

Approved 4/8/86  
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./p.m. on April 2, 1986 in room 123-S of the Capitol.

All members were present except:

Committee staff present:

Ramon Powers - Research  
Don Hayward - Revisor  
Nancy Jones - Secretary

Conferees appearing before the committee:

Bill Bryson, Conservation Commission, Department of Health & Environment  
Don Schnacke, KIOGA  
Bob Manske, Tri County Legislative Coalition  
Rex Ashlock, Tri County Legislative Coalition  
Senator Frank Gaines  
Barbara Sabol, Director, Department of Health & Environment  
Larry Panning, Kansas Water Authority  
Michael Dealy, Equus Beds Groundwater Management Dist. #2  
Marsha Marshall, Kansas Natural Resource Council  
Wayne Bossert, Ground Water Management, Dist. #4  
Lynn Burris, Director, Park & Resources Authority  
Bill Henry, Kansas Engineering Society  
Elaine Shea, Advisory Commission on Environment

HB 3106 - Concerning the State Park & Resources Authority

Chairman Werts informed the committee this bill was introduced at the request of the House Ways & Means Committee and requested Lynn Burris to explain the bill. (Attachment A).

Mr. Burris stated the increase in revenue with proposed increase in permit late payment penalties is estimated at \$30,000. No increase has been given since 1977 and this should encourage better collection of park permit fees.

Motion was made by Senator Gordon to recommend HB 3106 favorably, seconded by Senator Langworthy. Motion carried.

HCR 5051 - Concerning oil and gas wells

Bill Bryson stated this resolution asks the Corporation Commission and KDHE to place a moratorium on testing abandoned wells for a year while oil prices are down. (Attachment B).

Bob Manske testified that in Woodson, Greenwood and Coffey counties, oil producers are seeking relief from regulations concerning testing and plugging of wells and do support a moratorium for one year. Currently the area suffers from a depressed farm economy and decline in oil prices. The Resolution is asking the problem of the area be recognized and determine if moratorium action could be taken. (Attachment C).

Don Schnacke testified he believes HCR 5051 should be directed to the Environmental Protection Agency for supervision of expensive testing while depressed oil prices effect production and temporary abandonment of wells. It was suggested the named six counties be dropped from the resolution. (Attachment D).

Senator Gaines stated the underground injection program is doing everything possible to follow requirements since the decline in oil prices and without attention to the existing economic problems, the remainder of the oil industry will have to assume the cost of testing and plugging. A message from the legislature will help through hearings by the Corporation Commission.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ENERGY & NATURAL RESOURCES,

room 123-S, Statehouse, at 8:00 a.m./~~p.m.~~ on April 2, 1986

Motion was made by Senator Thiessen to recommend HCR 5051 favorably for adoption, seconded by Senator Gordon.

A substitute motion was made by Senator Hayden to adopt the recommendation of KIOGA as an amendment to HCR 5051, seconded by Senator Feleciano. Motion carried.

Motion made the Senator Thiessen to recommend HCR 5051 for adoption as amended, seconded by Senator Gordon. Motion carried.

HB 3078 - Concerning oil and gas

Ramon Powers briefed the committee on the bill, referring back to 1982 SB 498. This bill would grant the State Corporation Commission exclusive jurisdiction over and authority to regulate oil and gas activities. The powers, duties and function of the KDHE relating to the protection of ground and surface water from oil and gas pollutions, would be transferred to the Corporation Commission. Also, the joint program of KCC and KDHE would be under Commission jurisdiction. A history of the joint program was given by Mr. Powers and he noted hearings were held on the general issue of the joint program, not this specific bill, as this bill was drafted upon committee recommendation.

Don Schnacke testified there were three days of hearings with public input on the issue at that time. Mr. Schnacke stated the joint program has faced many difficulties and it has been recommended by the "Blue Ribbon" committee that the program be put in one agency to eliminate inadequacies, confusion of duties, and unnecessary cost. Mr. Schnacke feels KDHE should continue with ground water protection but all oil and gas regulatory activities be under the jurisdiction of the KCC. This would be a cost saving measure to the industry and also eliminate the confusion that exists presently between KCC and KDHE. (Attachments E and F).

Larry Panning stated the Kansas Water authority requested last month that any bills such as HB 3078 be placed in an interim committee for a comprehensive study by the Kansas Water Authority and Water Office. The issue is too serious to make a shift in authority at this time due to the anticipated impact on all natural resources and the oil industry.

Chairman Werts directed the attention of the committee members to copies of a letter from the Chairman of the Kansas Water Authority, Phil Martin. (Attachment G).

Barbara Sabol stated a major shift in policies concerning protection of the groundwater is involved in this legislation. It is felt the current program has steadily improved since inception and that it is functioning effectively. A major change made during the past year was to name a single head to fulfill the responsibilities of both the KCC and KDHE. The Department feels amendments to HB 3078 by the House Committee is a step backward in the protection of usable water and amendments offered on the floor of the House do not allow KDHE the optimum approach for protection of water from oil and gas operations.

Secretary Sabol recommended the committee not vote favorably on HB 3078. (Attachment H).

Copy of a Scope Statement from the Division of Post Audit relative to oil and gas well operations was given to committee members. (Attachment I).

As an opponent, Bill Henry was present to answer questions and ask that his written testimony be read by committee members. (Attachment J).

Mike Dealy testified the program should remain as it is. During the past year the District has seen more enforcement, better administration and improved water quality.

Marsha Marshall stated the Council is divided on which agency should have the responsibility of enforcement. The problems with the joint program better lend themselves to administrative solutions rather than legislative. It was noted that KDHE does have more information, expertise and a better mandate to deal with pollution problems. (Attachment K).

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ENERGY & NATURAL RESOURCES,  
room 123-S, Statehouse, at 8:00 a.m./~~p.m.~~ on April 2, 1986.

Wayne Bossert gave a short review of improvements made under the joint program and recommended the bill be set aside until more study can be given to the situation. (Attachment L).

Elaine Shea stated the position of the Advisory Commission is to maintain the status quo and the mandate for environmental protection is with the KDHE and should remain there. (Attachment M).

Discussion followed regarding lease lines and responsibilities and the possible base for problems involved.

Meeting adjourned. The next meeting is April 3, 1986.

Guest list  
4-2-86

Ed Reinert	Ks LWU's	Topeka
Carry Knoche	KDHE	Topeka
WALTER DAWN	E KOPD	✓
Bob Manabe	Tri Co. Reg. Bd.	Yates Center
Elaine Shea	ACE	Shawnee Mission
Wayne A. Bopert	NWRGMD #4	Colby
Bob Clelland	Dept. of Rev.	Topeka
Bill Henry	Kans. Engineering Society	Topeka
Leon Giza	PEPL	Kansas City
Ann T. Rider	KCC	Wichita
David W. Nichel	KCC	Wichita
R. P. Ashlock	Tri Co. Reg.	El Dorado
Jan Johnson	Budget Division	Topeka
Pat Schater	Budget Division	Topeka
Marsha Marshall	KNPC	Topeka
Bill Buzza	KDHE/KCC	Topeka
Lynn Burris	Kan. Park Auth.	Topeka
Joe HARRIS	RWD	TOPEKA
Donald Allen	mesa	"
Rob Hodges	KCCI	Topeka
MIKE DEALY	GMD # 2	MALESTEAD
Tom Starnes	Northern Natural Gas	Topeka
<del>Tom Starnes</del>	KCC	"

2. Shift \$28,000 from gasoline to capital outlay. The Subcommittee notes that the Authority has requested \$205,412 for replacement equipment for the state park system, while the Governor has recommended only \$22,106.
3. The Subcommittee notes with concern the low balance in the Authority's fee fund at the end of FY 1987 and urges that the Park and Resources Authority review the existing fee structure as soon as possible in light of the increasing cost of operating and maintaining the park system.
4. The Subcommittee recommends that a bill be introduced to amend K.S.A. 74-4509c to increase the permit late payment penalty from \$2 to \$5. This subject was addressed in a bill that was passed last year but vetoed by the Governor. The Governor's veto message indicated that a person who is convicted of refusing to pay the required park permit fee may be fined up to \$100. While this is true, the veto message failed to recognize that any resulting fine does not accrue to the Authority's fee fund as the park permit late penalty would. The Subcommittee is of the opinion that raising the late payment penalty will encourage more rigorous collection of park permit fees to the benefit of the Authority.
5. In reviewing the Authority's capital improvements request, the Subcommittee notes that several new projects were given higher priority than projects to repair existing facilities. The Subcommittee urges the Authority not to consider adding new projects to the state park system until the current infrastructure's needs are met.
6. The Subcommittee recommends a technical adjustment to the bill in order to properly reflect the source of reappropriated funds from FY 1986 to FY 1987. This would add reappropriation language for the Park Administration account for \$3,250 and reduce the Park Operations reappropriation from \$19,116 to \$15,866.
7. The Subcommittee commends the Authority for its efforts in eradicating the musk thistle (and other noxious weeds) and encourages the Authority to maintain the effort and cooperate to the fullest extent possible with federal, state, local, and private groups to continue musk thistle eradication on adjacent lands.
8. The Subcommittee recommends that if legislation is passed increasing the amount of State General Fund revenues available the Authority's FY 1987 budget be reviewed prior to the end of the session for reconsideration of several requested expenditure items which could not be financed within the current resources.

HB 3106

4-02-86  
S. ENR  
(A)

KANSAS CORPORATION COMMISSION

TESTIMONY ON House Concurrent Resolution No. 5051  
PRESENTED TO Energy and Natural Resources Committee

This is the official position taken by the Kansas Corporation Commission on House Concurrent Resolution No. 5051.

The Kansas Corporation Commission has reviewed House Concurrent Resolution No. 5051 in the context of its rules and regulations concerning the abandonment, plugging and testing of oil and gas wells. Like the legislature, we are acutely aware of the effect sharp decreases in the price of oil have had on the Kansas oil industry and the ability of operators to meet regulatory requirements of the Commission and the Department of Health and Environment.

Although we share the legislators' concern on this issue, we do not consider House Concurrent Resolution 5051 as addressing or responding to any activity which the Commission isn't pursuing at the present time through the Joint Oil and Gas Regulatory Program.

For example, an operator must give notice to the Commission for a temporarily abandoned well under K.A.R. 82-3-111 within 90 days of cessation of well operation or plug the well. We believe this provides the operator a rather simple procedure for temporarily abandoning production and precludes premature plugging of the well. One of the statutory mandates of the Commission is to conserve and prevent waste of recoverable oil and gas resources. Implementation of any program which would cause the premature

4-02-86  
S. ENR

B

abandonment of wells having recoverable reserves would be contrary to the statutory direction. HCR 5051 acknowledges that, even in times of depressed economic conditions, the fresh water must be protected from contamination and that is also a statutory responsibility assigned to the Commission and the Department through the Oil and Gas Regulatory Program. A copy of K.A.R. 82-3-111 is included with the written testimony. Currently we have 4,000 temporarily abandoned wells under the notification program. The Commission may grant extensions on a yearly basis providing the operator can establish well integrity. A fluid level measurement is generally used to do this and is relatively inexpensive.

#### Testing of Wells

The Commission staff had some difficulty determining what HCR 5051 included in terms of testing of wells. In the preamble on line 21, testing refers to oil and gas wells. In Eastern Kansas, where very few prorated fields exist, testing for productivity is, for the most part, left up to the operator. There is a requirement for testing gas wells under open flow conditions. In lines 32-33, testing refers to wells which would include injection wells. If the concerns of those supporting this resolution revolves around mechanical integrity testing (MIT) of injection wells, then a separate discussion is needed.

The cornerstone of the Environmental Protection Agency (EPA) Underground Injection Control (UIC) Program is the mechanical integrity testing of injection wells to satisfy the Federal UIC

requirements. The Class II program for which the Kansas Corporation Commission has primacy has to meet minimum requirements of the Federal program and this requires each injection well approved for use by Commission Order prior to February 1984 to be tested for mechanical integrity once every five years. The Commission and the Department are committed to causing 2,200 injection wells to be tested each year. If HCR 5051 were to create a moratorium on testing, EPA could elect to administer the program through direct implementation and they are forced by Federal statute to administer stricter program under Section 1422 of the Safe Drinking Water Act rather than the less stringent 1425 program which Kansas and other major oil producing states operate. An example of the 1422 program in action is occurring in Osage County, Oklahoma.

#### Rules and Regulation Review

The Commission does not see the advantage of holding public hearings since the Industry Rules and Regulations Review Committee will be meeting in May and extending through the summer. One of these committees reviews regulations on Drilling, Completion and Plugging of Wells and another reviews UIC regulations which includes mechanical integrity tests. Any sector of the public, industry, legislature or water users may participate in one or more of the committees. We feel this forum provides a better continuity of discussion than a group of public hearings. The rule making process requires a public hearing prior to adopting regulations after the Rules and Regulation Committees have made their final recommendations to the Commission.



Recommendations

- (1) The Commission believes current regulatory procedures on the abandonment and plugging of wells are sufficiently flexible to alleviate the concern over the premature abandonment of wells.
- (2) The Industry Rules and Regulations Review Committees provides a forum for anyone to comment on regulations and participation is encouraged.
- (3) The testing of injection wells for mechanical integrity meets Federal regulations and direct Federal implementation would be more expensive to the operator.
- (4) HCR 5051, except for the testing issue, only substantiates current program operation by the Commission and Department.

TO: Members of the Senate Energy and Natural Resources Committee

RE: House Concurrent Resolution 5051,  
Hearing April 2, 1986, 8:00 A.M.

4-02-86  
S. ENR

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Environmental Protection Agency to Robert W. Manske, dated March 27, 1986**

## GENERAL STATEMENT

On February 22, 1986 at one of Representative Chronister's regular visits to Yates Center, many of the local independent oil producers indicated an interest in obtaining some relief from state regulations concerning testing and plugging of wells. Representative Chronister requested that they present her with a written request by February 28, 1986. Later that week, an ad hoc group met and decided that they would support a moratorium on enforcement of the regulations for a period of one year and until the price of oil stabilizes. They drafted a resolution calling for the support of the Legislature for State Corporation Commission hearings concerning their local area.

This area was originally Woodson, Greenwood and Coffey Counties, and by the time the resolution (HCR 5051) was introduced, this area was expanded to include Allen, Neosho and Bourbon Counties. This was done at the request of local legislators for these areas.

The ad hoc group is composed of producers, royalty owners, oil and gas service and supply businesses, County Commissioners, and other individuals in our communities who have a vested interest in the welfare of the oil and gas industry. Our area has been particularly hard hit in recent years by a severely depressed farm economy, and in recent months by the rapid decline of the price of oil. In Woodson County in 1985, producers and royalty owners paid approximately \$800,000 in taxes, nearly one-third of the total tax revenue. Due to sharp declines in the oil price, it is estimated that the value of oil and gas properties may decrease from as little as 31% to as much as 50% for 1986, with an accompanying decrease in tax revenue. Thus, we find ourselves in a situation where there will be much personal financial suffering by producers and royalty owners, and our local governments placed in an intolerable situation with regard to their budgets.

Attached hereto are the following:

1. Map of area;
2. Letters and cost estimates representative of our area;
3. Numerous newspaper clippings concerning the problems, not only locally, but state and nation wide.

It is the understanding of this group that a written response from the State Corporation Commission and the Environmental Protection Agency to our request are forthcoming.

Many of our local producers are going to have a negative cash flow situation in 1986. This negative cash flow will result even if development of leases totally ceases. If given time, many producers will be able to make a decision with regard to the plugging of marginal wells. If the oil price remains severely depressed, most producers will decide to plug marginal wells, rather than spending thousands of dollars attempting to test said wells. If there is no relief forthcoming, many leases will be prematurely plugged and abandoned. For those producers who have borrowed money to purchase and/or develop these leases, the situation is much more drastic. With negative cash flows, there will be no money to meet principal

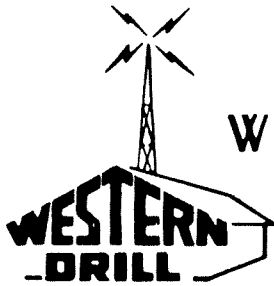
**General Statement, continued.**

and interest payments, many financial institutions will be forced to commence foreclosure of mortgages on leases and equipment, many service companies will be forced to file and foreclose mechanics liens. This type of action will only make a bad situation worse.

This group is not asking the legislature to take a position for or against relief. We are only requesting that the legislature recommend that the State Corporation Commission hold hearings and receive evidence concerning the problems we are having in our local area.

Total Barrels of Oil Production 11-83 thru 10-84  
71,174,466 Barrels

CHEYENNE 96,363	RAWLINS 690,920	DECATUR 508,335	NORTON 321,484	PHILLIPS 998,125	SMITH —	JEWELL —	REPUBLIC —	WASHINGTON 373	MARSHALL —	NEMAHA 241,205	BROWN 1,518	DONIPHAN —	
SHERMAN 15,661	THOMAS 400,469	SHERIDAN 36,792	GRAHAM 2,222,158	ROOKS 4,802,723	OSBORNE 191,705	MITCHELL —	CLOUD —	CLAY —	RILEY 54,736	POTTAWATOMIE 5,668	JACKSON 14,260	ATCHISON —	
WALLACE 2,772	LOGAN 414,117	GOVE 702,667	TREGO 1,928,540	ELLIS 5,700,763	RUSSELL 4,449,663	LINCOLN —	OTTAWA —	DICKINSON 62,054	GEARY 1,319	WABAUNSEE 133,665	SHAWNEE —	JEFFERSON 122,522	42,138
PEREELEY 5,613	WICHITA 32,359	SCOTT 186,599	LANE 1,792,005	NESS 2,233,021	RUSH 611,727	BARTON 4,703,092	ELLSWORTH 894,284	SALINE 205,632	MORRIS 196,194	LYON 91,764	OSAGE 3,872	DOUGLAS 81,430	JOHNSON 123,690
AMERICAN 2,258	KEARNY 287,628	FINNEY 1,144,475	HODGEMAN 895,976	PAWNEE 561,383	RICE 2,006,817	MC PHERSON 1,370,660	MARION 575,682	CHASE 61,432	COFFEY 243,594	ANDERSON 336,293	FRANKLIN 415,502	MIAMI 454,681	LEAVENWORTH 298
ANTON 11,103	GRANT 99,282	HASKELL 800,720	GRAY 195,190	FORD 95,670	EDWARDS 620,312	STAFFORD 2,553,467	RENO 847,796	HARVEY 273,083	BUTLER 3,055,505	GREENWOOD 1,359,380	WOODSON 1,018,087	ALLEN 732,598	BOURBON 167,711
MORTON 859,636	STEVENS 638,971	SEWARD 1,468,585	MEADE 409,367	CLARK 877,763	KIOWA 940,797	PRATT 1,161,557	KINGMAN 1,095,068	SEDGWICK 561,788	WILSON 483,575	ELK 284,169	NEOSHO 294,795	CRAWFORD 35,151	WYANDOTT —
					COMANCHE 323,015	BARBER 1,737,129	HARPER 68,741	SUMNER 1,393,575	COWLEY 1,736,263	CHAUTAUQUA 1,044,875	MONTGOMERY 714,044	LABETTE 24,025	CHEROKEE —



# WESTERN DRILLING TOOL & SUPPLY CO., INC.

OIL COUNTRY & INDUSTRIAL SUPPLY HOUSE WITH MACHINE SHOP FACILITIES

P. O. BOX 593

CHANUTE, KANSAS 66720

316-431-2750

KANSAS WATTS 800-362-0771

March 12, 1986

Ms. Brenda Manske, Secretary  
Tri-County Legislative Coalition  
P. O. Box 100  
Yates Center, KS 66783

Dear Ms. Manske:

I appreciated receiving your letter and inasmuch as I will be in California at the time of your March 14 meeting, I would like to address another problem that goes in hand with the producers and royalty owners' problems.

As you well know, we in the service and supply industry, as well as the banking and lending institutions, have a very negative, inherent problem when we have had to file liens and mortgages to protect ourselves. The foreclosures on these properties many times comes into our hands.

The inherent possibility of plugging out some of these leases is and can be devastating. I would say in some cases that the cost of plugging these wells can exceed the valuation of the equipment left. Although it is natural that we do try to sell the leases intact in order to forestall the plugging liability, with the current prices of crude these leases will not sell. As a matter of fact, in many cases we have no knowledge of how run down a lease may be and how much surface equipment has been stolen. We took over a property in early January through a court sale and at this writing we still do not have the necessary papers acknowledging the property to be ours.

Tri-County Legislative Coalition  
Page 2  
March 12, 1986

We feel that this moratorium should cover the State. Enclosed is a \$50 contribution.

Sincerely,

*Charles G. Chauncey*

Charles G. Chauncey  
President

CC/jt

Enclosure



MARK L. HAAS OIL COMPANY, YATES CENTER, KANSAS

1985 Lease Revenues	\$ 568,181.90
1985 Direct Lease Expense	<u>331,280.14</u>
1985 Gross Profit	\$ 236,901.76
1986 Estimated Lease Revenues (based on today's oil prices and no decline in production assumed)	\$ 284,090.95
1986 Estimated Direct Lease Expense	<u>331,280.14</u>
1986 Gross Loss	\$ 47,189.19
Estimated expense of compliance with rules and regulations (M.I.T. tests) in 1986, 13 wells @ \$6,500.00 to \$12,500.00 each	\$84,500.00 to \$162,500.00
Estimated expense for well plugging in 1986	\$ 10,000.00

# *French and Winterscheid, Inc.*

Gridley, Kansas  
OIL OPERATORS

R. E. FRENCH  
President

ROBERT WINTERSCHIED  
Vice-President

We have spent over \$67,434.54 on 5 wells in 1985, on MIT tests and related expenses. Because our budget was exhausted with these expenses, we were unable to prospect for oil. New wells drilled would have increased our production and in turn would have increased the taxes we pay, i.e. Severance and Ad Valorem, etc. The cost to us for complying with MIT requirements did not allow us to improve our existing wells by servicing and cleaning out our old ones.

These dollars thus spent are 'dead' dollars. They do not generate income or a tax base. If we had been allowed to alternate the tests on an every other year basis or so, we would have been able to recover financially enough to allow us to prospect for new production.

If we could have a schedule that would allow us recovery time, it could greatly benefit the state and county, as well as stimulate the oil industry, creating jobs and income. Southeast Kansas is in an economic crunch due to the depressed farm situation and now the oil industry with falling crude prices.

In addition to the above figures, we have invoices for the costs we have been out on both our companies, French Oil and French & Winterscheid, Inc. amounting to over well over \$100,000. for MIT related expenses. We paid Long Drilling Company over \$103,000. in 1985. They are only ONE of our service/supply firms who provided the necessary work and materials for the KCC requirements. These costs are for MIT testing standards only. We did not include the costs of fiberglass tanks to replace ponds and the cost of draining and closing ponds.

EDWARD CRANE-BERRY LEASE  
Gridley, Greenwood County, Kansas

Old oil well started flowing, work necessary to repair, total depth 1806'.

10 days setting surface 10", \$60 per hour	\$ 4800.00
105' 10" surface	2105.00
15" hole-160 sacks cement	2150.00
Rotary rig, wash hold to 1785' (40 hr. x \$100)	4000.00
Cement, 200 sacks	2500.00
1780' of 4" casing	2815.00
March 17, 1986-300 sacks cement	3200.00
March 18, 1986-300 sacks cement	3200.00
Extra Labor	1580.00
Welding	150.00
Trucking 10" and 4" pipe	780.00
Long rig estimate	<u>6500.00</u>
Total	\$33780.00

This is an old well that broke out and was flowing. They have this well stopped flowing and cemented back to surface. This work has been taken care of.

## WELL PLUGGING COSTS

(Supplied by Edwin Long , Hamilton, Kansas)

### Example #1

Cost of Plugging well in Greenwood County, Kansas

Total Depth 1750'	
Rig Time 33 Hours (33 x \$50)	\$ 1980.00
76 sacks of cement (\$76 x \$5)	380.00
3 Hours Water Hauling	56.00
Dozer work in pit (4 x \$50)	200.00
Plugging permit	35.00
Moving tank batteries and clean-up	<u>965.00</u>

Total Cost of Plugging \$ 3616.00

Recovered 700' of 4½" (700 x \$1.50)	\$ 1050.00
Tank Battery	<u>3500.00</u>

Total Salvage Value \$ 4550.00

### Example #2

Total Depth 1750'	
Rig time 42 hours (42 x \$50)	\$ 2520.00
16 sacks of cement (16 x \$5)	80.00
Pump Truck	960.00
Water hauling	160.00
Dozer (2 hours x \$50)	100.00
Plugging permit	<u>35.00</u>

Total Cost of Plugging \$ 3855.00

Recovered 750' of 4½" casing (750 x \$1.50)	\$ 1125.00
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LISTING OF AREA RESIDENTS SUPPORTING HOUSE CONCURRENT RESOLUTION 5051

John L. Haas  
Mark L. Haas  
Arnold Kraft  
Shirley Kraft  
Beryl Ashlock  
Leland Dreyer  
Kenneth Dreyer  
John A. Bashor  
Robert W. Manske  
Murl Corbet, Mayor of Yates Center, Kansas  
Bill Linde, Woodson County Commissioner  
M. Burdett Mentzer, Woodson County  
Commissioner

Loren Steinforth  
Brenda M. Manske  
Tom Kraft  
Elaine Horsch  
Janice Sorenson  
Thelma Brown  
Edwin Long  
Elmer Light  
Clara Light  
Jill Smith  
Richard L. Kellison  
P. R. McClelland  
O. R. McClelland  
Peggy McClelland  
Tampa L. Randolph  
Dick Albert  
Robert Schidle  
Jerry Highes  
Forrest Cheever  
E. C. Murphy  
Vada Murphy  
Teresa L. Rawlings  
Jay Rasmussen  
Glenn E. LeRoy  
Geo. Nuessen  
Robert Fry  
Eileen Istas  
Curtis Van Andale  
Frank Ketley  
P. B. Meyer  
Robert G. Kimberlin Jr.  
Gilbert E. Rhodes  
Earl L. Armitage  
Cliff Scharkie

R. D. Cookson  
Dale Cross  
Keith E. Owen  
Erwin Smith  
David R. Young  
George A. Marnard  
Cindy Wilson  
Bob Winterscheid  
Bernie Blevins  
Dean Morris  
Judie Splechter  
Raymond Klaus  
Bill Norris  
J. B. McCartney  
Bradford W. Oakes  
Tracy A. Oakes  
Rex R. Ashlock  
Edward Crane  
Sarah Grimm  
Bernice Williamson  
John E. Redding, Jr.  
Mac Jardo  
Clark Sowder  
Jack Klotz  
Lowell H. Gramm  
Kenneth Laymon  
W. A. Soule  
S. Lance Inwood

# THE KANSAS CITY STAR.

Vol. 106. No. 121

Sunday morning, February 9, 1986. State Edition, 20 sections, including STAR magazine

## Oil glut takes toll on jobs, businesses in eastern Kansas

By Barbara Musfeldt

The Star's energy/environment writer

**C**hanute, Kan.—When the Eastern Kansas Oil and Gas Association met here Wednesday night for a steak and potatoes dinner at the Brass Lantern, it wasn't to celebrate the 96-cent prices at local gasoline pumps.

"I wish it was \$5 a gallon," Richard English, an oil producer and equipment supplier from nearby Eureka, Kan., said grumbling to others at his table.

Well, the others ribbed him, he might have lost \$500 that day on some oil wells he owns in the area, but at least he saved \$4 at the gasoline pump.

That was about all that association members found to laugh about.

In eastern Kansas oil talk is always serious and with the recent world oil glut it has become grim.

There was little talk at all as association members heard crude oil purchasers report that spot mercantile prices

**"This is a disaster, just a disaster. I don't know who's going to collapse first, but you can better believe it will be the eastern Kansas market before it'll be Saudi Arabia."**

—Donald Schnacke, executive vice president of the Kansas Independent Oil and Gas Association

had closed that day at \$17.75 a barrel, down about \$9 since mid-January.

The impact is as devastating as it is easy to calculate. About 30,000 barrels of oil are produced daily in eastern Kansas, marking an almost \$270,000 loss per day in prices from a month ago.

A few small oil companies already have died, and more are likely to follow, industry experts say. No one knows how low prices will go, but if they don't find bottom soon larger companies could follow.

The face of the area's economy already is beginning to change as business officials, fighting the slide of oil, try to attract new and different industry.

As for the oilmen, most made a point Wednesday night of not talking about the number of workers they have laid off or the wages they had slashed.

"Oilmen, they're proud, proud people," Mr. English said. "It's not easy for them to come here and talk about laying people off and cutting back. They won't say much at all because they feel bad,

real bad. You do when you lay off some guy that you know has three kids and a house payment."

The next morning across town, past a sign touting "Chanute: A Community of Pride, Population 10,600," a worker in a blue hat with the insignia Consolidated 1 Oil Well Services Inc. on it was worried.

He told the others in his crew he might wait to buy shoes for his son because he was afraid he will lose his job.

Such talk would once have been startling in Chanute, considered the hub of the eastern Kansas oil industry. Billboards advertise oil marketers; want ads in the local newspaper are filled with drilling equipment.

Edsel Noland, owner of Consolidated—and a man called "Mr. Chanute" by many residents—had been proud of not laying off a single employee in more than 29 years of operation.

But in January he laid off 30 of his

See Oil, pg. 14A, col. 1

approximately 215 employees. Friday morning he was making plans to lay off more, in addition to cutting wages 10 percent for everyone "from president to janitor."

In addition, some employees were being demoted, benefits were to be cut, expense accounts reduced and small equipment sold.

"Now that's the plan for this week," he said. "A week from today call me back and there might be something more. It's tough, it's just real tough."

The problems in Chanute also can be seen in western Kansas, Oklahoma, Texas and other oil-producing states, said Donald Schnacke, executive vice president of the Kansas Independent Oil and Gas Association.

But that doesn't lessen the impact.

"This is a disaster, just a disaster," Mr. Schnacke said. "I don't know who's going to collapse first, but you can better believe it will be the eastern Kansas market before it'll be Saudi Arabia."

In an industry where victories and losses mimic the rhythmic nodding of oil well pump jacks in the Kansas pastures, oilmen complaining about their prices are as commonplace as farmers griping about grain prices. But it's much more serious this time, industry officials say.

Most of the producers, drillers and suppliers in eastern Kansas flourished through the oil boom of the early 1980s. Oil prices rose to \$40 a barrel and Canadian investors came to town, cash-heavy briefcases handcuffed to their wrists.

Then the boom began to break in 1981. Many investors disappeared and prices settled down to \$25 to \$27 a barrel.

But in the middle of last month prices began to drop again—this time faster than oil purchasers could post in their offices.

The price of crude per barrel was at \$26.25 on Jan. 1, about 75 cents lower than the price on Jan. 1, 1985, said Don Martin, district manager for Square Deal Oil Co. Inc., a crude oil purchasing company in Chanute. By Jan. 16 the price had fallen to \$24.75. Then after a steep drop, by the end of last week it had rallied slightly to \$18.75.

## The bottom

Conversations around Chanute are peppered with talk about when "the bottom will hit."

It doesn't have much further to go before it passes the average eastern Kansas "lifting cost"—the cost of getting the oil out of the ground.

Donald Boyer, a major producer in Iola, Kan., said lifting costs in the area average about \$14 to \$15 a barrel—prices that recently rose when Kansas Gas and Electric Co. of Wichita began collecting higher rates to pay for its share of the Wolf Creek nuclear power plant. Many oil wells run on electricity.

The price drop is sending a ripple through the eastern Kansas economy that will take much longer to stop than it did to start, Mr. Schnacke said.

He said it moves this way

● First it hits drillers.

Drilling already had slowed in Kansas.

Pat Chase, who with his son Mike runs Chase Drilling, said their Chanute firm drilled about 200 wells in eastern Kansas in the boom year of 1980. In 1985 they drilled 50.

"And the way it looks now, 1986 isn't very bright," he said.

He believes half of the drilling rigs running in 1985 will be idle in 1986.

In Kansas, 15,799 permits indicating intent to drill new wells were filed in 1980 with the Kansas Corporation Commission. In 1985 that number fell to 2,575.

These days there are plenty of drill rigs for sale, Mr. Chase said. The rigs, which five years ago may have cost \$250,000 to \$300,000, are selling for about 11 cents on the dollar, he said.

"I'd say if you got a rig and you owe any money for it, you're better off letting the banker man take it back," he said.

● Next it hits the industries that supply equipment to drillers and producers.

Evert Davis, general manager of Western Drilling Tool and Supply Co. in Chanute, said Friday he too was making plans to lay off some of his 20 employees.

"Nobody's drilling, a lot of well contracts are being canceled," he said. "It's just real bad news for us, for everybody out here. And nobody knows when it's going to stop."

● Then it hits the producers.

Iola producer Mack Colt said he has laid off seven of his 34 employees. Chanute producer Jerry Wimsett said he didn't have layoffs planned, but he was reducing hours and cutting back on insurance.

Other producers are considering plans to reduce drilling, plug wells and cut back on production of others.

In 1980 some 481 wells were plugged, according to KCC records. In 1985 that number rose to 1,179—before January's price slide.

Plugging wells is a drastic step—and a final one because a plugged well is seldom reopened, said L.O. Tenk, president of the Eastern Kansas Oil and Gas Association.

The ripple also will affect the state treasury. Declining oil profits will mean less severance tax revenue for the state treasury. Officials were calculating the state already had lost \$7 million in oil severance taxes in January.

## Oil talk

Although the cuisine in Chanute may not be continental, the conversation is.

In the TIOGA Dining Room diners' complaints span oceans, cultures and political parties.

They grumble that "Margaret" (British Prime Minister Margaret Thatcher) will keep oil flowing from the North Sea rigs until "the last banker screams" because she promised a tax cut and the oil revenue is needed for the national budget.

The glut of British oil, they

know, will keep prices down.

Criticized even more vehemently is "that power-hungry sheik," Sheik Ahmed Zaki Yamani, oil minister of Saudi Arabia, which has contributed to the world glut by flooding the market to keep its share of oil sales.

What really grates some residents is that Mr. Yamani is a Harvard-educated economist, using his American education to squeeze American pocketbooks.

"We don't control our own fate," the Saudis do," said Ace Bailey, a Chanute producer.

Oil talk is not limited to oilmen, though—other businessmen know their fortunes are tied tightly to oil.

"I think anytime you have a loss in employment, it has a spillover effect into other areas," said City Manager Robert Walker. "The retailers are affected, the suppliers, the transportation industry."

Merchants report slower traffic in their stores and customers unwilling to make long-term purchases.

"I think everybody feels it throughout the whole town," said Ralph Smith, general manager of Rooster's Thriftway. "It's a small town—if one guy gets hurt, it's bound to get spread around."

The unemployment rate in Neosho County reached about 25 percent in December, said Myrna Burton, office manager for the Job Service Center in Chanute.

"It's not good, and we expect the January figures to be much higher," she said.

The office has been unable to find jobs for oil workers already laid off, she said. She speculates many will have to leave the area.

Meanwhile, city and chamber of commerce officials are struggling to find new industries to move into town. They've been heartened with recent news that a display case firm will open its doors, employing about 130 persons.

Officials also are happy that a Holden, Mo., firm intends to open a PCB incinerator that will burn toxic polychlorinated (PCB) wastes and use that energy to power an abandoned oil refinery in town that closed in 1981.

Employment for the operation is estimated at 100 to 150, but it is unclear how many of those jobs will be filled by local residents.

In the meantime, residents are pressed hard to find any good in the oil downturn.

Many, an Eastern Kansas Oil and Gas Association official said, even feel guilty when they take advantage of the low prices at the gas pumps.

# TULSA WORLD



Newspapers  
In Education  
Week page A-7

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## Tulsans Seek Park Fun, Sun

River Parks became a traffic jam Sunday as thousands of Tulsans embraced a warm March day.

On Riverside Drive, traffic was bumper-to-bumper from 38th Street north to the pedestrian bridge park. Most of the cars were jammed with passengers, watching the runners, joggers and playful throngs in the parks.

Cars crept along paths into the park, with people sitting on trunks. Radios blared, frisbees flew. Many people sipped beers.

A hand-held sign asked females driving by to "show something," the day's running gag.

"There weren't any fights here," said Stan, 24, a friend of the sign-maker. "If someone wants trouble, that's their problem."

Lots of women wore shorts, and many sat on the hood of friends' car.

A hotshot in a big-wheeled pickup provoked repeated screams when he revved his engine, causing his back tires to shoot streams of dirt about 10 feet.

"Why can't these kids cool their jets," asked Troy Duncan, 22, from the seat of his friend's 1955 Bel-Air. "They run their hot rods every-



## Killer F Stalked sh Prime Minister

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By KENNETH JAUTZ  
Associated Press Writer  
STOCKHOLM, Sweden — The man who killed Prime Minister Olof Palme apparently had him under surveillance for some time before he shot him with a powerful American-made revolver, police said Sunday.

Police Commissioner Hans Holmer told reporters that two bullets recovered at the scene of the late Friday night shooting, a

### Related news on B-9

downtown sidewalk, were fashioned from an unusual combination of metals and may have been handmade.

Police said this could make it harder to track down the source of the bullets.

Sweden's two-day-old caretaker government meanwhile held its first session and discussed arrangements for the funeral of Social Democratic leader Palme, set for March 15.

Foreign Ministry spokesman Lars Loennback said the funeral would be closed to the public, but "many foreign guests" would be invited. Palme, 59, was serving his fourth term as prime minister and was regarded as a top Western European spokesman on dis-

"The spontaneous reaction of mourning, how people reacted, was correct," she said.

Palme was shot once in the back while walking with his wife, Lisbet, 55, after they attended a movie. He was pronounced dead at 12:06 a.m. Saturday, less than an hour later, on a hospital operating table. Mrs. Palme grazed by a bullet and slightly wounded.

Police had said Saturday they believed the assassin fired only one bullet, but on Sunday they reported finding a second bullet. They said one grazed Mrs. Palme and the other may have been the one that killed the prime minister.

Holmer told a news conference the couple decided on the spur of the moment to attend the movie, leading police to believe the assassin must have been keeping the prime minister under surveillance.

"Everything indicates that the perpetrator shadowed the (Palme) to the movie theater the way from their home," Holmer said.

The police commissioner said the Palmes traveled to the cinema by subway. He asked anyone who may have seen a man trailing



# State's Oil Royalty Owners May Face Gusher of Red Ink

By SUSAN ELLERBACH  
*Of the World Staff*

Oklahoma's estimated 263,000 royalty owners will lose approximately \$270 million in the next year if current trends in oil prices prevail, says the Ada-based National Association of Royalty Owners.

In addition, a study released Sunday by the Interstate Oil Compact Commission says the U.S. could lose over 734 million barrels of oil as producers of stripper wells are forced to shut in production — in other words, leave the oil in the holes — because of falling oil prices.

Stripper wells produce fewer than 10 barrels of oil per day.

The study, prepared by Oklaho-

ma City-based the Ram Group Ltd., indicates Oklahoma's loss in stripper well production would be significant. More than 60 percent of production in the state is attributed to stripper wells.

At \$15 a barrel, the state would shut down almost 19,000 stripper wells that collectively produce close to 57,000 barrels per day, or nearly 13 percent of Oklahoma's total oil production from all wells, the study said.

The National Stripper Well Association says some wells are already being shut in.

"We don't have a handle on the exact numbers yet," said Glen Michel, executive vice president of the association. "We know they're being shut in, we just hope that they're not being plugged."

Plugged wells usually mean that production is lost forever as economics prohibit the cost of reopening the wells.

Production being shut in will depend on the lifting costs, Michel said. The average lifting costs for

the nation's 452,543 stripper wells is \$15 a barrel. "Right now we're about \$3 to \$4 off of that," he said.

Royalty owners, many of whom depend on royalty checks and Social Security checks as their sole source of income, will be tremendously affected by shut in production, according to Jim Stafford, executive director of NARO.

On a national level, the recent \$10 drop in the price of the benchmark West Texas Intermediate 42-gallon barrel — from a December price of \$26 to the current \$16 per barrel levels — will cost the nation's 2.5 million royalty owners an estimated \$6 billion in lost royalty income.

Royalty owners hold the mineral rights to oil and gas producing properties. Royalties are individually negotiated with producers, Stafford explained, and in Oklahoma average about three-sixths of the total production.

Stafford said that the figures on potential losses to royalty owners were prepared in conjunction with the Senate Finance Committee's hearings on the proposed oil import fee. "Everyone talks about how much the price of oil affects the producer. That's only part of the game," he said.

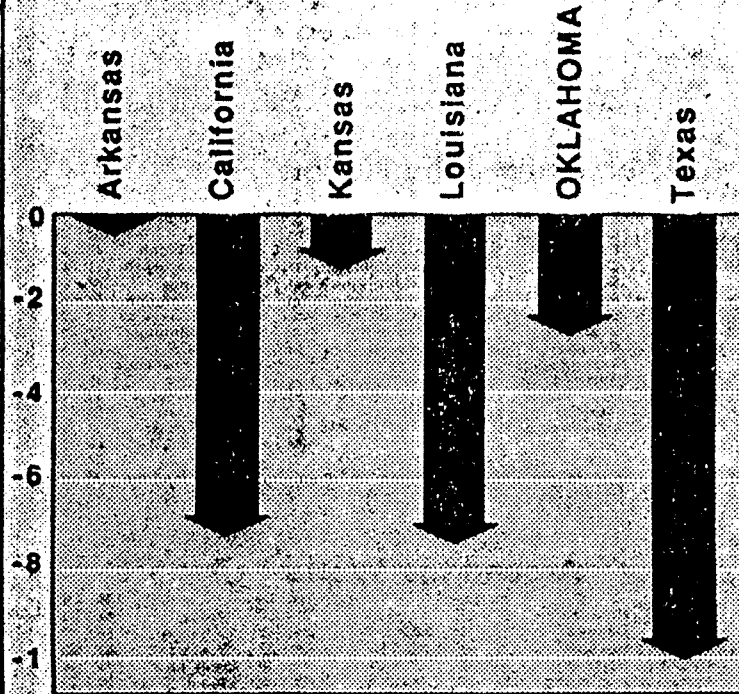
Hardest hit by the drop in royalty income will be farmers and ranchers, rural areas and retirement-age individuals. "NARO surveys show that the average age of our members is 71 years old," Stafford said. "These are people that are surviving on Social Security and their royalty checks."

The group is favoring the import fee as a way to prop up crude prices and guard against "further erosion in domestic exploration and production."

Stafford said the fee would put a curb on the price of a barrel of oil.

# Falling Royalties

The impact of the drop in crude oil prices on royalty income.  
(Shown in \$100s of millions)



"It would guarantee a good working price to insure a reasonable rate of return," he said. "That's the name of the game."

"This is the war against the states again. In the Northeast where they burn fuel oil, their idea of a sane energy policy is a total nationalization of the industry and \$3 per barrel oil."

"There hasn't been any investment capital coming into Oklahoma for the oil and gas industry for the last three years."

"At current prices, the lift costs on marginal wells are too high to make a profit and they're shutting down."

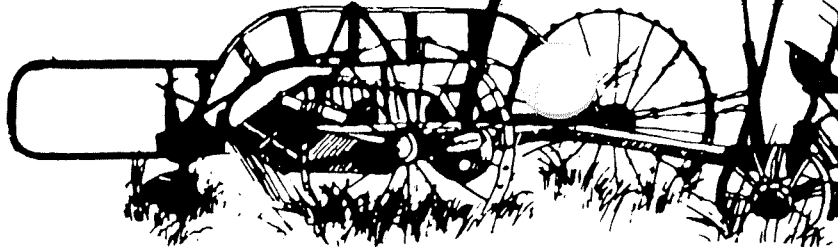
In Texas, which has about one-fourth of the nation's stripper wells, NARO estimates a potential loss this year of \$1.3 billion for royalty owners. Louisiana

royalty owners are projected to lose a possible \$740 million, followed by California with a \$720 million loss, Oklahoma, and Wyoming with a \$146 million drop.

At current prices, Stafford said independent oil producers are "bailing out right and left" - meaning trouble for the industry, since approximately 80 percent of the nation's wells are drilled by independents.

Stafford said that petroleum production in the U.S. approaches \$83 billion a year. A conservative estimate gives royalty owners approximately 15 percent of that total, he said.

In 1984, stripper wells accounted for approximately 15 percent of the nation's total oil production and about 70 percent of the total number of the nation's oil wells.



# SEK oil producers claim harassment

## Required mechanical integrity testing taking its toll already

Area oil and gas producers met with county, school district and chamber of commerce officials Friday seeking relief from escalating costs created by the state's recently enacted mechanical integrity testing (MIT) regulations.

"The feeling is we need to start at the local level to persuade elected officials to take a second look at what they've been doing the last five or six years," Yates Center attorney Robert Manske said as he opened the meeting at Haas Oil Company last week.

Many Southeast Kansas oil producers feel that the Kansas Corporation Commission (KCC)-Kansas Department of Health and Environment (KDHE) regulations are excessive and will result in decreased production, premature well abandonment and ultimately in decreased property valuation and tax base necessary for the operation of local government.

"Some regulations are mandatory, but in my opinion these were guidelines, and in

my opinion the state has exceeded these guidelines," John Bashor of Chanute, former district geologist for the Kansas Department of Health, said at the meeting.

The MIT regulations were spawned in conjunction with the July 1982 Kansas Senate bill that combined the authority of the KCC and KDHE, a merger that has prompted accusations of inconsistent enforcement, lack of coordination and just plain poor management between state and regional offices.

"It seems like there is a problem between the KCC and the KDHE," Bashor said. "There is confusion as to why decisions are rendered and how they are rendered."

"The office in Wichita does not communicate with the regional offices," said Harold E. Cornish of Cornish Wireline Services, Inc., in Chanute. "There are no management directives about procedures."

"You talk to someone in Chanute, you're told one thing. You talk to someone in Wichita, you're told

(Continued on page 2)

# area news

## ★ SEK producers claim harassment

(Continued from page 1)

something else," agreed Mack C. Colt, a producer from Iola. "You'll find many inconsistencies. It's like punching a bag that doesn't resist. They require a lot of silly stuff that costs us a hell of a lot of money."

According to John Haas of Haas Oil Co., a simple MIT costs around \$2,500 per well, but water conditions and mechanical problems are anticipated to jump the cost of 80 percent of his company's MIT's to at least \$9,000 per well.

"We spent \$17,400 on one well for the integrity test," Haas said. "Our expense on our integrity tests will be a strong factor in deciding whether we'll keep the wells or not."

"I've seen \$38,000 spent on one lease alone to comply with KCC and KDHE regulations," Bashor said.

"Spending all this money on these leases cannot be justified," oil producer Roy French of Gridley agreed. "We wanted to let our county commissioners know that they're going to lose tax dollars over all this--I'm going to call it harassment."

"We're just not going to spend the money to bring these wells up to MIT standards," Colt said. "They're trying to put you in a strait jacket, an expensive strait jacket."

According to Colt, the integrity test is designed to uncover holes in pipe or bad cement jobs that could allow salt water being pumped from isolated underground sub-structures to leak into fresh water sources of above-ground ponds and streams.

Bashor said he believed Kansas oil and gas producers are extremely conscientious about environmental concerns. The problem stems not so much from the testing regulations, but from their required frequency, he said, combined with perceived inequities in enforcement.

"They have stated that Kansas will be the best environmentally regulated oil and gas state in the country," Bashor said, "but next to the farming industry, the oil and gas industry is the second-biggest in the state and it needs some consideration. The lifting cost to the producer is quite excessive, and it appears that there will be a drastic reduction in Woodson County production as a result."

Figures on a county-by-county state map distributed at Friday's meeting indicate that Woodson County ranked 23rd in the state in total barrels of oil produced from November 1983 through October 1984.

According to Woodson County appraiser Cindy Wilson, current appraisal value on oil and gas in the county is \$9,841,475. Wilson said that oil and gas producers

paid \$823,042 in taxes on that valuation figure.

Independent producers are responsible for most of the oil and gas production in Southeast Kansas, where nearly all wells are relatively shallow.

"The shallow depth and low overburden pressure in this area causes us to have to drill more wells, but it costs us just as much to get a well ready to MIT," Colt said. "The people in the deeper territory just don't understand our problems."

Although Friday's meeting solved no problems for area oil and gas producers, it did heighten awareness of the projected loss to Woodson County's tax base if the producers are forced to lower production by abandoning wells they can't afford to test.

"We have a lot of rules and regulations that don't fit the oil and gas industry in this

part of the state," Manske said, "and the school districts and counties both will take the brunt of the (projected) lower tax base."

Edwin H. Bideau of Chanute attended the meeting on behalf of his son, Edwin H. Bideau III, a state representative from Chanute.

"Do you need some new laws?" Bideau asked. "What shall I tell my son?"

"We don't need so many laws," Haas replied.

The nearly 50 producers, county and school district officials who attended the meeting were urged to contact their local county commissioners and state representatives about excessive environmental regulation and the lower oil and gas production it may be creating.

## In the oil patch

# Drilling grinds to a halt

By BRENDA MANSKE

Calling steadily declining oil prices "a formula for disaster" in Kansas, Rep. Rochelle Chronister (R-Neodesha) Monday announced the possibility of legislative relief for at least some of the local oil industry's mounting economic woes.

In the face of a \$10.45 per barrel drop in the price of 40-gravity crude oil since December of 1985, Chronister said House and Senate Energy and Natural Resources Committees are considering recommendations that the Kansas Corporation Commission change salt water injection well regulations and current capping requirements for abandoned wells in an effort to help producers cut costs to keep up with rapidly dwindling oil income.

Another consideration is splitting the KCC and the Kansas Department of Health and Environment, according to Chronister. KCC and KDHE authority was combined by the Senate in 1982, a move that has spawned accusations of inconsistent enforcement, lack of coordination and bureaucratic infighting.

"The legislature realizes there are a lot of problems in that area and they're trying to figure out what to do," Chronister said. "If we can see any indication that the KCC is sympathetic to making changes, legislation may not be necessary."

Woodson County oil producers met Nov. 15, 1985, with elected officials at school district, city and county levels to promote support for the area energy industry, which last year paid \$823,042 in county property taxes on \$9,841,475 assessed valuation. Local producers predict that the continuing decrease in oil prices will reduce the industry's contribution to county tax coffers by at least a third in fiscal 1986, a trend that is expected to result in state-wide erosion of the tax base at all levels of government.

"The price decrease will affect producers, land owners, financial institutions, schools,

the county and business in general, right down to the grocery store," John Haas of Haas Oil Co., Yates Center, said Monday. "Right now, I don't see any relief in sight. I think it's going to be disastrous."

"Our senators and representatives have got to do something with the Corporation Commission to relieve the pressure on rules and regulations. The pressure has to come off until oil prices get straightened out," he said.

"If the legislature would cut down on KCC requirements, that would help a lot," agreed Loren Steinforth of Steinforth Well Service in Yates Center.

"They've got too many people working on it, and it's costing us too much."

In the November meeting, Haas and other producers said that excessive KCC plugging regulations and over-frequent mechanical integrity testing requirements were adding unnecessarily to the cost of oil production.

"We need to see more eastern Kansas legislators responsive to the problems of eastern Kansas," Robert Manske, Yates Center attorney and moderator of the November meeting, said. "The legislature needs to give the KCC a mandate directing

(Continued on page 2)

## ★ Oil story

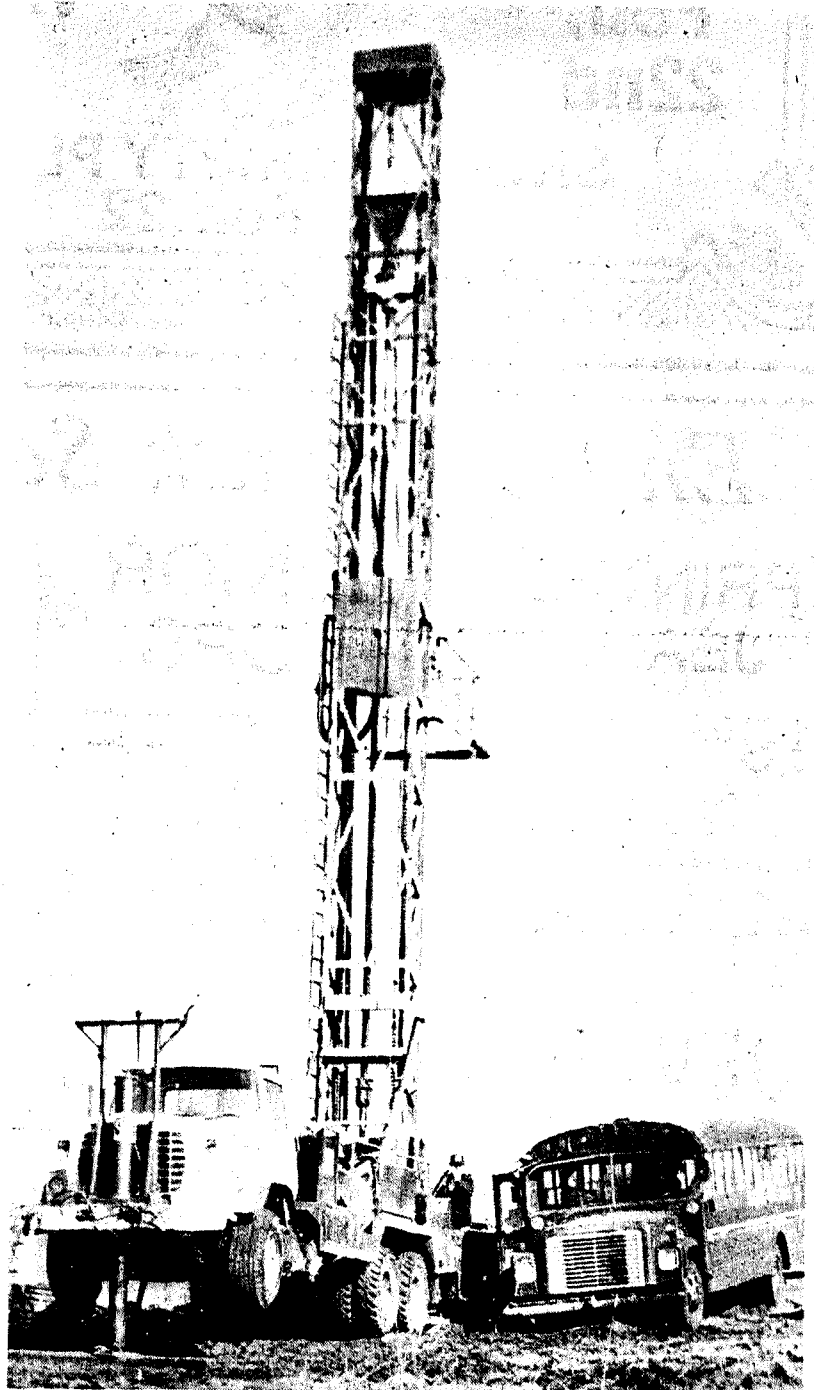
(Continued from page 2)  
on foreign oil.

Although local producers are encouraged by reports that President Reagan is considering a \$5-\$10 import tariff, many doubt that such measures will be enacted.

Chronister said she would be "real surprised" to see Kansas lobby for a federal import tariff.

"For the Kansas legislature to claim it could affect national tariff policy would just be blowing smoke," she said.

Reporter's Note: The News will continue to focus on the local oil crisis as further developments occur.



(Photo by Brenda Manske)

It's a muddy job sometimes, but new wells are hard to come by these days and this Coconut drilling rig Monday sank its teeth into a Mississippi well on the Arnold Kraft lease North of Yates Center.

# County stands to lose more oil, gas revenue

The depressed local oil economy and what it may mean to the county's projected reappraisal funding were major topics at Monday's meeting of the Woodson County Board of Commissioners.

According to board chairman Bill Linde, recent estimates indicate that the county will lose at least one-third, or approximately \$274,347, of its tax revenue from oil and gas property during fiscal 1986 due to the drastic drop in the price of oil since December of 1985.

Linde said figures from the county appraiser's office show that oil and gas property assessed at \$9,841,475 raised \$823,042 in tax revenue last year.

Coming on the heels of Gov. John Carlin's Feb. 12 announcement that the state will

not have sufficient revenue to reimburse counties for any portion of their reappraisal costs, the estimated loss in oil and gas property tax left the commissioners with questions about reappraisal financing.

Property Valuation director Vic Miller is asking county commissioners to lobby for state reappraisal reimbursement, but according to Carlin, the state won't be able to share in reappraisal costs unless the legislature enacts an additional one-cent sales tax, expected to generate \$8 million toward county reimbursement.

"I wish they would postpone reappraisal until the economy turns around again," commissioner Burdette Mentzer said.

Tuesday the price of 40-gravity crude oil dropped to

(Continued on page 6)

## Legislators to be here

Rep. Rochelle Chronister (R-Neodesha) and 15th District Sen. Dan Thiessen will be at the Daylight Donut Shop in the historic Woodson Hotel in Yates Center from 9-11 a.m. Feb. 22 to meet with interested constituents with questions about or problems for the 1986 Legislative Session.

In a telephone interview Monday, Chronister encouraged oil and gas producers in particular to attend the informal coffee-and-doughnut meeting.

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## ★ County commissioners

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(Continued from page 4)

\$16.75 per barrel, which amounts to a \$900 decrease per tank of oil, according to Haas.

Linde invited Haas to give testimony at a Feb. 27 property valuation hearing in Topeka as Miller attempts to review proposed changes in price schedules on oil and gas valuation.

"When we went to Topeka two weeks ago, we spoke up for the oil industry. We're trying to help you," Linde said. "If we don't do something, I can see you

people in the same position in two years as the farmers are now."

"My main concern is the financial institutions, because so many of them have such a high proportion of energy loans," Haas said.

He suggested that Kansas follow recent examples set by Oklahoma, Arkansas, Mississippi and Louisiana, where state budgets are being cut 23 percent and school budgets by 22 percent to stay in line with decreasing oil and gas tax revenue.



# The

**By BRENDA MANSKE**  
The price of 40-gravity crude oil sank to \$15.75 per barrel Monday, fulfilling industry predictions and threatening continued oil production throughout southeast Kansas.

R.E. French, a Gridley producer, already has shut down one lease because the price of oil no longer pays for the cost of production.

"I can see that it's going to cause a lot of wells to be shut down, and probably some entire leases," French said in a recent interview.

John Haas of Haas Oil Company in Yates Center said he doesn't expect drilling to pick up as the weather improves this spring.

"Sales are down, nobody's buying, nobody's doing any drilling, nobody's doing any wildcatting," Bernie Blevins of B & B Steel in Yates Center said, echoing the problems most area oil suppliers and service companies have experienced since the price of oil began to drop in January.

"I didn't think it would ever go this far, but now that it's this low, it'll probably go on down," Loren Steinforth of Steinforth Well Services said. "It's going to be rough on everybody."

The estimated cost of lifting a barrel of southeast Kansas oil runs from \$12-\$15 per

barrel, and when a barrel of oil only brings \$15.75, that means many area producers aren't making enough money to cover the cost of their production.

After the producers themselves, drillers are the first to feel the effects of low oil prices, followed by oil field suppliers and services.

The end of the downward cycle arrives when producers begin plugging wells they no longer can afford to produce, and by that time even businesses not traditionally associated with the oil patch can feel the pressure brought on by \$15.75 oil.

"When the oil people start winding down, it begins to affect everyone," Ed Ranz of Ranz Motor Company in Chanute said Monday.

"I think probably the place we've seen it the most is in the truck area," he said. "Truck sales are off 15-20 percent during the last 60 days."

"The oil people are sitting tight, and I don't blame them," he said.

"It's going to hurt the new truck business," Gary Lassman of Iola's Lassman Motors said recently. The trend started as early as last fall, according to Lassman, who said he expects to see more repairs on vehicles that should be traded in.

"They're going to be poor-boying it, making just enough repairs to get by," he said. "Poor old Southeast Kansas has done more than its share to build these big-city monuments, but when money gets tight, we get very little help in return."

Chanute Honda also has seen an oil-related drop in business, according to Kirby Stanislaus.

"When oil prices were high, a lot of oil companies bought 3- and 4-wheelers from us," he said Monday. "Now they're hanging on to them a little longer, not trading them in as quick. They're all making necessary cutbacks."

Area auto parts stores also are being affected by the current oil crunch.

"It's had a direct effect on us because we sell direct to the oil companies," Dave Haar, president of Iola Auto Parts, said recently. "Across the board, it's a variety of things, but it's noticeable in every area."

"In this area, it's nice to see the price of gas come down, but this is going to affect all businesses, even the ones that don't sell directly to oil companies," Haar said.

"It's pretty darn hard to put it into figures, and we won't know for sure until the end of the first quarter, but it's cut



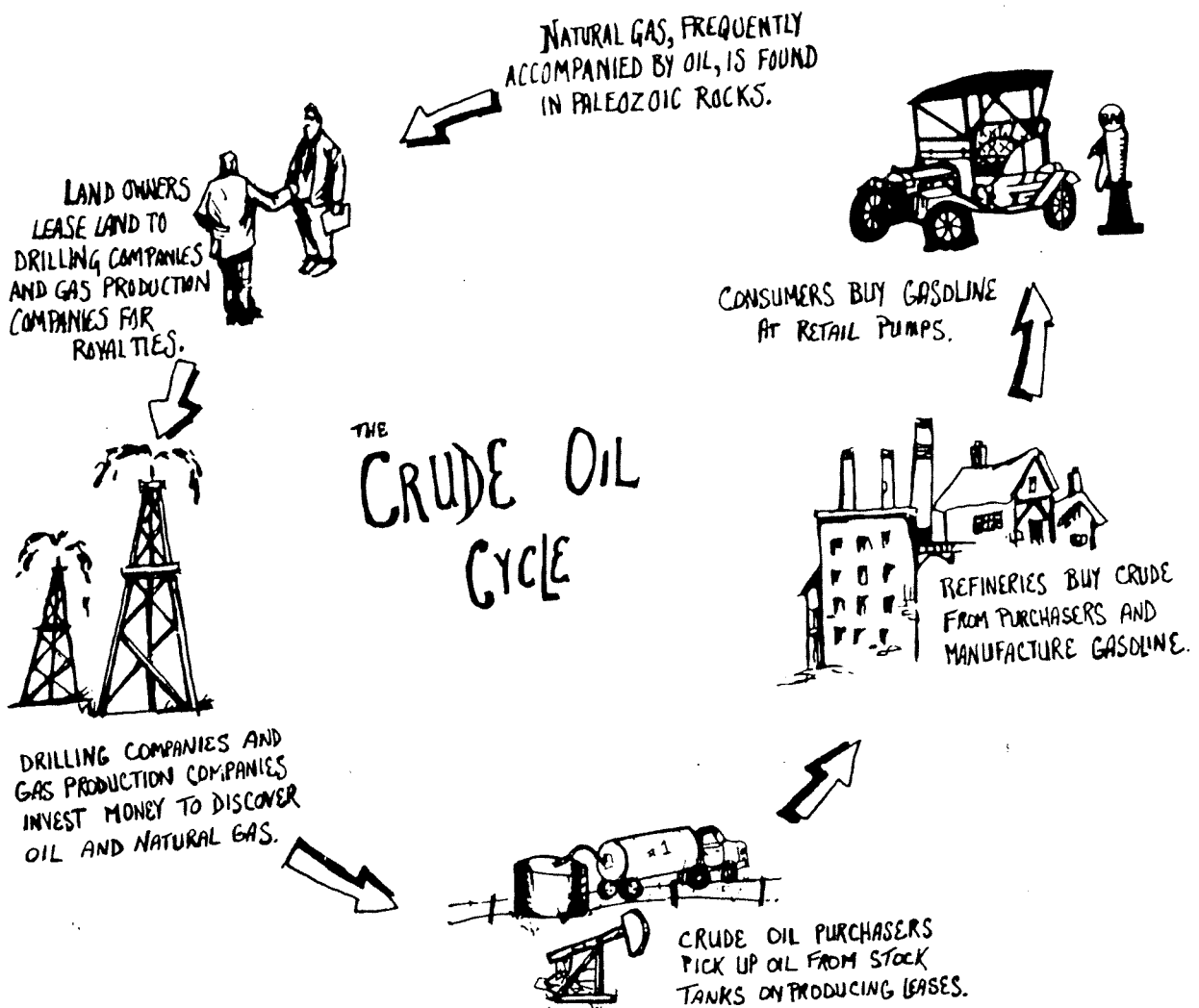
# LEWIS YATES CENTER LEWIS

KANSAS 66783

THURSDAY, FEBRUARY 27, 1986

25 CENTS

## Oil affects everyone



out a good 20 percent of my business," Chuck Sievers of Sievers Auto Parts in Yates Center said Monday. "The oil people are flat not doing

anything, and we haven't begun to see the effects yet. A person better have his seat-belt on and get fastened down for a rough ride."

"We've definitely had a decrease in prices," Larry Bell of Yates Center's Bell Auto Parts agreed. "I'm  
(Continued on page 4)

# ★ Oil industry story

(Continued from page 1)  
selling a lot fewer accessories. There's a shift toward essentials now and people are harder to sell."

"They're doing more comparative shopping now. They've got time to shop around because they're not as busy as they have been. It makes you have to be a lot sharper to get someone's business," he said.

At Jim's Service in Yates Center, however, business is about normal for this time of year.

"It seems slower, but I'm not sure it actually is," proprietor Jim Solander said. "I haven't noticed any difference in repairs yet. They're still driving just as much every day as they did."

Although things look bleak now, old-timers are quick to say that the oil business runs in cycles.

"Last time it was this bad was in 1945," John Haas said recently. "It got a little better in 1960, and then the price began to rise in 1974-75 and it just went up too fast."

Gary Lassman suggests that a moratorium on taxes would help the oil patch to rebound faster than any other relief alternative.

"If he didn't have to pay these atrocious ad valorem, windfall profits and severance

taxes, the oil man could make a living on \$15 a barrel oil," he said Monday. "They're going to have to abate some of these taxes."

**Reporter's Note:** Area oil producers, government officials and other concerned individuals interested in forming a Southeast Kansas legislative coalition on oil regulation relief are encouraged to attend an organizational meeting Wednesday, Feb. 26, at 7 p.m. at Haas Oil Company on North Fry in Yates Center.

# Legislature discussing alternative for oil patch, Chronister says

By BRENDA MANSKE

The Kansas Legislature is discussing federal alternatives with regard to regulations on shallow Eastern Kansas oil wells, Rep. Rochelle Chronister, R-Neodesha, told a crowd of about 40 constituents Saturday morning at Yates Center's Daylight Donut Shop. For two hours Chronister

and Fifth District senator Dan Thiessen answered questions on a variety of topics, ranging from regulation relief for area oil producers to finding a funding source for reappraisal.

"I think the problems you're getting into are with the environmental division of KDHE," Chronister said. "A bill was introduced before the

House yesterday morning to create a free-standing agency combining the KDHE environmental division with the KCC."

Thiessen said he had served on a committee that recommended sole regulatory power for the KCC.

"I think we'd be a lot better off with one agency rather

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(Continued from page 1)

than two or three," he said. "Oil producers want regulations they can live with," said Bob Manske, moderator at an ad hoc elected officials-producers meeting held last November in Yates Center.

"We cannot change federal regulations," Chronister said.

"No one has any problems with the EPA. They have problems with the KCC," Manske said. "The producers are interested in reasonable solutions to what looks like a temporary situation."

"You come to me with a list of regulations that are not federal, something that we can do without, and we'll try to do something about it," Chronister said.

"Does anyone know they're out counting buildings on leases?" Manske asked.

Thiessen said he would look into charges that KCC employees have been assigned to take a building census on southeast Kansas oil and gas leases.

"I have some real questions about the qualifications of people they're hiring at KDHE," Chronister said.

According to John Haas of Haas Oil Company in Yates Center oil and gas regulatory authority should lie solely with KDHE.

"KDHE has qualified employees," Haas said. "We don't like people who don't know about the oil business telling us what to do."

Chronister said conservation

fee fund balances are "very high," adding that a year's reduction in the mill levy on production would go a long way toward cost relief for oil producers faced with the current \$16 per barrel price of oil.

"They're going to be very protective of those balances, but there's no excuse for those balances being as high as they are," she said. According to Chronister, the mill levy is set by statute and could be reduced by the legislature.

Other alternatives that could be considered in the face of dwindling oil prices include raising the stripper well exemption and reducing the severance tax in proportion to the reduction in the price of oil.

"We can't do a lot, but we are looking at some changes in those four areas," Chronister said.

## Reappraisal

"We're fighting like the devil to find the money for reappraisal," Chronister continued. "The budgets being looked at now include \$8 million for the counties on reappraisal."

According to Chronister, the state aims to pay about half the estimated \$48 million

reappraisal cost.

"Whether we'll have that much money is unsure," she said. "But it looks like we're going to raise your taxes and you're not going to get much back for it. The governor took money out of places where we're going to have to put it back in."

"People here say, 'Why don't you tell those people in Topeka to go to hell?'" county

commission chairman Bill Linde told the legislators.

"There is no good answer on it," Chronister replied. "It's either that or face three to four times higher cost on court-ordered reappraisal."

According to Linde, Woodson County reappraisal costs are expected to reach \$328,000.

# Asks for moratorium on KCC testing regulations

YATES CENTER NEWS, THURSDAY, MARCH 6, 1986

YATES CENTER, Kan.-- Citing cash shortages brought on by the recent dramatic drop in the price of oil, an ad hoc East Central Kansas citizens' group Friday petitioned Rep. Rochelle Chronister, R-Neodesha, and Fifth District Sen. Dan Thiessen, R Independence, for a one-year moratorium on Kansas Corporation Commission plugging and testing regulations.

East Central Kansas Producers and Royalty Owners Coalition presented Chronister with a proposed House concurrent resolution endorsing the modification and temporary abandonment of KCC oil well plugging and testing requirements in

Coffey, Greenwood and Woodson counties.

In a telephone interview Tuesday, Chronister said she and fellow representatives Denise Apt of Iola, Edwin Bideau III of Chanute, Jeff Freeman and Rex Crowell hoped to introduce a revised version of the ECKPROC resolution on the floor of the House Wednesday morning.

As originally submitted, the resolution requests that the KCC and Kansas Department of Health and Environment hold public hearings to allow testimony on the economic need for the proposed moratorium.

"We'll do whatever we can to get you a fair hearing, and I

(Continued on page 9)

## ★ Asks for moratorium on KCC rules

(Continued from Page 1)

think that's what you need," Chronister told coalition representatives Feb. 28. "I think it's certainly appropriate to request that the KCC and KDHE hold hearings in this area concerning the severe financial problems facing the oil industry."

More than 20 people attended the Feb. 27 meeting at Haas Oil Co. offices that spawned the coalition, among them Yates Center's mayor, Murl Corbet, and Woodson County commissioners Bill Linde and Burdette Mentzer.

The group elected Robert W. Manske of Yates Center as its acting spokesman and appointed John Haas, Loren Steinforth and Thelma Brown of Woodson County; Leland Dreyer of Greenwood County and Arnold Kraft of Coffey County to serve as acting board of directors.

"We're encountering wells that are running up to \$15,000 each to integrity test, and the idea of spending all that money this year when it isn't going to be around to spend is

more than most people around here can handle," Manske told coalition members last week. "It's going to put a lot of people out of business."

A Feb. 21 list of drilling intents showed applications to drill only 10 wells for the entire state, according to Haas, who noted that only three of the 10 wells were to be located in Southeast Kansas. The three Southeast Kansas wells were expected to reach depths ranging from 700-1,570 feet, while the seven wells located throughout the rest of the state were estimated to run from 3,000-4,650 feet deep.

In a Feb. 27 letter to Chronister and Thiessen on behalf of the coalition, Manske said, "As you know, there has been a sharp decline in oil prices which has left many operators in a very cash-poor situation. Inasmuch as the plugging of wells and testing of wells is an expensive undertaking, it would be much better accomplished if producers were able to do so in an orderly manner and with some advance planning

particularly in the financing of these projects."

"This group is not attempting to change the ultimate responsibility for the costs of implementing these regulations," Manske's letter said. "However, it is simply requesting that they be put on hold for a time until the economics of the situation can stabilize."

"I feel like if something isn't done, we've lost control of our own businesses," Kraft said.

Area residents interested in joining the East Central Kansas Producers and Royalty Owners Coalition are encouraged to contact John Haas at (316) 625-2171 or Robert Manske at (316) 625-2137.

**St. Patrick's Day - Monday, March 17**

er for the St. Patrick's Day drawings to be held at 5:00 p.m. Monday  
he bandstand. See pages 2 and 4 for more information!

# NEWS

## *The* YATES CENTER

# NEWS

D YATES CENTER, KANSAS 66783

THURSDAY, MARCH 13, 1986

25 CENTS

## Oil coalition makes headway

**TOPEKA--**The House Energy and Natural Resources Committee of the Kansas Legislature will hold fact-finding hearings on March 18 at 3:30 p.m. concerning a proposed one-year moratorium on Kansas Corporation Commission testing and plugging regulations on oil and gas wells in Woodson, Greenwood, Coffey, Allen, Neosho and Bourbon counties.

An ad hoc citizens group dubbed the East Central Kansas Producers and Royalty Owners Coalition submitted the moratorium request to Rep. Rochelle

Chronister, R-Neodesha, March 28 in the form of a resolution, which was formally entitled House Concurrent Resolution 5051 and

(Continued on page 2)

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## ★ Coalition makes headway with legislators

(Continued from page 1)

introduced on the floor of the House last Thursday.

The resolution cited cash shortages brought on by the recent dramatic drop in the price of oil as the most pressing reason for the proposed moratorium.

"I feel like we've made a lot of headway very quickly," coalition spokesman Robert Manske of Yates Center said Tuesday. "Rochelle Chronister has been very helpful in getting this matter

to the attention of the committee."

In a Feb. 27 letter to Chronister and Sen. Dan Thiessen, R-Independence, Manske said the group is not attempting to avoid the plugging and testing requirements, but is asking that they be put on hold until oil prices stabilize.

Noting that the grass roots organization voted March 7 to change its name to Tri-County Legislative Coalition, Manske said, "We've only made the

first step. We'll have to follow it up with appropriate testimony before the committee and a strong show of support from businesses in the communities involved."

According to Manske, donations to help defray the coalition's immediate administrative expenses may be forwarded to treasurer Thelma Brown, 410 N. Main, Yates Center.

# Rep. Chronister reports from Topeka

By REP. ROCHELLE  
CHRONISTER  
REPRESENTATIVE OF  
9TH DISTRICT  
WILSON-WOODSON  
COUNTY

On March 6, I and five other southeast Kansas legislators, Denny Apt of Iola, Ed Bideau from Chanute, Rex Crowell from Longton, Jeff Freeman from Burlington and Dick Harper from Ft. Scott introduced a resolution requesting the Kansas Department of Health and Environment and the Kansas Corporation Commission hold a hearing in the southeast Kansas area to determine if there are rules and regulations of the agencies pertaining to plugging and testing of oil and gas wells which could be modified or a moratorium declared for one year except in cases of emergency fresh water contamination. The resolution was requested by a group of east central oil and royalty owners who are concerned that the falling price of oil will

force plugging of many marginal wells. Even a temporary lifting of some of the regulations could save a large number of wells.

The Kansas legislature will reach first deadline on March 12 when all bills must "trade sides" - all House bills will move to the Senate and Senate bills will come to the House or be dead for this session. That also means long days the week of the 10th as the House will be in session all day instead of breaking for the regular committee meetings.

Some of the more important bills which passed the House this week dealt with hazardous waste clean-up and group insurance coverage for mental illness, drug abuse and alcoholism.

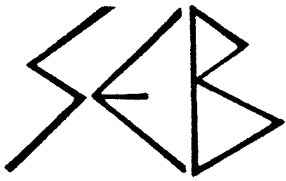
The hazardous waste program establishes a one-year pilot program to collect small quantities of household hazardous wastes such as painting materials, pesticides, chemicals used in chemistry classes, old

photographic chemicals, pool cleaners and antifreeze. The pilot program would be located in one large and one small city with the Kansas Department of Health and Environment contracting with a bonded hazardous waste handling company to operate the program. Funding for the program would come from the Hazardous Waste Clean-up fund.

The bill mandating coverage of mental illness, drug and alcohol abuse would require coverage for not less than 30 days per year in a hospital or licensed drug or alcohol

treatment facility. The requirement is expected to add \$1 per month to the cost of health insurance for the average single policy; however the additional money going to mental hospitals and drug and alcohol treatment centers is expected to offset tax dollars which are presently spent on these institutions.

Hot-lines at the Chamber offices in Neodesha and Fredonia and at the Woodson County Clerk's office are still open weekdays or you can reach me at home in Neodesha weekends.



STATE EXCHANGE BANK  
YATES CENTER, KANSAS  
66783

March 18, 1986

House Energy and Natural Resources Committee  
Capitol Building  
Topeka, KS 66625


Dear Legislature:

This letter is being written to confirm our support for the Tri-County Legislative Coalition in their efforts to obtain a temporary moratorium on the KCC plugging and testing requirements. Specifically, we would ask that you give favorable recommendation to House Concurrent Resolution No. 5051.

Your recommendations on this resolution will have considerable effect, whether positive or negative, on the economy of Southeast Kansas.

We urge your support for this resolution

Sincerely,

  
Judith Splechter  
Assist. Vice President

bv



MAX BERRY Workover

Long Drilling

6294.38

Pipe 1840' 3" @ 2.50

4600.00

IS Oil Co. haul hot salt  
water to acidize and frac.

1860.06

Consolidated

3538.38

Cornish log

428.40

16,721.22

Case Berry #1  
Greenwood Co  
Kern

This Expense on running Integrity  
Test

# Happy talk on oil will be short-lived

## Low prices lull Americans into security

By Yael T. Abouhalkah

a member of the editorial staff

**W**ashington—America's blinders are firmly back in place. Entranced by a flood of cheap oil, the United States is heading straight toward another energy crisis.

Now wait a minute. How can this be? After all, it's fashionable to think just the opposite these days, to be optimistic that our energy problems are behind us.

Look at the growing pile of evidence. Oil prices have plummeted. The U.S. economy is booming along at a hale and hearty pace. Inflation is being held in check. The Organization of Petroleum Exporting Countries is in disarray, maybe even down for the count. U.S. oil consumption is holding steady. New cars off the assembly line sip fuel more efficiently than their predecessors. Other countries, including allies Great Britain, Mexico and Canada, are producing plenty of petroleum and selling it to us.

"I don't think we're ever going to see the steep price increases again," is the

**Indeed, unless the United States continues to try to cope with its energy-related problems . . . the nation will find itself in dire straits within the next five to 15 years. That seems like a long time. It's not. The first OPEC-led embargo occurred just 13 years ago.**

way a confident Department of Energy official views things, bringing out chart after chart to back up his contention.

So much for the happy talk. Let's get back to reality.

Because it illustrates that we *must* pay attention to the talk of gloom around the corner. Reality shows why we won't be able for long to enjoy the recent respite from doomsday forecasting.

Indeed, unless the United States continues to try to cope with its energy-related problems—and possible ways of doing that are outlined later—the nation will find itself in dire straits within the next five to 15 years.

That seems like a long time. It's not. The first OPEC-led embargo occurred just 13 years ago.

Danger signs exist all around.

● "To turn Ben Wattenberg on his head: The bad news is that there is good news now," sums up Edward Kutler in the December/January issue of *Public Opinion*. "Falling prices will encourage increased consumption and, at the same time, investment in enhanced recovery methods, exploration and development will dry up. When these elements are

combined, we face a tight energy market. And supplies from smaller producing countries will begin to turn out, leaving OPEC countries in the driver's seat again."

● "The current energy situation is inherently unstable and may carry the seed of its own undoing," writes Christopher Flavin, an energy expert for Worldwatch Institute. "As oil prices continue to fall, they will increasingly undermine future investments in energy efficiency and alternative energy sources, slowing the move away from oil."

● "It appears quite likely that, if oil prices remain at or near current levels, most of OPEC's excess capacity will be absorbed within a very few years," Charles J. DiBona, president of the American Petroleum Institute, told Congress in mid-March. "The price of oil then probably would rise, and it could rise sharply."

● "We're all so fat, dumb and happy again," says Sen. James A. McClure, an Idaho Republican who is chairman of the Senate Energy and Natural Resources Committee.

● "I feel frustrated that nobody is aware of the fact the problem is still there, like a sleeping vampire that waits to rise," says Rep. John D. Dingell, Michigan Democrat and chairman of the Energy and Commerce Committee.

● "I think it's important to remind people that what's happening now is very, very dangerous," says a member of a congressional energy staff. "We are being set up for a crisis."

A number of factors point up just how big the problems are.

First, the U.S. oil supply is much more precarious than most people realize. At current production of around 10 million barrels a day, this nation's proven reserves of petroleum would be gone in *nine* years. We're not alone in this quandary. The Soviet Union and Great Britain both have 14 years of proven reserves left; Saudi Arabia, on the other hand, has 99 years remaining in the ground.

Obviously, more oil will be discovered in the next decade or two, here and abroad. But it will be increasingly expensive to pump out.

"Contrary to a commonly held belief, rising fuel prices will not create new supplies of fuel. They haven't so far, anyway. Despite quadrupled prices for oil and gas products, the 'moral equivalent of war' and a 280 percent increase in drilling, the United States is producing less oil today than it did in 1973," write the authors of an excellent, forward-looking book, *Beyond Oil: The Threat to Food and Fuel in the Coming Decades*.

An independent group here, Carrying Capacity, Inc., sponsored research for and publication of the book.

It continues: "More large oil discoveries in the lower 48 states are highly unlikely because there is not enough room between existing drill holes to contain them. As of 1975 there was one production or exploratory well for every 1.6 square kilometers of sedimentary rock, the only kind known to contain oil, in the continental United States. Since giant oil fields stretch for hundreds of kilometers, the likelihood of new bonanzas would appear remote. Major discoveries in offshore areas also are unlikely. Many of the shallow, placid sites, such

to the poor prospects of continued oil exploration in the United States is the merger frenzy that has recently gripped the oil industry. The major oil companies now find it more profitable to spend their billions on buying known deposits than on finding new ones. One can hardly blame them. According to one valuation service, Standard Oil of California spent an average of \$9.61 per barrel of oil in development costs between 1978 and 1982, while the \$80 per share it paid for Gulf Corporation in 1984 translates to about \$4.40 a barrel for Gulf's reserves."

Other barriers remain to petroleum production in this country.

Smaller, marginal oil-producing firms already are closing their doors. Cement is being poured down stripper wells that produce only a few barrels of crude a day; many aren't economical when oil falls below \$15 a barrel. Offshore exploration also needs higher oil prices to generate profits for petroleum companies.

"Falling prices and retrenchment by the oil industry could accelerate the decline in U.S. oil production," writes Mr. Flavin of Worldwatch.

So maybe this country won't have enough petroleum for our seemingly insatiable appetite. But, say optimists on this matter, let's not forget the rest of the world.

After all, Great Britain, Mexico and other countries responded in the last decade by drilling for their own petroleum. They struck gold, and began exporting more fuel than ever, often to the United States. This nation, which at one point used OPEC oil to meet 20 percent of its needs, reduced that figure to only 4 percent in 1984.

Again, though, reality is much more unpleasant.

"Rising production of non-OPEC oil has added 5 million barrels per day to the world oil supply and played a major role in the oil glut," writes Mr. Flavin. "But despite this recent boost, the long-term oil outlook remains dominated by Middle Eastern members of OPEC that have 56 percent of the world's oil. In fact, recent shifts in world oil markets have some rather disturbing long-term implications: The rate of depletion of the world's most abundant oil resources has slowed, while depletion of some of the scarcest and most strategically important reserves has accelerated."

Indeed, production in North America, the North Sea and the Soviet Union will soon start falling, steeply in some cases. Mexico could even become a net importer by the year 2000.

"The largest oil discoveries of the

'70s—in Alaska, the North Sea and Mexico—have added significantly to the world's inventory of proven reserves," says Mr. Flavin. "By historical standards, however, these discoveries are modest in size and so have added little to the estimates of ultimately recoverable reserves. Even before this oil was discovered, analysts assumed that such quantities would be found, although they were not sure exactly where."

The sudden drop in worldwide prices early in 1986, by the way, is one of the worst things that could have happened from a planning standpoint. It partly legitimizes all the "I-told-you-so" pundits who want to blame OPEC for most of the energy-related problems—and the big U.S. petroleum companies for everything else.

But the lower costs may just lull the rest of the oil-producing world to sleep.

"A major decline in the world oil price would be more harmful to oil producers outside the Middle East," warns a *Congressional Quarterly* report entitled "Mideast Oil: A Cartel Crisis."

"A price drop . . . could cause large offshore and remote projects to become uneconomic and force some production to be shut down. It also would reduce the tax revenues of Western governments that impose special oil production taxes, such as the United States' windfall profits tax. Middle East OPEC countries could use their cost advantage to recapture this share of the market if oil prices were to decline for an extended period."

That, by the way, is already happening.

According to the American Petroleum Institute, spending by U.S. oil companies declined dramatically in 1985 as oil prices drifted lower. Already, many major firms have said they will cut exploration and drilling even further in 1986.

And, in seeming lockstep, our OPEC imports are inching higher.

As for the much-ballyhooed fuel efficiency improvements, they have indeed helped curb consumption. The world is using 58 million barrels a day, down from the peak of 66 million barrels a day in 1979. Consumption in North America and Japan is down 16 percent since then; Western European use has fallen 18 percent.

It's also true that efficiency improvements made today—in cars, factories and industrial uses—have an effect that will last for years.

But storm clouds exist even here.

"Conservation becomes increasingly difficult to achieve because the easy savings get made first," notes a *Congressional Quarterly* report. "At some point, the emphasis on conservation may

give way to greater oil consumption."

A congressional energy expert says at least one major study has shown that a drop in U.S. production, not conservation, has contributed to much of the current glut.

"It tends to suggest we haven't done as well as we think," he says.

Where is all this leading? Why, back to the Middle East.

The countries that sit atop the huge petroleum fields—such as Saudi Arabia, Kuwait, Iran and Iraq—control more than half of the world's known reserves, plus the oil expected to come in future years. When the Soviet Union is tossed out of the equation, and for political reasons it should be, the Middle Eastern share of the world's petroleum zooms to around 75 percent.

Clearly, that area at some point will once again control oil's future fortunes.

Writes Mr. Flavin: "By 1990, at the latest, declining oil production in the United States, the Soviet Union and Great Britain will greatly outweigh increases in such countries as Brazil, Colombia and Mexico. These trends should raise warning flags for anyone tempted to celebrate the demise of the Persian Gulf oil producers. Growing independence from Middle Eastern oil provides a false sense of security since it has occurred largely at the expense of greater long-term dependence. The lower the current Middle Eastern share of the market, the greater its share at the end of the century when many countries will be running out of oil. The danger is that the Persian Gulf may move back into the driver's seat at a time when world oil resources are more limited than at any time in recent history."

Mr. DiBona, president of the American Petroleum Institute, predicts that U.S. imports could grow from 5 million barrels a day now, to 10 million in 1990

**“Energy problems have not disappeared, but they have changed greatly, and new strategies are needed. The challenge is to sustain the positive momentum that has developed in recent years, and, amid conditions that cry out for complacency, prepare for a time when oil will be prohibitively expensive throughout most of the world.”**

—Christopher Flavin,  
Worldwatch Institute

and to 15 million in 1995. Imported oil would then make up about two-thirds of the 23 million barrels Americans are expected to use each day.

A *Congressional Quarterly* report notes: “If economic growth and energy use increase in the United States in the last half of the decade, it is likely that the United States will again become a major customer for foreign oil. . . . Eventually purchases from the Middle East are likely to increase and with them U.S. dependence on the political decisions of the region’s oil exporting countries. Much the same is true of Europe and Japan. Because significant increases in supply from most other known non-OPEC sources seem unlikely, higher demand for petroleum will be met from the Middle East.”

Can we even rely on the Middle East’s oil always being readily available? Possibly not, given the area’s unstable political environment.

A booklet published by The Brookings Institution here, “Energy security in the 1980s: economic and political perspectives,” by Douglas R. Bohi and William B. Quandt, notes that energy security is likely to remain a problem in the 1980s and beyond.

“ . . . Not because of a shortage of crude oil or of productive capacity but because, as in the past, political and military developments can get in the way of the market. In particular, it is the combination of instability in the Middle East, U.S.-Soviet rivalry and competition within the Western alliance that creates the potential for oil shocks in the future.”

Still, good planning and forceful action could stall the day the United States must again pay through the nose for the precious Middle Eastern oil.

“People who are voters and decision-makers today will live to see the end of the Oil Age,” contend the authors of

*Beyond Oil*. “There are only 10 or 20 years of per capita economic growth remaining before declining oil and gas production begins to drag the economy downhill . . . . Thus, we have now a small and closing window of continued prosperity during which we enjoy the luxury of deciding, consciously and carefully, what sort of economy we would like to have after the oil runs out.”

Possible solutions to such a coming crisis are logical; many have been repeated before but not accepted by political and economic leaders.

We need to set energy efficiency standards, such as was done with cars, to force us to conserve more. Driving big cars now and wasting gasoline with inefficient industrial engines and machines only hastens the dark days of higher oil prices.

We need to spend much more money, either through tax breaks or federal incentives, to research renewable energy sources such as solar power and wind power.

We need to stop subsidizing one form of energy, such as nuclear power, over others. That policy often makes sense in the short run, but not over the long haul. “Clearly the time has come for policymakers to recognize the potential of renewable energy,” write the authors of *Beyond Oil*. “If we had channeled into renewable fuels the [proposed] \$88 billion synthetic fuels subsidy or the billions that went into nuclear power, we would today be much less dependent on conventional fuels.”

We need to tax oil or gasoline, to better curb consumption. Almost every simplistic economic argument being used against imposing such a tax argues that Americans should enjoy the current low gasoline costs. But at what price? Flagrant wastefulness now will only ensure much higher markups in the future.

We need to slowly but surely continue the search for a technological breakthrough in the synthetic fuels field. The Synthetic Fuels Corporation was a major boondoggle. Billions of dollars were spent on large, operating plants, rather than on research. Six years after the agency was founded, we’re back at square one in this realm.

Writes Mr. Flavin:

“Energy problems have not disappeared, but they have changed greatly, and new strategies are needed. The challenge is to sustain the positive momentum that has developed in recent years, and, amid conditions that cry out for complacency, prepare for a time when oil will be prohibitively expensive throughout most of the world.”



**Jerry Heaster**  
The Star's business & financial editor

## Doom sayers miss mark on oil prices

**W**hat is it with people who feel compelled to preach the gospel of economic doom and gloom?

You know the type. Whenever something good happens, they make a living telling everyone how bad it is for them.

The latest sport that preoccupies this lugubrious group is preaching the peril of falling oil prices. It's getting so you can't get through a day without hearing at least one warning from these self-appointed saviors of mankind about the folly of enjoying cheap petroleum. Typical of this sort of drivel was a recent summation by James Schlesinger, former U.S. energy secretary.

"The United States is now in the process of creating a substantially increased oil dependency for the 1990s. We are sowing the seeds of the next oil crisis," he said.

If you put any credence into this warning, consider the source. This is the same Mr. Schlesinger who in May 1977 told the Joint Economic Committee of Congress that there was no indication that the OPEC cartel planned any steep oil price increases. If anything, he said shortly before taking the helm of the newly created Department of Energy, economic pressures could be expected to hold oil prices in line for the next few years.

At the time, the world oil price was something over \$12 a barrel, or about four times more than it had been before the first oil shock of 1973. Only a year and a half after Mr. Schlesinger predicted price stability, though, OPEC announced a 14.5 percent price hike for 1979.

A newspaper headline proclaimed, "Experts are surprised." If they were surprised by that news, they must have been absolutely amazed at what actually came to pass. Instead of oil going to \$14.50 or so as expected, OPEC was

selling it for \$18 to \$23.50 a barrel by November 1979. Before year's end it was starting with \$30.

This is not to be too hard on Mr. Schlesinger or any of the others who were so wrong when they tried to divine what the energy markets would bring in the late '70s and early '80s.

Rather, it's to point out that the same people who were so fallible then are the very same ones doing so much pontificating now. They failed to anticipate OPEC's unbridled greed; they didn't think Americans capable of conservation; they predicted ever-rising oil prices after the second OPEC shock; they poo-pooed the idea that deregulation would bring lower oil prices; and they conceded OPEC cohesion and market dominance from here to eternity.

Being as how nearly all of them were wrong on all counts then, why should anyone heed them now? Like most of their predecessors throughout history, these benighted souls are not at all deserving of the credibility they seem to command.

Despite the bankruptcy of their views, however, they always seem to be able to generate an undue amount of credibility in the marketplace of ideas. How many times must they be wrong before we stop taking them seriously?

Several hundred years ago, they were the ones who said England was doomed because after the forests were consumed, there would be no source of heat or light. Later they said we would destroy ourselves as population growth outstripped our ability to feed ourselves. Subsequently they have predicted the end of the world as we know it because of wasteful consumption of everything from coal to whale oil to petroleum.

Now they're at it again, and we're being asked to believe that they finally have achieved sufficient wisdom to be taken seriously.

What these people overlook when they play Cassandra, however, is the limitless ingenuity and resourcefulness of human beings.

To be sure, the recent glut of cheap oil will lead to some wasteful excesses that will cause problems down the road. But that's the way human nature interacts with markets. Supply and demand are seldom in equilibrium, which means the balance of market power is always shifting between consumers and producers. What has happened in the oil industry since 1972 is a perfect example of how such relationships work.

But regardless of where the power lies at any point, one thing is always constant: the ability of human beings to adjust to adverse developments and eventually resolve problems.

Wasting resources may be foolish, but not nearly so foolish as putting faith in false prophets. Whatever the next crisis may be, they will be part of the problem instead of the solution.

That's the way it has always been.



# UNITED STATES ENVIRONMENTAL PROTECTION AGENCY

REGION VII  
726 MINNESOTA AVENUE  
KANSAS CITY, KANSAS 66101

OFFICE OF  
THE REGIONAL ADMINISTRATOR

**MAR 27 1986**

Mr. Robert W. Manske  
Attorney at Law  
P.O. Box 100  
Yates Center, Kansas 66783

Dear Mr. Manske:

Thank you for the copy of your February 27, 1986, letter concerning plugging and testing of oil and gas related injection wells. I want you to know that we are very aware of the financial plight of the oil and gas industry and are concerned about the impact on production and environmental protection in producing areas. I will explain the legal requirements of the injection well program and some options that could be pursued.

The Underground Injection Control (UIC) program, developed under authority of the Safe Drinking Water Act (SDWA), is designed to protect underground sources of drinking water from injection activities and yet not impede oil and gas production. This includes protecting all ground water with less than 10,000 parts per million of total dissolved solids or which could be used for human consumption. The UIC program requires mechanical integrity testing of all oil and gas production related injection wells within five years of the date a state assumes primary enforcement authority. The State of Kansas assumed this authority on February 9, 1984, so they have until February 1989 to see that the initial round of mechanical integrity tests (MITs) are completed. We overview the State's program and encourage them to distribute the number of tests evenly over time, but they are responsible for seeing that all wells are tested by the end of the five-year period. We believe the MITs are essential to assure that underground sources of drinking water will not be endangered by injection wells. The proposed resolution mentions cessation of plugging and testing except for "testing as may be necessary to prevent harm or damage to fresh water." The primary reason for testing is to prevent harm or damage to fresh water.

There are a number of methods available for testing wells. The basic test involves the use of pressure, and can be done quickly and inexpensively on many types of injection wells. Since some wells are difficult to pressure test, the State and the Environmental Protection Agency (EPA) have also authorized the use of tracer tests and differential temperature surveys. EPA is presently evaluating a request from the State for an inexpensive method of testing dual completion wells that are used for production and injection concurrently. New wells should certainly be tested since their

design should allow for normal testing procedures, including a simple and inexpensive pressure test just before the well is perforated. Using these types of tests, any well in Kansas can be tested for integrity. EPA is willing to consider other alternative MIT proposals, and we believe that technically sound, cost-efficient test methods can be developed.

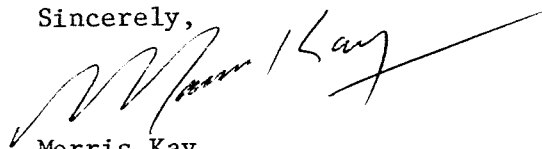
Federal statutes and regulations do not provide for exceptions from MITs. The State has adopted the federal UIC regulations, and as long as it has primary enforcement authority, it must maintain program requirements at least as stringent as the federal requirements. Alterations of State regulations or other program requirements could affect the State's delegated authority. Exceptions from MITs for certain areas of the State do not seem appropriate, since other areas of the State face similar economic constraints, often on deeper stripper wells that are more expensive to operate.

The issue of plugging injection wells when they are abandoned should be discussed with the State. State regulations, specifically K.A.R. 82-3-111, allow an operator to apply for an extension of application of plugging regulations, with proper justification.

EPA cannot abrogate its legal obligation and commitment to protect underground sources of drinking water, and we expect the State to carry out its commitments also. However, we do believe that scheduling, and reasonable, effective methods of testing can be worked out to allow oil production to continue and still provide protection to the environment.

If you have additional questions, please contact me. The member of my staff who is most familiar with this subject, Mr. Ralph Langemeier (913-236-2815, can provide additional information.

Sincerely,



Morris Kay  
Regional Administrator

cc: Senator Dan Thiessen  
Representative Rochelle Chronister  
William Bryson, KDHE  
Roger Anzzolin (WH-550)  
Senator Nancy Landon Kassebaum  
Kansas State Senator Robert J. Talkington  
Kansas State Representative Edwin Bideau, III



## KANSAS INDEPENDENT OIL & GAS ASSOCIATION

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

April 2, 1986

TO: Senate Energy & Natural Resources Committee

RE: HCR 5051

We are appreciative of the six sponsors of HCR 5051 for introducing this resolution. We are particularly pleased to have some formal recognition that our important Kansas industry is in financial trouble. Of all the talk of economic development during this session, very little has been said about the tremendous impact on the Kansas economy concerning the drop of oil prices. I can assure you it is taking it's toll on the Kansas economy in the loss of jobs, loss of income, loss of revenues, valuations, and generally a huge deterioration of a major industry that has been doing business in Kansas. We are all hoping for better days ahead.

It seems to me the subject matter of HCR 5051 is addressed under KCC Rule 82-3-111, the 90 day rule of cessation of production and the temporary abandonment of wells regulation. This rule was adopted in response to KSA 55-152 (1982) relating to temporary abandonment and plugging. A copy is attached. It is statewide in application. Our industry has always supported the proper and timely plugging of wells.

On line 32-33 the reference is to "testing of wells". This undoubtedly refers to the Underground Injection Control program authorized by the Congress who mandated the EPA to supervise the program and for which the State of Kansas has assumed primacy. The program in Kansas requires a mechanical integrity test of about 2,000 wells per year. Kansas was granted two alternative MIT tests in addition to a pressure test: 1) a radioactive tracer test, and 2) a temperature differential test. We have asked EPA to consider one other test, but it has not yet been approved.

I'm inclined to believe, after talking to EPA, IOCC and IPAA that HCR 5051 should be re-directed to ask the U.S. Environmental Protection Agency to suspend the very expensive testing program while depressed prices are having such an influence on cessation of production and temporary abandonment of wells status is now a common practice in Kansas.

In conclusion, we suggest you drop the reference to plugging of wells; drop the reference to the six counties and make it statewide in application; and re-direct the resolution to the U.S. Environmental Protection Agency.

Donald P. Schnacke

DPS:pp

Encl: KCC Rule 82-3-111

4-02-86  
S. ENR

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by the applicant's books and records, of all persons owning the royalty or leasehold interest in acreage sought to be spaced and operated by the applicant, or on which the applicant has a lease or an interest in the lease;

(8) if a proration formula is sought, the specific factors proposed to be utilized in the allocation of production;

(9) the applicant's license number; and

(10) such other information which may be required by the commission.

(b) Notice of hearing. An original and five copies of the application shall be filed with the secretary of the commission in Topeka, Kansas. An additional copy of the application shall be sent to the conservation division. The commission shall set the application for hearing. The applicant shall provide notice of the hearing. The notice shall state the time, place, and nature of the hearing. The notice shall be provided at least 10 days prior to the hearing to all lease operators of record, and all owners of record of the minerals in unleased acreage, in the area sought to be spaced. The applicant shall also publish notice pursuant to K.A.R. 82-3-135. (Authorized by K.S.A. 55-604, 55-704; implementing K.S.A. 55-605, as amended by L. 1984, Ch. 203, Sec. 1, 55-706, as amended by L. 1984, Ch. 203, Sec. 2, 55-603, 55-703a, 55-704; effective, T-83-44, Dec. 8, 1982; effective May 1, 1983; amended, T-85-51, Dec. 19, 1984; amended, May 1, 1985.)

**82-3-110. Penalties for violations of spacing orders.** (a) Any well drilled or being drilled in violation of an order or rule of the commission in effect at the time drilling commences shall be considered to be an unlawful location. Such a well shall be presumed to be in violation of correlative rights and to constitute waste. The commission may, upon receipt of a complaint or on its own action, issue a show cause order to determine whether the drilling of the well was necessary to protect correlative rights or prevent waste. A hearing shall be held after notice to all interested parties.

(b) If the commission determines that good cause has not been shown or that an exception should be denied, the commission

may order the well to be permanently capped or plugged and abandoned in accordance with the rules of the commission, or it may permit production at a reduced rate to ensure protection of correlative rights and the prevention of waste. (Authorized by K.S.A. 55-704; implementing K.S.A. 55-703a, 55-704; effective, T-83-44, Dec. 8, 1982; effective May 1, 1983.)

**82-3-111. Temporarily abandoned wells.**

(a) After operations on any well drilled for the purpose of exploration, discovery, service or production of oil, gas or other minerals cease for a period of 90 days or more, the owner or operator of that well shall:

(1) plug the well; or

(2) give notice of the temporary abandonment to the conservation division on forms prescribed and furnished by the conservation division.

(b) If it is deemed necessary to prevent the pollution of any freshwater strata or supply, the conservation division shall cause the well to be plugged or repaired according to its direction and in accordance with the rules and regulations of the commission. If the operations on any such temporarily abandoned well or other inactive well are not resumed within a period of one year after the notice has been given, the well shall be deemed a permanently abandoned well, and the owner or operator of the well shall comply with rules and regulations of the commission relating to the abandonment of wells. However, upon application to the conservation division prior to the expiration of the one year period, and for good cause shown, the conservation division may extend the period for one year. Additional one year extensions may be granted by the conservation division in the same manner. (Authorized by and implementing K.S.A. 55-152; effective, T-83-44, Dec. 8, 1982; effective May 1, 1983; amended May 1, 1984; amended, May 1, 1985.)

**82-3-112. Shut-off test; when required.**

Whenever it appears to the conservation division that any water from any well is migrating or infiltrating into oil-bearing or gas-bearing strata or that any

(continued)



## KANSAS INDEPENDENT OIL & GAS ASSOCIATION

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

April 2, 1986

TO: Senate Energy & Natural Resources Committee

RE: HB 3078

Some of you will remember the hearings on SB 498 in the 1982 Legislature. Our suspicions during those hearings have been confirmed. We suspected then that the joint program would face considerable difficulty. After three years of experience, we have not changed our minds.

When I was asked to serve on the Joint Oil and Gas Program Review - so-called "Blue Ribbon" Committee, I sincerely felt that this issue was finally going to be given a serious shakedown and the opportunity for change was upon us. When I was asked to chair the Organization Review Sub-committee, I accepted with enthusiasm, knowing, however, we would have to work -- work hard and long, to make our points, as there were people on the Blue Ribbon Committee who were not familiar with our industry and were unfamiliar with the program. HB 3078 is a by-product of the work of the Organization Review Sub-committee.

I am including a copy of our sub-committee report. It contains several recommendations. The conclusion of the sub-committee is that the joint regulatory program should be merged into the KCC -- as HB 3078 provides. The Blue Ribbon Committee recommended that the program be put into one agency, but did not name the agency. The vote was five to five and those opposed seemed to be concerned the KDHE would lose its traditional role of protecting groundwater. HB 3078 is designed so KDHE will continue their traditional public health role in groundwater protection.

The Sub-Committee on Organization, as you can see, spent considerable time in outlining the history of the regulation of the oil and gas industry in Kansas and the statutes and rules that are being followed.

It points out the extent of the assessment against the oil and gas industry for this regulation. For FY 1985, it amounted to \$4.8 million -- broken down as \$3.968 million for the KCC and \$723,000 for KDHE.

HB 3078 reflects Proposal No. 2 of the Blue Ribbon Organization Review Sub-committee and is a proposal that, after long discussion, is supported by the industry. This bill would move oil and gas regulatory activities of KDHE over to the Conservation Division of the KCC and the assessment of \$723,000 against our industry would cease. The KCC would assume those limited duties now found in KDHE as related to the industry.

4-02-86  
S. ENR

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Senate Energy & Natural Resources  
Committee  
April 2, 1986  
Page Two

If you will examine our sub-committee report beginning on page 10, under "Evaluation of the Joint Regulatory Program", it points up for several pages the existing inadequacies of attempting to run a program with two masters -- the confusion of duties, the criss-crossing back and forth between agencies ending up costing the regulated industry increasingly in time and expense, and the cost of the mandated review. This discussion ends on page 18.

The justification of putting the KDH&E regulatory program into the Conservation Division begins on page 18. The position is clear and makes sense. The Commission also regulates other important aspects of the oil and gas industry including utilities, pipelines, and truck transportation. You will remember the Kansas Energy Office was placed under the KCC in 1983.

Another reason we believe should be considered is the enormous undertaking that KDH&E is authorized to perform (\$41 million; 15 programs; and 600 people) and how small the oil and gas activity within KDH&E really is.

When you examine the man-hour assignments of KDH&E and how the dollars are being spent, we find it's almost an hourly ticket audit approach, in that many personnel are not applied fulltime to oil and gas matters, but assigned to many other important tasks. We think efficiency of assignments, cost savings, and accountability of dollars spent for regulated duties are better addressed under one agency, the KCC, as provided in HB 3078.

We are not aware of any detrimental fiscal impact. It probably will cost less to combine these duties. The industry has been paying for this regulation for years, but the time has arrived to make the change into a more efficient, one boss, one command, and one responsible organization. We hear it consistently -- do something about the confusion that exists between KCC and KDH&E. Our sub-committee worked very hard on this subject and you have the benefit of our efforts.

It seems to us, the Legislature should not sit idly by another year and permit the continuation of the status quo. We think the industry paying for this regulation is entitled to the most efficient and expeditious use of its money possible and it is in that spirit we ask you to seriously do something constructive in 1986. I can assure you that if you fail to act, this problem is not going to go away. It's been with us for the three years since the passage of SB 498 and we expect the same problems to continue.

Donald P. Schnacke

DPS:pp  
Attachment

8/23/85



REPORT  
of the  
ORGANIZATION REVIEW SUBCOMMITTEE  
of the  
JOINT PROGRAM REVIEW COMMITTEE

Date Submitted:  
August 23, 1985

Don Schnacke, Chairman  
R.C. "Pete" Loux  
Robert Anderson  
Bob Barnett  
Senator Merrill Werts  
Representative Ken Grotewiel

4-02-86  
S. ENR

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The subcommittee on Joint Program Organization (hereinafter, subcommittee) is comprised of the following members of the Joint Program Task Force: Donald Schnacke, chairman; R.C. (Pete) Loux; Robert Anderson; Bob Barnett; Senator Merrill Werts; and Representative Ken Grotewiel. The subcommittee was formed to study the organizational efficiency of the Joint Program; and the subcommittee had three meetings during the period of June 25, 1985 to August 23, 1985 for that purpose. The review of the organizational efficiency of the Joint Program included principally an analysis of the program functions of the Office of Oil Field and Environmental Geology of the Kansas Department of Health and Environment (hereinafter, KDHE) and the Conservation Division of the State Corporation Commission of Kansas (hereinafter, KCC), the budgetary and personnel allocations made by KDHE and the KCC in implementing those program functions, and the communication channels between and within each agency. Additionally the subcommittee met on August 8, 1985 for further review of the draft report submitted on July 25, 1985 to the whole committee, in light of all comments received.

After review and discussion of relevant documents and material, a majority of the subcommittee concluded that regulation of the oil and gas industry could best be accomplished by one agency. One agency administration will provide more efficient appraisal and management of the oil and gas regulatory program, resulting in better protection of groundwater, than was attained by the jointly administered regulatory program. With split authority over oil and gas production practices, Kansas finds itself off step with all other major producing states.

It is the recommendation of a majority of the subcommittee that all activities and practices related to oil and gas production should be regulated by the Conservation Division under the supervision and control of the State Corporation Commission of Kansas. As an alternative, the subcommittee recommends that all program activities of the KDHE office of Oil Field and Environmental Geology be consolidated under the regulatory authority of the KCC. It should be noted that both of these alternative regulations are entirely consistent with the regulatory programs now being implemented in most, if not all, oil or gas producing states. Moreover, it should be noted that, under either alternative, the KDHE would continue its historic role. Finally, if the joint regulatory program is to remain, there should be a thorough assessment and correction of its existing inefficiencies.

This report is comprised of four sections. First, the organizational and regulatory history of each agency will be highlighted. Secondly, some of the inefficiencies inherent in the Joint KDHE-KCC regulatory structure will be highlighted. The subcommittee's rationale for recommending that all activities and practices related to oil and gas production should be regulated by the KCC will then be presented. Finally, a skeletal implementation strategy will be recommended. For brevity, only the first alternative recommended by the subcommittee will be described. It should be noted that this report is preliminary and should not be read as containing an all-inclusive review and description of the joint regulatory program. It is, however, the belief of the subcommittee that this report presents a compelling case for adoption of the one-agency program hereinafter described.

History of the Oil and Gas  
Regulatory Program

Although KDHE was given authority over water pollution initially in 1907, it does not appear that the agency was given authority over oil field pollution until 1933.<sup>1</sup> The 1933 act provided that KDHE, for the purpose of preventing stream pollution detrimental to public health, could make rules and regulations concerning the disposal of industrial sewage wastes, including oil field wastes. Interestingly, the storage of salt water, oil or refuse in surface ponds was specifically allowed in the 1933 act. In 1945, KDHE was given authority to prevent brine storage in ponds when such storage was found likely to cause pollution of any fresh water strata or supply.

The KCC was initially given authority over protection of fresh water from oil field practices in 1931, in conjunction with authority to prevent the waste of crude petroleum. The 1931 act conveyed authority to the KCC to adopt rules and regulations concerning the construction of oil wells so as to protect fresh water strata. While the 1931 act gave the KCC authority to prevent pollution of fresh water strata through proper well construction, it was not until 1935 that the KCC was given the basic framework to act as an independent agency to prevent pollution from oil field practices.<sup>2</sup> The 1935 act provided that the KCC had authority to

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<sup>1</sup> While the 1907 act granted authority to KDHE (then the State Board of Health, until executive reorganization in 1974) to control the discharge of sewage into the waters of the state, sewage was defined so as not to include oil field wastes. Under the 1907 act, KDHE was given authority to permit sewage systems and to order the discontinuation of sewage disposal when injurious to the public health (Sections 3-9).

<sup>2</sup> The 1931 act provided that enforcement of KCC rules, regulations or orders was through the district court. As such, there was no administrative hearing process, and it is clear that the KCC was not given independent authority to enforce any rule preventing pollution of fresh water strata in wells drilled in Kansas.

prevent waste of oil and natural gas and to protect the correlative rights of oil and natural gas producers. In addition, the salt water disposal and repressuring wells were to be permitted by the KCC, upon proper application, before operation of such wells commenced.<sup>3</sup> The KCC was also given authority to prescribe procedures concerning the plugging of abandoned wells. Most importantly, the KCC was given jurisdiction and authority to hear and determine all matters involving the application and enforcement of the 1935 act.

Although both KDHE and the KCC were given authority over oil field pollution, each agency's jurisdiction appears to have been divided by program function until 1945.<sup>4</sup> K.S.A. 55-1003 was enacted in 1945 and prescribed the regulatory scheme by which salt water disposal wells would be permitted. Salt water disposal wells were required to be approved by both the KCC and KDHE, prior to being used. In its part of the process, the KCC was to ascertain whether or not the salt water injection well would protect oil-bearing and gas-bearing strata. KDHE was to determine whether or not water-bearing strata would be protected by the proposed salt water disposal well. In 1953, the regulatory scheme was amended to provide that KDHE would prescribe the maximum pressure under which salt water could be

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<sup>3</sup> It should be noted that an operator had the statutory right to dispose salt water into any highly mineralized water formation (Section 1, Chapter 211, L. 1935).

<sup>4</sup> KDHE was given the duty to prevent stream pollution and was authorized to regulate the disposal of oil field wastes. The Commission was given the duty to prevent subsurface pollution of water and authorized to regulate well construction and abandonment. Even in these early days of regulation, however, there was a possibility of conflict between the regulatory authority of each agency. Both KDHE and the Commission were given authority concerning the disposal of salt water associated with oil production. What the Commission may have allowed pursuant to Chapter 211 of the 1935 session laws, KDHE may not have allowed pursuant to Chapter 85 of the 1933 session laws (special session).



injected in a disposal well. In 1957, KDHE was given authority to prescribe the minimum depth at which salt water could be disposed. The KCC enforced these standards through its permitting process. In 1974, the United States Congress enacted the Safe Drinking Water Act. Under Section 1425 of the Act (as amended in 1980), state agencies could acquire primary enforcement responsibility for the control of salt water disposal wells underground injection related to the recovery and production of oil and natural gas (class II wells). In 1984, the KCC, in conjunction with KDHE, acquired primary responsibility for the class II injection well program. The act provides that the state enforcement program must achieve certain goals aimed at ensuring that salt water disposal and repressuring wells are operated so that fresh and usable waters are protected. As can be seen, permitting salt water disposal wells was the first statutorily-provided area of joint responsibility between KDHE and the KCC; and joint responsibility for the UIC Class II program has become more complex throughout the period from 1945 to the present.

There are other areas of joint responsibility between KDHE and KCC with respect to oil and gas activities. For example, the KCC's authority to investigate abandoned oil and gas wells either upon complaint or upon its own motion, for the purpose of ascertaining whether or not the wells were causing or likely to cause pollution of any fresh water supply, was granted in 1949. The statute provided that KDHE could file complaints regarding abandoned wells with the Commission. In 1955, the statutory scheme was amended to list the conditions under which conservation fee fund monies could be expended to plug abandoned wells.

In 1957, the KCC was given authority to promulgate rules and regulations concerning the cementing in of surface pipe to protect fresh water and any additional pipe needed to protect usable water. The statute

defined fresh water as containing less than 500 ppm chlorides and usable water as containing less than 5000 ppm chlorides but more than 500 ppm chlorides. The regulations were to be made in accordance with the joint recommendations of the KDHE, the State Geological Society and the State Water Resources Board.

Both the KCC and KDHE have authority to control, abate and clean up pollution related to oil and gas activities. KCC's authority is contained in K.S.A. 55-140a and K.S.A. 55-121. KDHE's authority stems from 65-171d.

In 1982, the Kansas Legislature enacted Substitute Senate Bill 498, which provided the Joint KCC-KDHE regulatory scheme which is the subject of this subcommittee's inquiry and report.<sup>5</sup> The Act provides that all operators and contractors must be licensed with the KCC, prior to commencing operations in the state. In addition, before any well is drilled, the operator must file a notice of intention to drill with the KCC; the intent to drill is to be jointly reviewed by the KCC and KDHE and approved prior to the time drilling operations begin. In addition, an operator must notify the KCC prior to setting surface casing or plugging any well; before the washing down or re-entering any abandoned well, the operator must notify the KCC 48 hours in advance. Either the KCC or KDHE may conduct on-site inspections of such drilling or plugging operations. Under the act, KDHE and the KCC have joint authority to investigate abandoned wells believed to be causing or likely to cause pollution or loss of any fresh or usable water strata or supply.<sup>6</sup>

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<sup>5</sup> The act provides that administration of the program is to be set through an interagency memorandum of agreement between the two agencies.

<sup>6</sup> SB 498 enlarged the scope of the waters which the agencies were authorized to protect. Enforcement of the plugging of abandoned wells, as well as the expenditure of fee fund monies to plug abandoned wells, is left in the sole discretion of the Commission.

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Substitute Senate Bill 498 set up a 10-member Advisory Committee which is chaired by the State Corporation Commission Chairman. In promulgating rules and regulations, the KCC is to consider the recommendations of the 10-member committee. Field enforcement of the rules and regulations is jointly administered by the KCC and KDHE. The agencies have entered into a memorandum of agreement concerning the joint operation of the six district offices. Finally, the act provides a scheme of administrative penalties and fines to aid enforcement of the act. In summary, KDHE and the KCC have joint regulatory responsibility in the following areas: Oil and Gas well completions, Class II (oil and gas) injection wells, the plugging of abandoned oil or gas wells, and the pollution caused by or likely to be caused by oil or gas wells.

In addition to its responsibilities under the joint program, KDHE has the responsibility to license water well contractors, pursuant to K.S.A. 82a-1201 et seq. Approximately 30 percent of the water wells permitted by KDHE are for oil field water supply.<sup>7</sup> KDHE also is responsible for the control, abatement and clean up of hazardous material spills.

Under the Safe Drinking Water Act, KDHE is responsible for primary enforcement of the following classes of injection wells: Class I (industry), Class III (solution mining), Class IV (hazardous waste) and Class V (other). Pursuant to K.S.A. 65-171d, KDHE regulates the storage of salt water, oil and refuse in surface ponds. KDHE also regulates salt solution mining operations. Finally, KDHE is responsible for the regulation of underground petroleum storage tanks andn LPG storage.

The KCC is solely responsible for the licensing of oil and gas well operators and contractors, implementing the Natural Gas Policy Act of 1978,

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<sup>7</sup> Water appropriation for oil field water supply wells must be permitted by the Division of Water Resources, pursuant to K.S.A. 82a-727.

hearing and determining new pool applications pursuant to the Kansas Mineral Tax Act, and preventing waste of hydrocarbons and protecting the correlative rights of producers of natural gas and oil. This last responsibility includes, among other things, the setting of oil and gas allowables, determining well locations and exceptions, controlling the venting of natural gas produced in conjunction with crude oil, determining applications for unitization and special field rules, and gas and oil well capability testing.

The agencies have undergone some growth in view of the increased responsibilities. In 1960, KDHE's responsibilities with respect to oil field pollution was administered by the Sanitation Division of the Department. The oil field section was one of six sections of the Sanitation Division; the Division was also responsible for such programs as inspection of sewage facilities, swimming pools, waste-treatment plants, and the chemical, bacterial, and radiological examination of air, water and waste samples. During the 1970s through the early 1980s, oil field pollution was regulated as part of the Division of Environment. Specifically, oil field pollution was regulated under the program description of Groundwater Pollution Control. Currently, regulation of oil field pollution is administered under the program name of the KDHE Office of Oil Field and Environmental Geology. Program operations, from 1981 to present appear to be approximately the same, under both program names; and until February 18, 1985, the oil field section was under the control and supervision of the Division of Environment.<sup>8</sup>

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<sup>8</sup> On February 18, 1985, Bill Bryson was appointed as the Director of the KCC Conservation Division/KDHE Office of Oil Field and Environmental Geology; and with respect to oil and gas related matters, he reports directly to the Chairman of the KCC and Secretary of KDHE.

From 1981 to 1984, the oil field section has added four actual full time positions (from 28 in 1981 actual to 32 in 1984 actual); actual salaries and wages expenditures have increased from \$533,120 in 1981 to \$812,066 in 1984. Overall actual expenditures for the program have increased from \$707,021 in 1981 to \$958,228 in 1984.<sup>9</sup> Budget appropriations for KDHE have increased approximately \$200,000 between fiscal year 1984 and fiscal year 1985. (\$1,044,678 was budgeted in fiscal year 1984; \$1,247,254 was budgeted in fiscal year 1985.) The Office of Oil Field and Environmental Geology is comprised mostly of Environmental Geologists. Of its current structure (Fiscal Year 1985), there are 16 geologists, an administrative staff support of 10 (including the Bureau Manager), and nine lower level field personnel. There are three basic sections: The Technical Service section, which is principally responsible for technical analysis and support for responsibilities under the Joint Program; the Regulation and Permitting section, which is responsible for the administrative processes of permitting and licensing under the statutory mandates given to the Office; and, the Environmental Geology section, which is principally responsible for groundwater contamination inspection and monitoring of UIC wells, as well as implementing spill containment responsibilities.

Until February 18, 1985, the KCC Conservation Division was administered by an administrative director who was responsible directly to

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<sup>9</sup> Budgetary Documents prior to Fiscal Year 1983 were not comparable to Fiscal Year 1983 budget documents and those following. For comparison purposes (and particularly since the scope of this report concerns implementation of Substitute Senate Bill 498 from July, 1982), the authors of this report chose to use actual expenditures for the Conservation Division and Bureau of Oil Field and Environmental Geology from 1981 to 1984. Actual expenditures for Fiscal Year 1985 had not yet been compiled at the time of this report.

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the three-member Commission. Matters concerning the oil and gas activities regulation by the Division are discussed and decided by the three Commissioners in regularly scheduled meetings which are open to the public. For some matters, the Oil and Gas Advisory Committee is consulted prior to discussion and decision by the Commission. Actual full time employee positions of the KCC Conservation Division have grown from 36 in 1981 to 69 in 1984. The positions added have principally been field-level staff, and a technical section. Actual expenditures for the Division have increased from \$907,790 in 1981 to \$2,243,755 in 1984; actual salaries and wages expenditures have consistently comprised approximately 60 percent of the total expenditures (\$596,515 in 1981 to \$1,472,220 in 1984). The second largest line item expenditure for the Division is travel and subsistence (which is principally used to pay vehicle mileage for field inspections). Budget appropriations for the KCC increased approximately \$600,000 from fiscal year 1984 to fiscal year 1985. (\$2,966,931 was budgeted in fiscal year 1984; \$3,593,440 was budgeted in fiscal year 1985.) The current structure of the Wichita Conservation Division office (Fiscal Year 1985) is principally comprised of administrative staff (31 positions, which includes both mid-level and upper-level management and all clerical support). The Division has a technical support staff of eight (which includes a hydrologist, a chief engineer, a petroleum engineer, two geologists and three attorneys). Field staff comprise the remainder of the Division (37 employees), and were added in Fiscal Year 1982 and Fiscal Year 1983, in response to the enactment of Substitute Senate Bill 498.

#### Evaluation of the Joint Regulatory Program

It should be noted at the outset that it is the perception of this subcommittee that passage of Substitute Senate Bill 498 was a worthwhile

measure taken in the regulation of the oil and gas industry. Senate Bill 498 addressed a number of the inefficiencies which existed in the regulatory program prior to 1982. It is, however, the view of the subcommittee that there are some inherent inefficiencies in the jointly administered program, which could logically be addressed by consolidating regulation of all activities related to oil and gas production into one agency.

Prior to the enactment of Substitute Senate Bill 498, there was a low level of enforcement between both agencies. There would seem to be three major causes of the low level of enforcement: First, there appears to have been a low level of budgetary emphasis placed on field level implementation of regulatory goals. Secondly, there appears to have been little formal coordination of effort between the two agencies in preventing oil field pollution. Finally, there appears that there was an inadequate amount of remedial or enforcement measures available to the agencies, once a violator was found.

Since the passage of SB 498, field-level staff between the two agencies has approximately doubled in size. In addition, the staff of both agencies have been moved into six joint district offices. There has been a considerable effort made to cross-train field staff employees in some areas. High level management meetings between the two agencies have been regular and have helped to ensure the consolidation of regulatory effort. The 10-member Oil and Gas Advisory Committee has been used to ensure that regulatory policies are technically sound. Finally, the administrative remedies and penalties, in conjunction with the licensing of oil and gas operators and contractors, has helped to increase compliance with regulatory goals.

The subcommittee perceives that the agency heads of both KDHE and the KCC have worked hard to implement the mandates expressed in substitute Senate Bill 498. The subcommittee also perceives that, although improvements have been effected, implementation of the joint program goals and coordination at the field level and midmanagement level of both organizations has been weak. It is believed that some of the implementational obstacles were due to the personalities involved, while others lie in the nature of any jointly administered program between two agencies.

First, and perhaps foremost, both agencies could use a more efficient compliance and permitting tracing system.<sup>10</sup> At present, compliance tracking at the district level is performed through a permanent file system in conjunction with a log book. All matters, which come into the district office are entered in the log book. Until the matter is resolved, the relevant documentation is retained in a pending file. Once the matter is resolved, all documentation is placed in a permanent file. In some districts, a bulletin board is used to indicate matters which require further district action.

It is the perception of the subcommittee that the present system of compliance tracking is inadequate, for a number of reasons. First, to ascertain the status of any given matter pending requires considerable effort. The file must be located and reviewed. Moreover, there does not appear to be any readily available method available to set field priorities, in cases of more routine nature. Finally, there does not appear to be any readily available means of classifying matters which have

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<sup>10</sup> It has been brought to the attention of the subcommittee that both agencies are in process of computerizing a compliance tracking system.



been addressed and/or resolved by district staff. The inadequacy of the present tracking system hinders the efficiency of central management of district staff. The lack of information which can be compiled and channeled through the hierarchy appears to result in a forced decentralization of decision-making. It is the belief of the subcommittee that considerable discretion should be allowed to district staff in the implementation of the joint program; however, information on action taken by district staff must be readily available if there is to be an optimal amount of managerial control. 11

A computerized tracking system could also enhance the permitting and licensing systems of both agencies.<sup>12</sup> Such a system would allow the agencies to easily ascertain the specific industry operations which have and have not been permitted. Consequently, compliance efforts could be enhanced. In addition, such a system could be used to track the status of applications pending before the agencies. That information would, in turn, allow improved managerial analysis of time and resource allocations in joint agency programs.

Another programmatic inefficiency perceived by the subcommittee regards the communication channels between the two agencies. There appears to be cases where there has been little communication between agencies, prior to an action being taken. There have been instances where the Officer in Charge and the Deputy Officer in Charge have failed to communicate on action taken in the district. Moreover, prior to February 18, 1985, there

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<sup>11</sup> It is noted that there is a review of district action taken of files and correspondence which are submitted to the agencies' central office.

<sup>12</sup> The Commission is in process of computerizing its operator and contractor licensing department. The system is due to come on-line in or around September, 1985.

was little inter-agency information affected, either in the form of district-central office meetings or from district staff of one agency to central management of the other agency.<sup>13</sup> There are obviously two principal inefficiencies which emanate from lack of inter-agency communication. First, if allowed to persist, a perception of distrust arises between agencies which will affect joint program operations. Secondly, where policy is not discussed between agencies and a consensus of policy made, there arises the possibility that the agencies will require inconsistent procedures to be performed by the industry member affected. Consequently, no clear guidance is given to the regulated enterprises, confusion follows, and there is an inefficient allocation of resources made in terms of compliance goals.<sup>14</sup>

It should be noted that improvement in communication and compliance tracking should result in increased access to data such as water quality and geological information. It is a common-sense proposition that monies expended on studies, before ascertaining the information already available and before priorities of informational needs are established, generally result in an inefficient allocation of agency resources.

Despite any improvement which could be made with respect to the above-mentioned inefficiencies, there appear to be three inherent

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<sup>13</sup> District-central office meetings were principally confined to annual or biannual cross-training seminars; Officers in Charge continued to have meetings in Topeka, and Deputy Officers in Charge continued to have meetings in Wichita. It is noted that the Joint Memorandum of Agreement set up district office meetings on a weekly basis.

<sup>14</sup> It is perceived by the industry and other state agencies generally that inter-agency communication has improved since February 18, 1985.

weaknesses in the joint program, which could logically be resolved by consolidating all regulation of the oil and gas industry into one agency. The first can be classified as a resource overallocation, and is most noticeable in the intent to drill program, the UIC program, and the joint management meetings mandate. Significantly, these overallocations are required by statute.

K.S.A. 55-151 requires that both the KCC and KDHE review intents to drill which are filed with the KCC. Specifically, the statute requires that the KCC review "the amount of pipe necessary to protect all usable water..." KDHE "shall determine that the proposed construction of the well will protect all usable water."

Under K.S.A. 55-901, K.S.A. 55-1003 and the Safe Drinking Water Act of 1972 (Section 1425), the Commission and KDHE review applications for approval to inject salt water in Class II wells. The review of both agencies include the proposed construction of the subject well to ascertain that fresh and usable water are being protected. Figure No. 1 indicates the amount of review given to each UIC application filed with the KCC. As can be seen, a Class II UIC application is reviewed as often as six times and is sent back and forth between Topeka and Wichita, prior to approval being obtained.<sup>15</sup> In addition, meeting EPA mandates under the Safe Drinking Water Act can be somewhat problematical where two agencies are involved in the implementation of the program.

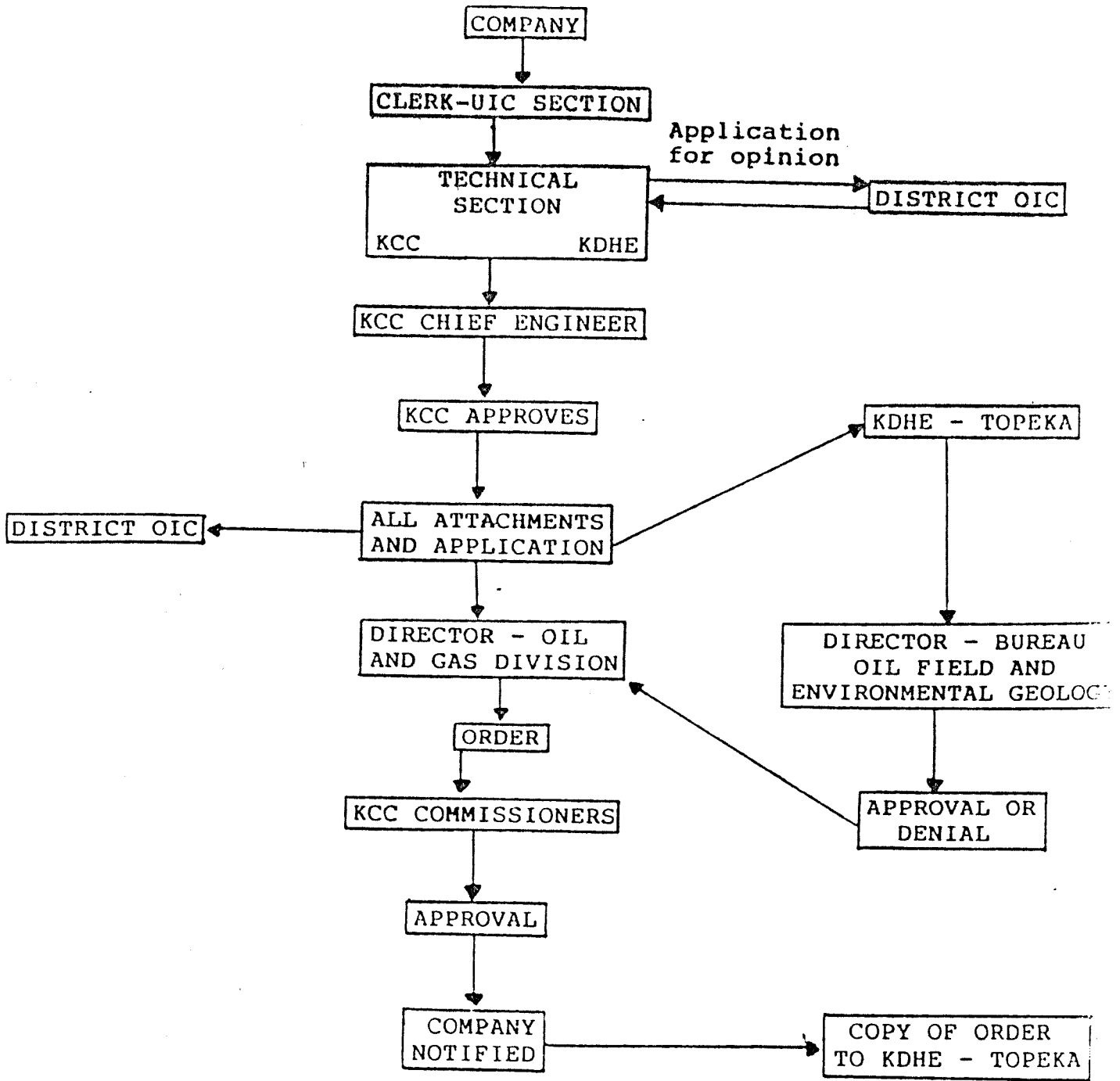
Pursuant to 55-163, the Secretary of KDHE, the Chairman of the Commission, and upper level management of both agencies are required to meet to discuss joint management on a bi-monthly basis. In each of these

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<sup>15</sup> It has been brought to the attention of the subcommittee that the KCC is evaluating the UIC program in order to effect changes for efficiency.

Figure 1

PROCESS FOR APPROVAL OF  
INJECTION WELL APPLICATION



areas, resources are allocated in a duplication of review of which would not be necessary if one agency had sole jurisdiction over the oil and gas regulatory program. The resources that are allocated for these mandates could be expended in other areas in order to improve compliance for the benefit of the environment as well as the industry at large.

An inefficiency of the joint program which is associated with the duplication of review, can be classified as time-lag. It stands obvious that, anytime there is to be a review by two agencies of a specific and individual problem, there is a time-lag associated with the process. In the UIC program, for example, an application must be sent to Topeka for review by KDHE, and a letter of approval forwarded to the Wichita Conservation Division from that office before the order is prepared for the Commission's approval. In some cases, mailing and filing time can be significant.

Both of these inefficiencies have costs, which affect the industry and protection of the environment. The first cost is the direct cost associated with the allocation of time and resources. Time and man-hours expended in areas where a review is duplicative could be expended in other important areas. The second cost is the indirect cost associated with the time-lag inherent in the mandated review. While the state is achieving duplicative reviews of the problem pending, the industry member affected is realizing costs (a 24-hour delay in the approval of an injection well application can cost up to \$10,000). In addition, there is an indirect cost associated with continuation of an environmental problem, while the reviews are being conducted. Finally, there appears to be an external cost associated with the overallocation of time and resources. The time delay associated with the mandated reviews diminishes the relationship between

the industry and the regulator and compliance becomes more arduous.

Certainly it can be argued that duplicate review by the KCC and KDHE serves as a countercheck on the discretion of each agency. The subcommittee considered this benefit; however, the 10-member advisory committee ably fulfills this function as well as the management control inherent in each agency. In addition, there has been a considerable amount of legislative oversight and scrutiny by other agencies of Oil Field regulation; and it appears that the focus on Oil Field activities will remain keen for quite some time. Under the circumstances, the countercheck served by the duplication of review seems unnecessary and expensive. In short, the subcommittee cannot find where the benefits of the Joint Program outweigh the costs associated with it.

Another programmatic inefficiency inherent in the joint regulatory program is the lack of central accountability concerning actions taken by the employees of each agency. In short, the Civil Service guidelines regarding discipline of employees seems ill-suited to a jointly administered program between two agencies. There is a tendency of the authorized agency to discount reports from the other agency involved that an employee of the authorized agency has taken action which should be disciplined. Secondly, there is a reluctance to admit that action taken by one of the agency's own employees is outside of the joint program goals. Consequently, disciplinary steps are often not taken and the employee's behavior is reinforced.

Finally, there has been some confusion among industry and environmental members as to which agency is responsible for certain aspects of regulation of the oil and gas industry. Members of the industry have to ascertain, through the statutes of each agency, which agency is responsible

for enforcement of the compliance goals set by the regulatory scheme. Similarly, those who wish to report violations must locate the correct reporting agency. Due to the confusion inherent in a jointly administered program, compliance is achieved inefficiently at best. It is noted by the subcommittee that Kansas is the only major producing state that does not place oil-related water protection in the agency responsible for oil and gas proration.

Consolidation of the Oil and Gas Regulatory Program  
Into the Conservation Division

Given that the oil and gas regulation is to be consolidated into one agency, the next logical step is a justification for locating the program into one agency or the other. There appear to be three principle reasons justifying the placement of the oil and gas program into the Conservation Division under the control of the Commission. These are: The KCC has the most well-established administrative process; stability of the regulatory environment; and convenience of the relocation.

The subcommittee notes that both agencies have procedures by which rules, regulations and administrative orders are made. The subcommittee further notes that basically each of the agencies' procedures are similar. The KCC's hearing procedure seems to be the better established procedure of the two agencies. First, the hearing procedure has been in existence for over 50 years. Secondly, the procedure has been used extensively to process dockets before the KCC concerning all types of oil and gas regulatory matters. In fact, it would be a fair estimate that from 35 to 50 hearings are held before the KCC or its designated agent every month. We fail to see this established system of hearings in KDHE, at this time. In addition, the KCC has a well developed set of rules and regulations of practice and procedure. It should also be noted that decisions of the KCC

are made after discussion by the three Commissioners in an open public meeting. The three Commissioners often arrive at different perceptions regarding the evidence presented, and the decision is thereby benefitted. Finally, and perhaps most significant, the scope of review of KCC decisions has been very well outlined by a number of cases from the appellate courts.

It is important to note that, in any matter before the KCC, there are a number of varied interests involved: The applicant, of course, has an interest; the landowner, upon whose land the matter proposed by the applicant is situated; other agencies may have an interest; and there could be any number of offsetting operators and/or unleased mineral owners. Significantly, each and every person involved in a matter before an administrative agency would want a fair opportunity to express their interest and concerns. The fairest opportunity which could be provided is a hearing with all the elements of substantive and procedural due process. It is the contention of this subcommittee that the more established a hearing procedure is, the more clear the pertinent rules are, and the more fairly the varied interests can be expressed and considered. The subcommittee believes that the KCC's hearing procedure best offers these benefits. The subcommittee also notes that, for the past five years, the KCC has developed and used a rule-making procedure which allows direct input of any person who is interested or concerned.

The second reason for locating the oil and gas program in the Conservation Division is stability of regulatory environment. We note that the oil and gas regulatory program has remained a steady responsibility of the Conservation Division for the past 50 years. It is the largest Division of the Commission. KDHE has approximately 15 programs which it administers every year, and it has over 600 full time employees. In



addition, KDHE activities regarding the Safe Drinking Water Act and the RCRA are expected to expand by congressional action in the present session. If the oil and gas program were to be located in KDHE, the principle of span of control would probably dictate that the program be incorporated into the Division of Environment. We note that the Division of Environment has undergone some major changes in the past years. The subcommittee believes that the concerns of the industry and the environment with regard to the oil and gas program warrant the type of specialized attention which the Commission can and will give.

Finally, convenience of the relocation effort is another for placing the oil and gas program in the Conservation Division. The Conservation Division has sole responsibility in a number of areas such as establishing of oil and gas market demand, unitization, establishing special oil and gas field rules, administering the Natural Gas Policy Act, implementing some aspects of the severance tax, controlling the venting of natural gas produced in connection with crude oil, and other important areas. Consequently, the statutory authority of the Conservation Division stems throughout Chapter 55 of the Kansas Statutes. KDHE, on the other hand, principally draws its responsibility in the area of the oil and gas related programs, which the subcommittee recommends being placed in the KCC, from K.S.A. 65-171d through 65-171f. It is the belief of the subcommittee that, although any relocation of the oil and gas program into any one agency would have its complexities, the more convenient choice would be to place the program into the Conservation Division.

Oil and Gas Regulatory Program  
(Structure)

A relocation of agency responsibility should begin with a description of the methodology. The methodology used to relocate the oil and gas

program in the Conservation Division starts with a description of the programs of each agency. The programs must then be allocated between the two agencies. Along with the allocation of the programs must be associated an allocation of employees, equipment and budget. The budget should show the collection and expenditure of monies collected. Finally, there should be presented a plan of relocation.

Joint Program responsibility exists in the following areas: Oil and Gas well completions, class II (oil and gas) injection wells, the plugging of abandoned oil or gas wells, the investigation of pollution caused by or likely to be caused by abandoned oil or gas wells and oil spills and containment. KDHE has independent responsibility for the following programs: Hazardous materials spill prevention and containment, all classes of injection wells (except class II), the licensing of water well contractors, the permitting of surface ponds and emergency pits, salt solution mining operations, LPG storage, and underground petroleum storage tanks. The Commission is solely responsible for the licensing of oil and gas well operators and contractors, implementing the Natural Gas Policy Act of 1978, hearing and determining new pool applications pursuant to the Kansas Mineral Tax Act, and preventing waste of hydrocarbons and protecting the correlative rights of producers of natural gas and oil. This last responsibility includes, among other activities, the setting of oil and gas allowables, determining well locations and exceptions, controlling the venting of natural gas produced in conjunction with crude oil, determining applications for unitization and special field rules, and gas and oil well capability testing.

In dividing these programs, the subcommittee started with the proposition that all programs directly related to oil and gas production

should be placed in the Conservation Division. Since all programs currently administered by the Conservation Division are so related, these programs should remain as currently situated. Furthermore, all joint program activity should be situated solely in the Conservation Division.

The remaining programs to be divided are those left to the sole jurisdiction of KDHE. The principal area which KDHE administers and which is directly related to oil and gas production is the investigation and abatement of groundwater pollution caused by oil and gas activities and surface pollution caused by the escape of oil, salt water or refuse from the vicinity of wells. These activities would be transferred to the KCC.

The subcommittee notes that approximately 30 percent of the water well contractors licensed seek permission to use the wells for oil field water supply. The subcommittee notes, however, that end use of the water is permitted under the administration of the Chief Engineer of the Water Resources Board. As such, the KDHE part of the water well program is related directly to water and environmental concerns and only the end use of the product should directly affect the oil and gas industry. Since permission is directly related to end use priorities of state water planning as a whole, the subcommittee chose to leave the program as it is currently situated.

In addition, underground storage tanks and LPG storage, do not appear to be related to oil and gas production; and the subcommittee would recommend that those programs continue to be administered by KDHE. These programs appear to be more closely related to the environmental concerns of the storage of a finished petroleum product than related to the production of oil and gas. Similarly, the subcommittee would have KDHE retain the programs of permitting surface ponds and emergency pits. Emergency pits

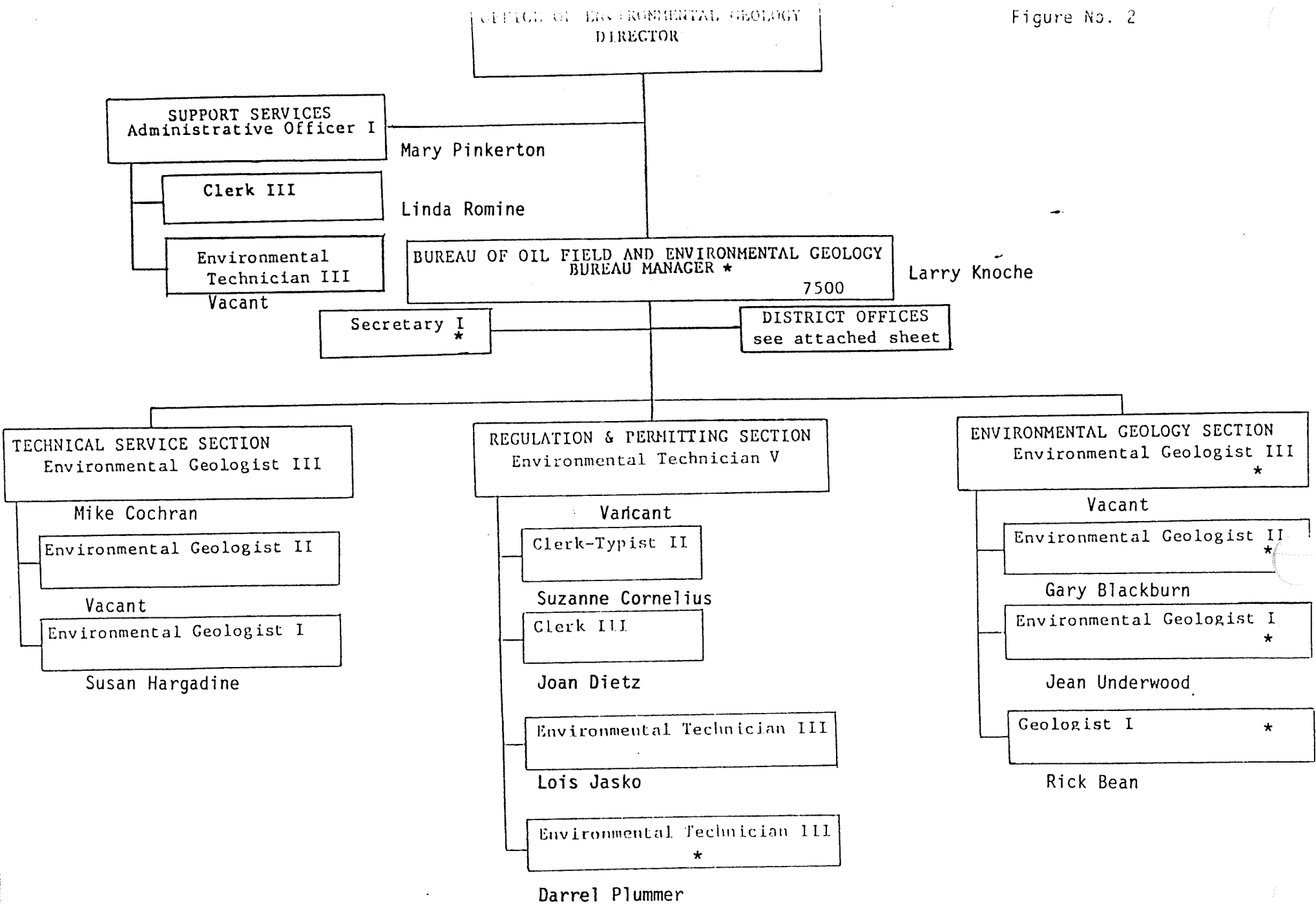
are located in the vicinity of petroleum storage tanks; and, as such, appear to be more closely related to the underground storage tank programs than related to oil and gas production. Surface ponds seem to be more closely related to brine storage (in tanks) and brine hauling than related to the UIC Class II program.

The next step in the subcommittee's methodology was to divide the KDHE employees between the two agencies. The subcommittee used the employee responsibilities and time accounting data for Fiscal Years 1984 and 1985, for purposes of this allocation. Approximately 65 percent of the time spent by KDHE employees is spent on the oil and gas related programs mentioned above. Program descriptions of all employees followed approximately this percentage. Upon this information, the subcommittee allocated 23 KDHE employees to the oil and gas regulatory program. The employees retained in KDHE are the Bureau Manager and Secretary, three geologists in the Environmental Geology section, an Environmental Technician in the Regulation and Permitting Section, and four geologists and two environmental technicians in district offices. Schematically the relocation of these positions can be seen on Figure No. 2 and Figure No. 3. The historic role of KDHE should continue.

The subcommittee made the assumption that all equipment closely associated with the reallocated employees should be transferred to the oil and gas program. Such equipment would include file drawers, desks, typewriters and other such equipment. Use of other equipment in the oil and gas program would be pursuant to a memorandum of agreement entered between the two agencies. Use of office space (District and Topeka Offices) would also be subject to a memorandum of agreement.

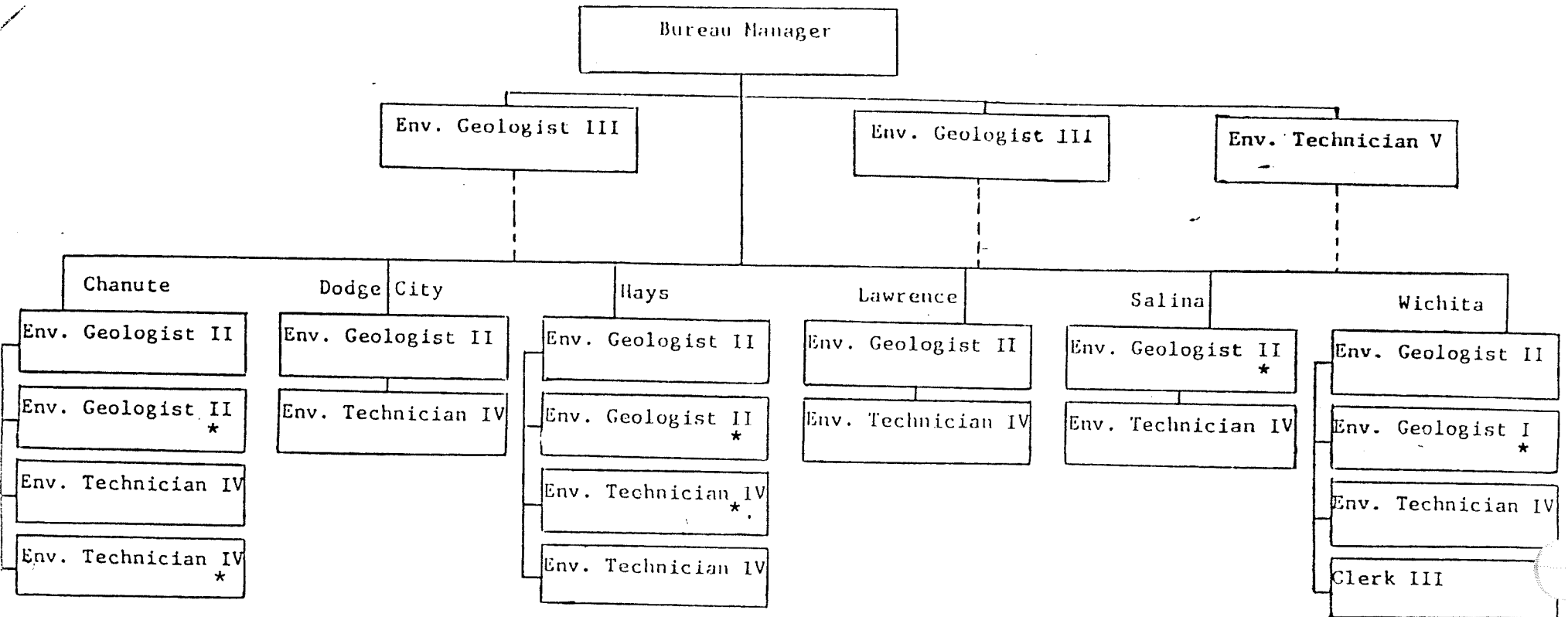
Budget allocation was also made pursuant to the time accounting data of KDHE. The Committee would recommend a transfer of approximately

Figure No. 2



\* Indicates Employees Retained at KDHE

Figure No. 3



\*Indicates Employees Retained at KDHE

\$810,000 from KDHE to the oil and gas program (based upon 65 percent of the Fiscal Year 1985 estimated budget). The budget transfer would be comprised of the following fees: Oil and Gas Assessments (currently designated by KDHE as Conservation Fee Fund assessments, but excluding assessments made for the surface pond and emergency pit programs), 40 percent of the UIC grant monies and the termination of any transfers of conservation fee fund monies from the Conservation Division to KDHE.

The subcommittee would recommend the following plan of employee relocation. First, reallocated district staff will remain in their present location. The Conservation Division will then be divided into three sections: Oil and Gas Proration, Technical Service, and Permitting and Licensing. The Oil and Gas Proration Section will remain as it is currently staffed. Reallocated KDHE employees will be divided between the Technical Service and Permitting sections. There will be three areas of support services under the reorganization: Administrative Support (located in the Topeka and Wichita offices), Legal Services (in Wichita), and Computer/Data Services (in Topeka). Under the plan of reorganization, the Oil and Gas Proration section would be responsible for administering the following programs: Gas Proration, Oil Proration, NGPA, and New Pool determinations pursuant to the Kansas Mineral Tax. The Permitting and Licensing Section would be responsible for the administrative processing of the following: Operator Licensing, UIC (Class II) applications, Temporary Abandoned Wells, Intents to Drill, and all forms and reports filed with the Commission or KDHE currently (as related to the oil and gas program). The Technical Service Section would provide technical analysis to all departments requesting such support. The section would also be responsible for field inspections and field compliance matters. The organization chart

of the proposed Conservation Division can be seen on Figure No. 4, Figure No. 5 and Figure No. 6.

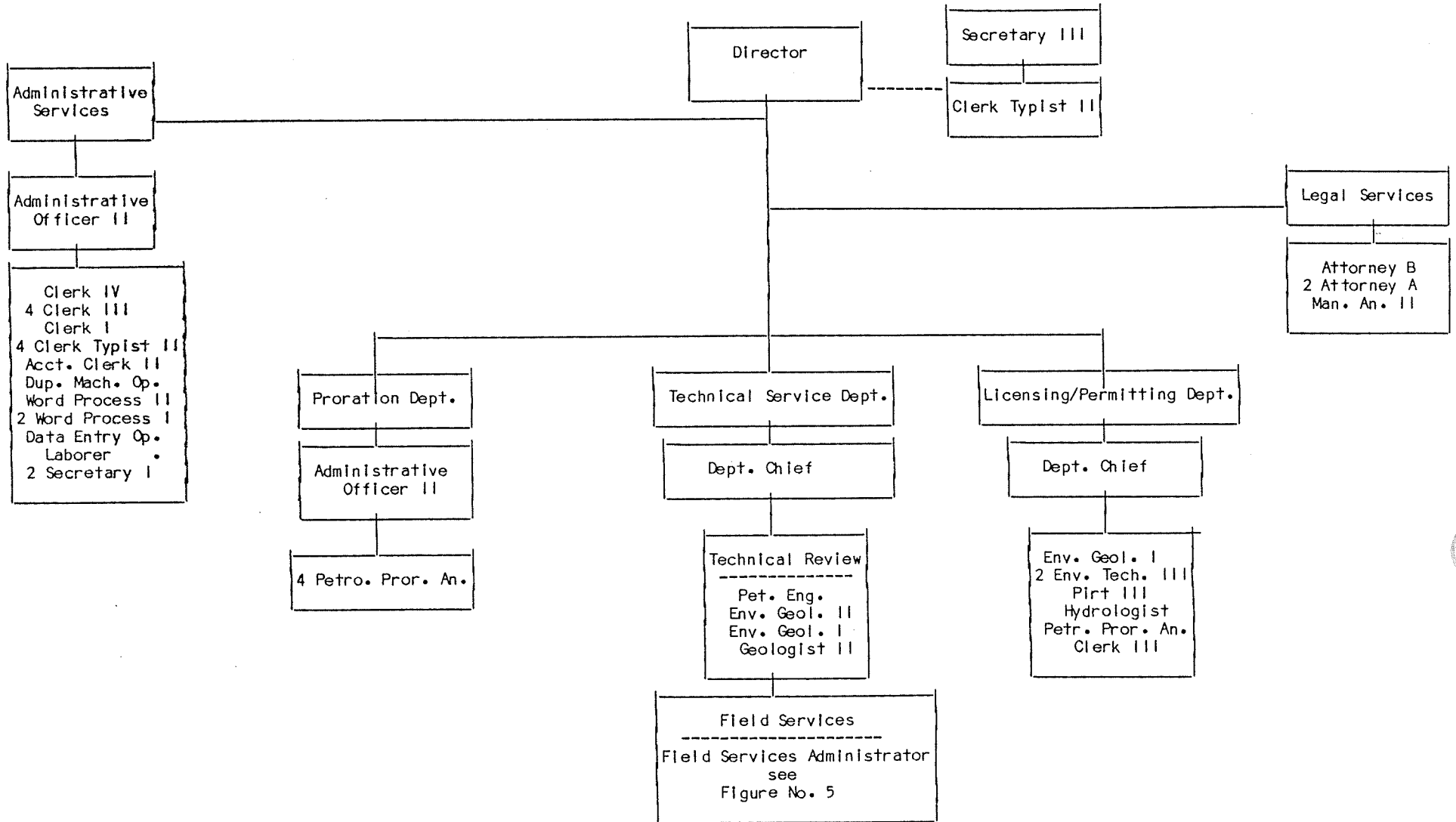
It is important to note that the subcommittee endorses the work of the 10-member Advisory Committee. The Advisory Committee functions well as a forum for discussion and review of KCC regulations and policy relating to the oil and gas industry. The subcommittee recommends the continued use of the Advisory Committee, under the program outlined in this report.

In implementing this plan of reorganization, there will have to be a number of memorandum of agreements either executed or amended: These include, at the least, agreements between the Conservation Division and the EPA, KDHE Laboratory Services, KDHE Division of Environment, and the KDHE Division of the Administrative Services. In addition, a specific plan for equipment, employee, and fee reallocation will have to be formulated. For the purpose of arriving at an amicable reallocation, it is the suggestion of the subcommittee that the following personnel be directed to formulate such a plan: The Budget Administrative Offices of each agency, the KDHE Bureau Manager, and the Conservation Division Deputy Director. The plan shall be subject to review by the Director of both Divisions and ultimately by the Secretary of KDHE and the Chairman of the Commission. Since the Joint Program Task Force is responsible to the Chairman of the KCC and the Secretary of KDHE, who are in turn responsible to the Governor, it is the recommendation of the subcommittee that the Chairman and the Secretary propose an implementational strategy to the Governor for his approval or modification. The implementation of the reorganization plan of the Secretary and the Chairman, if approved by the Governor, would be accomplished through an order of executive reorganization.



Proposed Organization Structure

CONSERVATION DIVISION  
Wichita Office



Field Services

Field Services Administrator

Plugging

District Field Offices

Dist. #1 Dg. City

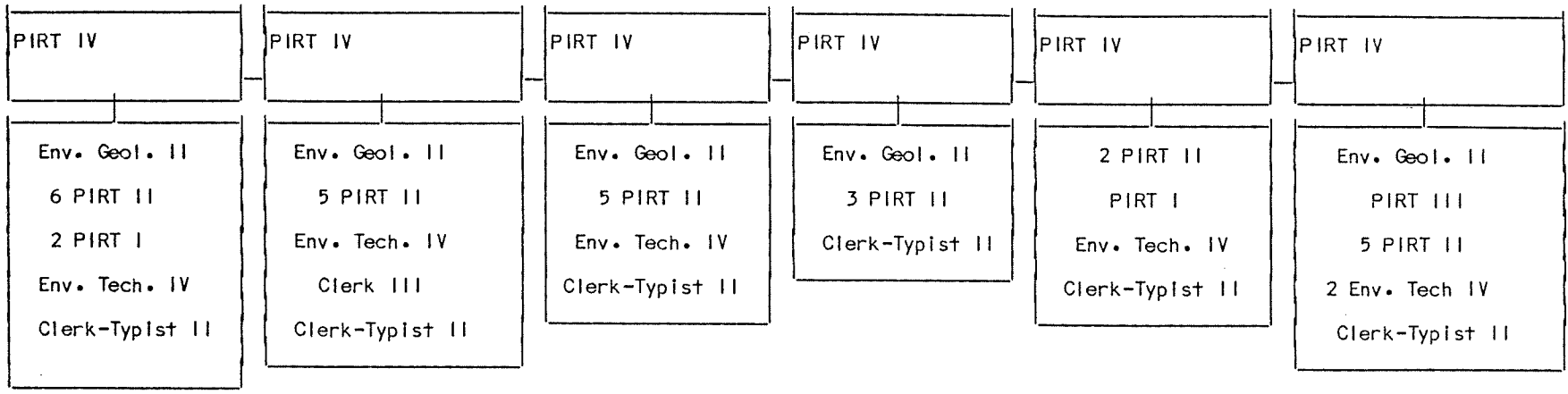
Dist. #2 Wichita

Dist. #3 Chanute

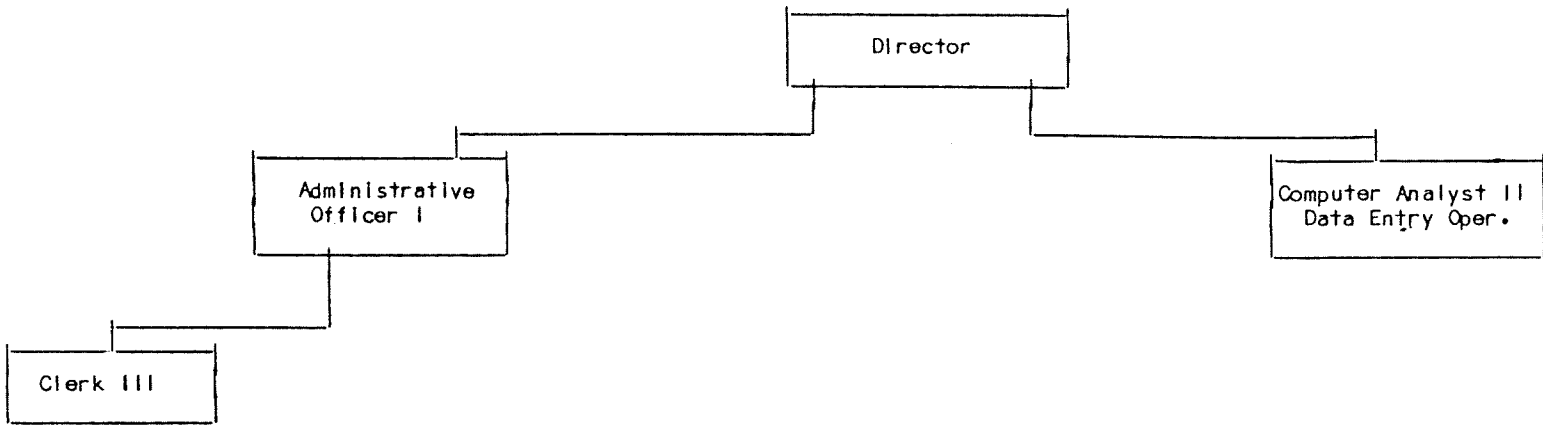
Dist. #4 Lawrence

Dist. #5 Salina

Dist. #6 Hays



Proposed Organizational Structure  
Conservation Division  
Topeka Office



**KANSAS WATER AUTHORITY**

Suite 200, 109 S.W. 9th Street, Topeka, KS 66612 (913) 296-3185



*H. Philip Martin, Chairman*

P.O. Box D, 702 Broadway, Larned, KS 67550 (316) 285-6514

March 11, 1986

The Honorable Merrill Werts  
Kansas Senator  
Room 120-S, Statehouse  
Topeka, KS 66612

Re: H.B. 3078

Dear Senator Werts:

The Kansas Water Authority, with the assistance of the staff of the Kansas Water Office, has reviewed the above referenced legislation and kept abreast of its consideration by the legislative committees. People throughout Kansas have made it very clear that the protection of the quality of our ground and surface water is of utmost importance. People have also contacted Authority members with specific examples and have asked for assistance and direction.

The Authority is firmly committed in 1986 to a reassessment of the Quality subsections of our State Water Plan. We also desire to be in a position to make additional recommendations to the Legislature at the commencement of the 1987 Session. To address these issues, it is imperative that we have a commitment from all agencies in order that we may develop a sound program which will respond to the needs expressed throughout the state.

The Kansas Water Authority, at its March 6, 1986, meeting in Manhattan, approved a motion to offer assistance to review these issues in detail in 1986. The Authority would respectfully recommend that the Legislature withhold formal action this session on proposed legislation that would modify the existing structure of governmental agencies having responsibilities to meet these problems. We would like to provide an overview for the Legislature and a listing of specific recommendations for 1987. Members of the Authority believe this is in compliance with their statutory responsibilities.


4-02-86  
S. ENR

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The Honorable Merrill Werts  
Page 2  
March 11, 1986

Please accept this letter as an offer of help. We do not want to delay consideration of quality issues but we want to do our best in assuring that a solution will be forthcoming. The Kansas Water Authority stands ready to assist and work cooperatively with you and other members of the Legislature. Thank you for considering our request and I will await further word or direction from you.

Sincerely,

  
H. Philip Martin  
Chairman

KANSAS DEPARTMENT OF HEALTH AND ENVIRONMENT

TESTIMONY ON HB 3078

PRESENTED TO SENATE ENERGY AND NATURAL RESOURCES COMMITTEE  
ON APRIL 2, 1986.

This is the official position taken by the Kansas Department of Health and Environment on House Bill 3078.

BACKGROUND INFORMATION:

Kansas was the first state to recognize that water quality protection from oil field related activities and the conservation and prevention of waste of oil and gas resources were not parallel unrelated issues. Although the statutory responsibility for each agency differed, there was an overriding cognizance that environmental protection and the conservation of petroleum resources needed to be considered equally and simultaneously in the drilling of any hole.

Chairman Lennen and I agree, the passage of Senate Bill 498, with the concomitant strengthening of enforcement authority and the provision of significant, new resources with which to do the job has markedly raised the level of groundwater protection activity in the state. It is also our view that the program has experienced steady improvement since its inception and today functions more smoothly and effectively than it did even a year ago.

In addition to internal analysis and review, the joint program

4-02-86  
S. ENR

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has actively sought advice and counsel from those outside our respective agencies. The most formal manifestation of that effort was the appointment of a Joint Oil and Gas Review Committee in May of 1985. It was composed of individuals representing diverse interests, but sharing a special concern for groundwater protection as it related to oil and gas activities. It included four members of the Legislature.

The Review Committee was asked to study current technical, administrative and organizational performance and to develop both short and long term recommendations for program improvement.

The final report was delivered in mid-December. Copies have been submitted to the Legislature. I would encourage your consideration of it as you deliberate upon the question of whether or not there should be structural change in the Joint Program.

Included in the report is an extensive history of the Oil and Gas Regulatory Program. This history was prepared by the Sub-Committee on Joint Program Organization -- one of two sub-committees established in order to facilitate both organizational and environmental review. Interestingly, it sets out in some detail areas of joint or complementary responsibility that existed for KDHE and the KCC many years before the passage of Senate Bill 498. That legislation was, in fact, a response to the need to achieve better coordination between the two agencies in carrying out their complementary regulatory responsibilities as they related

to the protection of fresh and usable groundwater.

With respect to the organizational issue, the joint review committee made the following recommendation:

The joint committee agreed that as a long-range goal, the Senate Bill 498 Regulatory Program should be placed under the control of one single agency.

#### Discussion of H.B. 3078

By transferring exclusive jurisdiction and authority to regulate oil and gas activities including protection of surface water and groundwater from pollution, several potential problems with regulatory authority are created.

The oil and gas regulatory program as set out by H.B. 3078 would result in a duplication of effort and inefficient use of fiscal and manpower resources.

Under H.B. 3078, an oil and/or salt water spill that occurs on the lease comes under the jurisdiction of the KCC. Once the pollution leaves the lease property, KDHE has jurisdiction. This results in two identical staffs working on what is actually a single problem. In effect, a joint program would exist with this difference when compared to the current joint program. Twice the money and manpower would be expended in solving a problem. If polluted groundwater leaves the lease property, the problems become more complex.



There would also be coordination problems with other agencies in regards to spills of crude oil and salt water. Which agency will contact EPA and/or Emergency Preparedness when a spill occurs? There will be problems in determining which agency the spill should be reported. The other agencies involved will have coordination problems themselves in their not being sure whom they are to work with on certain situations. In some cases, the EPA or Emergency Preparedness may have to work with both KCC and KDHE causing a loss in program efficiency for EPA or Emergency Preparedness.

An expenditure of \$490,000 would be required to replace technical qualified staff for KDHE to carry out remaining groundwater pollution control responsibilities, some of which would be related to off site lease investigation. The Commission would have to provide separate physical arrangements to house the transferred personnel in all district locations. In our view, the money spent for these salaries and provisions could be better applied to program enhancement which would improve surveillance and enforcement responses.

#### Review Committee Recommendations

We have already begun to implement several of the short range goals of the Joint Oil and Gas Program Review Committee. The FY 1987 Budget for both KCC and KDHE proposes six additional clerks for the joint district office and the elevation of six part-time KCC clerks to full time. This alleviates one of the staff shortages not accounted for when the 498 program was implemented.

A compliance and water quality complaint tracking system is in the process of being set up to create a more exacting and

efficient follow-up system. A memorandum of agreement between the Joint Program and several of the Groundwater Management Districts is in the final stages of review which relates to communication on complaints and problems.

Other recommendations of the task force such as program cross training of field staff has been enhanced to provide continuity of instruction. The KCC and KDHE personnel in the Joint Program are now on equivalent salary ranges.

Two meetings have been held in Eastern Kansas to open lines of communication with industry on regulation interpretations and changes. These forums will continue as an ongoing program activity.

The involvement of Joint Program personnel in the Burrton and Hollow-Nikkel Oil Field brine pollution investigation exhibits a dedication to prioritizing groundwater pollution problems. Areas of Cedar Hills disposal are being reviewed by staff committees to address concerns over future pollution to groundwater. Restoration of polluted aquifers is a new activity but one which is actively being pursued. Participation of KCC and KDHE staff in Basin Planning Committees and the Groundwater Strategy Task Force is part of a process to deal with the broader issue of oil and gas field pollution.

The recommendation to tag plugs in the Dakota Aquifer Protection Plan was implemented in March and addresses an amended KCC regulation to allow this to happen as a regulatory activity.

## Conclusion

Both Chairman Lennen and I agree that the present Joint Oil and Gas Regulatory Program is working and it is our desire to continue the coordinative arrangement that was established in January 1985. The present Joint Program has been in existence for one and a half years and has made great strides in the implementation of the 498 legislation. Any organizational changes at this time will result in increasing costs and complexity to the state and the regulated industry.

## SCOPE STATEMENT

### Regulation of Oil and Gas Well Operations in Kansas

Drilling for oil and natural gas carries with it the risk of polluting the underground aquifers that contain fresh and usable water. Following the proper procedures for drilling, operating, and plugging oil and gas wells keeps the risk of pollution manageable. State law places the responsibility for enforcing these procedures with the State Corporation Commission and the Kansas Department of Health and Environment.

Senate Bill 498, passed by the 1982 Legislature, strengthened the requirements for operating and testing injection wells and plugging abandoned wells. The same legislation created a joint program with the Corporation Commission and the Department of Health and Environment. That joint program was charged with administering the extended requirements. Recently, legislative concerns have been raised about the effectiveness and consistency of the joint program's enforcement activities. An audit in this area would be done in two parts, and would address the following questions:

#### Part 1: Enforcement of Well-Plugging Requirements

1. **What are the State's responsibilities for ensuring that abandoned wells are properly plugged?** The auditors would review statutes, rules, regulations, and other pertinent records, and interview officials of the Corporation Commission and the Department of Health and Environment to determine the present well-plugging requirements, and the policies and procedures set up to administer and enforce them.
2. **What steps are being taken to ensure that wells are being properly plugged, and how effective are those actions?** The auditors would determine the number of wells that have been plugged since the passage of Senate Bill 498 in 1982. For a sample of those wells, they would review all available records to determine whether well operators complied with applicable requirements, and whether the Commission and Department followed their established procedures. For a sample of cases, the auditors would review results of routine on-site inspections and written complaints and investigations relating to improper well-plugging activities. They would review and analyze the actions taken by the Commission or the Department in cases where violations have been identified, including any corrective actions, fines, and penalties imposed, and the agencies' follow-up efforts to ensure that the problems have been solved.
3. **Can the State's enforcement efforts be improved to help safeguard against improperly plugged wells?** The auditors would review applicable literature and the practices of other states. Based on this review and the findings from the first two questions, the auditors would determine what additional actions, if any, might be considered to further protect surface water and groundwater from pollution related to well plugging.

Estimated completion time: 4-5 weeks

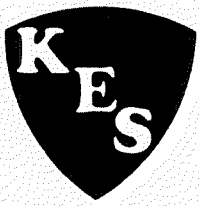
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## **Part 2: Enforcement of Injection Well Procedures**

- 1. What are the State's responsibilities for enforcing proper operation and testing of injection wells?** The auditors would review statutes, rules, regulations, and other pertinent records, and interview officials of the Corporation Commission and the Department of Health and Environment to determine the requirements for operation and pressure testing of injection wells, and the policies and procedures set up to administer and enforce those requirements.
- 2. Are the applicable requirements for pressure testing injection wells being enforced in a consistent manner?** For a sample of wells, the auditors would review testing and inspection records to determine if State requirements were met. If the requirements were not met, the auditors would review and analyze the actions taken by the Commission or the Department and the agencies' follow-up efforts to ensure that the problems have been solved. They would also assess whether the enforcement efforts made were consistent for all well operators in the sample.
- 3. Can the State's enforcement efforts be improved to safeguard against improperly operated injection wells?** The auditors would review applicable literature and the practices of other states. Based on this review and the findings from the first two questions, the auditors would determine what additional actions, if any, might be considered to further protect surface and groundwater from pollution related to operation and testing of injection wells.

**Estimated completion time: 4-5 weeks**



*Kansas Engineering Society, Inc.*  
*627 S. Topeka, P.O. Box 477*  
*Topeka, Kansas 66601 (913) 233-1867*

Testimony before the  
Senate Energy & Natural Resources Committee  
April 2, 1986

Mr. Chairman, members of the committee, I am Bill Henry, Executive Vice President of the Kansas Engineering Society, and appear today on behalf of the 1100 engineers who belong to our organization.

As you are aware, based upon our past appearances and presentations, we have great interest in the subject before your committee today—the protection of groundwater and the protection of the environment as a whole for all citizens of this state.

In 1982, when the legislature created the joint program the Society opposed the joint proposal based upon the difficulty that we foresaw in getting two agencies with two different missions to join forces.

Despite our original opposition we must concur that improvements have been made in the joint program. In surveying our members who are in the field and who have to work with the joint program we have found that they are unanimous in their reports that the program's operation is much improved, particularly during the last year. We would submit that much of that recent improvement in performance is due to the naming of Bill Bryson to head the joint program.

We find still however that there are miscommunications and problems within the operations of the program.

But where do we go from here?

One option is to pursue the approach embodied in H.B. 3078. Our Society is opposed to this approach and our philosophical opposition is chiefly this:

All of the policy discussions involving water since 1982 in Kansas have been based upon the premise that water is not a subject that can be handled in a piece meal fashion. Water supply and quality are interrelated and the responsibility for maintaining the same are the responsibilities of all citizens of this state—not just agriculture, not just the oil and gas industry nor the municipalities nor industrial users. To

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subdivide one facet of water protection does not seem to be logical to the members of our organization. We feel that one agency, responsible for all facets of water and environment, is the logical answer.

To pass H.B. 3078 and say you have handled the immediate problem of groundwater pollution would be a stop-gap approach. Protection of the state's waters can not be laid simply at the feet of the oil and gas industry. To guard against pollution of our state's waters is the duty of the state as a whole and the cost and the structure for this protection should be met by the state as a whole.

For the above reasons and others, the Kansas Engineering Society believes the best answer to water control and protection transcends agency and specific program boundaries as they are established today. If you are truly serious about creating a structure to address water pollution and water protection we suggest that you consider the formation of a cabinet level department of environmental resources. For a beginning point of discussion we would recommend the legislature consider the inclusion of the following entities as part of such a department:

The Division of Environment, the Kansas Department of Health & Environment; The Division of Water Resources, Board of Agriculture; the Kansas Water Office, the Oil and Gas Well Construction and Physical Standards Division, the Kansas Corporation Commission; Environmental Geology, the Kansas Department of Health & Environment; the Environmental Laboratories, Kansas Department of Health & Environment; Mined Land Conservation, Kansas Corporation Commission; and the Kansas Soil Conservation Office.

Whether or not you believe each of these entities is doing either a good or bad job in carrying out its particular mission we feel that you would agree all have data and information that would be shared more efficiently if the entities were united in a single agency operation.

I would also add quickly that we do not have unanimous support within our organization for this approach. Many of our engineers who work with the Water Resources Division within the Department of Agriculture, feel that that agency is one of the best operated and most efficient operations we have in the water area today. I certainly believe that the chief engineer, David Pope, is one of our best state experts and one of our best managers as well. In fact, if I had a personal preference to share with this committee in creating a so-called super environmental agency I would not hesitate to think that the current chief engineer of the Water Resources Division would be an excellent nominee for the secretarial position in such an agency.

Would it not make sense to the citizens of Kansas if they had a question that related to water quality, supply, permitting or purchase that they would be able to call one office to receive their answer to whatever query they might have?

There would not necessarily be a cost savings with the creation of an environmental resources department. The cost savings would be in the improved abilities and efficiencies of such a department to protect our state's greatest natural resource.

Finally, we believe the structural organization you choose to protect the state's groundwater is only the first step. Until the state is willing to supply the financial resources to police our existing water protection statutes it does not matter what we call our agencies; what matters is how we fund them based on the priority of their mission.

Mr. Chairman on behalf of the engineering society we would be happy to furnish the committee with any further information to answer any further inquires that the committee might have.

Respectfully submitted,

William M. Henry  
Executive Vice President  
Kansas Engineering Society



# Kansas Natural Resources Council

Testimony before the Senate Energy & Natural Resources Committee  
Presented by Marsha Marshall  
Concerning HB 3078, relating to the joint oil and gas program

April 2, 1986

KNRC opposes passage of HB 3078. We agree with the conclusion of the 498 Blue Ribbon Task Force that the joint program, while improving, still has problems and needs further adjustments. In our view, however, these problems are largely administrative in nature, and do not lend themselves to a legislative solution. This bill creates many more problems than it solves.

The very problems that this bill attempts to address, particularly the lack of uniform enforcement and of accountability, would be compounded with the passage of this legislation. As one example, it is unclear which agency would enforce water quality standards on an on-lease stream--KDHE, charged with the responsibility of setting and enforcing standards statewide, or the KCC, which under this law would handle on-lease water pollution problems.

During task force and interim committee proceedings, concerns were raised about lack of timely response to water pollution caused by oil and gas activities. While these concerns are valid, they are absolutely beyond the scope of this proposed legislation. Response problems will challenge the best possible administrative efforts of the joint program. But in all fairness, a three year old program cannot be expected to have resolved all oil and gas pollution problems, some of which are over 20 years old.

The bill raises more questions than it answers. For example, how will legal boundaries (lease lines) be clearly defined and kept current? Why is KDHE, charged with developing a groundwater protection strategy, excluded from determining the minimum safe depth for salt brine or other oil field waste disposal wells? What financial support will KCC require to make that agency capable of administering its environmental protection duties under this new law?

The purpose of the joint oil and gas program is ground and surface water protection. Any shift in this program should move toward KDHE, whose mandate and expertise is environmental protection. This bill shifts the wrong way.

Passing it will create, not solve, bureaucratic problems.

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STATEMENT BY THE KANSAS NATURAL RESOURCE COUNCIL  
498 BLUE RIBBON TASK FORCE  
Summary of Comments from September 25, 1985 Meeting

Three broad areas encompass the concerns of the Kansas Natural Resource Council regarding the 498 Oil & Gas Program: 1) Accountability, 2) Enforcement, and 3) Water Protection.

Water Protection. Protecting the waters of Kansas from oil and gas related pollution is the purpose of the 498 program. All program improvements should be directed toward that goal. Any organizational or administrative changes should enhance or maintain a direct focus on water quality.

Preventing water pollution and responding to impaired water quality are the responsibilities outlined in the 498 program. KNRC notes for the record that the task force deemed remediation of groundwater pollution caused by oil and gas activities to be outside the scope of the 498 program. KNRC sees this as a major issue which must thus be addressed in another context.

Accountability. The 498 program would benefit from greater internal and external accountability. Situated as it is between two agencies and six district offices, 498 program management and coordination is an extraordinary feat. To ensure uniformity, to minimize interagency squabbling, and to give the industry a clear response to program violations, the activities of the program must be more carefully monitored by the director.

KNRC has felt hampered in its evaluation of the 498 program by the lack of objective information on its operation. We have requested that such information be provided, but have not received any useful program performance reports through the duration of this task force.

This kind of information would not only give the director better management capabilities, but it could also be summarized in the form of an annual report and made public to evidence program performance and bolster program support. Such information would also be a useful evaluation tool for the Corporation Commission Chairman, and the Secretary of the Department of Health & Environment (or whoever might have final authority over the program).

Enforcement. The lack of uniform enforcement seems to generate problems between the industry and the 498 program, and between the two agencies within the program. KNRC offers the following two recommendations for improving enforcement.

The establishment of explicit policies, goals, and programs within the 498 program would greatly improve uniform enforcement. Of course, the director will have to ensure these policies are carried out. But in any given instance of an industry violation, it should be clear to all 498 employees exactly how to proceed. Likewise, setting up programs to specifically reach goals such as

spot checking X% of well pluggings, or plugging abandoned wells by 19\_\_ would set employees' sights on priorities and ensure a greater chance of meeting those objectives.

The second area which might improve the 498 program would be to have the director focus solely on the 498 program, and to have the program centrally located. Other current responsibilities of the director, as well as other proposed responsibilities for the director, only serve to dilute the director's focus. As stated above, the focus should be on water protection through efficient operation of the program. Having all principal staff centrally located would help program coordination, and make easier the director's responsibilities.

Assessment of Groundwater Problem

*from Kansas State Environmental Report  
An Overview of Groundwater  
March 1985*

*for  
National  
Research  
Council  
Committee  
on  
Groundwater  
Protection*

Tables 4, 5 and 6 identified the agencies and scope of regulatory authority. Table 7 is an inventory of the number of permits. Over 17,000 permits have been issued to facilities where the potential source of pollution would be on the land surface or above groundwater reserves. Over 97,000 various types of wells are regulated.

Each day, on the average, KDHE staff respond to over three potential groundwater pollution problems. Over eighty percent of the pollution problems can be traced to crude oil activities in the state. The greatest number are accidental spills followed by pipng and storage leakage on oil leases, and then complaint investigations involving contamination of water wells from oil field activities. Table 8 describes the groundwater pollution problems investigated by KDHE staff. The data is based upon the last three years experience.

TABLE 8

Number of Groundwater Problems Investigated  
on an Annual Basis

Complaint investigations on water well pollution . . . . .	150
33 traced to oil field activities on the earth surface	
24 traced to oil field activities in the ground above the water table	
43 traced to oil field activities in the groundwater	
Problems and violations involving oil or gas injection well malfunctions . . . . .	33
Leakage problems from oil field operation lines and storage lines, storage or processing facilities on oil leases . . . . .	188
Emergency pond violations . . . . .	67
Unpermitted surface ponds found by field investigation or complaint . . . . .	125
→ Groundwater pollution problem not related to oil or gas . . . . .	31
Accidental pollution spills . . . . .	344
involving crude oil . . . . .	144
involving other products . . . . .	
Complaint investigations involving wastewater facilities . . . . .	20
Complaint investigations involving hazardous waste practices . . . . .	10

Testimony Of  
Northwest Kansas Groundwater Management District No. 4  
Before the Senate Energy and  
Natural Resources Committee  
Concerning HB 3078  
April 2, 1986

It is well known that the joint program has its mechanical difficulties in meshing their responsibilities under the 498 program, but if we step back from the forest and the battlefield, there have been some fairly significant improvements made by the program since its inception some 3-4 years ago.

Prior to the joint program, early reports and more recent research has dealt with the impacts of oil and gas operations in various areas of Kansas.

1) KGS Bulletin 60, part 4- 1945

"Suggested that waters have entered the Dakota from the Lower Cretaceous and Permian Rocks (in parts of Russell County) as a result of drilling operations, and, according to Ogden S. Jones, geologist of Kansas State Board of Health, (personal communication), it would seem imperative to use extreme care in setting up adequate cementings and casing programs in these zones."

2) KGS Bulletin 79 - 1949

"Through the efforts of the State Board of Health the producers (in the Wichita area) were encouraged to return the brine to subsurface formations by means of disposal wells. Shallow disposal wells into the Wellington salt proved to be unsatisfactory, as the high pressure under which the brine was forced down these wells caused brine to escape to the surface around the casings of nearby wells."

3) KGS Bulletin 50

"The production and disposal of oil field brines in Ellis and Russell Counties was studied in detail by J.J. Brazil, then of the Kansas State Board of Health...."

"The section of oil field waste disposal of the Kansas State Board of Health,.... has.... the policy to encourage the use of deep disposal wells in the pre-cretaceous formation. They have approved the Cheyenne Sandstone as a disposal horizon ... (and) during the last few years the advisability of using the Cheyenne Sandstone ... has been questioned."

4) GMD #4's monitoring of oil wells and plugging in the district since June, 1982 have found:

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- a) 79% of wells being put into production were not completing the second stage cementation;
- b) an unacceptable high percentage of the OWWO review reports were indicating Dakota plug slippage in northwest Kansas;
- c) nearly 90% of abandoned producing holes were recovering production casing;
- d) at least 16 permitted injection wells in operation in GMD #4 had no additional pipe protection in the form of cement.

Only under the joint program has/have:

- 1) the shallow disposal wells been finally phased out;
- 2) the historical pluggings been reviewed via the OWWO program, and improvements made;
- 3) we implemented a solid program of cementing in production pipe where necessary;
- 4) the GMD's been included in the pollution effort via the recently negotiated memorandum of understanding;
- 5) we seen the state's only organized and concerted effort to clean up historical pollution. (Burrton oil field);
- 6) locals had access to state monies to drill out and properly plug an improperly plugged well in northwest Kansas;
- 7) the state been able to design a Dakota plugging program aimed at improving that technology as it relates to the plugging problems in northwest Kansas;
- 8) we been able to come to grips with some enhanced monitoring of the UIC program, and been able to do a respectable number of MIT's on injection well;
- 9) the state been able to begin research on the shallow disposal zones in south central Kansas.

We in GMD #4 feel that:

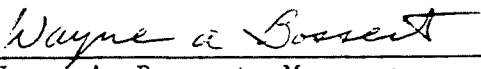
- 1) the joint program has just begun to move forward on many of the substantive issues dealing with water quality protection, and to reorganize now under the proposals of HB 3078 will not be in the best interest of the State of Kansas;
- 2) Moving the KDH&E functions of the 498 program to the KCC may compromise the state's primacy agreement with the EPA concerning the UIC program, which is also ill-advised at this time;
- 3) KCC, with their total interests in oil and gas, energy, etc, will be less able to regulate the industry from an environmentally solid, non-economic standpoint. Witness KCC support of HCR 5051, which for economic reasons is complicating the issue of temporary abandoned wells which all agree needs more attention now, and poses some threats to groundwater;

- 4) This change could also have significant ramifications in other KDH&E (non oil and gas) water quality programs by diluting funding and manpower which serve dual purposes at this time.

It would be our recommendation that the bill be set aside until the Kansas Water Authority, and Water Quality Committee, have had a chance to review the situation which is what I believe the Chairman of the Kansas Water Authority has already asked to be done.

In closing, please understand that GMD #4 is not promoting KDH&E, or opposing KCC. We have been before the legislature and other public hearings in the past and have been somewhat critical of both agencies in what we percieve to be a lack of responsiveness to the local people of northwest Kansas. We are supporting the spirit of SB 498 and trying to see that the joint program can continue to increase its ability to serve all Kansans.

Respectfully Submitted,

  
\_\_\_\_\_  
Wayne A. Bossert, Manager  
Northwest Kansas Groundwater  
Management District No. 4

cc: Board of Directors, GMD #4  
Chairman, KCC  
Secretary, KDH&E

Testimony Presented to  
Senate Energy and Natural Resources Committee  
on April 2, 1986

by

Elaine Shea, Member  
Advisory Commission on Environment

Mr. Chairman and Members of the Committee:

Please accept this as the official position of the Advisory Commission on Environment on House Bill No. 3078, which would transfer the duties and functions of the Kansas Department of Health and Environment's oil and gas program to the Kansas Corporation Commission.

The Advisory Commission on Environment was statutorily created in 1974, and is composed of seven members who reside in different parts of the State and are appointed by the Governor (K.S.A. 75-5615). The Commission is mandated by statute "to consult with and advise the secretary of health and environment on matters relating to the management, operation, and functions of the division of environment, and the operation of programs under the jurisdiction of the division..." It is therefore not only appropriate, but is incumbent upon the Commission to voice its concerns relative to the proposal to transfer the KDHE oil and gas program to KCC.

The Commission believes that House Bill 3078 is premature and a step in the wrong direction. It will fragment existing regulatory programs and will, ultimately, severely undermine State efforts to protect groundwater so vital to Kansans. The evidence suggests that groundwater contamination has occurred in certain parts of the State and that the oil and gas industry has been one of the significant sources of groundwater contamination. House Bill 3078 creates a confusing array of multiple agency jurisdiction in groundwater protection. This will entangle and stymie the bureaucracy to the extent that groundwater degradation, rather than protection, will occur. Kansas needs a well-thought out, comprehensive groundwater protection strategy, which is fully integrated with and does not clash with our existing environmental protection programs. An argument could be advanced that environmental issues should be the responsibility of KDHE and the production regulation of the oil and gas industry should reside in KCC.

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Many of the groundwater problems require special technical background. The Bureau of Oil Field and Environmental Geology was organized within KDHE to deal with these issues. This program handles nine different regulatory programs dealing with groundwater protection. The regulation of the oil and gas industry is just one of those nine programs. Other programs include, salt solution mining, LPG storage, underground storage tanks, spraying of brines on roads, emergency response, regulation of various classes of wells other than oil and gas, groundwater contamination investigations, and water well contractor licensing. In addition, the bureau provides geotechnical support to the other regulatory programs within the department. This includes such things as sanitary landfills location, municipal sludge disposal, wastewater lagoon siting, feedlot waste disposal siting, monitoring of groundwater under the hazardous waste program, brine ponds developed by industry, and public water supply protection. Each year the environmental laboratories of the department test and analyze several hundred thousand samples of water from across the state. A significant portion of those samples relate to protection of groundwater and to oil and gas investigations. To fracture and fragment this program is a disservice to the citizens of Kansas.

The Commission believes it would be too hasty to dismantle the joint oil and gas program, since the program was only recently implemented. The Commission believes that the joint program, now operating under one director, should be given additional time to establish itself and prove its effectiveness.

Mr. Chairman, members of the Committee, on behalf of the Advisory Commission on Environment I appreciate very much this opportunity to submit our comments and concerns.

Very truly yours,

*John H. Bailey*

John H. Bailey, P.E., Ph.D.  
Chairman, Advisory Commission on  
Environment