

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 Wednesday, February 29, 1984 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:

Senator Leroy Hayden  
Bill Bryan, Cities Service Oil and Gas Corporation  
Jack Byrd, Ottawa

Senator Feleciano moved that the minutes of the February 28, 1984 meeting be approved. Senator Vidricksen seconded the motion, and the motion carried.

Copies of a letter from Northern Natural Gas Company were distributed to the Committee (Attachment 1).

S.B. 686 - Classification of oil and gas wells

Senator Hayden reviewed his written testimony (Attachment 2). He said that Kansas has no regulation or statute to classify wells that produce both oil and gas. He advised that it makes a difference in taxation as to where the ratio is set which defines whether the well is a gas well or an oil well. Senator Hayden also stated that this classification can make a difference in setting allowables and production.

Bill Bryan read his statement (Attachment 3). He said that if the Legislature desires to set a specific ratio, he would recommend that S.B. 686 be amended as suggested in his statement. Senator Feleciano asked about his comment that "vested interests would be changed". Mr. Bryan explained that it is possible to have a combination oil and gas lease or leases that are separately for oil or gas on the same property. Responding to Vice-Chairman Kerr's question whether Mr. Bryan would support the bill if it were amended as he suggests, Mr. Bryan said he would. Vice-Chairman Kerr asked who would be hurt and who would be helped if the bill were passed. Mr. Bryan said he did not know. Patricia Gorham (State Corporation Commission) agreed to check whether the Commission has any data in this regard. Senator Werts asked if the quality of the gas and/or oil makes a difference as to the ratio. Mr. Bryan said it does and that is the reason for his using "crude petroleum oil" as part of his suggested language.

Jack Byrd testified that he chaired a committee composed of various parties interested in the natural gas industry. They struggled with this problem of attempting to find a definition and could not reach a consensus. Mr. Byrd said that most gas leases have a clause permitting unitizing for gas up to 640 acres, but oil leases don't have such clauses. If the definition of the gas well is changed, violence may be done to that unit. Mr. Byrd recommended that if the bill is passed, possibly it should apply only for tax purposes. He noted that it is necessary to drain the oil and gas from a combination well at the same ratio. Mr. Byrd said it would probably be convenient for the State Corporation Commission to have a set ratio to use, but he doesn't feel the matter is really a problem.

Patricia Gorham said the Commission feels that the ratio of 70,000 to 1 is a little high, but the Commission has decided to take no position on the bill.

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

Senator Roitz said that his constituency is served primarily by Gas Service Company, and he feels there is a good possibility that decontrol will cause the cost of gas to decrease to Gas Service because they purchase high priced interstate gas. He said the economical benefits to Kansas as a whole would be substantial. Senator Hess moved that the resolution be reported favorably for adoption. Senator Vidricksen seconded the motion.

CONTINUATION SHEET

MINUTES OF THE Senate COMMITTEE ON Energy and Natural Resources,  
room 123-S, Statehouse, at 8:00 a.m./~~PM~~ on Wednesday, February 29, 1984

After discussion, the motion carried 7-4 with Senators Angell, Gordon, Hess, Kerr, Roitz, Vidricksen and Werts voting in favor of the motion, and Senators Chaney, Feleciano, Gannon and Rehorn voting against the motion.

The meeting was adjourned at 9:03 a.m. by the Chairman. The next meeting of the Committee will be at 8:00 a.m. on March 1, 1984.

# Senate Energy & Natural Resources

Feb. 29, 1984

<u>Name</u>	<u>Organization</u>
Rick Kready	KPL / Gas Service
Ed Reinert	League of Voters
Ruth Wilkin	S.S. - AAUP
Kevin Blake	Panhandle Eastern
Bill Drusses	Phillips Petroleum Co.
WAHTEA DUNN	EKOGA
Bill Ruetter	Gulf Oil
Bill PENDIE	KPL / GAS SERVICE
Tom Sloan	Getty / Texas
Lon Stanton	NORTHERN NATURAL GAS
Joe Hodges	CITIES SERVICE OIL & GAS
Robert A. Anderson	MidCont Oil & Gas
George A. Sims	Mobil
DILL BRYAN	CITIES SERVICE OIL & GAS
Ruth Jordan	KAC

Public Affairs Office  
 817 Merchants National Bank Building  
 Topeka, Kansas 66612  
 Telephone (913) 357-5121



February 28, 1984

Senator Charlie Angell  
 Chairman  
 Senate Energy and Natural Resources Committee  
 Statehouse  
 Topeka, KS 66612

Dear Senator Angell:

You recently asked how much natural gas Northern Natural Gas Company buys in Kansas and how much it sells in Kansas. This information is provided in the table below.

These figures do not include sales and purchases by other InterNorth companies in Kansas such as Peoples Natural Gas intrastate pipeline which buys and sells all of its gas in the state.

	1981	1982	1983
Purchases	144.5 BCF	93 BCF	91 BCF
Sales	35.6 BCF	18 BCF	26 BCF

If I may be of further assistance to you, please let me know.

Sincerely,

Lon Stanton  
 Regional Government  
 Affairs Manager

LS:lv

cc: Sen. Fred Kerr  
 Sen. Francis Gordon  
 Sen. Paul Hess  
 Sen. Edward Roitz  
 Sen. Ben Vidricksen  
 Sen. Merrill Werts ✓  
 Sen. Bert Chaney  
 Sen. Paul Feleciano  
 Sen. Richard Gannon  
 Sen. Tom Rehorn

Atch. 1

## STATE OF KANSAS



TOPEKA

## SENATE CHAMBER

LEROY A. HAYDEN  
 SENATOR, THIRTY-NINTH DISTRICT  
 GREELEY, WICHITA, SCOTT,  
 HAMILTON, KEARNY, FINNEY,  
 STANTON, GRANT, MORTON,  
 STEVENS AND PART OF  
 HASKELL COUNTIES  
 BOX 458  
 SATANTA, KANSAS 67870

COMMITTEE ASSIGNMENTS  
 MEMBER: ASSESSMENT AND TAXATION,  
 PUBLIC HEALTH AND WELFARE,  
 TRANSPORTATION AND UTILITIES

SB686

**Purpose:** To provide a statutory mechanism for the classification of wells that produce both oil and gas.

**Background:** Kansas presently has no statute or regulation to classify these wells. The KCC uses a "rule of thumb" ratio of 15,000 to 1. Wells that produce 15,000 MCF of gas to 1 barrel of oil are classified as oil wells. Anything over 15,000 to 1 is classified as a gas well.

Sometimes, the operator of the well has to decide its status and which to produce.

By enacting this legislation, we will have a definite ratio figure to use in classification.

**Comparison:** Oklahoma  
                   10,000 to 1-- oil  
                   10,000 to 15,000 to 1--optional  
                   over 15,000 to 1-- gas

Texas  
                   over 100,000MCF to 1---gas  
                   under 100,000mcf to 1--oil

Louisiana  
                   over 2,000 to 1---gas  
                   under 2,000 to 1--oil

New Mexico  
                   over 100,000 to 1--gas  
                   under 100,000 to 1--oil

*Atch. 2*

COMMENTS ON SENATE BILL 686

PRESENTED BY

CITIES SERVICE OIL AND GAS CORPORATION

BILL F. BRYAN

February 29, 1984

*Atch. 3*

COMMENTS ON SENATE BILL NO. 686

The classification of a well as an oil well or a gas well has significant impact on many aspects of oil and gas rights. Ownership of wells, acreage attributed to units, types and amounts of allowables, effects of Corporation Commission orders and taxes paid all are affected on how a well is classified as either an oil well or a gas well.

The issue is how does the production coming out of a well exist in the reservoir; i.e., in a gas phase or a liquid phase. Determination of the phase in the reservoir is not determined by a single test, especially on a straight GOR test. It is one test to be considered, but is not positive proof of well classification or of the reservoir recovery mechanism.

The Corporation Commission now allows an operator to analyze all the data available and the operator classifies the well as an oil well or a gas well. This mechanism is working and there does not seem to be any great reason for change.

However, if the state wishes to classify wells as to their category, the Corporation Commission should be given that authority as the technical expertise lies with that body.

If the legislature wishes to make the determination, several modifications to S.B. 686 are definitely needed. One is that the 70,000 to one gas-oil ratio is much too high and should be in the 15,000 to 20,000 range. Two is that the GOR should be the test to classify the well, but that the Corporation Commission, after notice and hearing, has the authority to analyze other information and data to reclassify a well as an oil well or gas well if the operator can show how fluids produced exist in the reservoir as to a gas or liquid condition.



Section 1. A "Gas Well" shall be defined by the State Corporation Commission as a well that :

- A. Produces gas not associated or blended with oil at the time of production from the reservoir; or
- B. Produces more than 15,000 cubic feet of gas to each barrel of crude petroleum oil from the same producing horizon.

Section 2. An "Oil Well" shall be defined by the State Corporation Commission as a well that produces one barrel or more of crude petroleum oil to each 15,000 cubic feet of gas.

Section 3. The State Corporation Commission shall promulgate such rules and regulations as the Commission may find necessary and proper to carry out the purpose of this act.

Section 4. This act shall take effect and be in force from and after its publication in the statute book.