

Approved 2-26-85
Date

MINUTES OF THE SENATE COMMITTEE ON ENERGY & NATURAL RESOURCES

The meeting was called to order by SENATOR MERRILL WERTS at
Chairperson

8:00 a.m. ~~pm~~ on February 20, 1985, 19 in room 123-S of the Capitol.

All members were present except:
Senator Feleciano

Committee staff present:

Ramon Powers - Research Department
Don Hayward - Revisor's Office
Nancy Jones - Committee Secretary

Conferees appearing before the committee:

Judge L.L. Morgan, Hugoton, Ks.
Tom Hicks, City Clerk, Hugoton, Ks.
Jack Glaves, Anadarko Production Co.
Representative Gene Shore
Don Schnacke, Kansas Independent Oil & Gas Association

SB 41 - Relating to natural gas

Senator Hayden presented the bill stating that SB 41 would exempt a second class city, namely Hugoton, that owns its own gas well, from KCC regulations (Attachment A). The well is within the boundaries of the city and used only for providing gas for the city's residents. The city of Hugoton has hired counsel to prepare a petition to be filed with the KCC, but time is of the essence and it is felt enactment of SB 41 would be the expeditious course to pursue. Due to present KCC regulations, production of gas is less than is needed for the city's needs and they are forced to purchase gas elsewhere, whereas by using gas from their own well, expenses would be lower and revenues would be greater.

Representative Shore summarized his written testimony (Attachment B), stating that because of KCC regulations, Hugoton must purchase additional gas solely because of the particular location of surrounding wells. For all practical purposes the city is paying for its gas twice. Correspondence with KCC has provided little hope of relief from them. Consequently, relief is being sought through legislation.

Judge Morgan gave testimony reinforcing the need for this bill by the City of Hugoton and reviewed the city-owned well's history.

Mr. Hicks reinforced previous testimony that the KCC cannot or would not help the city.

Jack Glaves gave testimony as an opponent to SB 41 stating that Anadarko Production Company's interest in this bill results from the fact that they have producing wells adjacent to the city of Hugoton. Although this currently is a unique situation, many other cities with wells, likely would also seek exemptions. He further stated the legislature has vested the KCC with the power and responsibility to regulate the taking of natural gas in order to prevent the unfair taking of gas from a common source of supply. This bill would allow the city of Hugoton to unequivocally and unfairly take natural gas from a common source of supply. The Committee should question whether the legislature should get into the business of pro rating gas as this is a responsibility that has been delegated to the KCC. An alternative might be for the city to have a well drilled by a company which would operate it until the investment was returned, then ownership of the well could revert to the city. This could be done in the Council Grove pool and should be considered a viable alternative to changing conservation laws through legislation.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ENERGY & NATURAL RESOURCES,
room 123-S, Statehouse, at 8:00 a.m./~~a.m.~~^{XXX} on FEBRUARY 20, 1985

Discussion followed regarding the effects of infill drilling and possible gas migration. In answer to a question from Senator Martin, Mr. Hicks stated that without SB 41, additional cost to the city is one-half million dollars per year for its population of 9,000.

SB - 193 - Concerning oil and gas

Senator Martin explained the bill to the committee. It would require a certificate of value to be recorded by the register of deeds for each oil and gas lease that is sold. Information disclosed on a certificate would be privileged. The author's intent is to provide an additional tool for use in determining fair market value of oil and gas properties for assessment purposes.

Don Schnacke appeared as an opponent to SB 193 (Attachment C). He stated that KIOGA has always opposed the concept of furnishing a certificate of value as would be required by SB 193. The procedure is unworkable and compliance would be next to impossible. The manual currently in use for appraising has been satisfactory for many years. It is felt this bill is an unnecessary regulation of the oil and gas industry.

Meeting adjourned. The next meeting will be on February 21, 1985.

2-20-85

Guest List

Chip Wheelen	Topeka	Legis. Policy Group
Bob Bullock	Topeka	Asst. Dir.
Tom Hicks	Hugoton	City Clerk
Tom Morgan	Hugoton	Retired Dist Judge
WALTER DUNN	Topeka	EKOGA
George J. Lewis	Hugoton	Mobil
Jack Slaves	Wichita	Anadarko Prod. Co.
David W. Nickel	Wichita	KCC
Don Schumke	Topeka	KIOGA
Dick Randall	Wichita	Petroleum, Inc.
Janet Shore	Topeka	
Rep Eugene Shore	Topeka	
Vic Miller	11	PVD

SENATOR LEROY A. HAYDEN

SENATOR 39TH DISTRICT

GREELEY, HAMILTON, KEARNY,

FINNEY, STANTON, GRANT,

MORTON, STEVENS AND PART

OF HASKELL COUNTIES

BOX 458

SALANTA, KANSAS 67870



TOPEKA

SENATE CHAMBER

COMMITTEE ASSIGNMENTS
 MEMBER ASSESSMENT AND TAXATION
 ENERGY AND NATURAL RESOURCES
 PUBLIC HEALTH AND WELFARE
 TRANSPORTATION AND UTILITIES
 JOINT COMMITTEE ON SPECIAL
 CLAIMS AGAINST THE STATE

Mr Chairman and Members of the Committee:

Senate Bill 41 exempts a second class city, namely Hugoton, that owns its own gas well, from KCC regulations.

Hugoton has it's own municipal electrical generation plant, which is run on natural gas. While there was a demand for the gas from the Hugoton Gas Field, Hugoton was allowed a sufficient amount of gas to supply their electrical generation plant's needs. It is presently unfeasible for Natural Gas Companies to produce large amounts of gas from the Hugoton Field, therefore, Hugoton is left with their need but due to KCC regulation they can only produce a coorelative amount to the surrounding wells. At the end of 1984, Hugoton had used 232,306 MCF, under KCC regulation they could only produce 80,637 MCF, leaving them 151,669 MCF short of their need. Hugoton thus was forced to buy the extra gas they needed at an estimated cost of 5 to 600,000 dollars. This money will be added on to the electric bills of the citizens who own the gas well, in addition to the generation plant. Due to marketing techniques of gas companies, Hugoton is a victim of circumstances beyond it's control.

An argument against Senate Bill 41 that the Committee might hear will be: Once you start exemptions, everyone will want them. This bill specicically sets regulations so that only city owned wells, inside their coorporate boundaries, and only the gas from these wells consumed by the city. Hugoton is the only city that meets this criteria. (See table)

Another argument that will come up is coorelative rights. The Hugoton well is 1 of 4,000 in the Hugoton Gas Field, thus produces only .025% of the entire production from the field. Such a small % could not greatly infringe on coorelative rights. Also the projection of the gas bubble ending will make it

S. ENR 2/20/85
Attachment A

SENATOR LEROY A. HAYDEN

SENATOR 39TH DISTRICT
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more feasible for natural gas companies to produce more gas from the Hugoton Field. As this happens their wells will soon be producing amounts equivalent or greater than that of the Hugoton well. This will level out any discrepancy that was caused by the higher production from the Hugoton well.

It is interesting to note that some of the companies opposing this bill because gas will be "sucked out from under us" are some of the same companies that are supporting infield drilling (Which I support.). With the basic argument that one well per 640 acres will not drain the field.

It is common knowledge that a bill exactly the same as Senate Bill 41 was introduced in the House. This bill was by Committee action, tabled, pending an official application by the City of Hugoton to the KCC for an emergency hearing exempting this city from the control on production from this well which is wholly owned by the City of Hugoton. The City has hired counsel that is preparing a petition that will be filed with the KCC, but there is no possible way that all the requirements for such a hearing can be met and action taken prior fo the ending of the legislative session. The City of Hugoton has no other recourse other than the enacting of Senate Bill 41

I hope that this testimony has answered some of your questions. I feel that since the citizens have bought and paid for their own well and generation plant, they should be able to use both to their fullest extent and hope that you support me on this issue.

	<u>Class</u>	<u>Gas Well in City Limits</u>	<u># of Gas Wells Owned</u>
Rolla	3	NO	0
Ulysses	2	<u>YES</u> , not used, sold	1
Satanta	3	NO	0
Syracuse	3	NO	0
Lakin	3	NO	2
Garden City	<u>1</u>	YES	4, 3 in city
Elkhart	2	NO	0

None of the cities that own their own gas wells use the gas in their own power plant. It is all sold.

Bret Bullard

Representative Eugene L. Shore

HUGOTON GAS WELLS

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

Senate Bill 41 exempts a second class city from KCC regulations if it owns the minerals and has its own gas well.

As background the city of Hugoton owns all the minerals on 640 acres and has drilled its own gas well which is used to power its electric generating plant to serve the city of Hugoton. Hugoton generates all its own electricity with no back-up provisions from another source. Because of low usage from the field and correlative rights of the surrounding wells the allowable for Hugoton well falls short of the necessary production to run its electric plant. The city thus has bought and paid for its own gas supply for its power plant is capable of producing an adequate supply of gas, yet is forced to pay an additional 5-600,000 dollars per year for supplemental gas supplies.

The gas well is capable of producing adequate gas, the question is only whether surrounding rights will be affected. At this time, many producers are before the KCC asking for infill drilling on the premise, that wells a mile apart will not drain the field so it should be difficult to claim damage before this committee and attempt to show the need for closer spacing before the KCC.

J. E. V. R. 2/20/85
Attachment B

COGSWELL, STOREY & CHUBB

LAW OFFICES

GLENN D. COGSWELL
BOB W. STOREY, PA.
JANET A. CHUBB
TIMOTHY A. FRIEDEN

SHADOW WOOD OFFICE PARK
5863 S.W. 29TH STREET
TOPEKA, KANSAS 66614-2461
913/273-4550

February 18, 1985

The Hon. Eugene L. Shore
State Representative
Capitol Building
Topeka, KS 66612

Dear Representative Shore:

As you are aware, I have been contacted to file a petition before the Kansas Corporation Commission, asking for relief for the city of Hugoton. That petition would be to attempt either (1) to exempt from the Hugoton gas field allowables the acreage on which the gas well sits which is owned by the city of Hugoton, or (2) to withdraw from the Hugoton field the acreage upon which the Hugoton city gas well sits.

First, it would be rather difficult before the Kansas Corporation Commission to withdraw the acreage upon which the gas field sits. We would have to show that the acreage on which the city gas well sits is not a part of the Hugoton gas field, and of course we all know that is not the case.

In order to exempt the acreage from the allowables set for the Hugoton field, we would need to file an application before the Commission. Also, we would need to give notice to the surrounding offset operators, and have a full evidentiary hearing before the Commission in order to complete the exemption.

There is no doubt in my mind that this action would be justified, and that the evidence could clearly show that the other operators would not be damaged by exempting the city of Hugoton's gas well from the Hugoton field. However, as I am sure you are aware, this would take considerable time. As stated above, notice would have to be given to all of the surrounding operators, and notice would have to be published in the newspaper of the county in which the operators reside so that they would have an opportunity to appear and protest. It would be my opinion that we could not have a hearing for at least thirty days.

It is my opinion that a hearing could not be held before the end of this legislative session. It appears to me that the legislation should be acted upon by this session, if in fact it is of an emergency nature to the city of Hugoton, which I believe it is.

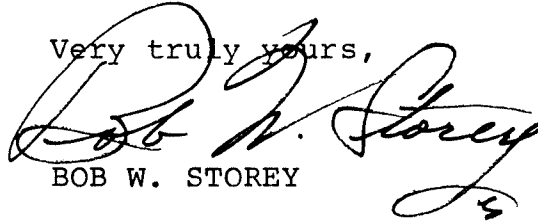
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February 18, 1985
The Hon. Eugene L. Shore

I intend to go ahead and file a petition on behalf of the city of Hugoton. However, I did want to advise you of the time schedule which is involved, and also of the likelihood of success before the Kansas Corporation Commission.

If I can be of any further assistance in this matter before the legislative body, please let me know.

Very truly yours,

A handwritten signature in cursive script, reading "Bob W. Storey". The signature is written in dark ink and is positioned to the right of the typed name.

BOB W. STOREY

BWS:ef

SENATE ENERGY AND MINERAL RESOURCES

TESTIMONY

REPRESENTATIVE SHORE

THE FACTS ARE THESE:

- 1-HUGOTON OWNS 640 ACRES OF MINERALS
- 2-HUGOTON DRILLED AND MAINTAINS IT'S OWN GAS WELL SOLELY TO GENERATE ELECTRICITY
- 3-HUGOTON OWNS IT'S OWN ELECTRIC GENERATING PLANT WITH NO BACK UP BY AN ALTERNATE SOURCE
- 4-BECAUSE OF CURRENT ALLOWABLES SET BY KCC, HUGOTON MUST PURCHASE 7,000 TO 10,000 MCF OF ADDITIONAL GAS FROM PEOPLES DIV. SOLELY BECAUSE OF LOW TAKES FROM THE SURROUNDING WELLS (WHICH IS FOR ALL PRACTICAL PURPOSES STORING THE GAS)
- 5-HUGOTON FOR ALL PRACTICAL PURPOSES IS PAYING FOR IT'S GAS TWICE. ONCE WHEN IT PURCHASED AND MAINTAINS IT'S WELL, AND A SECOND TIME WHEN FORCED TO BUY SUPPLEMENTAL SUPPLIES FROM PEOPLES
- 6-HUGOTON'S GAS WELL WAS EXEMPTED UNTIL 1983 WHEN A CHANGE IN LAW BROUGHT THEM UNDER KCC JURISDICTION UNINTENTIONALLY
- 7-TWO LETTERS TO KCC HAVE BROUGHT LITTLE HOPE FOR RELIEF BY THEM. THE LAST LETTER WAS NOT EVEN ANSWERED
- 8-KCC INFORMS ME (BRIAN MOLINE) APPLYING TO KCC FOR RELIEF IS NOT REALISTIC BECAUSE OF (A) TIME, (B) MONEY AND (C) REASONS RELIEF CAN BE GRANTED
- 9-OUR ATTORNEY ADVISES US THAT TWO COURSES OF ACTION COULD BE TAKEN: BEFORE KCC
 - (A) ATTEMPT TO PROVE THE HUGOTON WELL IS NOT PART OF THE HUGOTON FIELD. (WHICH WE KNOW IS NOT TRUE)
 - (B) ASK KCC TO EXEMPT THIS ACREAGE FROM THE ALLOWABLES SET FOR THE HUGOTON FIELD. (THIS IS POSSIBLE BUT EXPENSIVE AND TIME CONSUMING)
- 10-RELIEF BY LEGISLATION CAN BE : (A) JUSTIFIED
(B) LESS EXPENSIVE
(C) QUICKER
(D) SURER
(E) FAIRER
THAN TRYING TO GAIN RELIEF BY A HEARING
- 11-IT IS REDICULOUS TO HOLD THE CITIZENS OF HUGOTON HOSTAGE TO RETAIL GAS PRICE WHEN THEY OWN THEIR OWN WELL, ARE THE NAME SAKE OF THE HUGOTON GAS FIELD, AND NO ONE WILL BE DAMAGED BY EXEMPTING THEM.

Shore 15
5B41



KANSAS INDEPENDENT OIL & GAS ASSOCIATION

500 BROADWAY PLAZA • WICHITA, KANSAS 67202 • (316) 263-7297

February 20, 1985

TO: Senate Energy & Natural
Resources Committee

RE: SB 193

We oppose the concept of furnishing a certificate of value as suggested in SB 193. This bill is similar to others that have been killed in years past, for many good reasons.

As we circulate this bill again among our members, we get a unanimous feeling that the procedure is unworkable and would be next to impossible to comply.

The oil and gas tax guide issued annually has its roots in KSA 79-331 enacted in 1917. It is the section that sets up the detailed criteria in determining the value of oil and gas leases and properties that the appraisers should take into consideration. The guide and its concept of full market value appraised has been upheld over the years in the counties, State Tax Appeal Board, District Courts, Supreme Court and recently, in U.S. Federal Court.

The difficulty of compliance relates to several issues. Working interests are many times not assigned until after drilling or production is accomplished. Working interests before that time have little value. Transfers in estates; transfers within families; transfers to Chapter "S" corporations; multiple lease or bulk transfers; leases with pipelines, and unrelated property or equipment; speculative interests, all cloud the actual value and would be of little or no interest. The multiplicity of transfers, the paperwork and the predicted lack of participation, would result in a meaningless collection of information.

What other classes of personal property does the State Government require certificate of value to be filed? We think none!

We vigorously oppose SB 193 as unnecessary regulation of our industry to accomplish no known value.

Donald P. Schnacke

DPS:pp

*J. E. N. R. 2/20/85
Attachment C*