

## MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION.

The meeting was called to order by Chairperson Audrey Langworthy at 11:00 a.m. on January 22, 1997, in Room 519--S of the Capitol.

Members present: Senator Langworthy, Senator Corbin, Senator Bond, Senator Goodwin, Senator Hardenburger, Senator Harris, Senator Karr, Senator Lee, Senator Praeger, Senator Sallee and Senator Steineger.

Committee staff present: Tom Severn, Legislative Research Department  
Chris Courtwright, Legislative Research Department  
Don Hayward, Revisor of Statutes  
Shirley Higgins, Secretary to the Committee

Conferees appearing before the committee: Judy Moler, Kansas Association of Counties  
Don Schnacke, Kansas Independent Oil & Gas Association  
David Bleakley, Eastern Kansas Oil & Gas Association  
Bill Fuller, Kansas Farm Bureau  
Shirley Sicilian, Department of Revenue

Others attending: See attached list

Judy Moler, Kansas Association of Counties, requested the introduction of two bills. (Attachment 1) The first bill concerned appraiser certification with regard to licensing requirements. The bill would allow two additional options for county appraisers to be certified.

Senator Corbin moved to introduce the bill, seconded by Senator Lee. The motion carried.

The second bill requested for introduction by Ms. Moler would aid in the collection of delinquent oil and personal property taxes and would allow for greater tax equity.

Senator Hardenburger moved to introduce the bill, seconded by Senator Karr. The motion carried.

**SB 25--Relating to income taxation; providing a credit therefrom for expenses incurred in plugging abandoned oil and gas wells.**

Don Schnacke, Kansas Independent Oil and Gas Association, testified in support of **SB 25** as a means to encourage persons to undertake the plugging of abandoned wells by granting a state income tax credit as an incentive. (Attachment 2) He noted the Department of Revenue's concern that there would be a rush to plug the many abandoned wells in Kansas the first year the statute went into effect thus causing an overwhelming fiscal impact on the state. Mr. Schnacke believed that only approximately 100 persons at most would plug wells. However, to guarantee there would not be a drain on the income tax program, he suggested that a \$300,000 to \$400,000 cap be placed in the bill.

In response to questions by Senator Karr, Mr. Schnacke confirmed that the person who has the responsibility for plugging the wells was not included in the bill. It would apply to farmers and others who have a well on their land that they want to plug. He said the current average cost to plug a well quoted by the Kansas Corporation Commission is \$3,700. He added that the Corporation Commission's policy was to give priority to plugging wells that are contaminating water. The wells addressed in **SB 25** are considered as nuisance wells.

David Bleakley, Eastern Kansas Oil and Gas Association, followed with further testimony in support of **SB 25** as a tax incentive that would create several benefits to the State of Kansas. (Attachment 3)

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION, Room 519-S  
Statehouse, at 11:00 a.m. on January 22, 1997.

Senator Lee began a discussion regarding the issue of plugging an old well and subsequently drilling a new well near the same site. She asked what the difference in tax treatment would be if the old well was simply reopened rather than drilling a new well. Mr. Bleakley responded that leases on old wells were abandoned, therefore, there would be no valid lease on the ground. Thus, it becomes the state's responsibility to plug the wells. A new lease with the landowner would be necessary to either attempt to re-enter the old well or drill a new one. He said there were tax advantages to drilling new wells. However, he felt that persons drilling a new well would concentrate on benefitting from tax incentives for the new well rather than on offsetting tax benefit incentives for plugging an old well.

Bill Fuller, Kansas Farm Bureau, testified in support of **SB 25**, reasoning that the bill would provide the incentive and financial assistance to encourage private landowners to eliminate threats to water quality and safety by plugging abandoned wells. It would encourage landowners to do a job that the state cannot afford to do. (Attachment 4)

Shirley Sicilian, Kansas Department of Revenue, discussed the fiscal impact of **SB 25**. The total possible income tax revenue loss from the bill was estimated to be \$68.4 million over the nine tax years to which the bill would apply, 1997 through 2005. The fiscal impact was computed based on the statewide three-year average plugging cost of \$3,750 per well provided by the Kansas Corporation Commission; however, it was unknown whether the cost would rise or fall over the years. Further, the department did not know to what extent taxpayers with abandoned wells would use the tax credit incentive. Ms. Sicilian also addressed the administrative impact of the bill. (Attachment 5)

Senator Corbin commented that possibly the expense for plugging abandoned wells if done by the state would be greater in the long run than giving tax credits to landowners who wish to plug the wells. Ms. Sicilian acknowledged that the tax credit would probably result in a saving to the state in the long run. The hearing was closed on **SB 25**.

**SB 34--Relating to mineral severance tax; concerning exemption therefrom for certain oil production.**

Staff explained a proposed amendment to **SB 34** which would correct a bill drafter's error. (Attachment 6)

Senator Corbin moved to amend **SB 34** as proposed, seconded by Senator Sallee. The motion carried.

Don Schnacke, Kansas Independent Oil & Gas Association, testified in support of **SB 34** as amended. He believed the bill would contribute to the protection of and prolong the life of marginal oil production in Kansas. (Attachment 7) He added that the fiscal note on the bill was not negative.

David Bleakley, Eastern Kansas Oil and Gas Association, testified in support of **SB 34** because exemptions for marginal oil production would help preserve the stripper wells that the state has depended upon to help fuel its economy for almost a century. (Attachment 8)

There being no further time, Senator Langworthy continued the hearing on **SB 34** until January 23 at which time Shirley Sicilian will report on the fiscal impact of the bill.

The minutes of January 21 were approved.

The meeting was adjourned at 11:58 p.m.

The next meeting is scheduled for January 23, 1997.

# SENATE ASSESSMENT & TAXATION COMMITTEE GUEST LIST

DATE: January 22, 1996

NAME	REPRESENTING
CLARK DUFFY	KPC
Benny Swannick	League of KS Municipalities
Robert Gardner	Wyandotte County
MARION JOHNSON	Douglas County
Mary R. Cech	Thomas County
Judy Melen	Kansas Assoc of Counties
Mark Lee	Meade Co
Ann Pagay	Hart County
JASON PITTSBERGER	BRAD SMOOT
Anne Spiess	Peterson Public Affairs Group
DAVE HOLTHAUS	Western Resources
Doug Smith	SITX
Jim Langford	DOB
Todd Myers	Intern

**REQUEST FOR BILL INTRODUCTION**

Requested by  
The Kansas Association of Counties  
January 22, 1997

I am Judy Moler, General Counsel and Legislative Services Director for the Kansas Association of Counties. I am appearing before you today to request two pieces of legislation of particular importance to our Kansas Counties.

The first piece of legislation concerns Appraiser Certification. Currently the law requires that county appraisers be licensed through the Kansas Real Estate Appraisal Board (KREAB). In 1995, through regulation, the KREAB changed licensing requirements so that a minimum of 1500 hours of single property appraisal experience was required to obtain a general license. Previously, hours of mass property appraisal could be used to obtain a general license. This new requirement makes certification difficult for most appraisers employed by government. Although current appraisers would be "grandfathered in", the licensing requirement needs to be changed or counties will have a limited number of experienced mass appraisers who are eligible for appointment as a county appraiser on July 1, 1997.

The Kansas Association of Counties is requesting legislation which would allow for two additional options for county appraisers to be certified. In addition to the current KREAB certification,, appraisers could be certified if they met the current IAAO (International Association of Assessing Officers) certification as well as have three years mass appraisal experience. The third option would be a new designation of "Registered Mass Appraiser". There would be specific education requirements for this designation and hours of mass appraisal experience required. The specific education and number of hours required are being worked on with the KREAB. All three options would require an appraiser to pass the PVD eligibility examination. County appraisers who meet one of the above three certification standards could be appointed by the county commission to a 4-year term on July 1, 1997. Those who do not qualify for any of the three would be eligible for appointment for a two year term. This would allow until July 1, 1999, to qualify for one of the three options. In addition, this bill would require the appointment of two mass appraisers to the KREAB Board. These would be existing positions.

The overriding goal of this legislation is the best possible appraisal system to be achieved by the most qualified persons being appointed.

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Attachment 1*

The second piece of legislation requested by the Kansas Association of Counties deals with the collection of delinquent taxes. Many counties have been working diligently for years for legislative relief in collecting delinquent property taxes. Specifically, oil personal property has always presented the problem of oil lease ownerships being transferred from one owner to another. Between the time property taxes are assessed and tax statements are mailed, ownership could have changed several times. Also, as leases diminish in production, interest in paying property taxes diminishes.

The Kansas Association of Counties requests introduction of a bill which would aid in collection of delinquent property tax and allow for greater tax equity. The bill would allow for the County Sheriff or County Treasurer to act upon tax warrants for up to two years and to execute warrants on or before the current mandated dates. Such warrant would be filed of record with the appropriate register of deeds and become a lien on the personal property. The legislation would provided for authority for the Sheriff or Treasurer of the County to garnish proceeds from the delinquent working interest holders even if the operator is not part of the lease ownership, and allow a lease to be garnished if an owner or decimal interest changes.

Thank you for your consideration of both bill requests. I would be glad to answer questions.

The Kansas Association of Counties, an instrumentality of member counties under K.S.A. 19-2690, provides legislative representation, educational and technical services and a wide range of informational services to its member counties. Inquiries concerning this testimony should be directed to the KAC by calling (913) 233-2271.



## KANSAS INDEPENDENT OIL & GAS ASSOCIATION

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### *SENATE COMMITTEE ON ASSESSMENT & TAXATION JANUARY 22, 1997*

*Testimony of Donald P. Schnacke, Executive Vice President  
Kansas Independent Oil & Gas Association*

#### *RE: SB 25 - Tax Credit for Plugging Abandoned Wells*

I am Don Schnacke, Executive Vice President of the Kansas Independent Oil and Gas Association, appearing in favor of the passage of SB 25, a bill that would encourage persons to undertake the plugging of abandoned wells by granting a state income tax credit as an incentive.

This bill is similar to SB 566 (1996 Session) that was considered before this Committee last year without opposition. In addition to our Association, the Kansas Farm Bureau appeared in favor of the bill.

Chairperson Langworthy asked that the bill considered during the 1996 session be deferred until the 1997 session because, at the time, the new state policy concerning the plugging of abandoned oil and gas wells had not been established. That new plugging policy and effort was established late in the 1996 session with the passage of H. Subs. for SB 755. Funds were appropriated and the State of Kansas has embarked on a long-range effort to plug wells. This bill, SB 25, fits squarely into that policy and should result in additional wells plugged throughout Kansas.

By allowing farmers, farm tenants, leaseholders and individuals to participate in this effort statewide, we anticipate an additional 100 wells may be plugged with a fiscal impact of \$187,500 per year as a result of the state income tax credit incentive that would be authorized.

In the spirit of accelerating the plugging effort authorized by the legislature last year, we recommend the passage of SB 25.

DPS:pp

*Senate Assessment & Taxation*

*1-22-97*

*Attachment 2*

**SENATE COMMITTEE ON ASSESSMENT AND TAXATION**  
**January 22, 1997**  
**RE: SB 25 - TAX CREDIT FOR PLUGGING ABANDONED WELLS**

Testimony of David Bleakley - Legislative Chairman  
Eastern Kansas Oil and Gas Association  
&  
Director of Acquisitions & Land Management  
Colt Energy, Inc.

The Eastern Kansas Oil and Gas Association (EKOGA) strongly supports SB 25.

Our association represents and supports eastern Kansas oil and gas producers, service companies, royalty owners and associated businesses along with the overall welfare of the Kansas oil and gas industry in this state.

In testimony supporting SB 25, EKOGA feels this tax incentive would create the following benefits to the State, the tax payers, landowners and the oil and gas industry:

- 1) give oil and gas producers an incentive to plug historically older wells (pre-1970) on abandoned leases that have no responsible parties and are currently the state's responsibility to plug. This would then allow a State approved operator the opportunity to redrill a lease once it has been plugged out and recover potentially lost reserves generating new revenue for the County and State.
- 2) give landowners an incentive to plug historically older wells (pre-1970) abandoned on their land without responsible parties which are currently the state's responsibility. This would allow the landowners an incentive to cleanup their own land and these older abandoned wells that the state wants plugged.
- 3) relieve the State of the financial and custodial responsibility to plug abandoned and possible future abandoned wells they currently have.
- 4) implement a companion bill to legislation passed last year known as House Subs. SB 755 which was part of an overall plan that was discussed between the KCC and industry during the summer of 1995 to address abandoned wells and older wells which have the potential to become abandoned.
- 5) save tax payers money in the long run by offering an incentive now instead of the state paying the whole cost to plug later.

EKOGA (as it did last year) feels this bill makes good sense from the fact that the State can get a job done for virtually ½ the cost knowing that sooner or later they will be paying 100% of the cost for that same job in the future. This will also help stretch the funds for the plugging provided for in House Substitute for SB 755 and far outweighs it's cost benefit to the State and it's citizens.

Therefore, Madam Chairman and members of this Committee, we urge you to vote in favor of SB 25.

Thank you for your time.

David P. Bleakley

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*1-22-97*  
*Attachment 3*



# PUBLIC POLICY STATEMENT

## SENATE COMMITTEE ON ASSESSMENT & TAXATION

**RE: SB 25 - Providing an Income Tax Credit for Plugging  
Abandoned Oil and Gas Wells.**

January 22, 1997  
Topeka, Kansas

**Presented by:  
Bill R. Fuller, Associate Director  
Public Affairs Division  
Kansas Farm Bureau**

Senator Langworthy and members of the Committee:

Plugging abandoned wells protects water quality and eliminates safety hazards. Both are high priorities for the farm and ranch members of the 105 county Farm Bureaus in Kansas.

My name is Bill Fuller. I am the Associate Director of the Public Affairs Division for Kansas Farm Bureau. We encourage and support the plugging of abandoned oil and gas wells. While it is not generally the legal responsibility of the owners of the land to plug abandoned oil and gas wells, we believe SB 25 will provide the incentive and financial assistance that will

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Attachment 4*



encourage private landowners to eliminate many of these threats to water quality and safety.

The more than 435 Voting Delegates representing the 105 county Farm Bureaus at the 78<sup>th</sup> Annual Meeting of Kansas Farm Bureau adopted new policy concerning the protection of the State's natural resources. We have attached the Kansas Farm Bureau resolution, "Natural Resource Protection" which states, in part, "...we support expanding cost-share programs, **creating tax incentives**, and establishing a state revolving-loan fund for resource protection."

One of my responsibilities is to coordinate Farm Bureau's natural resource and environmental programs. Five years ago, Farm Bureau developed and launched a statewide campaign toward plugging the estimated 250,000 abandoned water wells in Kansas. County Farm Bureaus organized and conducted more than 240 demonstrations in 102 counties, many with the assistance of the Cooperative Extension Service, Conservation Districts, 4-H Clubs and FFA Chapters. More than 7,500 Kansans attended the demonstrations to become aware of the hazards and learn the process of plugging abandoned water wells. All of this was financed with voluntary membership dues without any grants or public funding.

After personally conducting 203 abandoned water well plugging demonstrations, I must tell you a frequent question is, "What can I do about the abandoned oil and gas wells on my land?" We have referred dozens of landowners to the Kansas Corporation Commission for advice and assistance. Feedback has indicates the limited resources and the backlog of abandoned wells has resulted in relatively few wells being plugged.

Landowners want to do the right thing. They want to plug the wells and protect water quality. Unfortunately, the cost is usually prohibitive. Unlike water wells, plugging gas and oil wells requires special training and equipment, and in most cases is not a job most landowners should undertake. Unfortunately, few wells are plugged.

We believe the 50 percent state income tax credit proposed in SB 25 is good public policy and will serve as an incentive that will result in the plugging of many abandoned oil and gas wells in Kansas. We respectfully encourage favorable consideration of SB 25.

Thank You!

We encourage additional efforts to prevent contamination of ground water and surface water in Kansas. We believe success is dependent upon partnering by government agencies at all levels, and organizations representing agriculture, business, homeowners, natural resource and environmental interests. All these entities must participate in order to increase public awareness and encourage appropriate action.

We believe an increased focus and allocation of resources should be directed at developing management practices which protect natural resources, the agricultural economy and the opportunity for continued use of crop protection products. Researchers, agencies and agricultural producers must all be involved in developing management practices which are effective and widely utilized. Since the protection of natural resources is vital to all Kansans, and important for future generations of Kansans, we support expanding cost-share programs, creating tax incentives, and establishing a state revolving-loan fund for resource protection.

## MEMORANDUM

TO: Ms. Gloria M. Timmer, Director  
Division of Budget

DATE: January 21, 1997

FROM: Kansas Department of Revenue

RE: Senate Bill 25  
as Introduced

### BRIEF OF BILL

Senate Bill 25, as Introduced, would add a new credit to Kansas income tax statutes for taxpayers who plug abandoned oil and gas wells. The credit would be equal to 50% of the cost of plugging the well, and would apply against the taxpayer's income tax liability. The amount of credit exceeding the taxpayer's liability could be carried over in succeeding years until used.

The credit would only apply to wells drilled before January 1, 1970 and for which such taxpayer is not legally responsible for its proper care and control. The tax credit would only be available for tax years 1997 through 2005.

This act would take effect July 1, 1997.

### FISCAL IMPACT:

The total possible income tax revenue loss from this bill is estimated to be \$68.4 million, over the 9 year period. There are an estimated 36,457 abandoned wells which would qualify for this credit. Assuming one ninth (1/9) of these wells were plugged each year, the annual fiscal impact would be \$7.6 million a year. If only 50% of these wells are plugged, in equal amount each year over the nine year period, the impact would be \$3.8 million a year.

The Kansas Corporation Commission (KCC) reported in 1995 that there are 91,000 abandoned wells in the state. Of that number, KCC reported responsible parties are known for 42,391 of the wells, leaving 48,609 wells that would be eligible for the tax credit. No records were kept in 1901 when drilling first started in Kansas and the records of the KCC only go back 25 years so it was necessary to estimate the number of wells drilled before 1970 which would qualify for the credit. For want of a better number, it was assumed that 75% of the 48,609 abandoned wells in the state which do not have a taxpayer which is legally responsible for its proper care and control would qualify. This would mean 36,457 wells would qualify for the credit.

The fiscal impact was computed based on the statewide three year average plugging cost of \$3,750 per well, provided by KCC. Using 50% of this or \$1,875 times 36,457 qualifying wells produces a long range impact of \$68.4 million. Assuming one ninth of this total would be used each year, the average annual loss in income tax revenue would be \$7.6 million a year.

There are several other considerations not incorporated in these estimates which are serious enough to be mentioned. First, the current cost of plugging wells was used throughout the nine (9) year period. Whether this cost will rise or fall over the years is unknown. It was assumed the plugging cost would remain at the current level.

Second, it was assumed that all abandoned wells will be plugged and that the fiscal impact would be spread equally over each of the 9 years for which the credit could be claimed. This is equivalent to almost 4,051 abandoned wells being plugged each year (36,457 divided by 9). In 1995, private industry plugged between 2,500 to 3,000 wells. These wells would not qualify for the credit. The KCC plugged nearly 300 wells in 1996 and these are wells that would qualify for the credit. In order for an additional 4,051 wells to be plugged annually farmers and others that had nothing to do with the abandonment would need to view this bill as an incentive to plug abandoned wells.

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Attachment 5*

The department does not know to what extent taxpayers with abandoned wells will make use of this tax credit incentive. The actual impact could be less than the total possible impact if only a portion of the taxpayers take advantage of the credit.

ADMINISTRATIVE IMPACT:

The Business Tax and Income and Inheritance Tax Bureaus would have to design new tax credit schedules for the reporting of the credit on both the individual and corporate income tax returns. The schedules would need to be developed containing supporting documentation required from the Kansas Corporation Commission, verifying drilling dates and plugging cost.

ADMINISTRATIVE PROBLEMS AND COMMENTS:

The bill does not propose how the Department or KCC would verify a valid credit and that the well had been properly plugged. Without a certification process, neither the Department or KCC can be assured that the credit is valid or that the well had been properly plugged. The certification process could add significant administrative costs to the Department or KCC and could also severely limit the number of taxpayers that could take advantage of the credit if the certification process is not properly funded.

Any forms the Department would design would include a certification from the taxpayer regarding the completion of the plugging and the costs. Without such a certification, the Department's enforcement of this legislation would be difficult.

LEGAL IMPACT:

There are no notable legal ramifications for the Department.

APPROVED BY:



John LaFaver  
Secretary of Revenue

Brunkan

## Proposed Amendment to SB 34

On page 4, after line 36, by inserting a new section to read as follows:

"Sec. 2. K.S.A. 1996 Supp. 79-201t is hereby amended to read as follows: 79-201t. The following described property, to the extent herein specified, shall be and is hereby exempt from all property or ad valorem taxes levied under the laws of the state of Kansas:

(a) All oil leases, other than royalty interests therein, the average daily production from which is ~~two~~ three barrels or less per producing well, or ~~three~~ five barrels or less per producing well which has a completion depth of 2,000 feet or more.

(b) The provisions of this section shall apply to all taxable years commencing after December 31, ~~1991~~ 1996."

By renumbering existing sections accordingly;

Also, on page (4) in line 37, by striking "79-4217 is" and inserting "79-201t and 79-4217 are";

In the title, by striking all in lines 9 through 11 and inserting "An act relating to the taxation of oil; concerning incentives for the production thereof from marginal wells; amending K.S.A. 1996 Supp. 79-201t and 79-4217 and repealing the existing sections."

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1-22-97  
Attachment 6



## KANSAS INDEPENDENT OIL & GAS ASSOCIATION

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### *SENATE COMMITTEE ON ASSESSMENT & TAXATION JANUARY 22, 1997*

*Testimony of Donald P. Schnacke, Executive Vice President  
Kansas Independent Oil & Gas Association*

#### *RE: SB 34 - Exemptions For Marginal Oil Production*

I am Don Schnacke, Executive Vice President of the Kansas Independent Oil and Gas Association, appearing in favor of the passage of SB 34, a bill that would contribute to the protection and prolong the life of marginal oil production in Kansas.

The State of Kansas is an active charter member of the Interstate Oil and Gas Compact Commission (IOGCC). Governor Graves and the Chairman of the KCC, Tim McKee, and others participate regularly in IOGCC deliberations. Governor Graves just recently accepted an appointment by IOGCC Chairman Governor Frank Keating of Oklahoma to define a national energy policy. Governor Graves' assigned task is to work on the subject of conservation of crude oil in producing states.

The IOGCC just completed a nationwide study on the subject of marginal oil and gas production. Their study is dedicated to urging the producing states to slow the loss of production from marginal wells by passing tax incentives and other measures to keep marginal wells in production. Marginal oil production in the United States is defined as a well that produces 10 barrels of oil per day or less. A compilation of data contained in the IOGCC report relating directly to Kansas marginal production is attached. Oil production is declining 7% annually and is at a 63-year low, slightly above that recorded in 1933.

As a result of the IOGCC study, Governor Graves released a public statement reflecting the importance of marginal well production as it relates to the economy of the State of Kansas. He indicated that marginal production in Kansas accounts for nearly 8,000 jobs and an economic impact in Kansas of almost \$560 million. His public statement on this subject was released the week of October 6, 1996. A copy is attached.

A brief additional set of facts we have accumulated reflecting the condition of the Kansas oil industry is as follows:

#### *Industry Conditions/Contributions at a Glance*

- Kansas oil production has declined 41% from 1984 to 1995.
- Kansas oil production slumped to a 61-year low in 1995.
- Direct oilfield employment has declined 60% from 1984 to 1995.
- Active rotary rigs have declined 77% from 1984 to 1995.
- Kansas drilling activity has declined 87% from 1984 to 1995.
- Kansas is home to over 44,000 marginal wells.

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**SENATE COMMITTEE ON ASSESSMENT & TAXATION**

**RE: SB 34**

**JANUARY 22, 1997**

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- Each marginal well is a resident Kansas consumer expending over \$11,000 on Kansas jobs, goods and services. This amounts to over \$484 million annually.
- A typical dollar expended by a marginal Kansas well is allocated as follows:

Labor	- 40%
Utilities	- 35%
Goods/Services	- 25%
- Marginal wells return over \$60 million annually to landowners in royalty payments. A significant portion of these funds remain in the rural farm community.

It's very timely that Kansas Inc. released last week its new report, "*A Kansas Vision for the 21st Century - The Strategic Plan for Economic Development*", dated January, 1997. It points out as a major goal and objective that it is important to "*reduce the total tax burden on the oil and gas industry to a level competitive with other marginal producing states.*" That is exactly what SB 34 does. It updates previously passed legislation that reduces the severance tax and ad valorem tax on marginal oil production in Kansas.

The passage of the state severance tax in 1983, over thirteen years ago, at the urging of then Governor Carlin, had the effect of doubling the taxes on Kansas oil and gas production. The severance tax alone has taken over \$1 billion from the industry and impacted negatively on its fiscal well-being. This double tax policy impacts especially hard on marginal oil production in Kansas. The thrust of SB 34 is an attempt to relieve this negative impact and prolong the life of these wells.

After SB 34 was drafted in an atmosphere of haste and the second half of the bill was not included, we ask that the Committee amend SB 34 and add that portion related to ad valorem property taxes. What we believe will protect marginal wells was suggested in 1992, but the 1992 legislature compromised on the House floor to the existing exemptions. In order to fully protect marginal wells, we again recommend this amendment.

Additionally, our officers and Directors who give direction to our legislative effort have reviewed the 1987 statute that was designed to be a parachute for prices that prevailed at that time, reaching as low as \$10.00. We recommend that SB 34 reflect the price amendments that we are offering as a balloon to more reflect 1997 prices, inflation and the bottom line price that is required to protect marginal oil wells.

We urge the passage of SB 34.

DPS:pp

Attach: IOGCC Summary for Kansas  
Statement by Governor Graves  
Balloon of SB 34





# INTERSTATE OIL AND GAS COMPACT COMMISSIC

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**Executive Director:**  
Christine Hansen

## ***Marginal Oil and Gas: Fuel for Economic Growth*** **KANSAS FACTS — 1995 DATA**

It would be an understatement to say oil and gas are major contributors to Kansas' economy. The IOGCC's economic report estimates the total value of all oil and gas produced in Kansas in 1995 at \$1.65 billion. Oil and gas produced from marginally economic, "stripper" (low-volume) wells contributed more than \$559 million of that amount in 1995.

Secondary recovery techniques are important to Kansas' stripper oil production, totaling 48 percent (15,275 MBBLS) of the oil produced from stripper wells in 1995.

The average stripper oil well in Kansas produces just 2.08 barrels of oil per day, just under the national average of 2.10. Kansas' stripper gas wells produced an average 32.8 MCF per well each day, well above the national average of 15.9 MCF.

Kansas ranks fourth nationally in stripper oil production, with total 1995 stripper oil production at 31,796,645 BBLS. Kansas' total oil produced, including stripper and all other production, according to IOGCC figures, was 44,233 MBBLS in 1995. Stripper gas production in Kansas topped 33,967,364 MCF in 1995, with total gas produced totaling 723,968 MMCF.

Kansas is third-highest in the nation in the number of stripper oil wells, with 41,913 wells, and has nearly 3,000 stripper gas wells. The IOGCC's economic report indicates Kansas' stripper oil and gas industry contributed 7,944 jobs inside and outside the oil and gas industry and more than \$107 million in earnings in 1995.

During 1995, 1,754 stripper oil wells and 238 stripper gas wells were permanently plugged and abandoned in Kansas. This abandonment cost Kansas more than \$25.2 million in revenues and 359 jobs. Permanently plugging and abandoning a well effectively eliminates the possibility of harvesting any remaining resource from the well.

Stripper oil production lost in 1995 due to abandonment totaled 1,330,645 BBLS; stripper gas production lost was 2,846,561 MCF.

# STATE OF KANSAS

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## OFFICE OF THE GOVERNOR WEEKLY COLUMN Week of October 6, 1996

### *Kansas Oil and Gas Production Fuels Economic Engine*

We are fortunate to be geographically and geologically blessed. The state of Kansas sits atop some of the richest deposits of known oil reserves in the country, and the vast Hugoton natural gas field of southwest Kansas is the nation's largest. Ninety-five of our 105 counties have some amount of oil and gas production. For decades, the recovery and production of these vital natural resources have supported many a Kansas family and community, and provided the entire country with crucial fuel supplies.

The agriculture, manufacturing, and service sectors are each crucial components to the Kansas economy, but for more than a century, the oil and gas industries have employed thousands of people, generated billions of dollars, and carved out its own unique niche in our rich Kansas heritage.

A new report published by the Interstate Oil and Gas Compact Commission helps drive home my point. The report chronicles the key role played by marginal oil and gas wells. These marginal or low-volume wells -- sometimes called "stripper" wells -- account for nearly 8,000 jobs and almost \$560 million in economic impact in Kansas.

The report only reinforces the fact that the oil and gas industries are essential to our state's economic vitality. Seventy-one percent of the oil produced in Kansas comes from stripper wells. Every dollar of marginal oil and gas production in this country creates 58 cents in additional economic activity, and every \$1 million in production creates more than nine jobs. Oil and gas production in Kansas also helps provide revenues for essential government services.

When oil was first discovered in Kansas, it would often spout from the ground in huge gushers. Those days are long gone, but there is still plenty of oil and gas below the ground in Kansas and across the country. We have what the industry calls a "mature" resource. That means we have to work to get at it, but it is that work that creates the jobs and helps fuel the economic engine.

With imported oil expected to reach 67 percent of total American consumption within 10 years, it is important that we sharpen the competitive edge of our domestic producers, and provide them an environment that allows them to do what they do best.

I am proud to be Governor of a state with such a rich history in oil and gas production, and I am confident the industry's future holds bright promise.

*For more information on this or other issues dealing with Kansas government, contact Gov. Bill Graves' office at 1-800-748-4408, or visit the Governor's homepage at <http://www.kspress.com/governor/index.html>.*

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SENATE BILL No. 34

By Committee on Assessment and Taxation

1-15

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9 AN ACT relating to mineral severance tax; concerning exemption there-  
10 from for certain oil production; amending K.S.A. 1996 Supp. 79-4217  
11 and repealing the existing section.

12

13 *Be it enacted by the Legislature of the State of Kansas:*

14 Section 1. K.S.A. 1996 Supp. 79-4217 is hereby amended to read as  
15 follows: 79-4217. (a) There is hereby imposed an excise tax upon the  
16 severance and production of coal, oil or gas from the earth or water in  
17 this state for sale, transport, storage, profit or commercial use, subject to  
18 the following provisions of this section. Such tax shall be borne ratably by  
19 all persons within the term "producer" as such term is defined in K.S.A.  
20 79-4216 and amendments thereto, in proportion to their respective ben-  
21 efiticial interest in the coal, oil or gas severed. Such tax shall be applied  
22 equally to all portions of the gross value of each barrel of oil severed and  
23 subject to such tax and to the gross value of the gas severed and subject  
24 to such tax. The rate of such tax shall be 8% of the gross value of all oil  
25 or gas severed from the earth or water in this state and subject to the tax  
26 imposed under this act. The rate of such tax with respect to coal shall be  
27 \$1 per ton. For the purposes of the tax imposed hereunder the amount  
28 of oil or gas produced shall be measured or determined: (1) In the case  
29 of oil, by tank tables compiled to show 100% of the full capacity of tanks  
30 without deduction for overage or losses in handling; allowance for any  
31 reasonable and bona fide deduction for basic sediment and water, and  
32 for correction of temperature to 60 degrees Fahrenheit will be allowed;  
33 and if the amount of oil severed has been measured or determined by  
34 tank tables compiled to show less than 100% of the full capacity of tanks,  
35 such amount shall be raised to a basis of 100% for the purpose of the tax  
36 imposed by this act; and (2) in the case of gas, by meter readings showing  
37 100% of the full volume expressed in cubic feet at a standard base and  
38 flowing temperature of 60 degrees Fahrenheit, and at the absolute pres-  
39 sure at which the gas is sold and purchased; correction to be made for  
40 pressure according to Boyle's law, and used for specific gravity according  
41 to the gravity at which the gas is sold and purchased, or if not so specified,  
42 according to the test made by the balance method.

43 (b )The following shall be exempt from the tax imposed under this

1 section:

2 (1) The severance and production of gas which is: (A) Injected into  
 3 the earth for the purpose of lifting oil, recycling or repressuring; (B) used  
 4 for fuel in connection with the operation and development for, or pro-  
 5 duction of, oil or gas in the lease or production unit where severed; (C)  
 6 lawfully vented or flared; (D) severed from a well having an average daily  
 7 production during a calendar month having a gross value of not more  
 8 than \$81 per day, which well has not been significantly curtailed by reason  
 9 of mechanical failure or other disruption of production; in the event that  
 10 the production of gas from more than one well is gauged by a common  
 11 meter, eligibility for exemption hereunder shall be determined by com-  
 12 puting the gross value of the average daily combined production from all  
 13 such wells and dividing the same by the number of wells gauged by such  
 14 meter; (E) inadvertently lost on the lease or production unit by reason of  
 15 leaks, blowouts or other accidental losses; (F) used or consumed for do-  
 16 mestic or agricultural purposes on the lease or production unit from which  
 17 it is severed; or (G) placed in underground storage for recovery at a later  
 18 date and which was either originally severed outside of the state of Kansas,  
 19 or as to which the tax levied pursuant to this act has been paid;

20 (2) the severance and production of oil which is: (A) From a lease or  
 21 production unit whose average daily production is ~~two~~ *five* barrels or less  
 22 per producing well, which well or wells have not been significantly cur-  
 23 tailed by reason of mechanical failure or other disruption of production;  
 24 (B) from a lease or production unit, the producing well or wells upon  
 25 which have a completion depth of 2,000 feet or more, and whose average  
 26 daily production is ~~three~~ *six* barrels or less per producing well or, if the  
 27 price of oil as determined pursuant to subsection (d) is \$30 ~~\$16~~ / or less ----- \$19  
 28 whose average daily production is ~~four~~ *seven* barrels or less per producing  
 29 well, or, if the price of oil as determined pursuant to subsection (d) is \$24  
 30 ~~\$15~~ / or less, whose average daily production is *five eight* barrels or less ----- \$18  
 31 per producing well, or, if the price of oil as determined pursuant to sub-  
 32 section (d) is \$16 ~~\$14~~ / or less, whose average daily production is *six nine* ----- \$17  
 33 barrels or less per producing well, or, if the price of oil as determined  
 34 pursuant to subsection (d) is ~~\$10~~ *\$13* / or less, whose average daily pro- ----- \$16  
 35 duction is ~~seven~~ *10* barrels or less per producing well, which well or wells  
 36 have not been significantly curtailed by reason of mechanical failure or  
 37 other disruption of production; (C) from a lease or production unit, whose  
 38 production results from a tertiary recovery process. "Tertiary recovery  
 39 process" means the process or processes described in subparagraphs (1)  
 40 through (9) of 10 C.F.R. 212.78(c) as in effect on June 1, 1979; (D) from  
 41 a lease or production unit, the producing well or wells upon which have  
 42 a completion depth of less than 2,000 feet and whose average daily pro-  
 43 duction resulting from a water flood process, is ~~three~~ *six* barrels or less

1 per producing well, which well or wells have not been significantly cur-  
 2 tailed by reason of mechanical failure or other disruption of production;  
 3 (E) from a lease or production unit, the producing well or wells upon  
 4 which have a completion depth of 2,000 feet or more, and whose average  
 5 daily production resulting from a water flood process, is ~~four~~ seven barrels  
 6 or less per producing well or, if the price of oil as determined pursuant  
 7 to subsection (d) is ~~\$30~~ ~~\$16~~ / or less, whose average daily production is ~~five~~ \$19  
 8 ~~eight~~ barrels or less per producing well, or, if the price of oil as deter-  
 9 mined pursuant to subsection (d) is ~~\$24~~ ~~\$15~~ / or less, whose average daily \$18  
 10 production is ~~six~~ nine barrels or less per producing well, or, if the price  
 11 of oil as determined pursuant to subsection (d) is ~~\$16~~ ~~\$14~~ / or less, whose \$17  
 12 average daily production is seven 10 barrels or less per producing well,  
 13 ~~or, if the price of oil as determined pursuant to subsection (d) is \$10 or~~  
 14 ~~less, whose average daily production is eight barrels or less per producing~~  
 15 well, which well or wells have not been significantly curtailed by reason  
 16 of mechanical failure or other disruption of production; (F) test, frac or  
 17 swab oil which is sold or exchanged for value; or (G) inadvertently lost  
 18 on the lease or production unit by reason of leaks or other accidental  
 19 means;

20 (3) (A) any taxpayer applying for an exemption pursuant to subsec-  
 21 tion (b)(2)(A) and (B) shall make application annually to the director of  
 22 taxation therefor. Exemptions granted pursuant to subsection (b)(2)(A)  
 23 and (B) shall be valid for a period of one year following the date of cer-  
 24 tification thereof by the director of taxation; (B) any taxpayer applying for  
 25 an exemption pursuant to subsection (b)(2)(D) or (E) shall make appli-  
 26 cation annually to the director of taxation therefor. Such application shall  
 27 be accompanied by proof of the approval of an application for the utili-  
 28 zation of a water flood process therefor by the corporation commission  
 29 pursuant to rules and regulations adopted under the authority of K.S.A.  
 30 55-152 and amendments thereto and proof that the oil produced there-  
 31 from is kept in a separate tank battery and that separate books and records  
 32 are maintained therefor. Such exemption shall be valid for a period of  
 33 one year following the date of certification thereof by the director of  
 34 taxation;

35 (4) the severance and production of gas or oil from any pool from  
 36 which oil or gas was first produced on or after April 1, 1983, as determined  
 37 by the state corporation commission and certified to the director of tax-  
 38 ation, and continuing for a period of 24 months from the month in which  
 39 oil or gas was first produced from such pool as evidenced by an affidavit  
 40 of completion of a well, filed with the state corporation commission and  
 41 certified to the director of taxation. Exemptions granted for production  
 42 from any well pursuant to this paragraph shall be valid for a period of 24  
 43 months following the month in which oil or gas was first produced from

1 such pool. The term "pool" means an underground accumulation of oil  
2 or gas in a single and separate natural reservoir characterized by a single  
3 pressure system so that production from one part of the pool affects the  
4 reservoir pressure throughout its extent;

5 (5) the severance and production of oil or gas from a three-year in-  
6 active well, as determined by the state corporation commission and cer-  
7 tified to the director of taxation, for a period of 10 years after the date of  
8 receipt of such certification. As used in this paragraph, "three-year in-  
9 active well" means any well that has not produced oil or gas in more than  
10 one month in the three years prior to the date of application to the state  
11 corporation commission for certification as a three-year inactive well. An  
12 application for certification as a three-year inactive well shall be in such  
13 form and contain such information as required by the state corporation  
14 commission, and shall be made prior to July 1, 1996. The commission  
15 may revoke a certification if information indicates that a certified well was  
16 not a three-year inactive well or if other lease production is credited to  
17 the certified well. Upon notice to the operator that the certification for a  
18 well has been revoked, the exemption shall not be applied to the pro-  
19 duction from that well from the date of revocation; and

20 (6) for the calendar year 1988, and any year thereafter, the severance  
21 or production of the first 350,000 tons of coal from any mine as certified  
22 by the state geological survey.

23 (c) No exemption shall be granted pursuant to subsection (b)(3) or  
24 (4) to any person who does not have a valid operator's license issued by  
25 the state corporation commission, and no refund of tax shall be made to  
26 any taxpayer attributable to any production in a period when such tax-  
27 payer did not hold a valid operator's license issued by the state corporation  
28 commission.

29 (d) On April 15, 1988, and on April 15 of each year thereafter, the  
30 secretary of revenue shall determine from statistics compiled and pro-  
31 vided by the United States department of energy, the average price per  
32 barrel paid by the first purchaser of crude oil in this state for the six-  
33 month period ending on December 31 of the preceding year. Such price  
34 shall be used for the purpose of determining exemptions allowed by sub-  
35 section (b)(2)(B) or (E) for the twelve-month period commencing on May  
36 1 of such year and ending on April 30 of the next succeeding year.

37 Sec. 2. K.S.A. 1996 Supp. 79-4217 is hereby repealed.

38 Sec. 3. This act shall take effect and be in force from and after its  
39 publication in the statute book.

**SENATE COMMITTEE ON ASSESSMENT AND TAXATION**

**January 22, 1997**

**RE: SB 34 - Exemptions For Marginal Oil Production**

Testimony of David Bleakley - Legislative Chairman  
Eastern Kansas Oil and Gas Association  
&  
Director of Acquisitions & Land Management  
Colt Energy, Inc.

The Eastern Kansas Oil and Gas Association (EKOGA) strongly supports SB 34.

Our association represents and supports eastern Kansas oil and gas producers, service companies, royalty owners and associated businesses along with the overall welfare of the Kansas oil and gas industry in this state.

In testimony supporting SB 34, EKOGA feels these exemptions for marginal oil production would help preserve the stripper wells that this state has depended on to help fuel its economy for almost a century. The welfare of these stripper wells are important to all the citizens of this state not just the oil and gas industry. Some important facts to keep in mind when considering this bill:

- 1) the federal government defines a stripper oil well as producing 10 barrels of oil per day or less.
- 2) Kansas ranks fourth nationally in the amount of oil produced by stripper wells.
- 3) 71% of the oil produced in Kansas is stripper well oil.
- 3) 95 out of 105 counties in Kansas have oil production.
- 4) In 1995, 1,754 stripper oil wells were plugged and abandoned in Kansas. This abandonment cost the State more than \$25.2 million in revenues and 359 jobs.

EKOGA feels that with inflation averaging 3% per year since 1983 when this bill was signed into law that it only makes sense to amend the amount of barrels produced per day and the dollar amounts at which these barrels of oil are calculated for severance tax collection thereby updating these figures into today's real dollars coupled with the real economic cost benefit to the counties and state to help keep these marginal stripper wells producing instead of being plugged and abandoned

Therefore, Madam Chairman and members of this Committee, we urge you to vote in favor of SB 34.

Thank you for your time.

David P. Bleakley

*Senate Assessment + Taxation  
1-22-97  
Attachment 8*