

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./~~XXX~~ on Tuesday, February 28, 1984 in room 123-S of the Capitol.

All members were present except:
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:

Senator Jack Steineger
Roger McCoy, Kansas Independent Oil and Gas Association
George Sims, Mobil Oil

Senator Gordon moved that the minutes of the meeting of February 24 and 27 be approved.
Vice-Chairman Kerr seconded the motion, and the motion carried.

S.B. 540 - Extension of Kansas Natural Gas Price Control Act

Senator Steineger read his written testimony in support of the bill (Attachment 1). He said that Kansas Power and Light Company estimates the bill will save their customers more than nine million dollars.

Roger McCoy read his statement opposing S.B. 540 (Attachment 2). He said that the Kansas Natural Gas Price Protection Act and the Kansas Natural Gas Price Control Act make it more advantageous for producers to sell gas in the interstate system than the intrastate system. Mr. McCoy said these two measures also decrease the ad valorem and severance taxes. He stated that actions like S.B. 540 cause a decrease in the development of gas reserves in Kansas.

George Sims read his statement opposing the bill (Attachment 3). He said that low gas prices can cause gas wells to be abandoned before they are depleted because it becomes uneconomical to produce the gas. As the available gas is reduced, pipeline purchasers are forced to buy higher priced interstate gas.

Chairman Angell asked what Kansas Power and Light Company plans to do in 1989 when their contracts with Mesa expire. Rick Kready answered that the contracts actually expire December 31, 1989 and they have been holding meetings to discuss the problem. He said they will have to negotiate for whatever is available at that time. Chairman Angell asked Mr. McCoy if there is sufficient market for Mesa to be able to sell their gas to someone else. Mr. McCoy answered yes, because it is such a large package in one area and there are other pipelines close by. Senator Werts asked Mr. McCoy why the report from the State Corporation Commission shows the percentage of gas dedicated to interstate markets to be decreasing while the percentage to intrastate markets is increasing. Mr. McCoy responded that the proximity of the pipeline often determines where the gas goes. He said that the interstate market is very poor right now. The Committee discussed various aspects of the Natural Gas Policy Act.

S.B. 735 - Minimum desirable streamflows incorporated by reference

Senator Feleciano moved that the bill be reported favorably for passage. Senator Chaney seconded the motion, and the motion carried 10-0.

Senator Rehorn made a conceptual motion that the Committee introduce a resolution requesting the assistance of the Kansas congressional delegation in dealing with the Corps of Engineers and the Bureau of Reclamation with regard to the dispute with the state of Colorado over the Arkansas River. Senator Feleciano seconded the motion, and the motion carried.

The meeting was adjourned at 8:45 a.m. by the Chairman. The next meeting of the Committee will be at 8:00 a.m. on February 29, 1984.

Senate Energy + Natural Resources

Feb. 28, 1984

Name	Organization
Robert C. Anderson	Mid East Oil & Gas
George Adams	Mobil
Roger Meloy	KIOGA
Don Schmalz	KIOGA
WALTER DUNN	EKOGA
Joe Hodges	Other Service
Frank C. Byrd	DOCC
David W. Nickel	KCC
George A. Duggan	KDOA
Ed Reinert	League of Voters
Sen Steinweger	Senate
R. Lamore	Senate
Al Zapanta	ARCO
Steve Watson	Kansas Farmer magazine

STATEMENT BY SENATOR JACK STEINEGER
SENATE ENERGY & NATURAL RESOURCES COMMITTEE
S.B. 540, TUESDAY, FEB. 28, 1984

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE, I APPRECIATE THIS OPPORTUNITY TO PRESENT A BILL WHICH IS PART OF THE 1984 DEMOCRATIC CONSUMER FAIRNESS PACKAGE, SENATE BILL 540. I ALSO WANT TO THANK THE CHAIRMAN FOR SCHEDULING THIS HEARING AT 8 O'CLOCK ON TUESDAY MORNING INSTEAD OF 8 O'CLOCK ON MONDAY MORNING---WHEN I WOULD HAVE HAD TO GET UP AT 5:15 AT HOME IN KANSAS CITY TO GET HERE ON TIME.

SENATE BILL 540, OUR INTRA-STATE NATURAL GAS PRICE FREEZE EXTENSION, IS A BILL YOU PROBABLY ALL REMEMBER FROM LAST SESSION WHEN THE ORIGINAL PRICE FREEZE WAS APPROVED. IN FACT, EIGHT OF THE ELEVEN MEMBERS OF THIS COMMITTEE VOTED FOR THE PRICE FREEZE WHEN IT FINALLY PASSED THE SENATE.

AS YOU MAY RECALL, THE PRICE FREEZE WE INTRODUCED LAST YEAR WAS ORIGINALLY SCHEDULED TO EXPIRE AT THE END OF 1985, BUT THAT DATE WAS MOVED TO THE END OF 1984 IN THE BILL FINALLY APPROVED. GOVERNOR CARLIN SIGNED THE PRICE FREEZE ON MAY 2, EVEN THOUGH IT WAS ONLY A TWO-YEAR FREEZE INSTEAD OF THE THREE-YEAR FREEZE HE ORIGINALLY PROPOSED.

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WHEN THE INTRA-STATE NATURAL GAS PRICE FREEZE WAS FIRST INTRODUCED, IT WAS ESTIMATED THAT THE FREEZE WOULD SAVE KANSAS CONSUMERS \$100 MILLION THROUGH 1985. THESE SAVINGS WOULD COME FROM TWO AREAS.

FOR SOME KANSANS, EXPECTED PRICE INCREASES IN INTRA-STATE NATURAL GAS WOULD BE DELAYED. THIS WOULD BE THE "DIRECT" CONSUMER SAVINGS.

SECOND, KANSAS ELECTRIC CONSUMERS WOULD SAVE SUBSTANTIAL AMOUNTS ON THEIR ELECTRIC BILLS BECAUSE CHEAPER GAS WOULD BE AVAILABLE TO ELECTRIC UTILITIES USING INTRA-STATE NATURAL GAS FOR GENERATION.

AS YOU MAY RECALL, DURING CONSIDERATION OF THE FREEZE, SOME MEMBERS OF THE LEGISLATURE OBJECTED TO THE \$100 MILLION FIGURE AND SAID THE FREEZE WOULDN'T PRODUCE THAT MUCH IN SAVINGS. OTHERS BELIEVED THAT THAT \$100 WAS A "CONSERVATIVE" FIGURE--- AND THAT THE "ACTUAL" SAVINGS WOULD BE MUCH HIGHER. IN THE FINAL ANALYSIS, I DON'T THINK IT MAKES MUCH DIFFERENCE.

WHETHER THE "ACTUAL" SAVINGS ENDS UP BEING \$100 MILLION, OR \$50 MILLION, OR EVEN A MILLION DOLLARS, THE POINT THAT SHOULD NOT BE LOST IS THAT THE LEGISLATURE IS TAKING ACTION TO CONTROL EXORBITANT ENERGY PRICES FOR KANSAS CONSUMERS. IF THIS COMMITTEE-- OR THE LEGISLATURE---CAN PASS A BILL WHICH SAVES MONEY ON KANSAS

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HEATING AND LIGHT BILLS, THEN I SAY "LET'S PASS THE BILL NOW" ---
AND WORRY ABOUT THE EXACT AMOUNT OF TOTAL SAVINGS LATER.

FRANKLY, I DON'T THINK THERE'S ANY DOUBT IN ANY REASONABLE PERSON'S MIND ABOUT WHETHER OR NOT THE PRICE FREEZE SAVES MONEY FOR KANSAS CONSUMERS. LAST WEEK, FOR EXAMPLE, I ASKED THE KANSAS POWER AND LIGHT COMPANY TO PREPARE AN ANALYSIS SHOWING HOW MUCH WOULD BE SAVED ON THE KP&L SYSTEM IF THE FREEZE WAS EXTENDED THROUGH 1985 AS ORIGINALLY PROPOSED. THEY WERE HAPPY TO OBLIGE BECAUSE THEY THINK SENATE BILL 540 IS A GOOD IDEA.

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE, KP&L'S ESTIMATES ARE ATTACHED TO THE BACK OF THIS TESTIMONY. I THINK THEY WILL INTEREST YOU.

KP&L ESTIMATES THEIR CUSTOMERS WILL SAVE MORE THAN NINE MILLION DOLLARS IN 1985 IF WE EXTEND THE PRICE FREEZE. IN MANY INDIVIDUAL COMMUNITIES, THE SAVINGS ARE STRIKING.

CUSTOMERS IN JUNCTION CITY AND MANHATTAN, FOR EXAMPLE, WILL SAVE OVER A MILLION DOLLARS. PEOPLE IN SALINA WILL SAVE NEARLY \$850,000---PRATT, \$377,000---AND GREAT BEND, \$450,000.

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

BUT THE FACT REMAINS THAT WE CAN TAKE MEANINGFUL ACTION TO HELP AT LEAST PART OF OUR STATE'S CITIZENS WITH THEIR GAS AND ELECTRIC BILLS. I SUBMIT TO YOU THAT THE FACT THAT NOT EVERYONE AGREES ON THE EXACT AMOUNT OF TOTAL SAVINGS----OR THE FACT THAT THIS BILL WON'T HELP EVERY SINGLE KANSAS CONSUMER--- DOESN'T MEAN WE SHOULD SIT ON OUR HANDS AND DO NOTHING. THE PRICE FREEZE NOW IN PLACE IS WORKING, IT'S HELPING KANSAS CONSUMERS, AND WE SHOULD EXTEND IT TO ITS ORIGINAL EXPIRATION DATE, DECEMBER 31, 1985.

THANK YOU VERY MUCH.

ESTIMATED IMPACT OF SB 540

	<u>1985</u>
<u>Projected Savings for KPL Customers</u>	\$9,430,000
Abilene Customers	235,900
Clay Center Customers	254,490
Concordia Customers	169,800
Great Bend Customers	452,790
Hutchinson Customers	830
Junction City Customers	358,180
Manhattan Customers	792,380
McPherson Customers	244,990
Pratt Customers	377,190
Russell Customers	282,990
Salina Customers	848,570
Wamego Customers	113,200
TOTAL	\$4,131,310

TESTIMONY OF ROGER McCOY
ON BEHALF OF THE KANSAS INDEPENDENT OIL AND GAS ASSOCIATION

HEARING ON SENATE BILL 540
SENATE COMMITTEE ON ENERGY AND NATURAL RESOURCES
February 28, 1984

Mr. Chairman and members of the committee. My name is Roger McCoy. I am appearing today on behalf of the Kansas Independent Oil and Gas Association, which I currently serve as president. I am also a Petroleum Geologist and president of McCoy Petroleum Corporation, a Kansas company actively searching for and producing oil and gas.

We wish to express our strong opposition to SB 540, a one year extension of the Kansas Natural Gas Price Protection Act (KNGPPA) and the Kansas Natural Gas Price Control Act (KNGPCA).

During hearings on the KNGPPA and the KNGPCA, testimony was presented pointing out the negative effects of the legislation. These points, including the following, are still valid.

1. The KNGPPA and the KNGPCA penalize Kansas producers and royalty owners selling gas to Kansas consumers through the intrastate pipeline system.
2. The KNGPPA and the KNGPCA cause the gap between the price Kansas producers and royalty owners can receive for gas sold in the intrastate market and what could be received if

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it were sold in the interstate market to continually widen, making it more advantageous for producers to dedicate gas reserves to consumers outside the state of Kansas, through the interstate pipelines, thus depriving Kansas consumers of Kansas gas reserves.

3. The ad valorem tax base in producing counties is eroded by not allowing the value of the gas wells to increase with an increase in price. This loss of tax revenue must be made up by other property owners.
4. With the addition of the severance tax in 1983, the severance tax collected on gas sold in intrastate commerce is less than it would be without the KNGPPA and the KNGPCA.

Passage of SB 540 would result in a grave injustice to the producers of intrastate gas. Producers were assured during hearings by the legislature that the KNGPPA and the KNGPCA were as the result of an "economic emergency", were temporary in duration and would expire at the end of 1984. Based on this assurance and the fact that at present the acts do expire at the end of 1984, a number of producers continued to develop gas reserves for the intrastate market assuming that the laws meant what they said and that where our contracts provided for it, our intrastate gas price would again be competitive with interstate gas at the end of 1984. For those producers that have continued to develop gas reserves dedicated to the intrastate system, the economics of such

development are based, at least in part, on this assumption.

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. The severance tax and ad valorem tax paid by Kansas gas producers is among the highest in the nation. The KNGPPA and KNGPCA have held the price that Kansas Producers of intrastate gas can receive to among the lowest in the nation. This combination can only lead to a further decrease in the development of Kansas gas reserves. We are already seeing this happen. During 1983, new gas well completions in Kansas decreased 36% compared to 1982. It is also interesting to note that intrastate pipelines have had to purchase increasing amounts of high priced out of state gas to supplement their supply for Kansas consumers.

To extend the price controls at this time by passage of SB 540 would send a clear message to Kansas natural gas producers and business in general, that Kansas is not a good place to do business. The losers would be the Kansas economy and the citizens of Kansas.

I urge you to reject SB 540. In order to maintain reserves of Kansas natural gas for Kansas intrastate customers, the price at the wellhead of Kansas intrastate gas must be allowed to be competitive with that sold interstate in Kansas.

SB 540

Mr. Chairman:

My name is George A. Sims representing Mobil Oil Corporation. We are opposed to Senate Bill 540 for the following reasons:

1. Kansas production controlled by this legislation is for the most part old gas which already has a low price. A study by the Office of Technology Assessment, a non-partisan group that assesses the effects of legislation on the price and volume of products for the Congress recently made a study of the effect of De-regulation on the price and reserves of old natural gas. In that study they state that increased price does increase reserves. Let me quote a part of that report. "O.T.A. concludes that higher prices for old gas, over and above the original contract prices have added reserves in the past and can add still more in the future." End of quote. For those of you not familiar with gas wells, their explanation is quite simple. Gas wells are not abandoned because there is no more gas to be produced. Instead a well is abandoned when the revenues from the gas can no longer offset the costs of operating the well.
2. Frozen prices reduce operating revenues and gas well production constantly declines. In other words as you produce a gas reservoir the pressure drops and production declines. Operating cost remains constant or escalate. You are constantly reducing the operators revenue to operate, explore, work over or redrill the well if mechanical problems develop. As you do this you are reducing the available gas for Kansas consumers to consume.
3. As intrastate production decreases the pipeline purchasers must replace that gas with higher priced interstate gas some of which is much higher priced out of state gas. Without the price freeze we believe some of this gas at a lower price could be produced for Kansas consumers.

In view of these points we believe it is counterproductive to the intrastate consumers and producers to freeze the price of intrastate gas.

George A. Sims.
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