Approved On: ________________

Minutes of the House Committee on Taxation. The meeting was called to order by E. C. Rolfs, Chairman, at 9:00 a.m. on March 31, 1987 in room 519 South at the Capitol of the State of Kansas.

All members of the Committee were present.

Committee staff present:

Tom Severn, Legislative Research
Chris Courtright, Legislative Research
Don Hayward, Reviser of Statutes
Millie Foose, Committee Secretary

Secretary Duncan spoke as a proponent for SB-1 AN ACT relating to severance tax; concerning exemptions therefrom for the severance and production of oil and coal. Attachment 1) The Administration recommends that the bill be amended to have an effective date of January 1, 1988 and that there be no limit on the duration of the increased exemption.

Representative Wilbert submitted a proposed amendment that would eliminate "coal" from the severance tax. (Attachment 2)

Dennis Woolman, President Mackie-Clemens Fuel Company, spoke as a proponent, stressing the fact that the coal industry is truly depressed. In 1982 there were eight active coal mines in the state and there are five active mines now. Currently western coal and petroleum are delivered in the Kansas City area at half the price of Kansas coal. (Attachment 3)

Mr. David Utermoehlen also spoke as a proponent of SB-1.

Frank Pugliana, representing Pittsburg & Midway Coal Mining Company, spoke as a proponent. His firm believes that the Kansas Severance Tax Law is unfair as it applies to coal, and emphasized the intense competition Kansas coal companies are facing from other states. (Attachment 4)

John C. Woodman, representing Kansas City Power & Light, spoke as a proponent of SB-1 as amended, but KCPL seeks further equity for an additional amendment. (Attachment 5) They believe that if the severance tax on Kansas coal is not eliminated, the market for this coal may soon disappear.

Donald P. Schnacke, representing Kansas Independent Oil & Gas Association, supports increasing the exemption from the severance tax on deeper, low producing wells to encourage continued operation of marginal wells and bolster employment in this sector of the state's economy. (Attachment 6)

John O. Farmer III, a registered petroleum engineer in the state of Kansas and an independent oil producer, outlined the problems of oil producers in Kansas and submitted charts comparing the decrease in employment, producing operations, and drilling activity over a period of only three years. (Attachment 7)

Larry Tenk, representing Eastern Kansas Oil & Gas Association, spoke as a proponent of SB-1. He emphasized that oil producers must produce what they have and produce it efficiently because there has not been a significant discovery in the state in the past five years. (Attachment 8)

Don Hewitt, representing Cities Service Oil & Gas Corporation, explained how SB-1 can affect large oil and gas producers. He believes that SB-1 would not mean taxes lost to the state as a producing well provides tax income to the state through ad valorem taxes. income taxes on royalty payments, taxes on supplies and services provided to that well. (Attachment 9)

Bill Rinehart, representing Midway Coal & Mining Company, spoke as a proponent of SB-1.

David Litwin, representing KCCI, spoke as a proponent. He said his association takes no position on the amendments but believes that for conservation purposes all should be salvaged. This concluded the public hearing on SB-1.

Donald Schnacke, representing KIOGA, spoke as a proponent for SB-48 - AN ACT relating to income taxation; requiring the submission of mineral production reports; requiring the withholding of mineral production payment reports in certain cases and prescribing procedures therefor. He submitted a letter from Koch Industries, of Wichita, expressing a number of concerns about the provisions of this proposed legislation. (Attachment 10)

Secretary Duncan submitted copy of a memorandum concerning SB-48 as amended in which he discussed the fiscal impact, administrative cost, and administrative comment. (Attachment 11) This concluded the public hearing on SB-49.

HB-2509, an act concerning pledging of local sales tax revenues for bonded indebtedness was considered. Representative Charlton moved, second by Leach, that her amendment (Attachment 12) be adopted. Representative Fuller moved, second by Pottorff, that the bill be limited to cities with a population over 200,000 and that a protest petition of 5% be provided. The question was divided. The protest petition passed and the limitation on city size failed. Representative Charlton moved, second by Leach, that the bill be limited to Sedgwick, Wyandotte, Shawnee and Geary Counties. Representative Pottorff moved, second by Representative Fuller, that the protest petition be lowered to 2%. Motion carried. Representative Charlton moved, second by Pottorff, that the amendments suggested by the League of Municipalities be adopted. Motion carried. Representative Pottorff moved, second by Fuller, that HB-2509 as amended be reported favorably. Motion carried.

The minutes of the previous meeting were approved. The meeting was adjourned.

Ed C. Rolfs

Ed C. Rolfs, Chairman

KANSAS DEPARTMENT OF REVENUE
Office of the Secretary
State Office Building · Topeka, Kansas 66612-1588

MEMORANDUM

TO: The Honorable Fred A. Kerr, Chairman
Senate Committee on Assessment and Taxation

FROM: Harley T. Duncan
Secretary of Revenue

RE: Senate Bill 1

DATE: February 3, 1987

Thank you for the opportunity to appear before you today on Senate Bill 1. The Administration supports enactment of this measure in an amended version.

As introduced, the bill provides an exemption from the mineral severance tax for crude oil produced from wells of greater than 2,000 feet in depth and producing 5 barrels per day or less or 6 barrels per day or less for similar wells using a waterflood process. The current law limits for such wells is 3 barrels and 4 barrels respectively. The bill would be effective on publication in the Kansas Register and would be limited to 1987 and 1988.

The Administration recommends that the bill be amended to have an effective date of January 1, 1988 and that there be no limit on the duration of the increased exemption. In its amended form, the bill would reduce the current consensus estimate of severance tax receipts by $1.7 million in FY 1988 and by $5.5 million annually thereafter, assuming that production from such wells remains as reported to us by the Kansas Geological Survey at 9 million barrels annually. The Governor's Budget Report included the effects of the bill, with the proposed amendments, in its calculations.

Enactment of this measure will recognize the changes that have occurred in the world oil market since enactment of the severance tax in 1983. Crude oil is now, and is likely for the foreseeable future, to be priced substantially below the levels experienced and anticipated in 1983. Increasing the exemption levels will provide an incentive to keep some low volume wells in production when they otherwise might be shut down. As such it will keep our total production and oil-related employment up. By exempting such wells permanently, the bill, if amended, may provide an incentive to new drilling where the long-term prospects are for low volumes of production.

Thank you for the opportunity to appear. I would be glad to answer any questions.

MEMORANDUM

TO: Mr. Gary L. Stotts, Acting Dir.
Division of the Budget

DATE: March 2, 1987

FROM: Kansas Department of Revenue

RE: Senate Bill 1 as Amended by Senate Committee of the Whole

Brief of Bill:

Senate Bill 1, as amended by Senate Committee of the Whole, increases crude oil exemptions for leases over 2,000 feet deep; amends K.S.A. Supp. 79-4217 of the Mineral Severance Tax Act.

Enactment of this bill would increase the oil production exemptions for wells with a depth of 2,000 feet or more. The changes in exemptions are as follows:

AVERAGE DAILY PRODUCTION PER WELL

Wells With 2,000 Ft. Depth	From	To	Percentage Increase
Low Production	3 Barrels	5 Barrels	66.7%
Water Flood	4 Barrels	6 Barrels	50.0%

The amendments of this bill delays the exemption increases until 1988 and any year thereafter.

This version would also repeal the minerals tax on salt and exempt the first 250,000 tons of coal (per producer) effective for calendar year 1988 and thereafter.

Salt would be exempted from the mineral tax effective July 1, 1987.

The effective date of this bill would be from and after its publication in the statute book.

Fiscal Impact:

Passage of this bill would decrease total oil severance tax collections by $1.8 million in Fiscal Year 1988 and by $5.4 million in Fiscal Year 1989.

The Department of Revenue has no information on production by well depth but obtained an estimate in Feburary, 1987 from David Collins of the Kansas Geological Survey that these increased exemption amounts on wells with a depth of 2,000 feet or more would total 8.6 million barrels of oil annually.

Assuming the production months of January through April, 1988 will be filed in March through June, 1988, four months of Fiscal Year 1988 would be affected. Using the consensus estimated price of $13.50, the reduction in oil severance tax collections would be $1.676 million in Fiscal Year 1988 (i.e. 8.6 X 4/12 X $13.50 X .0433).

Assuming an estimated price of $13.50 per barrel for Fiscal Year 1989, the reduction in oil severance tax collections would be $5.027 million (i.e. 8.6 X $13.50 X .0433) for Fiscal Year 1989.

At the assumed annual exemption level of 8.6 million barrels, any change from the assumed price level would increase or decrease the impact by about $372,000 for each $1 change in the price of oil (i.e. 8.6 X $1 X .0433).

The estimated annualized impact for the coal exemption is $250,000. For Fiscal Year 1988, the impact would be $83,000 (i.e. 250,000 X $1 X 4/12 = $83,333).

The repeal of the tax on salt would reduce revenues $80,000 per year or $27,000 in Fiscal Year 1988 (i.e. $80,000 X 4/12 = $26,667).

Administrative Cost:

The administrative costs submitted on the introduced version would be delayed by one year. Additional renewal forms and the tax examiner position would not be needed until Fiscal Year 1988.

Approved By:

Harley T. Duncan
Secretary of Revenue

Proposed Amendment to SB 1
As Amended by Senate Committee of the Whole

On page 1, in line 31, by striking "coal,"; in line 37, by striking "coal,"; by striking all in line 43; in line 44, by striking the period;

On page 4, by striking all in lines 147 to 151, inclusive;

On page 5, in line 189, by striking "coal,"; in line 190, by striking the comma and inserting "or"; also, in line 190, by striking "or mine"; in line 196, by striking "coal,";

On page 6, in line 197, by striking "or coal or salt mine"; in line 198, by striking "coal,"; in line 199, by striking "coal,"; in line 204, by striking "coal,"; also, in line 204, by striking all after "unit"; in line 205, by striking "from the mine"; in line 219, after the semicolon by inserting "and"; in line 221, by striking all after "water"; in line 222, by striking all before the period; in line 228, by striking "coal,"; in line 229, by striking "coal,";

On page 7, in line 238, by striking "coal,"; in line 239, by striking "or mine"; in line 241, by striking "coal,"; in line 256, by striking all after the period; by striking all in line 257; in line 268, by striking "coal,";

On page 8, in line 288, by striking "In"; by striking all in lines 289 to 292, inclusive; in line 293, by striking all before "For"; in line 296, by striking "coal,"; in line 297, by striking "or mine";

On page 9, in line 312, by striking all after the period; by striking all in lines 313 and 314; in line 315, by striking all before "If"; also, in line 315, by striking "coal,"; in line 324, by striking the comma and inserting "or"; in line 325, by striking "or mine"; in line 336, by striking "all coal and"; in line 341, by striking "coal,"; in line 342, by striking "coal,";

On page 10, in line 351, by striking "coal,"; in line 353, by striking "coal,"; in line 356, by striking "coal,"; in line

House Tax Com. - 3/31/87 - Attach. 2

360, by striking "coal,"; in line 369, by striking "coal,";

On page 11, in line 385, by striking "coal,"; in line 386, by striking the first comma and inserting "or"; also, in line 386, by striking "or mine"; in line 388, by striking "coal,"; in line 391, by striking "coal,"; in line 392, by striking the first comma and inserting "or"; also, in line 392, by striking "or mine";

On page 12, in line 449, by striking "coal,";

On page 13, in line 457, by striking "coal,"; in line 469, by striking "coal,"; in line 470, by striking "coal,";

In the title, in line 23, by striking "and coal"; in line 24, before "salt" by inserting "coal and"

MARCH 31, 1987

F A C T S H E E T

CLEMENS COAL COMPANY

"A KANSAS COAL PRODUCER SINCE 1904"

CURRENT NUMBER OF EMPLOYEES	90
PAYROLL - (INCLUDING FRINGES)	$4.25 MILLION
EMPLOYEES STATE INCOME TAX	$95,000.00
EMPLOYEES STATE SALES TAX	$35,000.00
COMPANY COUNTY TAXES	$95,000.00

ANNUAL PRODUCTION - TONS

1982	298,730
1983	222,803
1984	256,475
1985	218,512
1986	245,215
1987 (First Quarter 95,000)	380,000 (projected)

SINCE 1982 OUR PRODUCTION COST PER TON HAS INCREASE- BY TWENTY-NINE PERCENT (29%) WHILE OUR AVERAGE SELLING PRICE HAS DECREASED BY FIVE PERCENT (5%).

DGW/tbw

The Pittsburg & Midway Coal Mining Company (P&M)
Testimony on Kansas Senate Bill 1

My name is Frank Pugliano and I am Area Sales Manager for the Pittsburg & Midway Coal Mining Co. (P&M). Thank you for the opportunity to appear before this committee and speak in favor of Senate Bill 1. On behalf of P&M I would like to point out how we feel the Kansas Severance Tax Law is unfair as it applies to coal.

The Kansas Severance Tax imposes a $350,000 penalty for producing one ton over 350,000 tons annually, from any mine. Any mine that annually produces 350,000 tons or less pays no tax, but if a mine produces one ton over 350,000--that mine pays a $350,001 severance tax. Since P&M is the only coal company producing more than 350,000 tons of coal annually in Kansas, we are the only producer that has been required to pay the severance tax. We feel this situation is unfair.

P&M operates one mine in Kansas--the Midway Mine which straddles the Kansas-Missouri border near LaCygne, Kansas, and mines coal in both states. P&M also operates the Empire Mine located entirely in Missouri. During 1985 and 1986, P&M produced two-thirds the coal in Kansas that it did in Missouri, but paid five times the total taxes. Even without the severance tax, P&M still paid three times the tax on Kansas coal that it did on Missouri coal.

House Tax Com. - 3/31/87 - Attach. 4

Through 1986, the state of Kansas has realized more than $376 million in severance tax collections from all sources. Of this, a little more than $2 million or one-half of one percent has come from the coal mining industry; to wit, one company--P&M.

P&M's Midway Mine, located adjacent to the LaCygne, Kansas Power Plant, supplies coal to the LaCygne Unit No. 1. This unit is in direct competition with other power plants that burn Wyoming coal. In fact, our customers have informed us that our Midway Mine coal is the highest priced coal in their system. When full electric power generation is not needed, the No. 1 Unit at LaCygne, which burns Kansas coal, is the first unit in our customer's system to be cut back. The primary reason is fuel cost.

Kansas coal is currently facing very intense competition from other states, especially from the Powder River Basin Region in Wyoming. Our customers, Kansas City Power & Light Co. and Kansas Gas & Electric Co., are switching to Wyoming coal at all of their coal-fired power plants except the LaCygne Unit No. 1 Plant.

P&M owns approximately 40 million tons of coal reserves in Kansas. Only about 15 million of those tons are committed. Mining of coal reserves anywhere in the future is always dependent on market conditions and competition, and indiscriminate application of severance taxes could very well determine whether a given coal reserve is ever developed.

P&M today operates coal mines in seven states and does not dispute its requirement to pay taxes in those states. Taxation equally applied to all similar business entities is a legitimate cost of doing business. It is when our company is unfairly singled out from others and is the only one paying taxes that we voice objection and seek relief, as we are doing here today.

P&M was founded in Pittsburg, KS in 1885. Our company is proud to have operated continously in the state for 102 years. We support the severance tax amendment because it brings our company's severance tax liability in line with other producers in the state, and helps make all Kansas coal more competitive in the marketplace in the future.

Thank you, and I will do my best to answer any questions you may have.

March 27, 1987

THE PITTSBURG & MIDWAY COAL MINING COMPANY (P&M)

KANSAS SEVERANCE TAX
POINT PAPER ON COAL

1. The Kansas Severance Tax Law (K.S.A. 1986 Supp. 79-4217) imposes a $1 per ton tax on coal, but exempts any mine with annual production of 350,000 tons or less.

2. In effect, the Kansas Severance Tax imposes a $350,000 penalty for producing one ton over 350,000 tons. Any mine producing 350,000 tons or less pays no tax. But if a mine produces one ton over 350,000, that mine pays a $350,001 severance tax. P&M feels this situation is unfair.

3. P&M is the only coal producer in Kansas required to pay the severance tax because P&M is the only producer in Kansas that has consistently mined more than 350,000 tons annually from any mine. To date the other four producers have each mined less than 350,000 tons annually from any mine.

4. P&M operates one mine in Kansas--the Midway Mine which straddles the Kansas-Missouri border near La Cygne, KS. Since the severance tax became effective in May '83, the Midway Mine has consistently produced more than 350,000 tons of Kansas coal each year.

5. Through 1986, the State of Kansas has realized $376,618,720 in severance tax collections. Of this, $2,060,490 or 0.55 percent came from the coal mining industry; to wit, P&M.

6. During 1985 and 1986, P&M produced 1,441,623 tons of coal in Kansas and 2,192,199 tons in Missouri. During the same time period, P&M paid total taxes of <u>$2,370,047</u> in Kansas and <u>$477,672</u> in Missouri. In other words, P&M produced two-thirds the coal in Kansas that it did in Missouri, but paid five times the taxes. On a per ton basis, taxes in Kansas amounted to $1.64 per ton versus 22 cents per ton in Missouri - seven and a half times as much. Even without the tax, P&M paid three times the tax on Kansas coal that it did on Missouri coal.

7. During '85-'86, the severance tax <u>alone</u> in Kansas accounted for almost three times the total taxes paid in Missouri while P&M produced two-thirds the coal in Kansas that it did in Missouri. Coal severance tax payments for P&M were 61% of total taxes paid in Kansas for '85-'86.

8. All coal mined at the Midway Mine is dedicated to the La Cygne (KS) Power Station No. 1 Unit and is purchased by joint owners of the station, the Kansas City Power & Light Company and Kansas Gas and Electric Company. P&M has been informed by KCP&L and KG&E that its coal is the highest priced in their system. That price has created an advantage for coal produced out of state.

9. When full electric power generation is not needed, the No. 1 Unit at La Cygne which burns Kansas coal, is the first unit in our customer's system to be cut back. The primary reason for this is fuel cost.

10. Kansas coal is currently facing intense competition from other states, especially from the Powder River Basin in Wyoming. Our Kansas-based customers have switched to Wyoming coal at all power plants except Unit No. 1 at their La Cygne station.

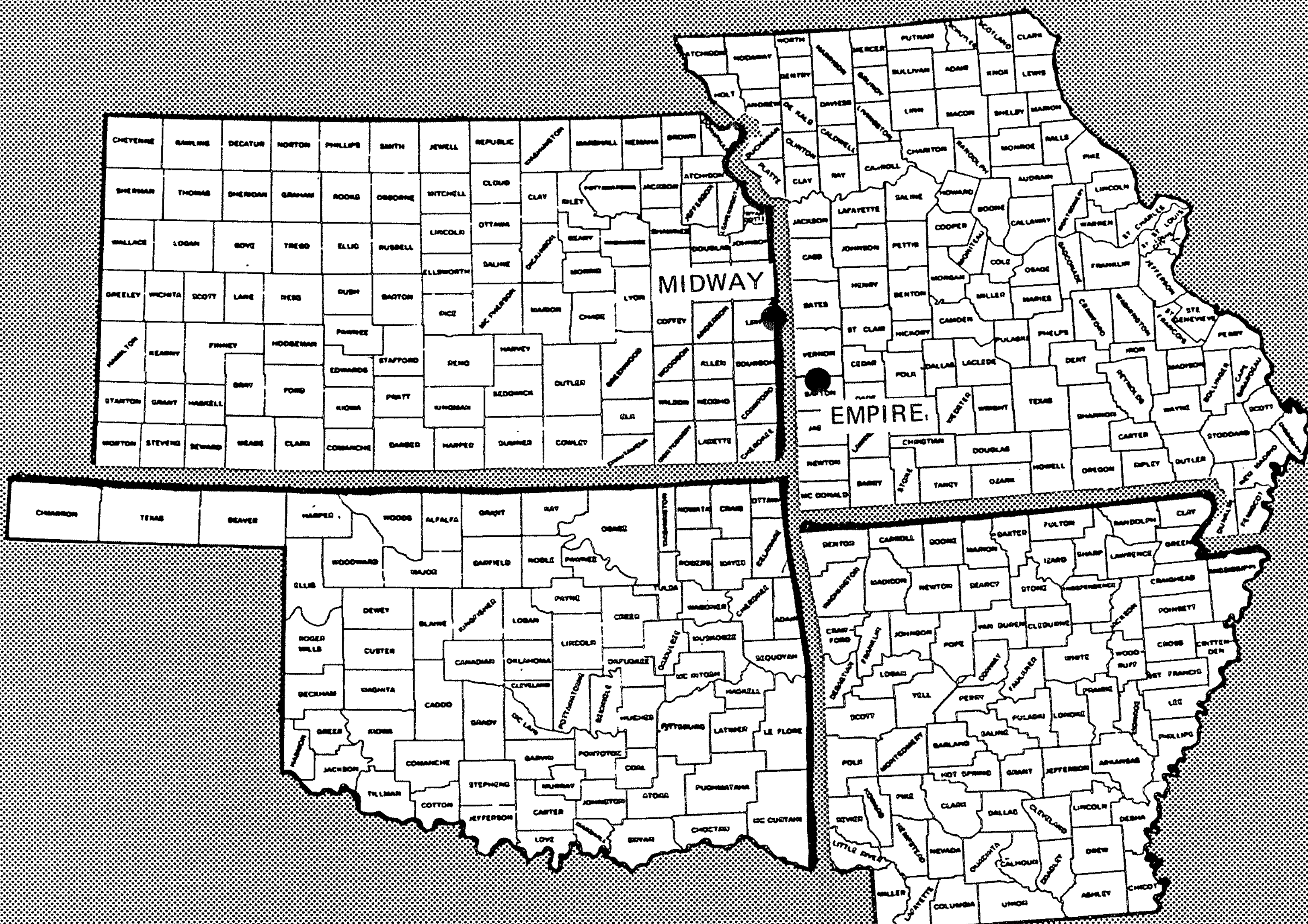
11. P&M was founded in Pittsburg, Kansas, 102 years ago and has mined coal in the state continuously ever since. P&M does not object to paying the Severance Tax on tons produced in excess of 350,000. This threshold limit, however, could be a disincentive to other Kansas operators from producing more coal or from getting bigger.

12. Our neighboring state of Missouri has no severance tax on coal and in Oklahoma it is 5 cents per ton. Through 1986, P&M, the only coal company required to pay the $1 per ton severance tax, has provided one-half of one percent of the state's total revenues from all severance tax collections.

13. During hearings held in June 1986 concerning the Mined Land Conservation and Reclamation Board and the Promotion of Kansas Coal (Proposal No. 7), conferees recommended various ways the state could promote the use of Kansas coal including investigating the way the severance tax affects Kansas coal production. Re: Report on Kansas Legislative Interim Studies to the 1987 Legislature, pages 90 and 94.

P & M Coal Mines

Kansas and Missouri



3-10-87

TESTIMONY OF JOHN C WOODMAN

for KANSAS CITY POWER & LIGHT

on SENATE BILL 1 (House Taxation Committee)

March 31, 1987

Mr. Chairman and members of the committee, I am John C. Woodman of the Public Affairs staff of Kansas City Power & Light. I appreciate this opportunity to make a few comments on Senate Bill 1.

Kansas City Power & Light serves approximately 331,000 residential meters and 44,000 commercial and industrial customers. Our service territory extends to 23 counties and 92 incorporated cities in eastern Kansas and western and central Missouri.

KCPL supports Senate Bill 1 as amended, but seeks further equity for an additional amendment. My testimony is directed only to the portion of Senate Bill 1 that addresses the severance tax on Kansas coal.

KCPL operates four coal-fired power plants providing most of the Company's electric generation. KCPL's largest coal-fired unit, LaCygne No. 1, is co-owned by Kansas Gas and Electric Company. It burns coal from Pittsburg and Midway's mine which operates in both Missouri and Kansas.

Taxing Kansas coal is unfair because our customers have already borne the costs of expensive pollution control equipment to enable La Cygne 1 to burn Kansas coal. Over

House Tax Com. - 3/31/87 - Attach. 5

$50 million has been spent for the wet limestone scrubber to control sulfur emissions and over $3.0 million per year is required to operate and maintain the scrubber.

Taxing P&M's coal keeps Midway coal prices at uncompetitively high levels. Currently, P&M coal is the highest priced coal purchased by KCPL. All other coal purchased by KCPL comes from Wyoming. Wyoming coal delivered to LaCygne is 10 percent less expensive than Midway coal. This cost differential penalizes the state of Kansas as well as Kansas electric customers by keeping fuel prices high. If this coal were more competitive, KCPL could burn more P&M coal and less Wyoming coal, and because of the fuel adjustment clause in Kansas Electric Rates, the tax saving would be an immediate pass through to Kansas customers. These savings are not kept by either KCPL or P&M. See attachment 1 to this testimony.

I ask that you direct your attention to attachment 2. This is a story of the conversion of our Montrose Station to Wyoming Coal--basically because of environmental reasons but the point here is that a utility must utilize the most cost effective fuel. Today, La Cygne station is the only significant market left for Kansas coal, because only La Cygne can burn Kansas coal.

On March 10 of this year, the governor signed House Bill 2004, legislation designed to expand existing markets and create new markets for Kansas coal. This legislature demonstrated wisdom in enacting this legislation to promote one of Kansas' great industries and the concurrent employment and revenues for the state brought about by market expansion. But, now, I suggest to you that the coal commission created by 2004 may well face an impossible task. If the severance tax on Kansas coal is not eliminated, the market for this coal may soon disappear.

In conclusion, I ask that this committee take action to eliminate the Kansas severance tax on coal.

Thank you.

THE STATE CORPORATION COMMISSION OF KANSAS

KANSAS CITY POWER & LIGHT COMPANY
(Name of Issuing Utility)

Rate Areas 2 & 4
(Territory to which schedule is applicable)

SCHEDULE 2

Replacing Schedule 2-2 & 4-2 Sheet 1

which was filed December 8, 1981

No supplement or separate understanding shall modify the tariff as shown hereon.

ENERGY COST ADJUSTMENT
Schedule ECA

APPLICABILITY:

This energy cost adjustment schedule shall be applicable to all rate schedules of the Company.

ENERGY COST ADJUSTMENT:

The rates for energy to which this adjustment is applicable shall be increased or decreased by .001¢ per kwh for each .001¢ (or major fraction thereof) increase or decrease in the aggregate cost of energy per kwh as computed by the following formula:

$$\text{Energy Cost Adjustment (ECA) (for month n)} = \frac{F + P + NI + C}{.01 \times S} - b$$

Where: F = Estimated cost of nuclear fuel used and fossil fuel burned during month n to supply electric energy to customers.

P = Estimated energy cost of purchased power during month n to supply electric energy to customers.

NI = Estimated net energy cost (positive or negative) of interchange received less interchange sales during month n.

S = Estimated kwh delivered to retail and wholesale customers during month n, which equals: (sum of the estimated kwh generated, purchased, and net interchanged during the month) times (1 minus the line loss percentage).

C = Correction to cost which is calculated as:

$$\text{Actual } (F + P + NI + C') - \text{Estimated } (F + P + NI + C')$$
$$\times \frac{\text{Actual S}}{\text{Estimated S}} \text{ (for second month preceding month n).}$$

C' = Correction dollars used originally in ECA calculation for second month preceding month n.

b = Actual energy cost of 1.409¢/kwh established during the base period. This actual energy cost was calculated by applying the above formula with the components defined as above, except that base period data was used rather than estimated data for month n.

Commission File Number 142,099-U

Issued September 30, 1985
Month Day Year

Effective September 30, 1985
Month Day Year

By [signature] Vice President
Signature of Officer Title

FILED 9/30/85

THE STATE CORPORATION COMMISSION OF KANSAS

By Judith McConnell
Secretary

ENERGY COST ADJUSTMENT
Schedule ECA (continued)

NOTES TO FORMULA:

1. Costs includable under nuclear fuel are those properly recorded as nuclear in FERC Account Number 518.

2. Except as provided in paragraph 9, costs includable under fossil fuel burned shall include only those costs properly recorded as fossil fuel costs in FERC Account Number 151, except that fuel costs should be reduced by the amount of supplier refunds normally credited to FERC Account Number 501. For natural gas or other fuels for which no inventory is maintained, the costs recorded in FERC Account Number 501 are includable as fossil fuel burned. Costs of each type of fuel burned shall be computed by the following formula:

$$\frac{B + A}{C + D} \times E$$

Where: B = Dollar cost of fuel stocks at the beginning of month n.

A = Estimated dollar cost of additions to fuel stocks during month n.

C = Actual units of fuel (tons, barrels or MCF) in stock at the beginning of month n.

D = Estimated units of fuel to be added to stocks during month n.

E = Estimated units of fuel to be burned during month n.

3. Month n is defined as the month during which the energy under the adjustment will be billed, i.e. billing month.

4. Costs includable under p rchased power are those properly recorded as purchased er gy costs in FERC Account Number 555, and are exclusive of cap ity, demand or other fixed charges.

5. The base period is defined as the period from which data were taken in establishing the base rates to which the energy cost adjustment will be applied.

Form RF

Index No. ....

THE STATE CORPOR/ ON COMMISSION OF KANSAS

KANSAS CITY POWER & LIGHT COMPANY
(Name of Issuing Utility)

Rate Areas 2 & 4
(Territory to which schedule is applicable)

SCHEDULE 2

Replacing Schedule 2-2 & 4-2 Sheet 5

which was filed February 28, 1978

No supplement or separate understanding shall modify the tariff as shown hereon.

ENERGY COST ADJUSTMENT
Schedule ECA

CONDITIONS OF SCHEDULE APPLICATION: (continued)

6. The energy cost adjustment will become effective on the designated effective date, provided the Commission has issued no objection to the proposed adjustment.

7. In the event that the estimated total energy cost per kwh for any three consecutive months exceeds by more than 5% the actual cost per kwh for those same months, the Company shall submit an explanation. If the Company cannot show that the estimate was realistic and the actual cost was the lowest overall cost that could have been incurred, the Commission may, at its discretion, assess the Company, for the purpose of recovering administrative costs of handling the adjustment, in an amount not to exceed the difference between the amount billed to customers under the estimated rate and the actual increase in energy costs for those billing periods.

KCPL FORM 81-100 REV. 2 79

Commission File Number 142,099-U

Issued September 30, 1985 (Month Day Year)	FILED 9/30/85
Effective September 30, 1985 (Month Day Year)	THE STATE CORPORATION COMMISSION OF KANSAS
By [signature] Vice President (Signature of Officer) (Title)	By Judith McConnell, Secretary

KANSAS CITY POWER & LIGHT COMPANY

VOLUME 10, NUMBER 4 MARCH 13, 1987

Now it's Montrose's turn for western coal conversion

Last year, Hawthorn Station was converted to utilize more environmentally-acceptable Wyoming coal. This year, it's Montrose Station's turn.

The conversion work got under way in mid-February, creating a flurry of activity the 30-year old generating plant hasn't experienced in years. Nearly 200 additional contractor personnel — complete with equipment, tools and office facilities — have taken up temporary residence.

The work itself differs from that at Hawthorn because Montrose has three operable units, each of which will undergo annual overhauls during the present construction period, according to Jerry England, plant manager.

"Currently, there are a great many tasks to be done because of the difference in characteristics between the local coal — lots of mud — and Wyoming coal — more volatile," England points out.

"Also, with the conversion to western coal, the mission of the station may change as it sees more use, so there is a corresponding increase in maintenance, such as re-activating the soot blowers in the boiler and overhauling the conveyor system," he adds.

And, in the midst of all the fuel conversion and maintenance activity, the three units will be overhauled one after another, including boiler repairs and some asbestos removal.

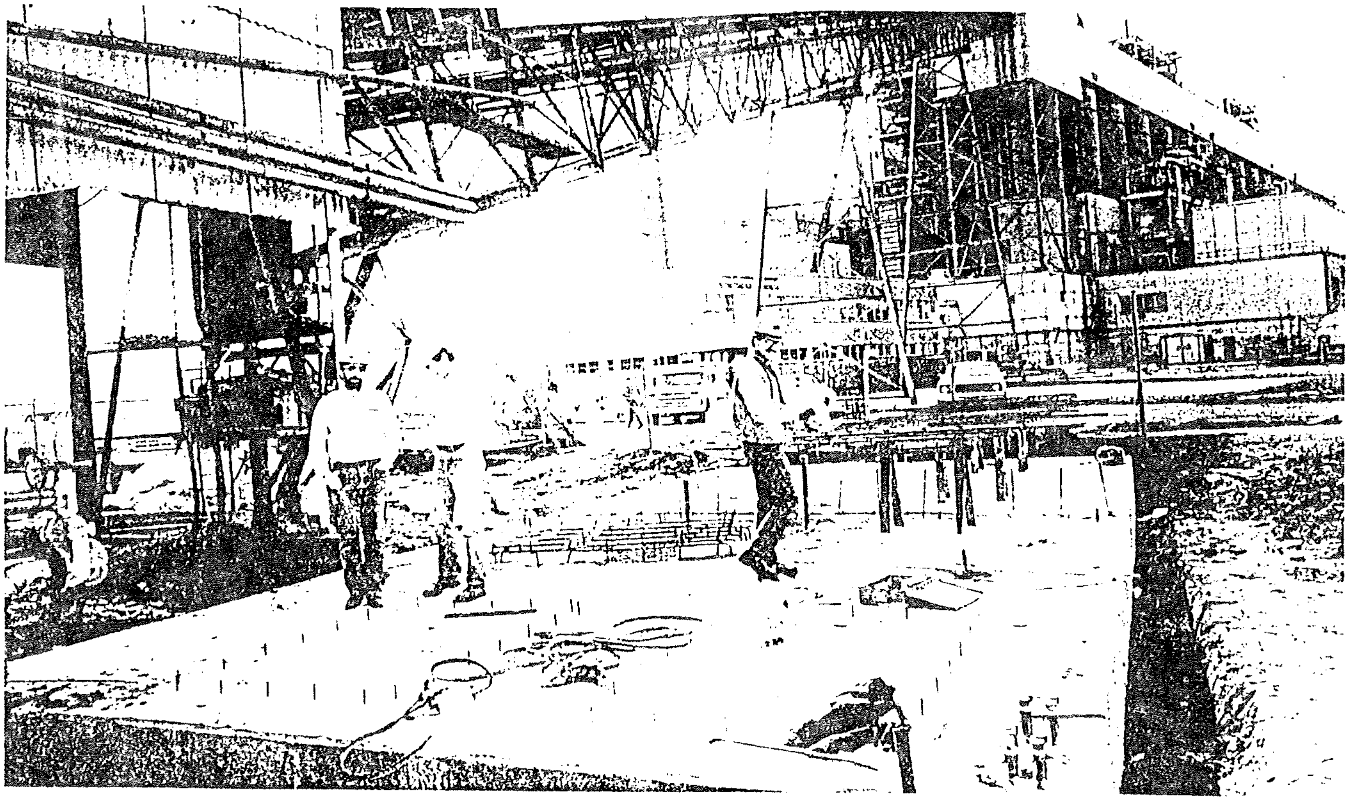
Effective in mid-March, the station will assume responsibility for the rail tracks and unloading hoppers, which were formerly operated by Peabody Coal. The unloading facilities will then be readied and training started for the first trainload of Wyoming coal in early April.

The existing bottom-dumping unloading process will be retained, so no major design revisions will be necessary to accommodate the new coal, England reports. "The Company's early unit trains were bottom-dumpers, so we're making up a train of these cars just for us. We'll be a one-train operation at first."

Montrose will continue to receive about 20,000 tons of local coal through November as unit operations adjust to the new fuel. "We will be prepared to burn western coal on all units by May 1 when the load begins to pick up," he says. "We'll cut over to Wyoming coal on the first unit in late April and the second unit by mid-May, with the third unit used to deplete the stock-pile of local coal by November."

Just about all work groups are involved in the current preparations to various degrees, England indicates. "They're involved in either unit outages or keeping other units running — we're not going off line during the conversion or overhauls.

"We've even got some operations people helping with maintenance where they can," England states. "I'm amazed at what they get accomplished — deslagging, cleaning and other preparations. We also have employees supporting Power Engineering's on-site staff and following the activity of three major contractors and nearly a dozen others."



A high level of construction activity at Montrose Station marks the present western coal conversion. Above, Power Engineering's Dave Lovetere (left) confers with a contractor's representative at the new Fuel Yard auxiliary building.

KIOGA
KANSAS INDEPENDENT OIL & GAS ASSOCIATION
500 BROADWAY PLAZA • WICHITA, KANSAS 67202 • (316) 263-7297

March 31, 1987

TO: House Committee on Taxation

RE: SB 1 - Severance Tax Exemption

The Committee devoted a good part of an hour discussing HB 2249, a bill sponsored by Reprs. R.D. Miller and Shriver. When we appeared we applauded the sponsors of bill but suggested you work SB 1, the bill before you.

Governor Hayden, in his message to the joint session, indicated that he supported increasing the exemption from the severance tax on deeper, low producing wells to "encourage continued operation of marginal wells and bolster employment in this sector of the state's economy".

We now have additional evidence that this proposal would help preserve production and postpone the shutting in and abandonment of some wells. The key to SB 1 is exactly what Governor Hayden stated. Allow crude oil to be produced and stimulate employment!

The Kansas Department of Human Resources has advised us recently that the U.S. Department of Labor has recently broadened its oil and gas worker retraining and relocation effort to 42 Kansas counties. Since a year ago, our industry has caused unemployment for approximately 6,000 Kansans and an equal number of jobs have been lost indirectly. This is merely the tip of the iceberg!

Our industry operates in ninety producing counties and the recent drop of oil prices has severely impacted on state sales and income tax collections. For the first time in my memory our industry is creating SRS clients in areas not before affected by chronic unemployment. There are several heretofore no-aid school districts that will begin to receive state school aid.

We would hope you will not focus on the projected loss of the severance tax in passing this measure. The exemptions put into the Severance Tax Act in 1983 were put there for a good reason. We are a very marginal production state. Ninety percent of all our oil wells are classed as stripper wells (the highest in the nation) and the average production from those wells is about 3 BOD.

The legislature simply did not establish the exemption for the deeper marginal wells at the correct level in the haste to pass the bill in 1983. This bill does not suggest any modification to wells producing above 2,000 feet.

Your focus should be on jobs and keeping marginal wells producing so that your state income tax, sales tax, property tax and related employment activity will grow and prosper.

The severance tax has dropped to a projected level of $53 million without you doing anything. There is the distinct possibility though, of saving significant production and stabilizing employment in our industry by passing SB 1.

In these extraordinarily bad times for our industry, we are waiting to hear some good news arising from this legislature that can help us. This legislature is considering a package of bills that is supposed to improve the economic development of Kansas. We have examined the $22.7 million budget of the Department of Commerce. As far as I know, our industry is not the subject of that budget or those proposals. Our economic development proposals are contained in SB 1, which would provide modest relief from the severance tax for a few low producing wells, and HB 2405, which is more symbolic than anything, but should be done in the name of tax fairness.

Many states are enacting legislation that can help their oil and gas industry. Just last week Canada announced it would make direct cash subsidies for exploration and drilling to stimulate jobs and relieve problems that accompany a distressed industry.

We urge you approval of SB 1 and ask that you move it quickly to the House floor.

Donald P. Schnacke

DPS:pp
Attchs

KANSAS GEOLOGICAL SURVEY

1930 Constant Avenue, Campus West
The University of Kansas
Lawrence, Kansas 66044-3896
913-864-4991

TO: Senate Committee on Assessment and Taxation

FROM: David R. Collins, Acting Manager, Technical Information Services

SUBJECT: Testimony regarding Senate Bill 1

DATE: February 3, 1987

The following information is what I consider to be the best available estimate of the economic effects of the modifications to low production exemptions from the severance tax on crude oil proposed in Senate Bill 1. The bill would extend the exemption for wells producing from depths greater than 2000' by an additional 2BOPD on standard or waterflood production.

At a crude oil price of $17.00 per barrel and current production rates, severance tax losses would amount to $6.33 million per year, with smaller losses possible for the first fiscal year. Benefits would include $22 million dollars of additional vallue of output and 180 additional jobs throughout the Kansas economy with associated new tax revenues in the range of $1 million. These benefits would result from 866,000 barrels of additional annual crude oil production obtained through prevention of premature shutdown of wells and from the associated multiplier effects of income respent within Kansas.

Based on lease production data available at the Kansas Geological Survey through 1985 and production trends during 1986 for low producing wells, obtained fron the Department of Revenue, it is estimated that the new exemptions would apply to approximately 8.6 million barrels of production. At a price of $17.00 per barrel and a severance tax rate of .0433 this amounts to an additional exemption of $6.33 million per year. If the exemptions take effect July 1, 1987, the direct loss of severance tax receipts for the 1988 fiscal year in Kansas would be $5.275 million, and if the exemptions did not take effect until January 1, 1988, the direct loss of severance tax receipts for the 1988 fiscal year in Kansas would be $2.11 million (due to a 2 month lag in collections: $6.33 X (10/12) = $5.275 and $6.33 X (4/12) = $2.11).

The exemption would directly increase operating revenues on approximately 3300 leases in Kansas involving approximately 7000 wells. There are significant secondary benefits which would be associated with exemption of these additional low production wells. Under current law some of these wells would continue to produce until they qualified for the current exemptions at production rates less than 3 or 4BOPD, while others would shut down before qualifying for tax exemptions. The proposed exemptions would extend the producing life of wells in the latter case. This is the intended effect of Senate Bill 1. The following material outlines the anticipated resulting economic benefits.

For purposes of illustration it will be assumed that the average production rate of wells whose economic lives are extended by the proposed exemptions is 3.65BOPD, that the rate of decline in production averages 7% per year, and that the price of crude oil is $17 per barrel. These conditions are highly representative of the current characteristics of crude oil production on Kansas leases from depths greater than 2000'. Under these conditions the life of the average well would be extended approximately 8 months, with a resulting additional production of 825 barrels of oil.

For every 500 wells affected this would mean an increase of 412,500 barrels of production annually in Kansas, or approximately $7 million in value of crude oil production. Using the latest available figures on economic multiplier effects within the Kansas economy (U.S. Department of Commerce, Bureau of Economic Analysis, Regional Multipliers: A User Handbook for the Regional Input-Output Modeling System, May, 1986) the total corresponding change in value of output throughout the Kansas economy would be $10.5 million dollars, and the impact on employment would be 86 additional jobs.

The decline in crude oil prices during 1986 dramatically demonstrated the extent to which declines in revenue push leases below the economic limit over a broad range of low production rates. A corresponding effect is to be expected as the natural decline of production rates over time from individual wells bring currently profitable leases with higher production rates into the range targeted by the proposed legislation. A reasonable estimate of the proportion of wells producing at rates affected by the proposed legislation which would otherwise shut down without reaching the current qualifying rate of production would be 15% or, with current conditions, 1050 wells. The estimated beneficial effect under the assumed conditions would therefore be $22 million dollars of additional value of output and 180 additional jobs in Kansas. The additional corporate and personal income tax revenue which would be associated with this increased production and employment is estimated to be in the range of $1 million.

Displaced Office Workers Grapple With Oil Bust

By Forrest S. Gossett
Staff Writer

Members of the Desk and Derrick Club of Barton County, a group of oil field office workers based in Great Bend, have something in common with other oil industry people these days. About half of them are unemployed.

The office workers group, whose ranks include executive secretaries and office managers, join geologists, petroleum engineers, roughnecks, drilling supervisors and financial executives who have become victims of the great oil bust of 1986.

Last year, as oil prices plunged from $28 a barrel to under $10 on world futures markets, workers by the thousands were laid off. And today many professional organizations are trying to put them back to work through self-help groups.

Among the efforts:

• Barton County Community College is offering tuition-free retraining courses to displaced oil field workers who are trying to find new skills for employment in a different industry.

• The Desk and Derrick Club of Barton County operates a job clearing network. A committee of the club tries to keep track of what is available and help place unemployed members in new jobs.

• Other groups, including the Kansas Geological Society, the Wichita Association of Petroleum Landmen and the Wichita Chapter of the Society of Petroleum Engineers, have sponsored seminars to help members re-enter the job market. In the seminars, unemployed professionals are taught how to write resumes and how to look for a job.

"It's just not a good time for some people to be job hunting."
— Robert Cowdery, of Petroleum Inc.

• The Kansas Geological Library has implemented across-the-board price cuts for its services in what director Walt DeLozier calls an effort to help unemployed geologists "have a chance to stay on top of things."

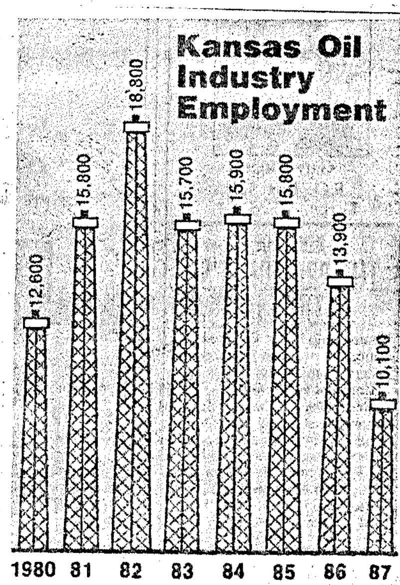
• The Employment and Training Services division of the Kansas Department of Human Resources offers relocation assistance in the form of helping defray job hunting and moving expenses for workers who are forced to seek jobs outside their area.

The efforts, though, are meeting with limited success.

"It's just not a good time for some people to be job hunting," said Robert Cowdery, president of Petroleum Inc. and a former president of the geologists' group.

IN KANSAS alone, nearly 6,000 jobs have disappeared from the oil business since October 1985, according to the Kansas Department of Human Resources. The statis-

● HELP, 3B, Col. 3



(On Jan. 1 of each year)
Source: Kansas Department of Human Resources

● HELP, From 1B

tics don't include related jobs, such as suppliers and chemical companies, or jobs lost due to reduced spending power among oil industry workers.

To date, the Desk and Derrick Club's job network has placed few people.

"We've had a couple of calls, and some people have applied for jobs, but for the most part, there is nothing out there," said Ann Steinert, who heads the club's clearing house.

The dim prospect of finding an oil industry job is forcing some unemployed oil industry workers to consider career switches and retraining. In short, they are refocusing their lives as oil industry employment prospects are slim.

SHERRY HEATHMAN was working as a geologist for the Hartman Trust in Wichita when she joined the unemployment line last October. Heathman, 32, worked mostly as a well-site geologist, though at the Hartman Trust she was prospecting — trying to find new locations for oil.

"I enjoy geology," she said. "It is very detail-oriented and I am a very detail-oriented person. I really like that part of geology, drawing maps, thinking up projects. ... that's the one thing I was really good at doing."

Heathman, who had been laid off twice previously during her six-year career in the oil business, has enrolled full time at Wichita State University, where she has decided to seek a master's degree in aeronautical engineering.

Financially, though, the job loss has been a strain. Heathman has been living off her savings, which have quickly dwindled.

NEXT SEMESTER, she plans to apply for financial aid at WSU. Heathman has applied for jobs where she can use her scientific skills, but so far, she's found no takers.

"It's a catch-22 in some ways," she said. "Many people don't want to touch you for a job because they figure you'll go back to the oil industry. It's kind of a no man's land. ... I'm even thinking of a department store. I need some income."

Walt DeLozier, manager of the Kansas Geological Society Library, is not surprised that Heathman and other geologists are switching careers.

Dim prospects are forcing some unemployed oil industry workers to consider career switches.

Many unemployed geologists spend time at the library researching prospects in an effort to keep abreast of industry events so they can be prepared for any job offers that might come their way, said DeLozier.

"I'M JUST not so sure that there is anything out there for them," said DeLozier. "We are trying to help, but even with our price cuts, there are people who just can't afford to use the library that much. Many of these jobs are gone, gone forever, and we haven't finished losing the jobs. We may lose another 10 percent before this is over with."

But if finding a job is hard on geologists and other professionals, it's even tougher for office workers. Oil companies traditionally have paid very well, often in the $18,000 to $20,000 range, and many secretaries are finding it impossible to replace their lost incomes.

"There just aren't many jobs around here that pay that well," said Clarence Fakes, a counselor with the Job Service department in Great Bend, where unemployment is at 10.2 percent. "Most jobs that we list pay from $4 to $5 an hour, and we haven't seen that many of those jobs, either. There's just very little available now."

THE STATE can provide some adjustments for unemployed workers. Under a program that was instituted Nov. 1, Job Services can provide up to $60 in travel expenses for unemployed workers who travel more than 25 miles from their homes.

"This is whether they are looking for a job in the oil business — or out of the oil business, as is likely the case," said Jane Burbridge, coordinator of the displaced worker program in Kansas.

The program also provides for classroom and on-the-job retraining and up to $400 in relocation expenses, she said. To date, about 100 unemployed workers have received some sort of assistance from the program.

Nonetheless, jobs — at least good paying jobs — are hard to find, said Steinert. Many of her group's members, she said, are hard to employ because of their previous salaries. Employers, she said, are reluctant to hire workers who are accustomed to earning higher salaries than their own prevailing wage scale.

"They try, but they just aren't getting anywhere," she said.

ALICE HICKEL, 61, has worked in the oil patch most of her adult life.

"I had worked for Cowboy Oil Field Service and Bronco Supply for eight years as the office manager," said Hickel. "I managed the office completely, with about seven or eight girls working for me, and I did all the bookwork for four companies."

All that ended last May when the company filed for liquidation in U.S. Bankruptcy Court in Wichita.

At first, Hickel tried to work in a travel agency co-owned by her husband, Arthur, but business was too slow at the agency to support the two of them.

"This has nearly wiped us out," she said. "My husband took early retirement a few years ago and took his retirement fund to invest in the travel agency, but the business is in the same boat with others in Great Bend — there's just not a lot of activity."

So, at age 61, with years of experience as an office manager, Hickel has been beating the bushes in Great Bend looking for a job. She has come close a couple of times.

"I need a paying job. Period. And to find that around Great Bend isn't easy," said Hickel. "I'm willing to work, all of us are willing to work. We just need a job."

Wichita Eagle-Beacon

March 29, 1987

JOHN O. FARMER, INC.
OIL PRODUCERS AND DRILLING CONTRACTORS
BOX 352
RUSSELL, KANSAS 67665
913-483-3144

March 27, 1987

HOUSE COMMITTEE ON TAXATION

RE: Senate Bill #1

Gentlemen:

My name is John O. Farmer. I am a registered petroleum engineer in the State of Kansas and an independent oil producer. Our firm - John O. Farmer, Inc. - is headquartered in Russell, Kansas. This family-owned corporation was founded in 1946 by my father. During our 40 year history in Kansas we have drilled over 3000 wells.

1986 was the most difficult year we have ever experienced. In March, 1986 we ceased drilling operations for the first time in our 40 year history.

The State of Kansas cannot control the price of crude oil, but the state can support Governor Mike Hayden's proposal to reduce the severance tax burden by raising the stripper exemption from 3 BOPD to 5 BOPD for wells deeper than 2000 feet.

In our operations the economic limit of an average cost well is approximately 3 BOPD. The current stripper exemption is of no benefit because when a well produces 3 BOPD it is ready to be abandoned.

The attached exhibits give a brief overview of our situation and display how the increased stripper exemption can help us survive this difficult time.

Yours very truly,

JOHN O. FARMER, INC.

John O. Farmer III

John O. Farmer III
Petroleum Engineer

JOF,III/bml

Attachments

House Tax Com. - 3/31/87 - Attach. 7

CITGO Posted

Kansas Crude Price - 1986

DATE	PRICE
January 1	$ 27.00
January 3	26.75
January 16	26.50
January 17	25.25
January 21	25.25
January 23	22.25
January 31	20.75
February 4	17.75
February 13	16.75
February 19	15.00
March 3	14.00
March 27	13.00
April 1	10.50
April 4	13.00
April 21	13.00
May 1	13.00
May 9	13.00
May 13	14.00
May 23	14.00
June 5	14.00
June 10	13.00
June 18	13.00
July 2	13.00
July 3	12.50
July 8	12.00
July 14	11.50
August 6	12.25
August 12	13.00
August 20	14.00
August 22	14.00
September 5	14.50
September 15	13.75
September 16	13.50
December 17	14.50
December 31	16.00
1986 Average Price	$ 14.60

Exhibit I

Summary of Crude Price Drop

on John O. Farmer, Inc.

	January 1986	January 1987
1. Employment		
Number of Employees	50	26
2. Producing Operations		
Producing Wells	218	171
SWD Wells	23	19
Injection Wells	14	13
TA Wells	19	60

3. Drilling Activity

	1984	1985	1986	1987 (Estimated)
Wells Drilled	38	29	13	6

Exhibit II

John O. Farmer, Inc.

Leases with Lifting Costs in
$14-19/bbl. Range

LEASE NAME	1985 Lifting Cost $per bbl.	Number Wells
Brenner 'B'	$ 18.86	2
Brungardt	18.08	1
Colborg 'D'	18.83	1
Dirreen	16.98	3
Ehrlich 'B'	14.68	3
Gilbert	16.75	3
Kaps	15.76	2
King 'C'	16.92	1
Lawson 'B'	17.12	9
Miller	17.73	4
North 'A'	14.81	1
Oberle 'B'	16.16	1
Sellens 'A'	14.04	1
Smoky Unit	17.80	12
Stapleton	14.49	9
Van Doren	15.68	1
Vine 'A'	16.83	6
		60

Exhibit III

1986 Cost Analysis

Selected Leases Burdened with Severance Tax

LEASE	1986 Bbls. Sold	Working Interest Income	Operating Expense	Net Income	BOPD/WELL
Cotton	1,321.91	$ 15,353.05	$ 10,254.63	$ 5,109.42	3.62
Custer	1,151.88	12,398.45	10,830.64	1,567.81	3.16
Dirreen	3,190.68	34,987.97	36,133.95	(1,145.98)	3.15
Ehrlich 'B'	3,684.15	37,849.29	38,175.04	(325.75)	3.36
Hester	1,096.08	11,940.45	11,903.37	37.08	3.00
Kompus	2,440.90	25,567.15	22,368.77	3,198.38	3.39
McIntire	1,332.78	14,711.31	9,318.12	5,393.19	3.65
Sellens 'A'	1,347.12	16,564.35	13,247.16	3,317.19	3.69
Vine 'A'	8,287.54	76,492.62	72,220.42	4,272.20	3.78

Exhibit IV

Eastern Kansas Oil & Gas Association, Inc.

15 N. Lincoln • Box 355 • Phone 431-1020
Chanute, Kansas 66720

Lawrence O. Tenk
President

Walker Hendrix
Northern Vice-President

Paul Simpson
Southern Vice-President

Dwayne Dalton
Secretary

Richard K. Guinotte
Treasurer

March 31, 1987

TO: HOUSE COMMITTEE ON TAXATION

RE: SB 1

My name is Larry Tenk. I am a petroleum engineer by profession and have been active in the oil business in Kansas since 1950. I am president of Eastern Kansas Oil & Gas Association with offices in Chanute, Kansas.

Our organization supports the enactment of SB 1. The future of the oil industry in Eastern Kansas is closely allied with the development of the tertiary oil recovery process. The use of polymers and other chemical compounds in depleted reservoirs is costly and the cost increases with depth.

We continue to drill deeper. However, there has not been a significant discovery in the State of Kansas in the past five years. We must produce what we have and produce it efficiently.

We realize that SB 1 is not revenue neutral. The severance tax itself was never meant to be a panacea for the revenue problems in Kansas.

Again, I would ask that you give favorable consideration to this bill. We need it.

Thank you.

TESTIMONY ON KANSAS SENATE BILL 1

Presented by Mr. Don Hewitt

Cities Service Oil & Gas Corporation

March 31, 1987

House Taxation Committee

Topeka, Kansas

Good morning. My name is Don Hewitt. I am here on behalf of Cities Service Oil and Gas Corporation. The Oklahoma/Kansas Division of the Mid-Continent Oil & Gas Association has requested that I be here today to explain how Senate Bill 1 can affect large oil and gas producers.

First, though, I would like to tell you a little bit about Cities Service and why legislation such as Senate Bill 1 is so important to our company. Cities Service has been a corporate citizen in Kansas for over 70 years. As a matter of fact, the company's first decade in business was marked by several notable oil discoveries right here.

Cities Service has always been the largest oil producer in Kansas. Currently the company produces 10,000 barrels per day or approximately 5% of total Kansas production. Cities Service was also the leader in installing water floods in Kansas and it currently operates 55 such projects in the state. In addition, the company operates four tertiary recovery projects.

House Tax Com. - 3/31/87 - Attach. 9

The company employs 291 Kansas citizens in 44 locations in the state. Our activities in turn provide business opportunities for numerous vendors, suppliers, contractors and their employees. Cities Service also makes cash payments to some 4,700 royalty and working interest owners who live in Kansas. Although we do not ask for or keep detailed demographic information on our royalty owners, we can say with assurance that many of our Kansas owners hail from agricultural and ranching communities. And many of them reside in counties that are represented by members of this committee. We are aware of the problems that these people are facing right now and understand that their monthly royalty payments are an important source of income. However, royalties are only forthcoming when wells are producing...shut-in wells do not produce income for anyone.

In addition, we pay sales taxes, property taxes, unemployment taxes and severance taxes for the privilege of doing business in this state. Aside from our direct payments to employees, vendors, suppliers, contractors, royalty owners, partners and state and local governments, Cities Service has long supported the educational and cultural needs of Kansas.

As for today, though, times are tough. The rapid decline in oil prices forced several hundred Kansas energy-related companies out of business during 1986. Almost 5,000 Kansans lost their oil-related jobs because their companies folded or had to make financial cutbacks. Kansas oil production is down, too -- in part because prices are too low to pay the costs of producing.

Senate Bill 1 focuses on stripper wells, the backbone of Kansas oil production. While stripper wells are not exotic and their production does not grab headlines, nationwide they do supply 15 percent of this country's total oil production. Their contribution to the local economy and to national security is very important. As we say in the oil and gas business, "Every barrel of oil produced by a stripper well is a barrel that we don't have to buy from OPEC." Outside the oil patch, people do not seem to understand the significance of this statement. But as we look at idled wells here in Kansas and we realize that imports are supplying just under 40% of U.S. demand, we can see that American producers, royalty owners and businesses associated with the oil and gas industry are going broke while American cash is going overseas to pay for oil. To Kansans, it means a lot to keep production going.

But, back to the other contributions of stripper wells. They often play a critical role in the efficient and effective drainage of reservoirs. Unfortunately, though, the high costs associated with maintaining such wells -- that is, electricity bills, pumper bills, the cost of chemicals, saltwater disposal charges and taxes -- make them economic risks in times of poor prices. Our costs for producing Kansas stripper oil wells range from $200 all the way up to $3500 per month per well, depending on the specific characteristics of a given well. When expenses are higher than revenues, we have to consider plugging and abandoning wells that have become unprofitable. During the past 10 months, Cities Service has had to shut in about 200 stripper wells in Kansas because they were no longer economic to operate. This amounts to over 14,000 barrels of lost oil production each month. Once plugged and abandoned, this production is forever lost because the costs of reopening a stripper well would require oil prices of over $60 a barrel. Few are predicting that we will ever see that high a price.

We cannot precisely estimate how many stripper wells we could keep producing if they were relieved of severance tax. But, Cities Service has 278 wells producing less than 6 barrels per day that are not exempt from severance tax. Many of these wells operate near the economic limit and we continue to produce until mechancial problems require a sizeable expenditure. Many times we shut in a well because repairs would not pay out. A 5 barrel per day well at current prices pays about $90 per month in severance tax. That $90 extra would allow us to make repairs to keep that well producing. Senate Bill 1 can help to relieve some of the economic pressures on these wells and can help to maintain their production and the associated tax base.

Other states and the federal government have already taken steps to help preserve stripper well production through new regulations or new legislation. And, in recognition of the importance of stripper wells, several other states do not impose severance taxes on wells which produce 10 barrels per day or less. Others tax them at a significantly lower rate.

As we see it, Senate Bill 1 would not mean taxes lost to to the state. A producing well provides tax income to the state through ad valorem taxes, income taxes on royalty payments, taxes on supplies and services provided to that well -- just to mention a few that are assessed in addition to the severance tax. If a well is plugged and abandoned, <u>all</u> of those tax revenues are lost. If, however, the severance tax is eliminated, it would mean a better chance of producing from marginal properties, a better chance of making royalty payments, a better chance of keeping vendors, suppliers and contractors busy, a better chance of continuing to pay other types of taxes. While Senate Bill 1 would not be a cure-all, it could certainly give the ailing patient some relief! We think that a state with the foresight to provide some tax relief now will help itself in the long run: Future tax revenues and longterm energy security must be considered in the equation.

KIOGA
KANSAS INDEPENDENT OIL & GAS ASSOCIATION
500 BROADWAY PLAZA • WICHITA, KANSAS 67202 • (316) 263-7297

March 31, 1987

TO: House Committee on Taxation

RE: SB 48 - Delinquent Income Taxes for Oil & Gas Production

Senator Roy Ehrlich called us last summer about a notification from Oklahoma to one of his constituents. We made inquiry and found that the Oklahoma legislature had authorized a new procedure in streamlining the collection of income tax arising from oil and gas production in Oklahoma owned by out-of-state mineral interest holders.

Oklahoma, we are told, believes there will be an increased collection of income tax due as a result of their legislation passed in 1986. SB 48 was introduced by Senator Ehrlich and is patterned after the Oklahome statute.

We have heard from Koch Industries, Inc. and they have a concern about this bill. I offer their observations and suggest you might want to provide language that addresses these concerns relating to know or prior claims they may know about.

Donald P. Schnacke

DPS:pp
Attch: Koch Letter

House Tax Com. - 3/31/87 - Attach. 10

KOCH
INDUSTRIES INC

DEBRA G. HAIFLEIGH
ATTORNEY

March 12, 1987

Mr. Don Schnacke
Kansas Independent Oil & Gas Assn.
1400 Merchants National Bank Bldg.
Topeka, KS 66612

Dear Mr. Schnacke:

I am writing concerning Senate Bill No. 48 which is presently before the House Taxation Committee.

Koch Oil Company has a number of concerns about the provisions of this proposed legislation. In particular I would like to focus on Section (c)(3), which provides, in part:

> Upon receipt of the order of the director to withhold production payments, the person or entity making production payments, within 30 days of receiving such order, shall: in the case of established delinquent income tax, upon receiving such order from the director of such established delinquency, pay the tax, penalty and interest out of the withheld production payments and receipt such tax payment to the taxpayer in lieu of cash in settlement for such production. The order to withhold shall apply to production payments in any case where a successor person or entity is required to make production payments and to production payments of subsequent production of minerals in this state. Any person or corporation that withholds production payments or pays same to the director pursuant to such order is hereby relieved of all liability for such acts.

The primary concern of Koch is that this proposed statute requires a crude oil purchaser to make payment of proceeds irrespective of other outstanding claims against such interest. If an individual is delinquent in the payment of income taxes, it is likely that further financial problems exist. This proposed statute contains no provision allowing

P.O. Box 2256 ▪ Wichita, Kansas 67201 ▪ 316/832-5808
TLX 417376 ▪ TWX 910/741-6990 ▪ Panafax 316/832-5803

the purchaser to report funds it holds and advise additional claims existing against the funds. Such claims can include mortgages, prior garnishments, federal tax levies, child support orders, judgment liens, lis pendens, funds being paid pursuant to a court order, bankruptcy of the individual, and other matters which may have priority over the claim of the State of Kansas for delinquent income taxes. Language should be added to this legislation which would allow oil purchasers to answer the director of taxation by setting out these types of claims when they exist. The relief from liability in the statute as proposed is not adequate protection for the purchasers, particularly in relation to federal tax levies and claims from a trustee or debtor-in-possession when the individual has filed bankruptcy.

Koch commends the Legislature for taking actions to help indentify and collect unreported and unpaid taxes. One question this does raise, however, is why the oil industry is being singled out in this endeavor? To collect the information and prepare payments to the State of Kansas will cause oil purchasers to incur substantial overhead expenses. As no other industry in the State is being asked to absorb these types of costs, it would only seem fair that the oil purchasers be allowed to collect a minimum fee, such as five dollars for each payment made, to help defray the costs associated with the collection of these taxes on behalf of the State of Kansas.

If you would like to discuss this matter in greater detail, please call me.

Very truly yours,

Debra G. Haifleigh

Debra G. Haifleigh

dgh/maf

MEMORANDUM

TO: Mr. Gary L. Stotts, Acting Dir. Division of the Budget

DATE: March 17, 1987

FROM: Kansas Department of Revenue

RE: Senate Bill 48 as Amended by Senate Committee

Brief of Bill:

Senate Bill 48, as amended by Senate Committee, would require mineral producers to file with the Department a "report" on any person or entity receiving mineral production payments. The person or entity must be subject to taxation under the Kansas Income Tax Act.

Enactment of this bill as amended would require mineral producers to inform the Department of Revenue of all persons receiving mineral production payments at or before the time information returns are required to be filed. It allows a hearing before the Director within 15 days of mailing a nonfiler letter. The third, changes the delinquent penalty from $100 per day to $50 per day.

The effective date of this bill would be from and after its publication in the statute book.

Fiscal Impact:

Passage of this bill would result in a minimal increase in Fiscal Year 1988 State General Fund revenue.

Administrative Cost:

The administrative costs submitted on January 27, 1987 would still be applicable.

Administrative Comment:

In addition to the comments submitted on January 27, 1987, the Department would like to respectfully submit the following items for your consideration:

1. Although the dollar amount in the penalty provision was changed, the bill still does not conform to the current penalty for failure to file information returns. The existing statute provides a penalty of $50 per report while

Senate Bill 48 provides a penalty of $50 per day. This will create a conflict in the area of penalty on delinquent 1099 reports.

2. The hearing provision currently allow taxpayers to request a hearing only upon an assessment made by the Department of Revenue. The amendment allows a taxpayer to appeal a letter requesting them to file a return or failure to pay their tax. The "failure to file" provision creates a new concept of hearings without a return being filed. Both aspects of this amendment could result in potential taxpayer abuse of the system. It also does not allow the best use of the Department's hearing resources either through the Director's office or the Legal Services Bureau.

Approved By:

Harley T. Duncan
Secretary of Revenue

Proposed Amendment to HB 2509

On page 1, by striking all in lines 22 to 45, inclusive;

On page 2, by striking all in lines 46 to 82, inclusive;

On page 3, by striking all in lines 83 to 110, inclusive; after line 110, by inserting a new section to read as follows:

"Section 1. K.S.A. 1986 Supp. 12-195, as amended by section 4 of 1987 House Bill No. 2080, is hereby amended to read as follows: 12-195. (a) Except as otherwise provided in subsections (b) and (c), no city or county shall commit any of the funds or proceeds derived from a retailers' sales tax as a guarantee for the payment of bonds issued by such city or county.

(b) The board of county commissioners of a county which imposes a countywide retailers' sales tax may issue revenue bonds payable from the proceeds thereof for the purpose of paying the state's share of the cost of highway improvement for which a federal share is to be received.

(c) The board of county commissioners of a county which imposes a countywide retailers' sales tax pursuant to paragraph (2) of subsection (b) of K.S.A. 12-187, and amendments thereto, may issue revenue bonds payable from the proceeds thereof for the purpose of financing the construction or remodeling of a county courthouse, jail or law enforcement center facility.

<u>(d) Any city or county which receives revenue from a city or countywide retailers' sales tax may issue revenue bonds payable from the proceeds thereof for those public purposes for which the city or county is authorized to issue general obligation bonds. Any proposition to issue such bonds shall be approved by a majority of the qualified electors of such city or county voting thereon at an election called and held for such purpose in accordance with the provisions of K.S.A. 10-120, and amendments thereto.</u>

~~(d)~~ <u>(e)</u> Any tax imposed pursuant to subsection (b) or (c) shall terminate whenever such revenue bonds and any interest thereon has been paid in full.";

Also, on page 3, in line 111, before "is" by inserting ", as amended by section 4 of 1987 House Bill No. 2080,";

In the title, in line 18, by striking "capital" and inserting "public"; in line 20, by striking "also repealing " and inserting "amending"; also in line 20, before the period by inserting ", as amended by section 4 of 1987 House Bill No. 2080, and repealing the existing section"