee on Energy and Natural Resources

March 28, 1984

Mr. Chairman and members of the committee. My name is Lee Banks and I am appearing today on behalf of my company being Banks Oil Company. A Kansas Independent producing oil and gas company who would prefer to stay in Kansas and continue our exploration search for new gas producing wells and reserves.

I wish to express my strong opposition to S.B. 540, a one year extension of the Kansas Natural Gas Price Protection Act and the Kansas Natural Gas Price Control Act. Producers were assured during the hearings by the legislature when these acts became law that they were only temporary in nature and would expire at the end of 1984. As you may know, the Kansas and Oklahoma bills were almost exact duplicate copies with the Oklahoma Price Protection Act also expiring this year. The greatest difference in our respective bills is that Oklahomans' have made no attempt in their legislative sessions to extend their bill. Oklahoma and New Mexico were the only other states to invoke similar bills. With the Oklahoma bill expiring and New Mexico amending their bill to allow intrastate gas prices to seek the equivalent level of interstate gas prices, only Kansas remains as a state offering this continued disincentive to further develop additional intrastate gas reserves.

In the past the governor with the legislature following his concepts have mislead Kansans' when comparing Oklahoma severance tax to the taxes assessed on oil and gas production in Kansas. We are now obliged in Kansas to not only equal Oklahoma in having a like 7% severance tax on gas but in addition thereto an ad valorem tax on gas production which averages approximately 6% on gas properties or a total of approximately 13% which is 6% higher than Oklahoma, approximately 5.5% higher than Texas, (not to mention no imcome tax in Texas) in fact Kansas gas producers pay the highest combined taxes of any state in the U.S. I ask you where would you go drill your next gas wells when also considering that most gas wells currently being drilled in Kansas have relatively small reserves and deliverabilities as compared with gas wells in other major gas producing states.

Attachment 6
3-28-84

This combination alone..gas price freeze and the highest state taxes can only lead to a further decrease in the development of Kansas gas reserves more particularly intrastate gas reserves near existing intrastate gas lines. We are already seeing this happen. During 1983 new gas well completions in Kansas decreased approximately 38% compared to 1982. It is also interesting to note that our major intrastate gas pipeline has had to purchase increasing amounts of high priced out of state gas to supplement their supply to Kansas customers.

The plight of the Kansas gas producer has only recently been further damaged when being advised by their purchaser being Kansas Gas Supply, a complete intrastate purchaser, that a number of their gas wells would be shut in along with casinghead gas oil wells, due to a curtailment of gas purchases from KG & E. Kansas Gas Supply has been delivering to KG & E approximately 50 million cubic feet of Kansas produced gas per day for electrical generation of the Murray Gill and Gordon Evans plants. We need to look more closely with Kansas Corp. Commission assistance, that this curtailment by KG & E or possible closing of these plants may not be shut down in order to increase the need for Wolf Creeks excess capacity or the greater use of coal for generation of electricity. Severance tax on coal would be paid to the state of Wyoming not Kansas. The continuation by KG & E to use natural gas at a delivered price of $3.05 per mcf for generation purposes would allow current electrical rates to prevail in the surrounding area until Wolf Creek and even then would serve to reduce the average weighted price per kilowatt hour. Should this continued Kansas gas market prevail Kansas gas producers revenues would continue and state and counties would also continue to receive their respective severance and ad valorem tax revenues.

You should always keep in mind that the currently active explorers for intrastate natural gas in Kansas are predominately independent Kansas companies who must rely on income from wells in Kansas to justify continued exploration in Kansas and not in Oklahoma, Texas or any other state with fewer disincentives.

Consumers of natural gas must be educated to understand that the problem of higher gas prices are mainly due to interstate gas outside the jurisdiction of the Kansas legislature. Allow intrastate gas to develop wherein sufficient incentives to develop additional gas reserves are present to offset any shortage which may be forthcoming. We can well remember recent years when the gas shortage caused school shut downs and limited gas usuage for heating requirements. Please remember that Kansas natural gas at the burner tip is by far the best buy for heat energy delivered to the consuming public. Unless electric costs are frozen prior to Wolf Creeks on line operation the gas price savings to the consuming public could be doubled. This will require additional Kansas gas reserves to provide added gas consumption and new gas connections due to cost savings by the consuming public.

For the good of all Kansans, I urge your rejection of S.B. 540.

Price Freeze Bill

Intrastate pipelines whose contract purchase price is reduced by the terms and provisions of this act shall be limited to 50% of the state corporation commission authorized earnings for said intrastate pipeline purchaser.

The terms and provisions of this act shall not apply to intrastate natural gas purchases that are deregulated under the terms and provisions of the Natural Gas Policy Act.

The price freeze under the terms of this act shall not freeze intrastate natural gas prices below the prices determined by the F.E.R.C. to be economic waste.

REPEAL KSA 55-1412, 55-1413. 55-1414

REPLACE WITH:

Whenever a natural gas distributor receives natural gas subject to this act and such natural gas is sold or distributed in Kansas and monies are saved as a result of this act, the Commission shall, by order, require any said distributor to apportion the monies thus saved among all Kansas natural gas customers of such distributor without regard to their source of natural gas supply.

[redacted]

3-21-84

55-1413. Certain natural gas distributors to apportion the savings accrued from the operation of this act to its customers. In any case where a natural gas distributor receives both intrastate and interstate natural gas for its system, the commission, by order, shall require any said distributor to apportion the amount of money saved in the purchase of natural gas from the restrictions made by this act on the effect of indefinite price escalator clauses to every customer of such distributor without regard to their source of supply of natural gas.

History: L. 1979, ch. 171, § 13; May 29.

55-1414. Profits of pipelines from certain natural gas sales apportioned to customers. Any intrastate pipeline making an intrastate sale of natural gas the purpose for which is to allow intrastate natural gas to be substituted for interstate natural gas in the compressor facilities of an interstate pipeline shall apportion the profit accrued from such sale to its natural gas customers without regard to their source of supply.

History: L. 1979, ch. 171, § 14; May 29.