Approved February 24, 1984
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./~~p.m.~~ on Thursday, February 23, 1984 in room 123-S of the Capitol.

All members were present except:
Senator Paul Feleciano, Jr.
Senator Paul Hess

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 (Indiana)
Ed Reinert, League of Women Voters of Kansas
Randal Loder, Kansas Farm Bureau
Sam Hands, Garden City

Senator Chaney moved that the minutes of the February 22, 1984 meeting be approved. Senator Roitz seconded the motion, and the motion carried.

S.C.R. 1642 - Natural gas: decontrol of natural gas prices: Re Proposal No. 20

Dick Brewster summarized his written statement (Attachment 1) in support of the resolution. He pointed out that under current federal law, old gas (104 gas) will never be decontrolled. He feels that the practical reality is that any decontrol bill passed in Washington will probably include provisions for contract carriage, provisions dealing with take-or-pay clauses and life of the field clauses in existing contracts and some type of provision for ramping up old gas and ramping down new gas. Mr. Brewster said that decontrol will bring in substantial additional revenue to the state of Kansas through increased royalty payments, increased valuation of property, increased severance tax and increased corporate and personal income taxes. He said in addition to the estimates on the effects of decontrol given by legislative staff, there is another factor. Because of the three-step formula in regard to interstate corporations paying taxes in Kansas, some large producing companies under decontrol would experience greater income from Kansas, and therefore their percentage of profits from Kansas would be a greater portion of the total company profits, and those corporations would pay a proportional share of higher corporate tax to Kansas. Mr. Brewster stated that with decontrol, a few Kansans would pay a little more for gas and a lot would pay a lot less. He mentioned studies estimating the additional reserves that might be lost without decontrol. He also discussed capital for additional exploration. Answering a question from Chairman Angell, Mr. Brewster said that when an old gas well becomes a stripper well, the price goes up to an amount ranging from four to six times as much as the old gas price. He agreed that only under regulation could this happen and that this will continue to happen in the Hugoton field.

Ed Reinert read his statement (Attachment 2) in opposition to S.C.R. 1642. He recommends a windfall profits tax on the production and distribution of natural gas.

Randal Loder testified in opposition to S.C.R. 1642. He discussed the Analysis of Irrigated Farms in Farm Management Association No. 3 (Attachment 3). He talked about the connection of irrigated agriculture, the natural gas industry and the livestock industry. He stressed that farmers cannot afford to absorb any additional cash operating expenses. Mr. Loder said that it is very hard to predict the effect of decontrol of natural gas. He said that a decrease in irrigated agriculture will decrease ad valorem, property and corporate taxes. He emphasized the importance of agriculture. Responding to a question from Senator Rehorn, Mr. Loder said that he questions whether there will be astronomical increases in the price of energy and he feels that price-induced conservation will have an effect. Vice-Chairman Kerr asked whether there is an inconsistency in favoring provisions that would allow irrigators to tap into cheap gas but still wanting tight controls to keep the price of that gas down. Mr. Loder said that people have the feeling that an implied contract would be abrogated because they made decisions based on the assumption that old gas would always be controlled.

MINUTES OF THE Senate COMMITTEE ON Energy and Natural Resources,

room 123-S Statehouse, at 8:00 a.m./p.m. on Thursday, February 23, 1984.

Sam Hands said he is a farmer from the Garden City area. He talked about the importance of agriculture and said that Kansas should continue to exist on the strength of its agriculture rather than on the severance tax on minerals. He opposes S.C.R. 1642 because he feels agricultural interests would bear increased expenses.

The meeting was adjourned at 9:02 a.m. by the Chairman. The next meeting of the Committee will be at 8:00 a.m. on February 24, 1984.

Senate Energy & Natural Resources
Feb. 23, 1984

Name	Organization
Dick Brewster	Standard Oil Co. (Indiana)
George A Sims	mobil
Steve Watson	Kansas Farmer magazine
Ed Reinert	KS League Women Voters
Van Hampton	Farm Bureau
Marion Hampton	" "
Deloyce McKee	
Betty Jo Denton	Farm Bureau
Weinfield Denton	Farm Bureau
David G. White	" "
John Blythe	Ks Farm Bureau
Robert C. Anderson	Mid Cont Oil & Gas
LON STANTON	NORTHERN NATURAL GAS CO.
BILL PERDUE	KPL / GAS SERVICE
A.E. BENIGNUS	KPL
Rick Kready	KPL / Gas Service Co.
Gloria Jan Hampton	Ks. Farm Bureau
Elaine Frotschner	Ks Farm Bureau
Marguerite Blaufelder	Ks. Farm Bu.
Joe Bonhager	Farm Bureau
Amelia Baumgartner	" "
Wesley Black	
Sam Hands	Farm Bureau
RANDAL LODER	FARM BUREAU
Penny Plamann	KIOGA
ROSS MARTIN	KPL
Glenn Cogswell	NorthWest Central Pipeline Corp.

February 20, 1984

Statement to:

Committee on Energy and Natural Resources
Kansas Senate
State Capitol Building
Topeka, Kansas

Presented by:

E. Richard Brewster
Government Affairs Representative
Standard Oil Company (Indiana)
8826 Santa Fe Drive
Shawnee Mission, Kansas 66201
(913) 661-2104

Subject: SCR 1642

Date: February 23, 1984

Mr. Chairman, Members of the Committee, my name is Dick Brewster and I am Government Affairs Representative for Standard Oil Company (Indiana). I appear today representing Amoco Production Company, Standard's domestic exploration and production subsidiary.

SCR 1642, submitted by the 1984 Interim Committee on Energy and Natural Resources, memorializes the Congress to decontrol the wellhead price of natural gas. The interim committee apparently concluded that Kansas was getting the short end of the stick on the issue of natural gas pricing. Our producers and mineral owners are selling gas which is among the lowest priced gas produced in the nation. Yet our consumers are paying for higher cost gas at the burner tip. So, our consumers do not benefit, and our royalty owners, local taxing units, the state general fund, and producers of Kansas gas are the losers. Federal regulations cause Kansas gas to be sold at a value far below the real market value of this energy source. In the meantime, other gas is being sold at values far above the real market value, causing an economic aberration.

Atch. 1

Amoco Production Company believes that a free market price should be allowed to form on natural gas, and that this can only be accomplished through total decontrol of the wellhead price. We support SCR 1642.

You have heard the economic arguments favoring infill drilling in Kansas. These same arguments apply with equal force to the notion that the Congress should decontrol the wellhead price of natural gas. Utility and pipeline prices would still be subject to the proper review and approval by the appropriate state and/or federal agencies. And, the market place itself, under decontrol, would act to prevent any widespread price spike or unacceptable increase. You have heard these arguments too, so I'll not take your time repeating them.

Underlying all these arguments is the concern that if prices are kept artificially low by government regulation, we can expect another series of natural gas shortages in the not-too-distant future. No one wants a repeat of our experiences during the mid and late 1970's. Yet that shortage was not a shortage of natural gas to be found and produced. It was a shortage which resulted from decades of price controls so severe that producers could not afford to explore and produce.

We now have an excess of deliverability over demand. But, as the economy continues to expand, that excess might be very short-lived. If shortages develop again, with the present price controls in place, Kansas could see her major natural resource, her natural gas, depleted rapidly at prices so low as to be considered criminal under other circumstances. The natural gas reserves in Kansas are not unlimited. No matter how much incremental production is possible under infill drilling, sooner or later, our once rich heritage of abundant natural gas will be gone. It just does not seem to make sense to me for Kansans to continue to sit back and watch as Federal policies force this day to come faster and withhold from Kansas the real value of this resource.

What will decontrol do to the Kansas consumer, the person to whom many of you must answer this November. As you have heard from persons far more expert than I, the impact upon the vast majority of Kansas consumers will be small. In fact, our studies indicate that under the decontrol bill considered last year by the U. S. Senate, most Kansas consumers will pay considerably less.

Residential consumers burn only about 25 per cent of the natural gas. The balance is used by business and industry, users with the ability to switch to alternate fuels if the price of gas gets too high. Natural gas must be priced such that these major users will not switch. This fact will exert a downward pressure on the price in a free market. As natural gas replaces other products, products from crude oil, the nation's dependence on and vulnerability to foreign energy is decreased.

Under decontrol, Kansas' general fund benefits from increased severance tax revenues, local government and local economies benefit because of the increased value and activity in the gas producing counties of the state, and consumers throughout the state are assured of adequate supplies at prices they are willing to pay. We urge your favorable consideration of SCR 1642.

Mr. Chairman, members of the Committee, thank you for your time and attention. I will be happy to answer any questions you might have.

E. Richard Brewster

THE OIL DAILY

Special Section WASHINGTON ENERGY GUIDE Inside

2 SECTIONS — SECTION 1

TUESDAY, FEBRUARY 21, 1984 THE DAILY NEWSPAPER OF THE ENERGY INDUSTRIES Number 8,087 1.50 A COPY

OTA: Decontrol Can Boost Gas Reserves

WASHINGTON — As much as 19 trillion to 38 trillion cubic feet of additions to old gas reserves could be lost without full decontrol or some other new supply incentive, the congressional Office of Technology Assessment said in a study.

The OTA study could provide new ammunition for decontrol backers at a time when momentum for gas legislation appears to be fading.

The study began with a request by House Fossil and Synthetic Fuels Subcommittee Chairman Philip Sharp, D-Ind., to review a Shell Oil Co. analysis concluding that decontrol would stimulate 52 tcf of additional old gas reserves.

Energy and Commerce Committee Chairman John Dingell, D-Mich., later asked OTA to expand its analysis to examine more intensely the general potential for obtaining additional gas from the nation's older fields.

OTA concluded that if old gas could obtain a price approaching the $3.50 to $4 per million BTU range by the latter part of the decade, the potential old gas rerserve growth from delayed well abandonments, infill drilling and well stimulations is about 43 to 65 tcf, or about a 10-15 percent increase in total gas recovery from old fields.

The study noted that most of this gas would become available "only gradually, however, over the course of a decade or more."

Mechanisms in the Natural Gas Policy Act, the study said, would recapture 20 to 35 tcf of the 43 to 65 tcf potential. These mechanisms include partial decontrol, price escalator clauses, incentive pricing for stripper wells, and others.

"However, as much as 19-38 tcf of the potential additions could be lost without full decontrol or some other supply incentives, although this loss will be reduced if the NGPA's stripper well and production enhancement incentives prove to be effective in adding new reserves," the report said.

The report cautioned that a conclusive estimate of the potential for old gas reserve growth is made difficult by a lack of experience with some of the key growth mechansims.

"However, the limited experience that has been gained in the nation's gasfields, along with a few decades of experience with enhanced recovery of oil, points towards a fairly optimistic view of the growth potential in the old fields," the report said.

The report said Shell's emphasis on a single "point" estimate — 52

(Continued on page A-2)

Low Stocks Boost Trade In Crude Oil

By Lisa Tocci
Oil Daily Staff Writer

PRODUCT prices gained nearly 0.5 cent per gallon across the board on the nation's spot markets Friday, but the real trading interest centered around crude oil futures.

Inventories indicate a drawdown of crude over the past two months as refineries pushed to meet sudden demand, especially for fuel oil. Buying interest, therefore, was strong, especially for North Sea crudes.

On the wholesale market, Amoco gasoline prices gained 0.5 cent per gallon in Miami Feb. 17, while falling 0.5 cent in Philadelphia and Sugar Creek (Kansas City), Mo. The price was reduced 0.6 cent in Omaha, Neb., and 0.3 cent in Des Moines, Iowa.

Distillate prices in the East dropped 2.0 cents per gallon at Carteret, N.J., 1.5 cents in Pittsburgh, and 1.0 cent in Tampa, Fla., and Birmingham, Ala. The price declined 0.9 cent in Baltimore and 0.8 cent in Knoxville, Tenn.

Amoco also reduced some western distillate prices, cutting 1.2

Alaskan Tempest:

Mondale, Democratic Challengers Spar Over Alaska Pipeline Role

By S. Lawrence Paulson
Oil Daily Staff Writer

THE FIRST major energy debate in the race for the Democratic presidential nomination concerns a natural gas pipeline that may never be built.

The project, the Alaska gas pipeline, has been fraught with problems and delays, and is currently gaining passage of the controversial legislation, is very much alive.

The issue emerged from relative obscurity on Feb. 11, when former Gov. Reubin Askew of Florida during a debate in Des Moines, Iowa,

News Analysis

be passed through to consumers before gas actually begins flowing through the line.

Mondale, in one of the few displays of emotion in the debate, denied lobbying for the provision while a member of a Washington law office.

"I was always opposed to that (pre-billing)," Mondale said. "I nev-

Gas Surplus Will Persist, Many in Industry Believe

(Continued from page A-1)

"There will be some seasonal problems, but basically we feel as though the bubble will be with us for another year — maybe two," said a spokesman for San Antonio, Texas-based Valero Energy Corp.

"There's no question, though, that because of the lead time required to bring production on stream, they've got to start drilling some of those Gulf of Mexico leases that were auctioned last year."

Executives at Mitchell Energy and Development Corp. agree to an extent — "the bubble isn't as big as many people thought," one said — with the industry's regulators and lobbyists.

"We think there is still a deliverability surplus," a Mitchell spokesman said. "We're experiencing curtailments again and expect them to continue during the current year." He said the deliverability surplus "probably won't disappear until the winter of 1985-86."

Wallace said a recent study by the Texas Railroad Commission showed the state had a deliverability of some 10 billion cubic feet per day less than the 24 bcf/d supply capability which producers had estimated.

Tipro's Murray pegged the state's natural gas shortfall during a record-shattering late December freeze at some 5 bcf/d. He, Wallace and Stewart also agreed that more drilling is needed, a factor they tie to decontrol of natural gas prices.

"If demand for Texas gas in 1986 is no higher than it was in 1981," Murray said, "no less than 57 percent of that 1986 supply must be met from wells drilled after Jan. 1, 1982. That will require a lot more wells than the state now has and underlines the need to maintain incentives for new drilling."

HUGHES RIG

	Feb. 20 1984	Feb. 13 1984	Feb. 21 1983
Alabama-land	15	15	16
Alabama-inland waters	0	0	—
Alabama-offshore	1	1	4
Total-Alabama	16	16	20
Alaska-land	9	10	14
Alaska-offshore	3	3	1
Total-Alaska	13	13	15
Arkansas	24	24	25
Arizona	0	0	1
California-land	72	80	74
California-offshore	22	21	23
Total-California	94	101	97
Colorado	51	55	40
Florida-land	2	3	3
Florida-inland waters	0	0	—
Florida-offshore	—	—	0
Total-Florida	2	3	3
Georgia-land	0	1	0
Georgia-offshore	0	0	0
Total-Georgia	0	1	0
Hawaii	0	0	1
Idaho	1	1	1
Illinois	33	33	30
Indiana	4	4	4
Iowa	0	0	0
Kansas	127	122	115
Kentucky	10	9	9
N. Louisiana	32	32	28
S. Louisiana-inland	47	50	46
S. Louisiana-land	101	104	95
S. Louisiana-offshore	129	138	139
Total-Louisiana	309	324	308
Maryland	0	0	0
Minnesota	0	0	—
Michigan	31	35	24
Mississippi	34	34	29
Missouri	0	0	0
Montana	38	41	22

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Wholesale Distillates Prices Still Declining Around Most of

(Continued from page A-1)

and Council Bluffs, and Bettendorf, Iowa.

Exxon reduced posted distillate rack prices by 1.0 cent per gallon in all Northeast markets Feb. 17. Distillates prices also were reduced at most Gulf Coast and East Coast markets, by 0.5 to 2.5 cents.

Texaco lowered wholesale gasoline prices Feb. 17 by 1.0 cent per gallon in New York City and on Long Island. Prices were reduced 0.5 cent in Philadelphia and Pittsburgh, and 0.25 cent in Raleigh, N.C.

Texaco middle distillates prices gained 1.0 cent per gallon in El Paso, Texas, and Phoenix and Tucson, Ariz., Feb. 17, but fell 2.0 cents in Houston, Texas. In Philadelphia, Atlanta, Chicago and St. Louis, prices were cut 1.0 cent.

Union Oil of California increased gasoline prices in the San Francisco Bay area by 0.5 cent per gallon Feb. 17, according to a reliable field report. Also, Sacramento dealers were notified of a 0.5 cent per gallon increase to take effect Feb. 18.

Chevron gasoline prices fell 1.0 cent in Boise, Idaho, Feb. 17. The price came down 1.0 cent to dealers and 0.4 cent to distributors in Pasco, Wash., and 0.5 cent to distributors in Spokane, Wash.

At selected markets in Tennessee and Kentucky, Chevron reduced regular unleaded gasoline by 0.5 cent per gallon, and also reduced the premium unleaded grade by 0.5 to 1.5 cents.

Also in the Southeast, Chevron reduced distillate prices by 0.5 to

Gas Decontrol Would Boost U.S. Reserves, Congressiona

(Continued from page A-1)

tcf — is "misleading" since decontrol may come in several forms and "the extent to which the decontrol measure allows producers and pipelines to escape from existing contracts makes a difference in the eventual supply outcome."

In addition, the OTA said, the effects of decontrol are sharply dependent on factors that are "essentially unpredictable," like the future market price of old gas.

And Shell's analysis encompasses some areas where an industry consensus is not likely to be reached, the report said. These include the effects of well stimulation on reserves and the effectiveness of the existing system of production incentives.

"Consequently there is no 'right answer' to the question that Shell

LEAGUE OF WOMEN VOTERS OF KANSAS

909 Topeka Boulevard-Annex 913/354-7478 Topeka, Kansas 66612

February 23, 1984

TO THE SENATE ENERGY AND NATURAL RESOURCES COMMITTEE:

I am Ed Reinert speaking for the League of Women Voters of Kansas for an amendment to Resolution 1642 (Decontrol of Natural Gas).

WHEREAS, we do not know whether the price of natural gas is going to go up or down after price decontrol; and

WHEREAS, since 1978 when partial decontrol was allowed the price of natural gas to the customer has gone up 100%; and

WHEREAS, it is generally agreed that the price of natural gas will eventually rise to an equivalent BTU basis with the price of high quality oil; and

WHEREAS, the price of oil may be suddenly effected by a crisis in the Middle East or less suddenly effected by a growing demand; and

WHEREAS, testimony has suggested that in any case the current surplus of natural gas may not last long; and

WHEREAS, we seem not to have any facts relating the real costs of production and delivery to the price charged customers:

THEREFORE, the League of Women Voters of Kansas opposes decontrol of natural gas prices unless attached to a provision for windfall profits tax on the production and distribution of natural gas.

Ed Reinert

Ed Reinert
LWVK Lobbyist

Atch. 2

Att.

ANALYSIS OF IRRIGATED FARMS IN FARM MANAGEMENT ASSOCIATION NO. 3, 1979 - 1982

Year	1979	1980	1981	1982
Number of Farms	114	123	128	92
Gross Farm Income	224,643	231,288	191,218	232,575
Cash Operating Expense	133,524	148,320	169,107	186,279
Depreciation	25,504	26,923	29,604	28,099
Total Farm Expense	159,028	175,243	198,711	214,378
Net Farm Income	65,615	56,045	(-7,492)	18,197
Net Farm Income/Opr.	56,157	46,895	(-5,963)	15,558
% Return on Net Worth	8.73	4.98	-(9.29)	-(6.05)
Expense/$100 Gross Income	71	76	103.91	92
Net Income/Gross Income (%)	29	24	(-3.92)	8
Total Loans/Net Worth (Dec. 31)	.45	.44	.50	.62
Capital Managed	1,051,643	1,440,573	1,475,637	1,445,853
Acres Operated	1657	1610	1740	1722
Total Crop Acres	1447	1440	1535	1527
% Crop Acres Irrig.	68.85	66.44	63.99	62.80
Number of Men	1.95	1.98	2.04	1.93
Man Work Days/Man	-	-	-	182
Mach. Invest/Crop Acre	51.56	56.14	57.59	54.60
Mach. Cost/Crop Acre	46.84	55.17	57.85	57.92
Gross Crop Value/Crop Acre	165.60	192.55	146.25	167.38
Fertilizer Cost/Crop Acre	13.41	14.52	12.09	13.11
Crop Prod. Cost/Crop Acre	89.85	102.10	108.71	114.27

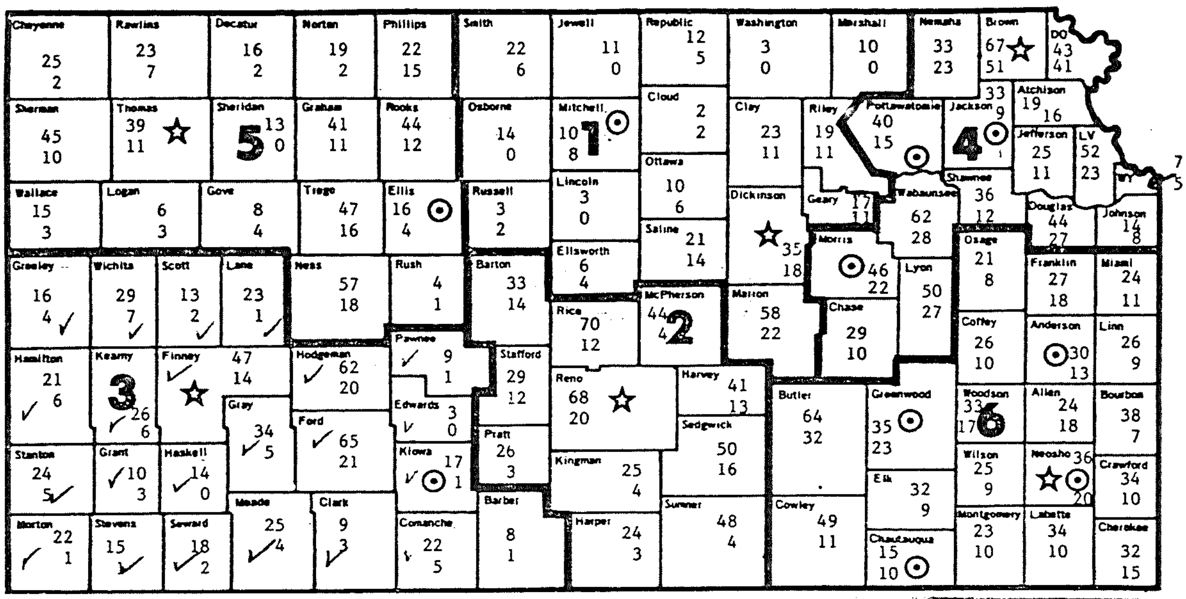
Farm Management Association No. 3 is a cooperative effort between farmers and ranchers in Kansas, and the Cooperative Extension Service at Kansas State University.

Att. 3

KANSAS FARM MANAGEMENT ASSOCIATION
1982 MEMBERSHIP

Coordinator - Leonard C. Parker
Top Number = Number of Farm Units Per County
Bottom Number = Number of Extra Partners or Persons in the Multi-Operator Farm Unit

FIELDMEN		FIELDMEN		FIELDMEN	
*Kenneth Urban (Deceased 1982)		*Everett Everson		*Frank Hackler	
Donald Faidley	440	David Crawford	279	William Dickson	600
Ervin Reimer	121	David Rempe	120	Daryl Petty	328
Vaughn Nelson	561		399	Jerry Freeze	928
				Allen Janke	



Some interesting facts about agriculture in the area served by Farm Management Association No. 3. While comprising 22% of the land area in Kansas, this area:

1.) Contains 70 % of the cattle on feed in Kansas,
2.) Has 67 % of the irrigated acerage,
3.) Produces 34 % of the total value of crops in Kansas,
4.) Is the site of 5 major beef processing facilities with a daily capacity of 15,000 head. Two of these modern facilities rank as the 1st and 3rd largest facilities in the world.