Approved:______________________
Date

MINUTES OF THE HOUSE COMMITTEE ON TAXATION.

The meeting was called to order by Chairperson Phill Kline at 9:00 a.m. on January 27, 1998 in Room 519-S of the Capitol.

All members were present except: Rep. Garner
Rep. Howell
Rep. Powell

Committee staff present: Chris Courtwright, Legislative Research Department
Tom Severn, Legislative Research Department
Shirley Sicilian, Department of Revenue
Ann McMorris, Committee Secretary

Conferees appearing before the committee:
Dan Hermes, Director of Government Relations
Don Schnacke, KIOGA
John Farmer, KIOGA President, Russell, Ks.
Ron Hein, Pioneer Natural Resources USA, Inc.
David Bleakley, Eastern Kansas Oil & Gas Assn.
Rep. Gwen Welshimer
Willie Martin, Sedgwick County
Mark C. Reed, Director, Sedgwick County Zoo
Chris Moore, Pres.-Elect, Sedgwick County Zoological Society

Others attending: See attached list

Chair Kline opened public hearing on:

HB 2694 - Sales tax exemption for zoos

Proponents:
Rep. Gwen Welshimer (Attachment 1)
Willie Martin, Sedgwick County
Mark C. Reed, Director, Sedgwick County Zoo (Attachment 2)
Chris Moore, Pres.-Elect, Sedgwick County Zoological Society (Attachment 3)

Closed hearing on **HB 2694**

Chair opened **HB 2707** for discussion, amendments and motions.

HB 2707 - Atchison County jail project sales tax

Moved by Representative Kline, seconded by Representative Johnston, HB 2707 be recommended favorably for passage and placed on the consent calendar. Motion carried.

Chair opened public hearing on:

HB 2641 - Tax relief for marginal oil production

Proponents:
Dan Hermes, Director of Government Relations (Attachment 4)

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

Don Schnacke, KIOGA
John Farmer, KIOGA President, Russell, Ks. (Attachment 5)
Ron Hein, Pioneer Natural Resources USA, Inc. (Attachment 6)
David Bleakley, Eastern Kansas Oil & Gas Assn. (Attachment 7)

Closed hearings on **HB 2641**

The next meeting is scheduled for January 29, 1998.

Adjournment.

Attachments - 7

TAXATION COMMITTEE GUEST LIST

DATE: **JANUARY 27, 1998**

NAME	REPRESENTING
Carol Clumpner	Harris News
M. Martin	Sedgwick Co.
Christopher C. Moore	SEDGWICK CO. ZOO
Mark C Reed	Sedgwick Co. Zoo
Della Rowley	HG County Appraiser
Mark Hand	Miami Co App
Judy Moler	Ks. Assn of Counties
Kelly Kultala	City of Overland Park
Kathy Peterson	YMCAs of Kansas

STATE OF KANSAS

GWEN WELSHIMER
REPRESENTATIVE, EIGHTY-EIGHTH DISTRICT
SEDGWICK COUNTY
6103 CASTLE
WICHITA, KANSAS 67218
316-685-1930
DURING SESSION
LEGISLATIVE HOTLINE
1-800-432-3924
OFF: 785-296-7687

TOPEKA

HOUSE OF
REPRESENTATIVES

COMMITTEE ASSIGNMENTS
MEMBER: GOVERNMENTAL ORGANIZATION
& ELECTIONS, RANKING MINORITY MEMBER
FINANCIAL INSTITUTIONS
HEALTH & HUMAN SERVICES
ADMINISTRATIVE RULES & REGULATIONS

Gwen Welshimer

DATE: January 27, 1998

TO: Rep. Phill Kline, Chairman, and Members, House Taxation Committee

FROM: Rep. Gwen Welshimer

SUBJECT: HB 2694, EXEMPTION OF SALES TAX ON CONSTRUCTION AND MEMBERSHIP FOR KANSAS ZOOS.

When I was a child, the zoo was just a place to feast your eyes on animals you might never see otherwise. The zoo didn't smell good and spectators had to keep their hands away from the cages. It wasn't a place to stay very long, and the animals wanted to go home too.

Zoos are very different today. In Kansas, I can only describe the Sedgwick County Zoo. It's a beautiful natural habitat with animals clean and fed. It brings families wonderously close to nature. Its a tourist attraction, an amazing place of beauty. Its educational, cultural, and offers the very finest in family recreation. In contrast to days gone by, spectators want to stay for as long as they can.

Kansas zoos must have been left out of the sales tax exemption for the purpose of educational memberships by oversight. HB2694 rectifies this. The bill will also encourage expansion and enhancement of zoos across the state that might otherwise miss the opportunity to enrich the lives of Kansas families.

I hope this committee will give this bill the serious attention and favorable passage it deserves. Thank you.

SEDGWICK COUNTY ZOO

5555 Zoo Boulevard
Wichita, KS 67212

Administration
(316) 942-2212
FAX 316-942-3781
www.scz.org

House Committee Hearing on HOUSE BILL No. 2694
Comments by Mark C. Reed, Director, Sedgwick County Zoo

The Sedgwick County Zoological Society, Inc., a not for profit charitable, educational and scientific organization was chartered by a group of community leaders in 1963 to foster public support and interest in a new zoo. The Sedgwick County Zoo, now in its 27th year, operates successfully as a public/private partnership through which more than 50% of operational support comes from the private sector.

The Sedgwick County Zoo attracts more than 500,000 visitors annually, more people than there are residents who live in Sedgwick County. According to the Kansas Department of Economic Development, the Zoo is the most popular family attraction in Kansas. The Zoo's audience – like most zoos is diverse. Sedgwick County Zoo's attendance represents most of the 105 Kansas counties, all 50 states and several foreign countries. The Research Center of Wichita conducted a survey in 1994 that concluded Sedgwick County Zoo had an annual economic impact on our state of $35 million, up from $20 million in 1988.

The Sedgwick County Zoological Board of Trustees and County partners are concerned about two tax issues which impact our future and potentially the future of other zoos in this state.

1. Our first concern is with sales tax on construction purchases.

a. We have not been subject to a tax on these purchases due to private letter rulings from the Kansas Department of Revenue.
b. However, following the 1995 audit, the Department of Revenue recommended we seek statutory language specifically exempting our construction purchases.
c. In the near term, the Sedgwick County Zoo is building a $2 million Veterinary Hospital and a lion exhibit at $1.5 million. Over the next 20 to 25 years, the Zoo's plan for expansion and renovation is estimated to total $30 million at today's dollars.

House Taxation
1-27-98
Attachment 2-1

2. **Our second concern is with sales tax on membership.**

a. The Sedgwick County Zoo is required to pay sales tax on memberships, even though it is an educational institution. It is the only Zoo in the country that is known to have a tax on memberships.

b. Since the Zoo's audit in 1995, the Zoo has been required to pay sales taxes on membership sales. For 1996 and 1997, this amounted to more than $84,000 that could otherwise have been used to support important educational programs.

c. The Department of Revenue decided to include us under the same legislation as country clubs and drinking establishments.

d. Our Zoo and the other zoos in Kansas, as members of the American Zoo and Aquarium Association, founded in 1924, uphold the four-fold mission of "education, conservation, research and recreation."

The educational, recreational and cultural value of our Zoo – of the excellent Kansas zoos is difficult to quantity in dollars and cents. Zoos are much more than attractions, they are assets that enhance the quality of life in our communities and continue to foster appreciation and respect and wonder for wild creatures everywhere.

The value of a zoo for its visitors keeps increasing as new exhibits are built and new animals and programs added. Our members know and appreciate that value best. A modest annual fee admits members to our respective zoos for free all year round. Memberships are reciprocal from one Kansas Zoo to the next. Membership revenues are an important means of support for our institutions.

It is important to alleviate taxes that could erode membership support and prevent not-for-profit zoological institutions from building facilities that enrich the lives of the animals and the visitors.

KANSAS ZOOS

Clay Center Zoo
Clay Center

Dodge City Zoo
Dodge City

Emporia Zoo
Emporia

Lee Richardson Zoo
Garden City

Brit Spaugh Park & Zoo
Great Bend

Hutchinson Zoo
Hutchinson

Ralph Mitchell Zoo
Independence

Sunset Zoological Park
Manhattan

Deanne Rose Children's Farmstead
Overland Park

Rolling Hills Refuge Wildlife Conservation Center
(Opening to the public within the year.)
Salina

Topeka Zoological Park
Topeka

Sedgwick County Zoo
Wichita

SEDGWICK COUNTY ZOO

5555 Zoo Boulevard
Wichita, KS 67212

Administration
(316) 942-2212
FAX 316-942-3781
www.scz.org

House Committee Hearing on HOUSE BILL No. 2694
An Act relating to sales taxation; exempting certain sales by or to zoos; amending K.S.A. 79-3603 and repealing the existing sections (section 3, N, and section 16, XX)

Comments by Chris Moore, President-Elect Sedgwick County Zoological Society and President, Moore Labels, Inc.

Six years ago I was asked to serve on the Board of Directors for the Sedgwick County Zoological Society. I didn't know much about animals, but I had management skills in operating my own company and I knew what a wonderful zoo we had.

This June I assume the responsibility as the President of that Board and the opportunity to serve our great Zoo with some well-respected people in our community. I still don't know much about animals, but I now know that our Zoo is even better than I thought. It's well-run, fiscally sound and a valuable community asset and great resource for this state.

Mark Reed is fond of saying that "Zoos are a reflection of their community." I have developed a real appreciation for what our Zoo means to the community and what the support of the community means to the Zoo. The hard-working staff, strong support of 900 active volunteers and financial support from private industry and individuals keeps the Zoo growing stronger every year.

A little better than 50% of the annual revenues is generated by the Zoological Society, the 501 (c) (3) organization that operates the Zoo. Taxing this not-for-profit entity takes valuable dollars from the continued development of the Zoo – infrastructure repairs, education programs and new exhibits. All of these programs enhance the community and fuel the economy. It doesn't make sense to be taxing this organization, let alone any other zoo organization.

I urge you to support this legislation. It's not only good for the Sedgwick County Zoo, but potentially for all twelve zoos in this great state.

STATE OF KANSAS

BILL GRAVES, *Governor*
State Capitol, 2nd Floor
Topeka, Kansas 66612-1590

(913) 296-3232
1-800-748-4408
FAX: (913) 296-7973

OFFICE OF THE GOVERNOR

LEGISLATIVE TESTIMONY

TO: Chairman Phill Kline and Members of the House Taxation Committee

FROM: Dan Hermes, Director of Governmental Affairs Dan

DATE: January 26, 1998

SUBJECTS: HB 2641 — Severance Tax Relief for Marginal Oil Wells

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Mr. Chairman and members of the committee, thank you for the opportunity to appear on the Governor's behalf to testify in support of this component of the package of tax cuts recommended by the Governor to the 1998 Legislature.

The case for providing tax relief for the oil industry in Kansas has been well documented. The Governor's Tax Equity Task Force in 1996 and the Kansas Inc. revised *Kansas Vision* released last year both highlighted the need to provide relief to marginal production wells and the relative high tax burden on the industry compared to surrounding states.

The Governor's proposal is similar to 1997 Senate Bill 34. It would increase the exemption from the severance tax for most marginal wells from two to five barrels per day and on tertiary recovery wells from three to six barrels per day. The bill also makes corresponding adjustments in the value of oil that is subject to ad valorem taxes.

When viewed with the income tax credit for property taxes paid on machinery and equipment and the reduction in the uniform school mill levy, this will provide significant relief to the oil production industry.

Thank you for the opportunity to appear before you today in support of this measure. I would be happy to answer any questions you may have on the provisions of this bill.

60th YEAR
KIOGA
KANSAS INDEPENDENT OIL & GAS ASSOCIATION
105 S. BROADWAY • SUITE 500 • WICHITA, KANSAS 67202-4262
(316) 263-7297 • FAX (316) 263-3021
800 S.W. JACKSON • SUITE 1400 • TOPEKA, KANSAS 66612-1216
(913) 232-7772 • FAX (913) 232-0917

HOUSE COMMITTEE ON TAXATION
JANUARY 27, 1998
Testimony of John O. Farmer III, President
Kansas Independent Oil & Gas Association
RE: HB 2641 - Tax Incentives for Marginal Oil Production

I am John O. Farmer III, President of the Kansas Independent Oil and Gas Association, appearing in favor of the passage of HB 2641, 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 members of KCC, participate regularly in IOGCC deliberations.

The IOGCC recently completed a nationwide study on the subject of marginal oil 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 15 barrels of oil per day or less. A compilation of data contained in the IOGCC report relating directly to Kansas marginal production is attached. In Kansas, oil production is declining 7% annually and is at a 64-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 is attached. We are pleased Governor Graves has recommended the passage of HB 2641.

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

<u>*Industry Conditions/Contributions at a glance*</u>

- 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.
- Each marginal well is a resident Kansas consumer expending over $12,000 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	$5,000 per year
Utilities	$4,000 per year
Goods/Services	$3,000 per year

- Marginal wells return over $60 million annually to landowners in royalty payments. A significant portion of these funds remain in the rural farm community.

The passage of the state severance tax in 1983, fifteen years ago, had the effect of doubling the taxes on Kansas oil and gas production. The severance tax alone has taken well 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.

Dr. Anthony Redwood, University of Kansas, completed an economic study in 1986 that was to be the foundation for Kansas Economic Development. In this study, Dr. Redwood determined a major strength in the Kansas business environment was its diversity of economic base, which were like three legs to the Kansas economic stool - agriculture, oil and gas, and manufacturing. The recent robust economic recovery returned agriculture and manufacturing to normal levels, whereas, the oil and gas industry has failed to recover. The enclosed Kansas Oil and Gas Production (prepared by the Kansas Geologic Survey) displays the steep oil production decline of the state.

Kansas, Inc. released a 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 what HB 2641 does. It updates previously passed legislation that reduces the taxes on marginal oil production in Kansas. A special industry tax committee, organized by Kansas, Inc. recommended that marginal wells up to 15 BOPD be relieved of taxation, following that recognized by federal government. HB 2641 does not go that far, but moves in the right direction.

The passage of HB 2641 will save marginal oil wells and preserve employment. It will benefit the oil industry and rural Kansas neither which are keeping pace with the remaining Kansas economy. Thank you!

DPS

Attach: IOGCC Summary for Kansas
Statement by Governor Graves
Kansas Oil and Gas Production

INTERSTATE OIL AND GAS COMPACT COMMISSION

P.O Box 53127, Oklahoma City, OK 73152-3127 • 900 N E. 23rd Street, Oklahoma City, OK 73105
Phone 405/525-3556 • Fax 405/525-3592 • E-Mail iogcc@oklaosf.state.ok.us
World Wide Web http://www.iogcc.oklaosf.state.ok.us

Chairman: Governor Frank Keating, Oklahoma
Vice Chairman: James A. Slutz, Indiana
Second Vice Chairman: James W. Carter, Utah
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.

5-4

STATE OF KANSAS

BILL GRAVES, *Governor*
State Capitol, 2nd Floor
Topeka, Kansas 66612-1590

(913) 296-3232
1-800-748-4408
FAX: (913) 296-7973

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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Kansas Oil & Gas Production

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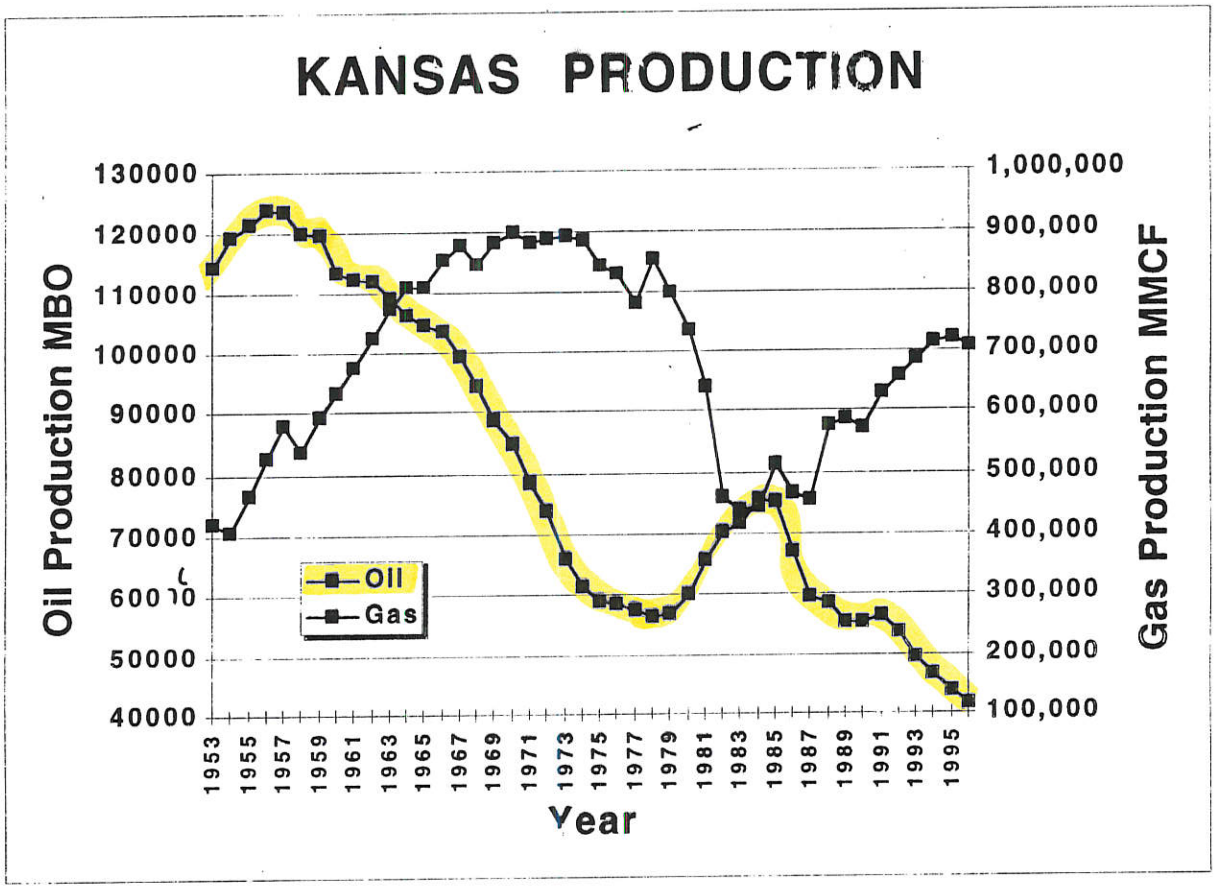

January 23, 1998

JOHN O. FARMER, INC.

Cost Data

1) Average Per Well Operating Costs for 1997 = $1164/mo.
(this includes ad valorem taxes of $76/mo.)

2) Oil Income at various crude prices and stripper producers rates

At $13 Oil		Per Month Income	Net Income
3 BOPD x 30 days x 0.8203 x $13.00	=	$ 959.75	(204.25)
4 BOPD x 30 days x 0.8203 x $13.00	=	$1,279.67	115.67
5 BOPD x 30 days x 0.8203 x $13.00	=	$1,599.59	435.59
At $14 Oil			
3 BOPD x 30 days x 0.8203 x $14.00	=	$1,033.58	(130.42)
4 BOPD x 30 days x 0.8203 x $14.00	=	$1,378.10	214.10
5 BOPD x 30 days x 0.8203 x $14.00	=	$1,722.63	558.63
At $15 Oil			
3 BOPD x 30 days x 0.8203 x $15.00	=	$1,107.41	(56.59)
4 BOPD x 30 days x 0.8203 x $15.00	=	$1,476.54	312.54
5 BOPD x 30 days x 0.8203 x $15.00	=	$1,845.68	681.68

3) Average "problem" costs

a) pump change	=	$1,400.00
b) tubing leak	=	$2,200.00
c) casing leak	=	$15,000.00 to $30,000.00

4) With HB 2641 ad valorem taxes on these marginal wells will reduce operating costs approximately $60/mo.

5-7

Table 1

Comparison of Kansas Oil and Gas Resources
To Selected States, 1991 and 1992 Data

Selected States	Crude Oil Production Per Well Per Day (Barrels)	Natural Gas Production Per Well Per Day (MCF)	Percent of Crude Oil Reserves in U.S.	Percent of Natural Gas Reserves In U.S.	Percent of Oil Production from Stripper Wells
Colorado	11.2	141.0	1.3%	3.4%	13.1%
Illinois	1.5	4.0	0.6%	--	91.2%
Kansas	3.1	86.0	1.3%	5.6%	70.9%
Louisiana*	43.4	903.0	12.6%	22.3%	1.8%
New Mexico	10.4	142.0	3.2%	11.1%	19.8%
Oklahoma	2.8	209.0	2.9%	8.8%	72.4%
Texas*	9.7	364.0	28.2%	23.4%	19.8%

*Includes federal offshore information. The federal offshore changes Louisiana's estimates significantly, but changes Texas' estimates only marginally.

Source: *Basic Petroleum Data Book*, September 1994, American Petroleum Institute.

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Stripper Wells

Table 3
Comparison of State and Local Taxes on Selected States, 1995

Selected States	Severance Tax	Ad Valorem Tax	Maximum Corporate Income Tax	Corporate Franchise Tax	
Colorado	5% on Oil Revenues in Excess of $300,000; no tax on gas	Yes	5.4% above $50,000	None	13.1 %
Illinois	None	Yes	4.8% for all incomes	0.1% of capital and paid in surplus with maximum of $1,000,000	91.2 %
Kansas	4.33% on oil 5.00% on gas	Yes	6.75% above $25,000	0.1% of shareholder equity, with maximum of $2,500	70.9 %
Louisiana	12.5% on oil 8.8 cents per mcf on gas (indexed to price of gas)	No	8.0% above $200,000	0.3% of capital and long-term debt, no maximum.	1.8 %
New Mexico	6.85% on oil Greater of 3.75% or 16.3 cents per mcf and 3.15%	Yes	7.6% above $200,000	0.06% of shareholder equity.	19.8 %
Oklahoma	7% on oil 7% on gas	No	5.0% on all income	0.125% of business and investment capital with maximum of $20,000	72.4 %
Texas	4.6% on oil 7.5% on gas	Yes	None	Taxes on net taxable capital and net earnings surplus.*	19.8 %

*Texas increased corporate franchise tax since Arthur D. Little study making it more like corporate income tax.

✓ Comparable oil production Bbls per Day per Well

5-9

HEIN AND WEIR, CHARTERED
ATTORNEYS AT LAW
5845 S.W. 29th Street, Topeka, KS 66614-2462
Telephone: (785) 273-1441
Telefax: (785) 273-9243

Ronald R. Hein
Stephen P. Weir
Susan Baker Anderson

HOUSE TAXATION COMMITTEE
TESTIMONY RE: HB 2641
Presented by Ronald R. Hein
on behalf of
PIONEER NATURAL RESOURCES USA, INC.
January 27, 1998

Mr. Chairman, Members of the Committee:

My name is Ron Hein, and I am legislative counsel for Pioneer Natural Resources USA, Inc. Pioneer was formed from the merger of MESA and Parker & Parsley this past year. Pioneer is the second largest independent oil and gas exploration and production company in the United States based on total proved reserves.

Pioneer supports HB 2641, and the concept upon which it is based--that Kansas should insure that our marginal oil and gas wells in the state are not prematurely abandoned due to the burden placed on the producer with Kansas' high severance and ad valorem taxes.

As introduced, HB 2641 only addresses the problem with regards to oil wells. Pioneer believes that the same philosophy should be utilized for marginal producing natural gas wells.

When the severance tax was first adopted in 1983, the Act recognized that the tax should not be imposed on marginal oil or gas wells. The Legislature set out the exemption for gas wells in K.S.A. 79-4217(b)(1), [HB 2641, page two, lines 2-19]. The oil exemption for marginal wells was set out in (b)(2), on page two, commencing on line 20. Over the years, the oil exemption has been amended several times to provide additional exemptions for marginal wells, and to provide exemption from ad valorem tax for some wells. Throughout that same 15 year period, there has been no change made on the exemption for low producing natural gas wells.

Pioneer would recommend the adoption of an amendment to HB 2641 to increase the $81 per day exemption on page two, line 8, to $120. [See balloon amendment attached.]

Kansas is a declining oil and gas producing state. The state of Kansas should take every action that it can to insure that there is not premature abandonment of any marginal oil and gas wells throughout the state. The concept supported by the Legislature in 1983, and carried forward to this day that we should not tax a producing well out of existence is valid and sound. Even though the state of Kansas may not receive any tax directly from that low-producing well, the income that it provides and the economic development that it creates helps generate taxes through other means.

Obviously, there has been greater inflation since 1983 than the adjustment in the $81 per day rate that Pioneer is proposing this morning. However, this action would take a first step towards recognizing that inflation is slowly eating away on the exemption that was established for gas in 1983.

I do not have a fiscal note on this amendment yet, but I am attempting to get some information for the committee on that matter.

In conclusion, I urge the adoption of this proposed amendment, and adoption of HB 2641.

Thank you very much for permitting me to testify, and I will be happy to yield to questions.

section:

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

$120

(2) the severance and production of oil which is: (A) From a lease or production unit whose average daily production is ~~two~~ *five* barrels or less per producing well, which well or wells have not been significantly curtailed by reason of mechanical failure or other disruption of production; (B) from a lease or production unit, the producing well or wells upon which have a completion depth of 2,000 feet or more, and whose average daily production is ~~three~~ *six* barrels or less per producing well or, if the price of oil as determined pursuant to subsection (d) is ~~$30~~ *$16* or less, whose average daily production is ~~four~~ *seven* barrels or less per producing well, or, if the price of oil as determined pursuant to subsection (d) is ~~$24~~ *$15* or less, whose average daily production is ~~five~~ *eight* barrels or less per producing well, or, if the price of oil as determined pursuant to subsection (d) is ~~$16~~ *$14* or less, whose average daily production is ~~six~~ *nine* barrels or less per producing well, or, if the price of oil as determined pursuant to subsection (d) is ~~$10~~ *$13* or less, whose average daily production is ~~seven~~ *10* barrels or less per producing well, which well or wells have not been significantly curtailed by reason of mechanical failure or other disruption of production; (C) from a lease or production unit, whose production results from a tertiary recovery process. "Tertiary recovery process" means the process or processes described in subparagraphs (1) through (9) of 10 C.F.R. 212.78(c) as in effect on June 1, 1979; (D) from a lease or production unit, the producing well or wells upon which have a completion depth of less than 2,000 feet and whose average daily production resulting from a water flood process, is ~~three~~ *six* barrels or less

6-2

HOUSE COMMITTEE ON TAXATION
January 27, 1998
RE: HB 2641 - Tax Incentives For The Production of Marginal Oil

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 HB 2641.

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 HB 2641, EKOGA feels these incentives for the production of marginal oil 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 marginal stripper oil well as producing 15 barrels of oil per day or less.

2) Kansas ranks forth nationally in the amount of oil produced by stripper wells.

3) 71% of oil produced in Kansas comes from stripper wells.

4) 95 out of 105 counties in Kansas have oil production.

5) 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 this bill makes good common sense from the fact that the more marginal stripper wells the state can help keep in production the more jobs you keep all across Kansas and therefore you continue the economic ripple effect caused by each one of those wells such as labor, service, supplies, electricity and on and on which all trickle tax money back to the state treasury in some form.

Further more, the state severance tax was enacted in 1983--15 years ago. While the cost to produce this stripper oil has continued to go up with inflation, the price paid for oil has continued to go down as evidenced by the posted price paid for Southeast Kansas crude oil last week was $12.25 per barrel. In other words the severance tax has never been adjusted for inflation or the price paid per barrel.

Therefore, Mr. Chairman and members of this Committee, we support the governor and agree with the statements he has made in favor of this bill. We urge you to vote for the passage of HB 2641.

Thank you for your time.

David P. Bleakley

House Taxation
1-27-98
Attachment 7-1