

Approved: Carl Dan Holmes
Date 3-25-96

MINUTES OF THE HOUSE COMMITTEE ON ENERGY AND NATURAL RESOURCES.

The meeting was called to order by Chairperson Carl Holmes at 3:37 p.m. on March 5, 1996, in Room 526-S of the Capitol.

All members were present except: Representative Doug Lawrence - Excused
Representative Steve Lloyd - Excused

Committee staff present: Raney Gilliland, Legislative Research Department
Dennis Hodgins, Legislative Research Department
Mary Torrence, Revisor of Statutes
Marcia Ayres, Committee Secretary

Conferees appearing before the committee: Ron Hammerschmidt, Ks. Department of Health & Environment
Chris Stanfield, Ks. Department of Health & Environment
Lynda Clinger, Koch Oil Company
Donald P. Schnacke, Ks. Independent Oil & Gas Association
Douglas Smith, SW Kansas Royalty Owners Association
Maurice Korphage, Kansas Corporation Commission

Others attending: See attached list

Chairperson Holmes announced a change in the agenda for next week. The briefing on the gas gathering issue by Commissioner McKee of the KCC will be next Wednesday instead of Monday.

Hearing on SB 484: Storage tanks; abolishing the petroleum storage tank release compensation advisory board

Ron Hammerschmidt. Mr. Hammerschmidt, Director of the Division of Environment, thanked the committee for hearing the bill. Due to the limited activity of the advisory board for the past two to three years, KDHE agrees their functions could adequately be performed by an ad hoc committee. (Attachment #1)

Questions followed after which the hearing was closed.

Hearing on SB 485: Storage tanks; department reports of receipts and disbursements from funds

Chris Stanfield. Mr. Stanfield, Director of the Office of General Services, testified that this bill is a simple, technical revision regarding the submission of the annual report to the Legislature, and he asked the committee for their approval. (Attachment #2)

Questions followed after which the hearing was closed.

Hearing on SB 517: Abolishing Kansas coal commission; repeal

Since there were no conferees scheduled, the Chair asked staff to review this bill for the committee. Staff reported this bill would abolish the Kansas Coal Commission which had been established in 1987 to enhance the use of Kansas coal. The last time the Commission met was in 1993, and the last annual report they made was from 1991. Some discussion followed and the hearing was closed.

Hearing on SB 520: Oil and gas; interest payments on proceeds from oil and gas production

Lynda Clinger. Ms. Clinger, manager of Ownership Services group of Koch Oil Company, urged the committee to pass SB 520 because it will reduce administrative costs and increase the life of marginal wells. (Attachment #3)

Don Schnacke. Mr. Schnacke, executive vice president of Kansas Independent Oil & Gas Association, endorsed the bill and the amendment because it reduces paperwork and is an encouragement to producers.

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON ENERGY AND NATURAL RESOURCES, Room 526-S Statehouse, at 3:30 p.m.. on March 5, 1996.

Douglas E. Smith. Mr. Smith, representing the Southwest Kansas Royalty Owners Association, read testimony from Erick Nordling, executive secretary of the Association. The Association had concerns about the present form of **SB 520** and recommended changes dealing with payment of interest and notice to the royalty owners of the option the companies will have to accumulate proceeds. (Attachment #4)

Questions followed and the hearing was closed.

Hearing on SB 685: Oil and gas; protection of surface and groundwater

Maurice Korphage. Mr. Korphage, director of the Conservation Division of the Corporation Commission, testified in support of **SB 685** which amends two statutes. He asked the committee to pass the bill in order to assist them in pursuing people who should be held accountable for the plugging of abandoned wells. (Attachment #5)

Don Schnacke. Mr. Schnacke, of the Independent Oil and Gas Association, had two concerns regarding **SB 685** but has discussed them with the KCC staff and now feel they will be addressed by the KCC orders. Therefore, the Independent Oil and Gas Association supports the bill. (Attachment #6)

There being no questions for the conferees, the hearing was closed.

The meeting adjourned at 4:25 p.m.

The next meeting is scheduled for March 6, 1996.

State of Kansas

Bill Graves



Governor

Department of Health and Environment

James J. O'Connell, Secretary

Testimony presented to
House Energy and Natural Resources Committee
by
The Kansas Department of Health and Environment
Senate Bill 484

We thank the committee for introducing Senate Bill 484, which incorporates the Secretary of KDHE's recommendation to abolish the petroleum storage tank release compensation advisory board. Due to limited activities of the advisory board for the past two to three years, we agree that the functions of this board could adequately be performed by an ad hoc committee if changes to rules and regulations or other issues arise in the administration of this program. Currently, the rules, regulations and administration of the program are well settled and there is no need to maintain the current statutory requirement for this inactive committee.

Testimony presented by: Ronald F. Hammerschmidt, Ph.D.
Director
Division of Environment
March 5, 1996

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Attachment 1

State of Kansas

Bill Graves



Governor

Department of Health and Environment

James J. O'Connell, Secretary

Testimony presented to
House Committee on Energy and Natural Resources
by
The Kansas Department of Health and Environment
Senate Bill 485

Mr. Chairman, Members of the Committee:

This bill is a simple, technical revision to the submission of the annual report to the Legislature, regarding the receipts and disbursements of the underground and aboveground storage tank funds. Current law (KSA 65-34,121) calls for the report to be delivered to the Legislature "on or before March 1st of each year"; and the prepared report is to cover the time period of "the preceding calendar year" (Jan 1 to Dec 31). SB 485 changes both of those requirements as follows: the report will now be delivered on or before the first day of each regular session of the Legislature and will cover the time period of the preceding fiscal year (July 1 to Jun 30).

The change to the reporting period will make this annual report coincide with the department's annual budget document, which details the expenditures of the prior fiscal year. This will allow the agency to use already prepared data rather than creating new data based on one half of the total expenditures of the prior fiscal year (Jan 1 to Jun 30) and then adding the remaining half with the first six months of current fiscal year expenditures (July 1 to Dec 31). Further, the change in delivery date from March 1 to the first day of the Legislative Session is in keeping with other annual reports prepared by the agency concerning Solid Waste Fee Fund, Waste Tire Fee Fund and the Air Quality Fee Fund.

The Senate Committee on Energy and Natural Resources found this issue to be of such a non-controversial nature that it was assigned directly to the consent calendar, where it passed 40-0. I ask that your committee consider taking this same action.

Thank you.

Testimony presented by:

Chris Stanfield
Director General Services
Office of General Services
March 5, 1996

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KOCH OIL COMPANY

OWNERSHIP SERVICES

**Testimony on Kansas Senate Bill 520
Increasing the Minimum Payment Amount for Production Proceeds**

**Lynda Clinger, on behalf of Koch Oil Company, Wichita, Kansas
March 5, 1996**

Mr. Chairman and Members of the Committee:

My name is Lynda Clinger. I am the manager of the Ownership Services group of Koch Oil Company, a division of Koch Industries. Our headquarters are located in Wichita. Koch employs nearly 3,000 employees in Kansas and is a major first purchaser of crude oil in the State (approximately 30,000 B/D). Koch also has approximately 1,700 miles of pipeline and extensive crude transportation systems in Kansas. I appreciate the opportunity to speak with you today. I am here on behalf of Koch to urge you to pass Senate Bill 520.

The Ownership Services group at Koch employs almost 50 people. Our job is to track ownership and make proper and timely payment of proceeds from the production which Koch purchases.

Koch's decision to purchase production is based on many market and economic factors. The administrative costs associated with the payment process for our purchased production is one of these factors.

The number of owners of interest in production from oil and gas properties continually grows as those interests are transferred and divided into more and more owners. That growing number of owners in turn drives up the administrative costs that include issuing and handling checks, postage, envelopes, check stock, and computer time. The National Association of Division Order Analysts has compiled survey results showing that nation-wide last year approximately 3 million payment checks were issued. Of those 3 million checks, 50% were for amounts under \$100. For checks issued for amounts under \$10, 33% were never cashed. More cost is created by internal reconciliation, check data to banks, bank reconciliation, and re-issue of lost checks. Follow-up procedures with outstanding checks such as stale-dating and unclaimed property reporting procedures and other governmental compliance reporting such as year-end 1099's, severance tax and transporter reporting add to costs.

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These administrative burdens especially impact the economic feasibility of purchasing from marginally producing wells. The costs to administer the ownership on a 5-10 B/D well with a large number of owners can make the purchase of that production unprofitable. Senate Bill 520 will allow a reduction in the number of checks that must be issued. This will lower the overhead associated with the distribution of proceeds from oil and gas properties in the State. That lower overhead can in turn extend the life of marginally producing wells by providing some relief to the producer or purchaser and allowing the purchased barrels to remain profitable. This bill will not impact the actual amount paid to owners, and it also includes an option provision by which owners may request to receive the smaller amounts, if that is their choice.

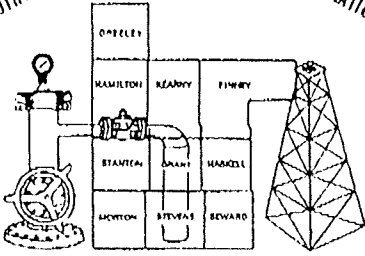
In 1995, Koch, by law, was required to write almost 35,000 checks that were under \$5.00. I can tell you with certainty there are many of our owners and customers who do not appreciate receiving and handling these small checks. We receive many notes, letters, and phone calls from our customers expressing disbelief that we cut these small checks, not realizing we are legally required to do so.

I have had several discussions with those representing the interest of royalty owners in the State. I believe that they agree it does not make sense to require payors of production to issue checks sometimes as small as one cent. We added an amendment to this bill that will require that payors give notice to all owners before they begin to aggregate payments to a higher amount. Some would like to see the bill further amended to require that interest be paid on the amounts between \$25 and \$100. We do not believe that this requirement makes good economic sense. For the minimal amount of interest that an owner might receive (somewhere between a few cents and a few dollars for an entire year) those making payment will be required to spend thousands of dollars to re-program systems to calculate and make line item entries for the interest payment. We believe a better solution for those who have critical need for these small amounts is to exercise their option under the bill to receive their payments as they have in the past.

In conclusion, I again urge you to pass Senate Bill 520. It will benefit producers, purchasers, and owners alike by reducing administrative costs and increasing the life of marginal wells. It can help eliminate the economic waste of creating small checks which go uncashed or are passed through systems at a cost many times the value of the check itself. Our customers are right, there has to be a better way, and the passage of Senate Bill 520 will help get us there.

Thank you again for the opportunity to speak with you, and I will be happy to answer any questions you may have.

SOUTHWEST KANSAS ROYALTY OWNERS ASSOCIATION



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STATEMENT OF
ERICK E. NORDLING, EXECUTIVE SECRETARY
SOUTHWEST KANSAS ROYALTY OWNERS ASSOCIATION
HUGOTON, KANSAS 67951

March 5, 1996

To the Honorable Members of the House Committee on Energy
and Natural Resources.

INTRODUCTION

Mr. Chairman and Members of the Committee:

My name is Erick E. Nordling of Hugoton. I am Executive Secretary of the Southwest Kansas Royalty Owners Association (SWKROA). I would like to enter comments on behalf of members of our Association and on behalf of Kansas royalty owners in opposition to the present form of S.B. 520 which has been passed out of the Senate and is now before your committee. The Bill prescribes changes to payments which would be excluded from the payment of interest on the proceeds from oil and gas production.

BACKGROUND INFORMATION

Our Association is a non-profit Kansas corporation, organized in 1948, for the primary purpose of protecting the rights of landowners in the Hugoton Gas Field. We have a membership of over 2,500 members. Our membership primarily consists of landowners owning mineral interests in the Kansas portion of the Hugoton Field who

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PRESIDENT
JACK HAYWARD
EXECUTIVE SECRETARY
ERICK E. NORDLING
ASST SECRETARY
B E NORDLING
ASST SECRETARY
WAYNE B TATE

are lessors under oil and gas leases as distinguished from oil and gas lessees, producers, operators, or working interest owners.

For those of you who are not familiar with the Hugoton Gas Field, it covers parts of 11 southwest Kansas counties, including Seward, Stevens, Morton, Stanton, Grant, Haskell, Finney, Kearny, Hamilton, Wichita and Gray. It extends through the Oklahoma Panhandle into Texas. The Hugoton Field runs 150 miles north and south and 50 miles east and west and is one common source of supply.

The Association was very supportive and instrumental in the passage of the current version of K.S.A. 55-1614, et seq, which provides statutory authority for interest on payments from the first sale of oil or gas production.

S.B. 520 IS TO ADDRESS INDUSTRY CONCERNS

Our Association has been working with Koch Oil Company representatives on this bill. Koch is the primary proponent of the bill, and the bill is designed to address concerns by the oil and gas industry of very small royalty payments which may take several months to accumulate a sufficient amount of money before such funds are disbursed. The claimed benefit of the bill will be to help the companies reduce overhead in making numerous small payments.

We certainly understand the concern of Koch and other rest of the industry. However, we still have some concerns. If the bill can be modified to address our concerns, then we would be supportive of the Bill.

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Actually, when the Bill was approved by the Senate, it was represented by Koch that SWKROA had approved all of the changes offered by Koch. That was not quite the case. We had been working on some amendatory language, but it had not been fully approved by SWKROA. The main concerns SWKROA still has with the Bill deal with the payment of interest, and notice to the royalty owners of the option the companies will have to accumulate proceeds.

It is a general business principle that if you have the use of someone else's money, you should be required to pay interest to the person to whom those monies belong.

Under the terms of most of oil and gas leases in Kansas, the Lessee is required to pay royalties on a monthly basis. The proposed bill changes this obligation.

SWKROA'S CONCERNS ON THIS BILL

At the hearing February 1, 1995 before the Senate Committee on Energy and Natural Resources, I testified that SWKROA would encourage and be supportive of S.B. 520 if it were revised to address the following concerns:

(a) Royalties be paid and accounted for on at least a calendar year basis.

(b) Interest should be paid on any delayed payment at the Kansas statutory rate as provided in K.S.A. 16-201, such interest to be paid beginning from date of suspension of royalties.

(c) Notice and authorization provisions before payments could be delayed. No such action should be taken without express

authorization from the royalty owner for the company to stop paying royalties on a monthly basis.

(d) The amount which the payor is allowed to accumulate until the royalties reaches a minimum amount before a royalty payment is made should not exceed \$100.00, and any such accumulation, regardless of the amount, shall be disbursed at least on a calendar year basis.

(e) If royalties exceed the minimum amount, on any given month, then such royalty shall be paid within thirty days of the end of the month following production. If not paid within such time, then interest must be paid at the Kansas statutory rate as provided by K.S.A. 16-201.

Some of these concerns have been addressed in the bill before this Committee through negotiations between SWKROA and Koch Oil Company. However, as stated above we still have some concerns about the present form of the bill.

IMPACT OF S.B. 520

During discussions with Koch's representatives, they provided some information on the impact of the Bill. Under the present law, Koch indicated that at that time they were holding approximately \$43,000 for some 3,600 royalty owners whose accumulated royalties were below \$25. Of course, they are holding these monies, without interest, until the royalties accumulate to \$25 at which time the funds are disbursed, without interest.

Under the proposed legislation, Koch has indicated that

on December 20, 1995 Koch paid \$170,534 for royalties which were between \$25 and \$100, for some 3,340 owners whose checks included payment on at least one Kansas lease. Although this information may not be purely Kansas production, it vividly demonstrates that at any given time Koch will be holding around \$215,000, without any obligation to pay interest. This is just the impact to Koch Oil. Imagine the impact across all of Kansas for these suspended royalties. What a bonanza!

We feel it is not unreasonable for the companies to pay interest on suspended royalties. We suggest that interest should be paid on all suspended funds. However, in a compromise with Koch, we suggested that maybe the amount excluded from the payment of interest be only on those royalties which do not accumulate to at least \$10 on an annual basis. Any amounts over the \$10 threshold would accumulate interest at the present rate provided by K.S.A 55-1614, et seq.

ANOTHER CONCERN - NOTICE TO ROYALTY OWNER

We are also very concerned that if the gas and oil companies need to receive authorization, at least annually, for the company to suspend the royalty payments until it reaches the threshold amounts. Our concern is based on the fact that mineral ownership is not static. People occasionally move or sell their oil and gas interests. More commonly a royalty owner dies and their interest descends to their heirs, legatees and devisees. If the companies do not maintain regular contact with the royalty

owners, many of them will be lost in the shuffle. Ask members of the industry if this is a problem. We feel this is a major concern. We urge your careful consideration of the language in S.B. 520 on the notice issue.

I realize I am not able to personally appear before you today, I am preparing for a jury trial tomorrow. I appreciate the opportunity to present our concerns to your honorable committee.

Respectfully submitted,



Erick E. Nordling
Executive Secretary
SOUTHWEST KANSAS ROYALTY
OWNERS ASSOCIATION

EEN:een

Testimony of M.L. Korphage
Director
Kansas Corporation Commission
Conservation Division
before the
House Committee on Energy and Natural Resources
March 5, 1996

Good afternoon, Mr. Chairman, members of the Committee. I am Maurice Korphage, Director of the Conservation Division of the State Corporation Commission. I am appearing before you today to testify in support of Senate Bill No. 685. That Bill amends two Statutes which are of vital importance to our Division.

During the course of the Summer before the Interim Committee on Energy and Natural Resources and before the Legislative Budget Committee, testimony was given concerning the number of abandoned wells in the State of Kansas. Both Committees suggested that we explore ways to hold individuals more accountable and thereby lessen the number of future wells accruing to our inventory of abandoned wells.

Section 1 of Senate Bill No. 685 amends K.S.A. 55-162. This concerns investigations by the Commission into violations of any of the rules and regulations or Statutes pertaining to the production of oil and gas. Currently when an operator is in violation of a Commission Order, their license is suspended. At that time we seal all known wells of a producer in order to obtain compliance. However, there is no current provision within the law to stop the operator from removing the seal and resuming operations. This amendment would make it a severity level 9 non-person felony to remove the seal without formal Commission approval.

Section 2 of Senate Bill No. 685 amends K.S.A. 55-179. The first part of that amendment is to Sub Section (a)(2)(A) and strikes the provision that we must plug an abandoned well within sixty (60) days after completing our

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investigation. This Statute, if literally read, could compel the Conservation Division to plug wells whether we consider them high priority wells or not. In addition, we believe that there has to be a limitation that we can only plug wells as funds are available.

The most important part of the amendment to K.S.A. 55-179 is found in the amendment to Section (b) which expands the definition of responsible party to any person who tampers with or removes surface equipment or downhole equipment on a well. At the present time there are individuals in the State who do not have oil and gas licenses but merely strip the leases, sell off the equipment and leave the abandoned well. This amendment would give us jurisdiction over those individuals without question and allow us to pursue the same. Currently the State has a lien on equipment salvaged in the course of a plugging. This can sometimes result in substantial savings to the Conservation Division. For us to attempt to plug a lease which has been stripped entails greater expense and may pose a greater threat to the environment.

I would ask that you pass Senate Bill No. 685 in order to assist us in pursuing people who we believe should be held accountable for the plugging of abandoned wells. We are continuing to review the Statutes to see if there are any other changes which may be helpful in addressing the abandoned well problem and we may be seeking additional action during the next legislative session.

If you have any questions, I would be glad to answer them. Thank you.



KANSAS INDEPENDENT OIL & GAS ASSOCIATION

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**Statement of Donald P. Schnacke, Executive Vice President
Kansas Independent Oil & Gas Association
before the
House Energy & Natural Resources Committee
March 5, 1996**

**RE: SB 685 - *Concerning Actions that Tamper with KCC Sealed Wells
and Further Responsible Party in Cases of Well Defining Abandonment***

We have had two concerns about SB 685:

1. On page 2, line 20, the procedure being used by the KCC to enter the property and seal the well without giving notice and setting up a hearing; and
2. On page 3, beginning on line 5, where a new category of *person* is created, in effect, an *innocent person* who might buy used equipment and remove it from a well and become liable as a responsible party.

In both cases, we have discussed these concerns with KCC staff and have concluded that both of them should and will be addressed by the orders issued by the KCC. We believe no further amendment to SB 685 is necessary.

Therefore, our Associations wants to be on record in support of SB 685.

Donald P. Schnacke

DPS:pp

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