Approved 4/25/86
Date

MINUTES OF THE Senate COMMITTEE ON Transportation and Utilities.

The meeting was called to order by Senator Morris at
Chairperson

8:03 a.m./~~p.m.~~ on April 24, 1986 in room 254-E of the Capitol.

All members were present ~~except~~:

Committee staff present:

Arden Ensley, Revisor of Statutes
Phil Lowe, Secretary to Committee

Conferees appearing before the committee:

Representative Gene Shore
Donald P. Schnacke - Ks. Independent Oil and Gas Assoc.
Dick Brewster - Amoco Corporation
Richard D. Kready - KPL Gas Service
Jack Glaves - Anadarko Petroleum Co.

The meeting was called to order for the purpose of hearing the proponents and opponents on HB 3142 which relates to the transportation and concerns of natural gas.

The Chairman, Senator Morris, called on Representative Gene Shore who had requested the introduction of HB 3142. Representative Shore said the bill is an effort to keep Southwest Kansas big enough for both the Natural Gas Producers and the irrigation farmers. Natural gas may be withheld by either over-pricing or by not allowing an irrigation hook-up. Mr. Shore said he offered to localize HB 3142 to the Hugoton gas field but legislators in other parts of the state requested it be left statewide and therfore it would now be left up to the legislature for their judgment. House Bill 3142 as explained by Mr. Shore would remove the threat of being priced out of the market by allowing the irrigation to request gas from another well and remove the threat of being captive to one supply which can be manipulated. It would also allow KCC to oversee requesting abandonment of interstate gas for irrigation and not make the producers a utility. He also explained that the bill would allow a farmer whose source of natural gas has risen in cost or whose source has been shut in for various reasons to tie in to another gas well in another section of land.

Donald Schnacke representing the Kansas Independent Oil and Gas Association spoke briefly in opposition to HB 3142. Mr. Schnacke said his association was against the bill because it was a statewide concern and that they did not think the legislature had the authority to set up ground rules for boundary lines.

Dick Brewster the Governmental Affairs Representative of Amoco Corporation said he appeared in opposition to the intent of HB 3142. Mr. Brewster said that some would suggest that the recent Kansas Corporation Commission's preliminary decision on infill drilling gives rise to the need for this bill, but that they would have to disagree. Mr. Brewster said this bill is an attempt to allow an irrigator to take gas from one well and irrigate not only the land where the well is located, but to irrigate any land within five miles of that well. It was further pointed out that their problem with this bill is that it would cause a breach of the producers' contractural duty to the interstate market. (Attachment #1).

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Unless specifically noted, the individual remarks recorded herein have not been transcribed verbatim. Individual remarks as reported herein have not been submitted to the individuals appearing before the committee for editing or corrections.

CONTINUATION SHEET

MINUTES OF THE Senate COMMITTEE ON Transportation and Utilities,

room 254-E, Statehouse, at 8:03 a.m./~~p.m.~~ on April 24, 1986

Rick Kready, representating the KPL Gas Service, appeared in opposition and said their company was concerned because if this bill is enacted the farmers could not afford to irrigate if their gas costs were too high.

Jack Glaves speaking for the Anadarka Petroleum Company testified briefly and said that this was a meaningless piece of legislation and they were in opposition to the intent of HB 3142.

Senator Francisco moved and Senator Doyen seconded the motion that House Bill 3142 be not recommended for passage. Motion carried.

The Chairman announced that he and the ranking minority member, Senator Norvell, would send a letter to the Legislative Coordinating Council requesting the following subjects for interim study: (1) The bonding of automobile dealers; (2) Tinting and glazing of vehicle windows; (3) Selection process for highway repair projects; (4) Department of Revenue study of driver license material to prevent alteration; and (5) Study the effects of regulating bicycles and certain self-propelled vehicles on highways to come under the uniform vehicle code.

The meeting was adjourned at 8:30 a.m.

Attachments: #1 Testimony of Dick Brewster
#2 Guest List

GUEST LIST

Senate
COMMITTEE: Transportation and Utilities DATE: 4/24/86

NAME	ADDRESS	ORGANIZATION
Leota Blair	P.O. Box 575	
Dale Blair	Satanta Ks 67870	Farmer
Richard D. Kready	Topeka	KPL Gas Service
BRUCE GRAHAM	Topeka	Ks Motor Carriers
Dick Brewster	Topeka	Amoco
[illegible]	Ottawa	[illegible]
Jack Glaves	Wichita	Anadarko Petroleum
LON STANTON	TOPEKA	NORTHERN NATURAL GAS
John Jordison	Council Bluffs IA	PEOPLES NAT GAS
Joe Hodges	Tulsa	Cities Service Oil & Gas
Bill Bryson	Topeka	KCC

Attachment #2

Statement To:

Kansas Senate Committee on Transportation

<u>Re: House Bill 3142</u>

By:

E. Richard Brewster

Government Affairs Representative

Amoco Corporation
800 Jackson Street, Suite 1416
Topeka, Kansas 66612
(913) 233-5532

Attachment #1
S. T+U 4/24/86

Mr. Chairman, Members of the Committee, my name is Dick Brewster. I am a Government Affairs Representative for Amoco Corporation, and appear today on behalf of Amoco Production Company, our exploration and production subsidiary.

I appear in opposition to the intent of House Bill 3142.

There are those who would suggest that the recent Kansas Corporation Commission's preliminary decision on Infill Drilling gives rise to the need for this bill, but I would disagree. The factor which causes the problem, with which this bill attempts to deal, is the NGPA (Natural Gas Policy Act), of 1978, and continued federal regulation of the wellhead price of natural gas.

Let me try to put this into perspective. The vast majority of natural gas produced from the Hugoton-Chase field in Southwest Kansas is deemed "Section 104" gas by the NGPA. Its wellhead price is now about 51 cents per Mcf, and it remains forever regulated under current federal law. It is with this gas that Representative Shore and his collegues in Southwest Kansas power their irrigation pumps. (This price, by the way, is equivalent to about 6 cents per gallon for gasoline.) This price is far below anything resembling a market price for natural gas.

Under federal law, when the production from one of these wells falls below 60 Mcf per day, the well is reclassified as a stripper well, or "Section 108" well, and the price rises to about $4.46 per Mcf. The federal pricing provisions of the NGPA recognize that these wells, with very low production, might be shut in if the price remains at 51 cents. So, stripper gas pricing is designed to allow continued production of what would otherwise be a marginal well, allowing recovery of more domestic gas reserves and continued payment to mineral owners.

But it is this re-classification which causes Mr. Shore and the other irrigators to be here. A farmer, for example, is irrigating land on two different gas leases, two different sections of land, which may or may not abut each other. The well on the North lease remains a section 104 well, with its gas priced at 51 cents. Production from the well on the South lease falls below 60 Mcf per day and it becomes a stripper, or section 108 well, with its gas priced at $4.46 per Mcf. (The energy equivalent to about 55 cents per gallon for gasoline.) We are told that Southwest Kansas farmers cannot afford to irrigate if their gas costs this much money. We tend to agree with them on this point. At least we know they cannot irrigate corn and other crops demanding a lot of water at this price.

This bill, then, is designed to allow the irrigator to take the 51 cent gas from the North lease and use it to power his pump

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on the South lease, where the gas it $4.46. Members of the Committee, that's what this bill is all about. It is not about infill drilling, or anything else. It is an attempt to allow an irrigator to take gas from one well and irrigate not only the land where the well is located, but to irrigate any land within five miles of that well. Please keep in mind that in most cases the irrigation farmer is not the mineral owner. He is the surface owner, or the tennant, so he does not get the benefit of increased royalty paid on stripper gas.

Mr. Chairman, Members of the Committee, I want to tell you why we do not believe it is proper to allow this gas to be taken from one lease and used on another. Most of the gas at issue here is gas which is dedicated by contract and by law to the interstate gas market, through the interstate gas pipelines which take the gas from this area to Wichita, Topeka, Kansas City and points East. If the irrigator is allowed to take low cost, section 104 gas from one well and use it to irrigate land on two or more leases, these interstate consumers, including most of Eastern Kansas, are being deprived of twice the amount of low cost gas by the irrigator, and only high cost stripper gas is left for them. (Virtually all of Amoco's Hugoton Gas is interstate dedicated gas.)

So, our first problem with this bill is that it could cause a breach of the producers' contractual duty to the interstate market. The same could be said about the mineral owners involved. The mineral owner on the South lease is being deprived of the sale of high cost gas, which would pay him a high royalty. The mineral owner on the North lease is having twice, or more, the expected volume of his low cost gas go to the irrigator...gas which might, in the event of future Federal decontrol, bring him a higher price.

In addition, our company has a duty to its stockholders to maximize their investment, and if we are required to allow virtually all the irrigation to be done with the lowest cost gas available, we are not fulfilling that duty.

So, it becomes apparent that allowing gas to cross lease lines may cause us to breach our legal and contractual duty to those persons to whom we have such a duty, for the benefit of the irrigator, to whom we have no duty beyond the existing 60 day gas contract.

I do not want to leave the impression that Amoco Production Company is not concerned about the problems faced by the Southwest Kansas irrigation farmer. We are, and with your permission, I will discuss with you what we are doing about it. We felt compelled to notify some 37 irrigators that, effective April 1, 1986, the well from which they were taking irrigation gas was re-classified as a stripper well, causing the price to

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increase to $4.46 per Mcf. We have been working with those irrigators to try to find a lower energy cost for them. In many of those cases, the lease upon which the stripper well is located also has on it a producing Council Grove well. (These wells produce from a deeper zone than the Hugoton wells, and are classified differently.) The price of gas from these wells ranges from $1.50 to $2.50 per Mcf. We fully realize that this price is higher than the 51 cent, Section 104 gas, but it is significantly lower than the gas from a stripper well, which sells at $4.64. Our mamagement in Liberal is working with each one of these irrigators to try and develop alternatives. We believe many of these farmers will be able to find lower cost gas.

It was never the intent of these irrigation gas contracts to allow gas to be taken from one lease to the other. These contracts are entered into between the producer and the irrigator, at the sufference of the producer. The intent was to allow the use of this gas on the land where the well is located. It has long been the case that those farmers not fortunate enough to be farming land on which a gas well was located had to use other sources of energy to power their water pumps. While this bill is an attempt to allow the use of this gas to irrigate land on which the gas well has become a stripper, it would also allow the use of gas to irrigate land where there is no gas well, as long as it is within five miles of the gas well. This bill purports to vastly expand present irrigation practices at the expense of the mineral owner, pipeline purchaser, the utilities, which purchase this gas from the interstate pipelines, and the consumer, who must burn the gas.

There are other irrigation farmers throughout the state of Kansas not fortunate enough to be within five miles of a low cost gas well. They are paying pipeline or utilitiy prices for natural gas, ranging from approximately two to three dollars. Others are forced to use diesel fuel, or other high cost petroleum products. We believe we can work with the Southwest Kansas irrigator to keep his cost of irrigation gas within reasonable limits, even though some of them will not be able to continue using 51 cent gas.

Federal law appears to require that whenever a portion of this interstate dedicated gas is taken from the interstate market, for irrigation purposes, for example, FERC (Federal Energy Regulatory Commission) must approve, or there must be an adequate reservation of such gas from the interstate market in the contract between the pipeline and the producer. In the case of specific FERC approval, FERC issues an order abandoning the gas from the interstate market. In the abandonment orders, of which I am aware, the amount of gas allowed to be diverted from the interstate market is only equivalent to the royalty interest.

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In the case of gas abandoned for use by a someone other than the royalty owner, the orders commonly limit the amount of gas to a specific volume, and specify the land which may be irrigated with it. In other words, FERC's posture has been that gas taken from an interstate dedicated well should be used to irrigate the leased land on which the well is located. FERC has never abandoned, at least to my knowledge, gas to irrigate the entire Southwest corner of the state.

Insofar as this bill might attempt to tell FERC what gas to abandon and for what purpose, it appears to be well beyond the scope of state jurisdiction. It clearly is an attempt to allow the use of gas on a scale far beyond the traditional use of gas for irrigation purposes.

Mr. Chairman, Members of the Committee, I urge you to defeat this bill. It is an attempt to resolve the problems resulting from the multi-tiered gas pricing schemes of the NGPA, problems which exist for relatively few Southwest Kansas irrigators. It is an attempt to do what the NGPA was designed to prevent, to prevent the use of gas dedicated to the interstate market for other purposes. It is an attempt to solve by legislation a problem for which the best solution is continued cooperation between the producer of gas and the irrigator.

Thank you for your attention. I will be glad to try and answer any questions you might have.

Attachment #1