

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION.

The meeting was called to order by Chairperson Audrey Langworthy at 11:08 a.m. on March 11, 1998, in Room 519--S of the Capitol.

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

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

Conferees appearing before the committee: Mark Beck, Kansas Department of Revenue
William J. Wix, Kansas Corporation Commission
Shirley Sicilian, Kansas Department of Revenue
Leslie J. Kaufman, Kansas Farm Bureau
Charles B. Wilson, BEREXCO

Others attending: See attached list

Mark Beck, Kansas Department of Revenue, briefly reviewed the 1997 State Assessed Property Report submitted by the Division of Property Valuation. The report was made pursuant to K.S.A. 74-2411a and K.S.A. 74-2441b. (Attachment 1) Copies of the report had been previously distributed to committee members. It was designed to keep members current as to what the values of state appraised property are. Mr. Beck noted that the report indicates by type of property the total values since 1994 up to and including last year, and the grand total of state appraised property, as shown on the last page of the report, is currently \$2,903,058,238. He also noted that, as a result of a Supreme Court decision regarding a suit brought against the state, cellular phone companies are now locally assessed. The Supreme Court essentially found that cellular phone companies were not transmitting telephonic messages since they were not using land lines.

Continued hearing on SB 603--Severance tax exemption for incremental production resulting from production enhancement projects.

William Wix, Assistant General Counsel of the Conservation Division of the Kansas Corporation Commission (KCC), commented on the two amendments proposed by Amoco Corporation in regard to the impact on the Conservation Division. The first exemption is for gas used or consumed as fuel for the purpose of irrigating agricultural land. The second exemption is on the incremental severance and production of oil and gas that results from a production enhancement project. (Attachment 2)

Shirley Sicilian, Department of Revenue, noted that under the proposed amendments, the taxpayer would apply to the KCC for a tax exemption. Normally, taxpayers would be instructed to apply to the Department of Revenue for a tax exemption. Therefore, she felt it would be more appropriate to direct the KCC to determine whether a well has undergone a production enhancement, what the base production was, etc. and to certify those determinations to the Department of Revenue. The Department would then administer the tax exemption. (Attachment 3)

The Department estimated that **SB 603** would reduce state revenues by at least \$2.65 million in FY 1999, based on ten months of collections. Of the total revenue reduction, the exemption for gas consumed as fuel for agricultural irrigation use would decrease revenue by \$1.4 million for a full year of collections. The remaining \$1.7 million is the estimate of enhanced production revenue under certain assumptions. Ms. Sicilian noted that developing an estimate of the fiscal impact for the enhancement project exemption is difficult as there are many factors that could influence the level of production increases. The amount of decrease to the State General Fund the first year would be \$2.46 million. The amount to the County Mineral Tax Production Fund would be \$190,000. In FY 2000, the estimated reduction in state revenues is \$4.71 million, using the same assumptions as was used for the FY 1999 estimate.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION, Room 519-S
Statehouse, at 11:00 a.m. on March 11, 1998.

Leslie Kaufman, Kansas Farm Bureau, testified in support of the concepts contained in **SB 603**. The Kansas Farm Bureau supports legislative action designed to prolong the life of existing gas fields which will insure access to and provide a dependable, timely, uninterrupted supply of affordable natural gas for irrigation for agricultural purposes. (Attachment 4)

Charles Wilson, BEREXCO INC., testified in support of **SB 603**, maintaining that it creates a mechanism to encourage re-investment into existing wells to stimulate production. Mr. Wilson suggested that a subcommittee be formed to clarify the bill so that the KCC can implement applicable rules and regulations that are unambiguous and do not cause unnecessary and expensive burdens on the KCC. He was also willing to work with the KCC to address concerns regarding enhanced production revenue data. (Attachment 5)

Senator Langworthy requested that Mr. Wilson confer with the industry, the Department of Revenue, and the KCC to clarify language. Mr. Wilson agreed to do so as soon as possible and report to the committee. With this, the hearing was closed.

The meeting was adjourned at 12:00 p.m

The next meeting is scheduled for March 12, 1998.

SENATE ASSESSMENT AND TAXATION COMMITTEE GUEST LIST

DATE: March 11, 1998

NAME	REPRESENTING
Er Sicilian	KDOR
Ray M. Bolnoch	PUII
MARK BECK	KDOR
Tack Graves	Opy-KV & Duke
Jim Langford	DOB
Missie Miller	Johnson County
Kelly Kuitala	City of Overland Park
Carl Rockhold	Franklin Co. Farm Bureau
Melvin Jamieson	Franklin Co Farm Bureau
Michael J. Strebin	Franklin Co FARM Bureau
Theron J. Wray	Franklin Co Farm Bureau
Doyle Brewster	Amoco
M.L. Korphege	KCC - CONSERVATION Div.
Wm Wix	
TOM DAY	KCC
Doug Smith	SWKROA
John McFarland	Franklin County Farm Bureau
John W. Wray	Franklin Co. Farm Bureau
Grenada Wray	Franklin County Farm Bureau

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Division of Property Valuation

TO: Senator Audrey Langworthy, Chairperson
Assessment and Taxation Committee

FROM: Mark S. Beck, Director Division of Property Valuation

DATE: Friday, February 27, 1998

SUBJECT: 1997 State Assessed Property Report

Enclosed is a report listing all state assessed property for the most current year and for the three years immediately preceding. The report is made pursuant to K.S.A. 74-2441a and K.S.A. 74-2441b.

Should there be any questions regarding this report, please do not hesitate to call or write this office.

CC: Senators:
Corbin
Bond
Donovan
Hardenburger
Praeger
Steffes
Lee
Goodwin
Karr
Steiniger

MB/RMB/RMB

97SENATE 74-2441b puRepor

Senate Assessment & Taxation
3-11-98
Attachment 1

**Table II - Comparative Statement of Assessed Valuation of
State Appraised Railroads and Public Utility Companies for the Years
1994 thru 1997**

	1994 Valuation	1995 Valuation	1996 Valuation	1997 Valuation
<u>BARGE LINES</u>				
ALTER BARGE LINE, INC.	1,368	1,368	1,368	1,368
BLASKE MARINE, INC.	3,766	3,766	4,091	4,067
HUFFMAN TOWING COMPANY	5,207	5,207	2,118	14,676
MAGNOLIA MARINE TRANSPORTATION COMPANY	336	2,332	5,699	3,980
MISSISSIPPI MARINE TRANSPORT CO.	13,970	6,361	NO OPERATIONS	NO OPERATIONS
TOTAL	24,647	19,034	13,276	24,091
<u>CELLULAR TELEPHONES</u>				
AIRTOUCH CELLULAR OF KS (FORMERLY PACTEL & MIDWEST CELLULAR)		1,650,000	LOCALLY ASSESSED	LOCALLY ASSESSED
CMT PARTNERS (FORMERLY MCF, INC. & MIDWEST CELLULAR)	3,505,326	6,648,893	LOCALLY ASSESSED	LOCALLY ASSESSED
KAMO CELLULAR (NEW IN 1995)		778,998	LOCALLY ASSESSED	LOCALLY ASSESSED
KANSAS #4 CELLULAR L. P. (NEW 1993)	165,000	NOW PART OF		
KANSAS #9 CELLULAR L. P.	165,000	KAMO CELL.		
KANSAS #10 CELLULAR L. P.	429,000			
KANSAS CITY SMSA L. P.	5,581,351	9,731,084	LOCALLY ASSESSED	LOCALLY ASSESSED
KANSAS RSA 5B2	251,877	363,000	LOCALLY ASSESSED	LOCALLY ASSESSED
KANSAS RSA #15 L. P. (NEW IN 1993)	165,000	247,500	LOCALLY ASSESSED	LOCALLY ASSESSED
KAR KALL	2,310	1,650	LOCALLY ASSESSED	LOCALLY ASSESSED
KIN NETWORK	5,093,031	4,038,194	LOCALLY ASSESSED	LOCALLY ASSESSED
LIBERTY CELLULAR	5,940,000	7,260,000	LOCALLY ASSESSED	LOCALLY ASSESSED
MISCELLCO COMMUNICATION	899,741	1,577,862	LOCALLY ASSESSED	LOCALLY ASSESSED
PACTEL CELLULAR INC. OF KANSAS (FORMERLY MCF, INC. & MI	660,000	NOW AIRTOUCH		
TOPEKA CELLULAR TELEPHONE CO.	280,500	528,000	LOCALLY ASSESSED	LOCALLY ASSESSED
TOPEKA SMSA L. P.	1,047,698	1,749,000	LOCALLY ASSESSED	LOCALLY ASSESSED
WICHITA SMSA L. P.	2,825,564	3,531,000	LOCALLY ASSESSED	LOCALLY ASSESSED
TOTAL	27,011,398	38,105,181	0	0
1994-1 ADDED VALUATION 08-16-95				
<u>ELECTRIC POWER COMPANIES</u>				
ALFALFA ELECTRIC COOPERATIVE INC.	439,135	448,241	444,872	405,507
ARK VALLEY ELECTRIC COOP., ASSN., INC.	3,712,500	3,564,000	2,776,620	2,442,000
BOWERSOCK MILLS & POWER COMPANY	49,500	44,550	49,500	49,500
BROWN ATCHISON ELECTRIC COOP ASSN INC.	825,000	1,023,000	985,380	1,056,000
BUTLER RURAL ELECTRIC COOP., ASSN.	2,904,000	3,069,000	3,105,300	3,102,000
C & W RURAL ELECTRIC COOP., INC.	1,287,000	1,237,500	1,030,590	957,000
CANEY VALLEY ELECTRIC COOP., ASSN., INC.	3,135,000	3,168,000	2,896,080	2,640,000
CMS ELECTRIC COOPERATIVE INC.	3,332,037	3,431,077	2,885,418	2,507,370
DONIPHAN ELECTRIC COOP., ASSN., INC.	462,000	495,000	443,190	429,000
DS&O RURAL ELECTRIC COOP., ASSN., INC.	1,749,000	1,749,000	1,560,900	1,386,000
EMPIRE DISTRICT ELECTRIC COMPANY	13,706,372	12,862,724	12,761,133	12,636,400
FLINT HILLS RURAL ELECTRIC COOP ASSN INC	2,409,000	2,376,000	2,269,080	2,244,000
JEWELL-MITCHELL COOP.,ELECTRIC CO.	1,501,500	1,485,000	1,247,070	940,500
KANSAS CITY POWER & LIGHT CO.	369,359,892	357,478,853	346,687,481	347,973,813
KANSAS ELECTRIC POWER COOP.	46,502,552	46,588,587	44,031,973	42,624,539
KANSAS GAS & ELECTRIC COMPANY	501,997,330	502,379,034	498,343,874	457,412,340
KAW VALLEY ELECTRIC COOP COMPANY, INC.	5,445,000	5,610,000	5,493,840	5,478,000
LANE-SCOTT ELECTRIC COOPERATIVE INC.	990,000	1,039,500	831,270	495,000
LEAVENWORTH-JEFFERSON ELEC., COOP., INC.	2,970,000	3,267,000	2,687,190	2,145,000
LYON-COFFEY COUNTY ELECTRIC COOP INC.	3,300,000	3,630,000	3,386,790	3,135,000
MIDWEST ENERGY INC.	37,950,000	35,310,000	26,400,000	23,100,000
N.C.K. ELECTRIC COOPERATIVE INC.	1,221,000	1,221,000	997,590	924,000
NEMAHA-MARSHALL ELECTRIC COOP. ASSN. INC	1,914,000	2,013,000	1,690,260	1,452,000
NINNESCAH RURAL ELECTRIC COOP. ASSN. INC	1,848,000	1,848,000	1,560,900	1,402,500
NORTHWEST KANSAS ELECTRIC COOP ASSN INC	1,320,000	1,485,000	1,163,910	792,000
NORTON-DECATUR COOPERATIVE ELEC. CO. INC	3,795,000	3,465,000	2,650,560	2,112,000
PIONEER ELECTRIC COOPERATIVE INC.	10,560,000	11,550,000	10,601,580	9,735,000
PR&W ELECTRIC COOP., ASSN., INC.	1,650,000	1,567,500	1,325,280	1,155,000

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<u>ELECTRIC POWER COMPANIES (CONT'D)</u>				
RADIANT ELECTRIC COOPERATIVE INC.	1,551,000	1,617,000	1,433,190	1,155,000
SEDGWICK COUNTY ELECTRIC COOP. ASSN. INC.	2,277,000	2,376,000	1,970,430	1,683,000
SEKAN ELECTRIC COOPERATIVE ASSN., INC.	1,452,000	1,650,000	1,492,920	1,485,000
SMOKY HILL ELECTRIC COOP., ASSN., INC.	1,584,000	1,353,000	1,207,470	990,000
SOUTHWESTERN PUBLIC SERVICE COMPANY	392,812	382,140	387,202	385,671
SUMNER-COWLEY ELECTRIC COOP., INC.	3,201,000	2,640,000	2,355,870	2,244,000
SUNFLOWER ELECTRIC COOPERATIVE INC.	57,090,000	57,750,000	56,100,000	58,410,000
TWIN VALLEY ELECTRIC COOP., INC.	1,221,000	1,221,000	1,074,810	924,000
UNITED ELECTRIC COOPERATIVE INC.	3,003,000	3,300,000	2,679,930	2,046,000
UTILICORP UNITED (MO PUBLIC SERVICE)	20,962,640	20,745,698	22,236,278	20,841,744
VICTORY ELECTRIC COOP., ASSN., INC.	1,815,000	1,914,000	1,607,100	1,221,000
WESTERN COOPERATIVE ELECTRIC ASSN., INC.	3,300,000	2,310,000	1,649,010	1,155,000
WESTERN RESOURCES (ELEC. DIVISION)	337,448,311	338,491,346	351,940,192	371,426,138
WESTERN FARMERS ELECTRIC COOP.	38,491	36,722	30,782	24,933
WESTPLAINS ENERGY	50,160,000	50,160,000	48,840,000	49,500,000
WHEATLAND ELECTRIC COOPERATIVE INC.	11,208,769	12,528,112	10,738,506	8,868,389
TOTAL	1,523,039,841	1,511,880,584	1,486,051,325	1,453,091,344
<u>PIPE LINE COMPANIES</u>				
AMERICUS GAS COMPANY, INC.	33,000	33,000	33,000	33,000
AMOCO PIPELINE COMPANY INC.	8,073,949	9,168,073	10,172,696	5,958,282
AMOCO CUSHING-CHICAGO PIPELINE CO. (NEW 1993)	619,392	665,547	514,195	621,027
ANADARKO GATHERING INC. (NEW 1993)	6,600,000	7,392,000	8,580,000	15,943,719
ANR FIELD SERVICES (NEW IN 1997)				50,510
ANR PIPELINE COMPANY	25,510,389	24,832,922	24,693,686	21,594,573
ARCO PIPE LINE COMPANY	1,717,313	1,666,978	1,014,113	590,568
ARKLA ENERGY RESOURCES (NEW IN 1994)	1,636,767	NOW NOR-AM GAS		
ARKLA INC.	3,114,293	SOLD TO PEOPLES		
ASSOCIATED NATURAL GAS	396,000	396,000	NOW PAN ENERGY FIELD SERVICES	
BENSON MINERAL GROUP INC.	247,500	247,500	148,500	
CACHE CREEK CORPORATION & SUBSIDIARIES	1,024,289	1,252,148	1,227,088	1,178,475
CENTANA (ANADARKO)	654,174	660,000	2,145,000	1,485,000
CHASE TRANSPORTATION COMPANY	7,195,447	6,431,345	7,500,557	8,696,959
CHISHOLM PIPELINE COMPANY (NEW IN 1995)	1,632,212	1,620,855	1,619,066	2,096,020
CIG FIELD SERVICES CO. (NEW IN 1997)				5,517,494
CIMARRON RIVER SYSTEM (NEW IN 1995)		660,000	NOW ANADARKO GATHERING	
COASTAL REFINING COMPANY INC.	33,000	22,110	22,110	LOCALLY ASSESSED
COLORADO INTERSTATE GAS COMPANY	15,853,687	14,701,408	15,492,777	8,135,903
CONOCO PIPE LINE COMPANY (FORMERLY CONT'L PL)	2,508,475	3,110,422	3,794,754	4,221,789
COTTONWOOD GAS GATHERING (MAPLE/FOOR)	49,500	99,000	99,000	99,000
DELHI GAS PIPELINE INC.	528,000	NOW WESTERN GAS RESOURCES		
EMERALD PIPELINE CORP.	88,934	82,516	59,595	42,627
ENERGY DYNAMICS, INC	72,600	66,000	69,300	69,300
ENRON LIQUIDS PIPELINE COMPANY	6,894,856	6,538,960	5,209,652	4,363,037
ENRON GATHERING L.P. (NEW IN 1996)			11,319,000	13,329,449
EXXON CORPORATION	66,000	LOCALLY ASSESSED		
FARMLAND INDUSTRIES, INC.	1,017,280	964,806	936,017	931,468
FLINT HILLS GAS COMPANY, INC.	4,290	4,290	4,290	8,250
GETTY GAS GATHERING INC.	792,000	924,000	990,000	1,155,000
GPM ANADARKO GATHERING CO (NEW IN 1996)			2,475,000	2,475,000
GPM GAS CORP. (NEW IN 1994)	57,750	198,000	247,500	280,500
GRANT GATHERING COMPANY	1,650,000	1,650,000	2,310,000	2,805,000
GREELEY GAS COMPANY	4,556,957	4,685,470	6,750,988	7,356,371
HAVANA GAS DEVELOPMENT	29,700	26,400	24,750	21,450
HDP GAS GATHERING (NEW IN 1996)			462	9,570
HEARTLAND PIPELINE CO.	974,480	870,174	853,780	763,297
HUGOTON CAPITAL LIMITED PART.	1,320,000	1,320,000	1,320,000	Mesa Operating Co.
JAYHAWK PIPELINE CORP.	7,900,844	7,602,832	6,746,933	5,283,612
K-N NATURAL GAS INC. (NEW IN 1996)			961,066	289,469

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PIPELINES (CONT'D)				
K. N. ENERGY , INC.	19,155,282	2,674,624	FILED IN SEGMENTS	
K-N GAS GATHERING	429,000	8,598,633	8,648,432	9,511,313
KANEB PIPE LINE COMPANY	13,294,116	13,376,920	13,170,210	13,173,513
KANSAS GAS GATHERING CO., INC.	6,600	6,600	NOW HDP GATHERING	
KANSAS GAS SUPPLY CORPORATION	4,620,000	3,953,949	4,950,000	4,759,628
KANSAS NATURAL INC. (PHENIX)	6,600,000	8,910,000	FILED WITH KANSAS PIPELINE	
KANSAS PIPELINE COMPANY L.P.	4,884,000	7,260,000	15,840,000	15,840,000
KANSAS PUBLIC SERVICE (UTILICORP UNITED)	3,630,000	3,465,000	3,465,000	3,498,000
KAW PIPE LINE COMPANY	1,980,000	1,980,000	1,881,000	2,310,000
KB GATHERING CO. (NEW IN 1993)	42,900	46,200	46,200	46,200
KEYES HELIUM COMPANY, LLC (NEW IN 1997)				497,665
K-N INTERSTATE GAS TRANSMISSION CO. (NEW IN 1995)		10,915,562	10,838,744	19,513,956
K-N RETAIL (NEW IN 1996)			4,497,471	4,286,515
KOCH GATHERING SYSTEMS, INC.	3,960,000	3,960,000	3,300,000	2,640,000
KOCH PIPELINES, INC.	5,155,175	6,324,714	8,351,665	10,464,743
KOCH HYDROCARBON CO.	2,640,000	1,980,000	1,650,000	1,881,000
LAGG INC.	6,600	6,600	1,683	1,683
MAC COUNTY GAS INC.	148,500	135,300	148,500	132,000
MAPCO AMMONIA PIPELINE, INC.	2,426,426	2,503,502	2,236,918	2,443,766
MAPCO FRACTIONATOR INC.	3,795,000	3,795,000	3,795,000	3,795,000
MESA OPERATING CO. (FORMERLY HUGOTON CAPITAL LIMITED PART.)				1,320,000
MIAMI PIPE LINE COMPANY	108,900	90,750	52,800	52,800
MID AMERICA PIPELINE COMPANY-DIV. MAPCO	22,183,118	20,973,530	19,164,757	21,619,358
MID-CONTINENT MARKET CENTER (NEW IN 1996)			8,250,000	10,560,000
MID-GULF, INC. (NEW IN 1994)	2,970	2,970	2,640	2,475
MIDWEST ENERGY (GAS)	1,419,000	1,188,000	1,221,000	1,320,000
MIDWEST GRAIN PIPELINE INC.	495,000	627,000	660,000	726,000
MOBIL OIL CORPORATION (HICKOK FACILITY)	2,475,000	2,475,000	3,135,000	3,135,000
MOBIL PIPE LINE COMPANY	NOW PART OF KAW PIPELINE			
NATIONAL COOPERATIVE REFINERY ASSOC.	429,000	429,000	528,000	396,000
NATURAL GAS PIPELINE COMPANY OF AMERICA	22,344,036	23,068,238	22,676,848	22,246,666
NEMAHA PIPELINE CORP. (FORMARLY ENEX)	99,000	99,000	115,500	123,750
NGP PIPELINE CO. (DIV. OF ENRON)	990,318	1,083,163	1,238,101	1,238,101
NIMROD NATURAL GAS CO.	330,000	330,000	330,014	396,000
NOR-AM GAS TRANSMISSION CO. (NEW IN 1995, ARKLA ENERGY RESOURCES)		255,420	307,824	328,020
NORTHERN NATURAL GAS CO. (ENRON CORP)	82,977,206	82,000,958	80,252,845	81,371,532
OSAGE PIPELINE COMPANY, DIV. GETTY OIL	3,600,044	3,601,538	3,601,810	3,602,288
PAN ENERGY FIELD SERVICES (NEW IN 1996)			396,000	396,000
PANHANDLE EASTERN PIPELINE COMPANY	68,633,819	73,743,516	74,686,484	69,863,851
PANHANDLE FIELD SERVICES CO (NEW IN 1996)			5,280,000	7,920,000
PAN GAS STORAGE COMPANY (SOUTHWEST GAS)	10,725,000	8,250,000	9,240,000	9,405,000
PEOPLES NATRL. GAS (DIV. OF UTILICORP UNITED)	9,627,004	15,184,868	16,527,159	17,635,014
PHILLIPS PIPE LINE COMPANY	20,799,240	18,215,848	20,001,391	19,486,744
PLATTE PIPE LINE COMPANY	1,328,795	869,946	870,012	935,378
PONDEROSA RESOURCE CO.	39,600	33,000	33,000	33,000
PONDEROSA RESOURCE CO. II	44,550	44,550	44,550	44,550
PRAXAIR INC. (FORMERLY UNION CARBIDE CORP.)	46,200	46,200	46,200	46,200
REPUBLIC NATURAL GAS CO. (FORMERLY SUNRISE ENERGY)		957,000	NOW PART OF KANSAS GAS SUPPLY	
RICHFIELD GAS STORAGE (NEW 1993)	2,970,000	1,650,000	1,650,000	1,650,000
RIVERSIDE PIPELINE COMPANY, L.P.	547,259	553,277	535,411	465,575
SANTA FE MINERALS C/O PROPERTY TAX SVC.	33,000	33,000	NOW TIMBERLAND GATHERING	
SEVERY GAS COMPANY	19,800	23,100	29,700	29,700
SHAMROCK PIPELINE CORP.	91,128	82,231	54,725	62,422
SINCLAIR PIPELINE CO. (NEW IN 1995)		130,198	138,768	157,451
STANTON JOINT VENTURE (NEW IN 1994)	438,900	438,900	438,900	438,900
STROUD OIL PROPERTIES	26,400	26,400	26,400	19,800
SUNRISE ENERGY CORPORATION	957,000	NOW REPUBLIC NATURAL GAS		
TEXACO NATURAL GAS INC. (NEW IN 1997)	FORMERLY TEXACO EXPLORATION AND PRODUCTION INC			
TEXACO PIPELINE INC. (GETTY,WESCO)	4,046,929	4,351,024	4,436,124	3,936,557
TEXACO EXPLORATION & PRODUCTION INC (KS GAS GATH.)	51,150	51,150	52,800	NOW TEXACO NATURAL GAS INC.

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TELEPHONE COMPANIES				
ALLIANT COMMUNICATIONS CO. (NEW IN 1997)				34,848
ALLNET COMMUNICATIONS SERVICES INC (NEW IN 1996)			46,728	OUT OF BUSINESS
AMERICAN TELEPHONE & TELEGRAPH COMPANY	29,546,748	29,071,350	28,188,567	23,418,780
AMERITEL PAY PHONES INC. (NEW IN 1996)			199,567	333,140
BENKELMAN TELEPHONE COMPANY INC.	48,769	49,753	47,420	42,712
BLUE STEM TELEPHONE CO. (NEW IN 1997)				330,000
BLUE VALLEY TELEPHONE COMPANY	1,993,025	2,333,926	2,270,109	2,925,554
CALLS FOR LESS INC (NEW IN 1996)			1,243	UNAVAILABLE
CASS COUNTY TELEPHONE (NEW IN 1997)				266,370
CENTRAL STATES MICROWAVE TRANSMISSION CO	87,023	83,445	83,569	78,205
COAST INTERNATIONAL INC (NEW IN 1996)			82,500	132,000
COLUMBUS TELEPHONE COMPANY	990,000	1,188,000	1,237,500	1,122,000
CONNECT AMERICA COMMUNICATIONS, INC. (NEW 1996)			1,834	1,609
CONQUEST OPERATOR SERVICES CORP			2,185	85
COUNCIL GROVE TELEPHONE COMPANY	627,000	660,000	924,000	825,000
CRAW-KAN TELEPHONE COOP., ASSN., INC.	10,243,304	10,701,703	9,900,180	9,626,560
CUNNINGHAM TELEPHONE COMPANY INC.	1,221,000	1,353,000	1,419,000	1,254,000
DILLER TELEPHONE COMPANY	7,885	7,392	7,641	8,582
ECON-A-CALL, INC.	33,000	56,100	56,100	56,100
ELKHART TELEPHONE COMPANY, INC.	565,584	549,848	452,986	421,244
FEIST LONG DISTANCE SERVICE (NEW IN 1993)	130,024	137,197	138,751	284,000
FONTIER COMMUNICATIONS SERVICES (NEW 1997)				46,085
GOLDEN BELT TELEPHONE ASSN. INC.-BURDETT	3,729,000	3,696,000	3,564,000	3,399,000
GORHAM TELEPHONE COMPANY	132,000	115,500	99,000	115,500
GREAT PLAINS COMMUNICATIONS	30,467	29,402	33,099	29,977
GTE MIDWEST, INC. (NEW IN 1994, FORMERLY GTE NORTH)	109,794	112,200	114,345	22,110
H & B COMMUNICATIONS INC.	742,500	693,000	792,000	792,000
HARTMAN TELEPHONE EXCHANGE INC.	52,582	57,127	53,718	53,714
HAVILAND TELEPHONE COMPANY INC.	1,683,000	1,617,000	1,650,000	1,650,000
HIGH PLAINS TELECOMMUNICATIONS INC (NEW IN 1996)			330	UNAVAILABLE
HOME TELEPHONE COMPANY INC.-(GALVA)	1,749,000	1,650,000	1,897,500	1,732,500
INDEPENDENT COMMUNICATIONS INC.	957,000	990,000	330,000	OUT OF BUSINESS
INOVATIVE TELECOM CORPORATION (NEW 1997)				10,200
J.B.N. TELEPHONE COMPANY INC.	1,650,000	1,485,000	1,650,000	1,650,000
KAN-OKLA TELEPHONE ASSOCIATION INC	1,844,066	1,822,083	2,085,593	2,404,254
LA HARPE TELEPHONE COMPANY INC.	148,500	198,000	198,000	181,500
LDOS COMMUNICATIONS, INC.	354,184	284,130	457,710	3 NOW WORLDCOM
LINCOLN TELEPHONE & TELEGRAPH COMPANY	34,947	34,353	37,250	NOW ALLIANT COMMUNICATIONS
MADISON TELEPHONE COMPANY INC.	792,000	792,000	825,000	792,000
MCI TELECOMMUNICATIONS CORPORATION	3,339,105	3,931,389	3,925,350	4,413,024
MID-AMERICA COMMUNICATION CORP.	10,382	MERGED INTO LDOS		
MIDWEST TELEPHONE SERVICE, INC.	39,600	39,600	39,600	12,375
MO-KAN DIAL COMPANY INC.	1,223,728	1,443,540	1,507,280	1,597,011
MOUNDRIDGE TELEPHONE COMPANY	1,650,000	1,716,000	1,980,000	2,095,500
MULTIMEDIA HYPERION TELECOMMUNICATIONS (NEW IN 1996)			330,000	825,000
MUTUAL TELEPHONE COMPANY	191,400	181,500	178,200	168,300
PEOPLES MUTUAL TELEPHONE COMPANY	808,500	940,500	990,000	1,039,500
PEOPLES TELEPHONE COMPANY (NEW IN 1996)			9,380	2,864
PIONEER TELEPHONE ASSOCIATION INC.	11,517,000	10,534,558	8,537,220	9,397,256
RAINBOW TELEPHONE COOP. ASSN. INC.	1,320,000	1,320,000	1,320,000	1,254,000
RTSC COMMUNICATIONS INC. (NEW IN 1992)	825,000	825,000	825,000	657,518
RURAL TELEPHONE SERVICE COMPANY INC.	8,250,000	7,557,000	7,359,000	7,590,000
S & A TELEPHONE COMPANY INC.	478,500	528,000	660,000	693,000
S & T TELEPHONE COOPERATIVE ASSN.	3,801,725	3,474,864	3,903,246	4,857,397
S & T COMMUNICATIONS OF DIGHTON, INC. (NEW IN 1997)				924,000
SECURITY TELECOM CORP (NEW IN 1996)			8,719	UNAVAILABLE
SOUTH CENTRAL TELECOMMUNICATION OF KIOWA (NEW IN 1996)			594,000	495,000
SOUTH CENTRAL TELEPHONE ASSN., INC.	1,167,302	1,462,401	1,138,091	1,414,262
SOUTHEAST NEBRASKA TELEPHONE CO.	2,213	2,084	1,731	1,662
SOUTHERN KANSAS TELEPHONE COMPANY INC.	1,964,368	1,976,671	2,599,949	3,720,957

**Table II - Comparative Statement of Assessed Valuation of
State Appraised Railroads and Public Utility Companies for the Years
1994 thru 1997**

	1994 Valuation	1995 Valuation	1996 Valuation	1997 Valuation
TELEPHONE COMPANIES (CONT'D)				
SOUTHWESTERN BELL TELEPHONE COMPANY	330,441,953	322,756,434	341,554,010	353,094,638
SPRINT COMMUNICATIONS CO LP	23,396,918	28,507,545	35,067,780	38,724,642
SUNFLOWER TELEPHONE COMPANY INC.	3,104,009	2,363,331	2,025,439	2,765,833
THE COMMUNIGROUP OF KANSAS CITY	705,502	603,984	595,051	509,960
TOTAH TELEPHONE COMPANY INC.	982,722	1,152,171	1,184,892	1,211,334
TRI-COUNTY TELEPHONE ASSN., INC.	2,128,500	2,128,500	1,947,000	2,046,000
TWIN VALLEY TELEPHONE INC.	1,782,000	2,013,000	2,145,000	1,914,000
UNITED TELEPHONE ASSOCIATION INC.	5,900,248	5,900,387	5,915,025	5,206,299
UNITED TELEPHONE CO, OF EASTERN KANSAS (NEW 1993)	24,750,000	27,390,000	28,050,000	29,040,000
UNITED TELEPHONE COMPANY OF KANSAS INC.	23,100,000	20,460,000	20,460,000	24,172,500
UNITED TELEPHONE OF SOUTH CENTRAL KANSAS (NEW 1993)	5,940,000	5,610,000	5,775,000	5,610,000
UNITED TELEPHONE OF SOUTHEASTERN KANSAS (NEW 1993)	1,495,068	1,556,709	1,786,586	1,638,505
UNITED TELEPHONE LONG DISTANCE CO (NEW 1996)			66,000	18,150
UNITED WATS INC (NEW IN 1996)			66,000	UNAVAILABLE
VALU-LINE OF KANSAS, INC.	135,527	133,753	181,500	165,000
VYVX, INC. (NEW IN 1995, FORMERLY PART OF WILTEL)		175,849	183,590	182,006
WAMEGO TELEPHONE COMPANY INC.	1,881,000	1,980,000	1,980,000	2,013,000
WESTEL INC. (NEW IN 1997)				1,521
WHEAT STATE TELEPHONE COMPANY INC.	1,650,000	1,633,500	1,551,000	1,386,000
WILLIAMS TELECOMMUNICATIONS	6,246,504	6,683,663	UNAVAILABLE	OUT OF BUSINESS
WILSON TELEPHONE COMPANY INC.	1,287,000	1,386,000	1,452,000	1,452,000
WORLDCOM INC (FORMERLY LDDS)				456,146
WORLDCOM NETWORK SERVICES INC (WILTEL) (NEW IN 1996)			9,844,692	12,618,989
ZENDA TELEPHONE COMPANY INC.	214,500	214,500	214,500	198,000
TOTAL	531,232,616	528,349,942	556,799,256	579,602,778
1995-1 ADDED VALUATION 02/05/96				
1996-1 ADDED VALUATION 03-25-97				
1996-2 ADDED VALUATION 03-25-97				
			1996-3 ADDED VALUATION 05-08-97	
			1996-4 ADDED VALUATION 03-25-97	
			1996-5 ADDED VALUATION 12-16-97	
WATER PLANTS				
BARTON HILLS WATER DIST.	3,300	3,960	5,280	5,940
CALDWELL UTILITIES (NEW 1992)	89,100	95,700	108,900	112,200
CEDAR BLUFF WATER PIPELINE	4,785	4,785	LOCALLY ASSESSED	
CENTRAL KANSAS UTILITIES (FORMERLY CENTEL)	742,500	759,000	726,000	726,000
CHEROKEE COOPERATIVE WATER CORP., INC.	1,650	1,650	1,650	1,980
COLONIAL GARDEN MOBILE HOME PARK	10,230	10,230	10,560	10,560
D & W WATER COMPANY INC.	3,300	2,970	LOCALLY ASSESSED	
DEEP CREEK WATER COMPANY INC.	OUT OF BUSINESS			
EL PASO WATER COMPANY, INC.	866,933	1,122,000	1,122,000	1,122,000
FAIRMONT KONZA VALLEY RURAL WATER CO (NEW NAME)	49,500	49,500	EXEMPT	
McCRACKEN WATER CO., INC. (NEW IN 1992)	34,650	34,650	34,650	34,650
NORTH ARMA WATER CORPORATION	2,310	LOCALLY ASSESSED		
RIVERTON WATER CO., INC. (NEW IN 1992)	36,300	6,050	LOCALLY ASSESSED	
SCOTSMAN ESTATES ASSN., INC.	3,300	3,300	LOCALLY ASSESSED	
SUBURBAN WATER	99,000	99,000	99,000	165,000
TUTTLE CREEK WATER CO.	5,280	5,280	5,280	5,940
WILSON LAKE ESTATES, INC.	2,640	2,640	2,640	2,640
TOTAL	1,954,778	2,200,715	2,115,960	2,186,910
1994-1 ADDED VALUATION 02-05-96				
1995-1 ADDED VALUATION 02-05-96				
			1997-1 ADDED VALUATION 12-29-97	
GRAND TOTAL	2,873,577,834	2,827,785,648	2,832,023,481	2,903,058,238

Testimony of William J. Wix
Assistant General Counsel
Kansas Corporation Commission
Conservation Division
Senate Bill 603
before the
Senate Committee on Assessment and Taxation
March 10, 1998

Good morning, I am William (Bill) J. Wix, Assistant General Counsel of the Conservation Division of the State Corporation Commission. I am here today to comment on Senate Bill 603 and amendments which have been proposed thereto by the Amoco Corporation.

First and foremost we wish to stress to the Committee that the Commission is not in a position to be expressing policy considerations with respect to exemptions to the severance tax. However, SB 603 does impact the Conservation Division and we will confine our comments to those concerns.

SB 603, as introduced, amends K.S.A. 79-4217 as it relates to providing the exemptions from severance tax. The proposal adds two new exemptions to the statute. The first is an exemption for gas used or consumed as fuel for the purpose of irrigating agricultural land. The second exemption is on the incremental severance and production of oil and gas that results from a production enhancement project for a period of ten years or project payback, whichever is first. In previous testimony Amoco has proposed amending this section to a seven year exemption period and totally eliminating the project payback provision as tracking of the project payback would be extremely onerous on the part of Revenue.

Production enhancement projects are defined as: 1) workover, any downhole operation in an existing oil or gas well that is designed to sustain, restore, or increase the production rate or ultimate recovery of oil or gas, but shall not include routine maintenance or routine repair; 2) recompletion to a different producing zone in the same well bore; 3) secondary recovery projects; 4) addition of mechanical devices to dewater a gas or oil well; 5) initial installation, replacement or enhancement of surface equipment; 6) installation or enhancement of compression equipment, line looping or other techniques or equipment which increases production from a well or group of wells in a project; and 7) new discoveries of oil or gas which are discovered as a result of the use of new technology.

The first concern of the Conservation Division deals with the adoption of the rules and regulations pursuant to SB 603. The Bill that is introduced provides that

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the Commission is charged with working with the Secretary of Revenue in order to adopt rules and regulations necessary to efficiently and properly administrate the provisions of Section 6. Amoco has proposed elimination of the Secretary of Revenue in this regulation adoption process. The Commission is concerned that as this legislation would take effect on July 1, 1998, there would be insufficient time for the Commission to have the necessary regulations in effect. As Committee members are well aware, the statutory requirements for the filing of administrative regulations are found in the rules and regulations filing act, K.S.A. 77-413 through 77-437, inclusive, as amended. In addition, the Corporation Commission submits proposed regulations to the statutorily constituted oil and gas advisory committee which meets on a quarterly basis. As part of the drafting of proposed regulations, Commission staff believes it would be very important to have complete industry input. As many of the examples sited as production enhancement projects can be considered routine, it will be important to differentiate the routine from the extraordinary. From conversations with industry, it appears that industry believes that the differentiation between routine maintenance or repair and a production enhancement project depends to a large extent on the capital intensity of the work performed. However, oil and gas wells vary widely in nature throughout the State of Kansas as do associated costs.

From speaking with members of the Oklahoma Conservation Division, they have stressed that when their relevant law was adopted, they did not have good definitions in place and this created a number of problems. They stressed that knowing full well in advance what will qualify and what won't qualify would greatly alleviate any misunderstandings. Certainly the Commission does not wish to be drafting regulations only to later retroactively advise an operator that the money they have expended is not going to qualify for the severance tax exemption.

After proposed regulations are drafted, they must be submitted to the Department of Administration and the office of Attorney General for approval. Thereafter they are noticed for public hearing and comment and that hearing must take place 60 days after publication. Following the public hearing, the Commission must make a final roll call vote. It is not unusual for the Commission to find, based on the public hearing and comments, that they do feel some amendments are necessary to the proposed regulations. In these instances the amendments must be resubmitted to the Department of Administration and the Office of the Attorney General for their approval and determination whether another public hearing is necessary. Even if the effective date of this legislation is delayed until January 1, 1999, the Commission would still be hard pressed to have final regulations put in place.

SB 603 presents other problems to the Conservation Division of the State Corporation Commission. Currently the Commission does not require individual well production reports unless a well is producing from a prorated field. The Commission receives its production information from the Department of Revenue and there is currently a time lag of 3-4 months in receiving that information. Such time lags will make it difficult to determine the accuracy of production decline calculations.

Paragraph 2 of Section 6 requires the Commission obtain and review a production decline curve for each well or project for which exemption is sought. There are 65,000 producing wells in the State of Kansas comprised of approximately 45,000 oil wells and 20,000 gas wells. Production is reported to the Department of Revenue on a lease basis. Commission staff contends that many wells could qualify for the exemptions listed. The wording of this particular section is unclear with respect to "baseline" production and the tracking of that data by the Commission. Attached you will find a chart showing the increasing filing trend under similar Oklahoma legislation.

Within the Central office in order to track and determine production and incremental increases thereto, necessary staffing could potentially include one engineer, one geologist, one clerical and one data entry person under existing SB 603. If the proposed amendments including elimination of "payback" are adopted, less staffing would be required. In Oklahoma, currently, there are two full time engineers and a part time clerical performing reviews. Based on conversations with the Oklahoma Corporation Commission, they are faced with a significant back log of applications which need to be reviewed. Many of the qualifying conditions for production enhancement projects could be verified by filings with this new in-house division. They would be able to look at the receipts for acidization, fracturing and cement tickets to determine if substantial work was performed. In addition, on-site verifications may require the use of district field staff, certainly with respect to state witnessed tests which would be performed upon completion of the production enhancement project.

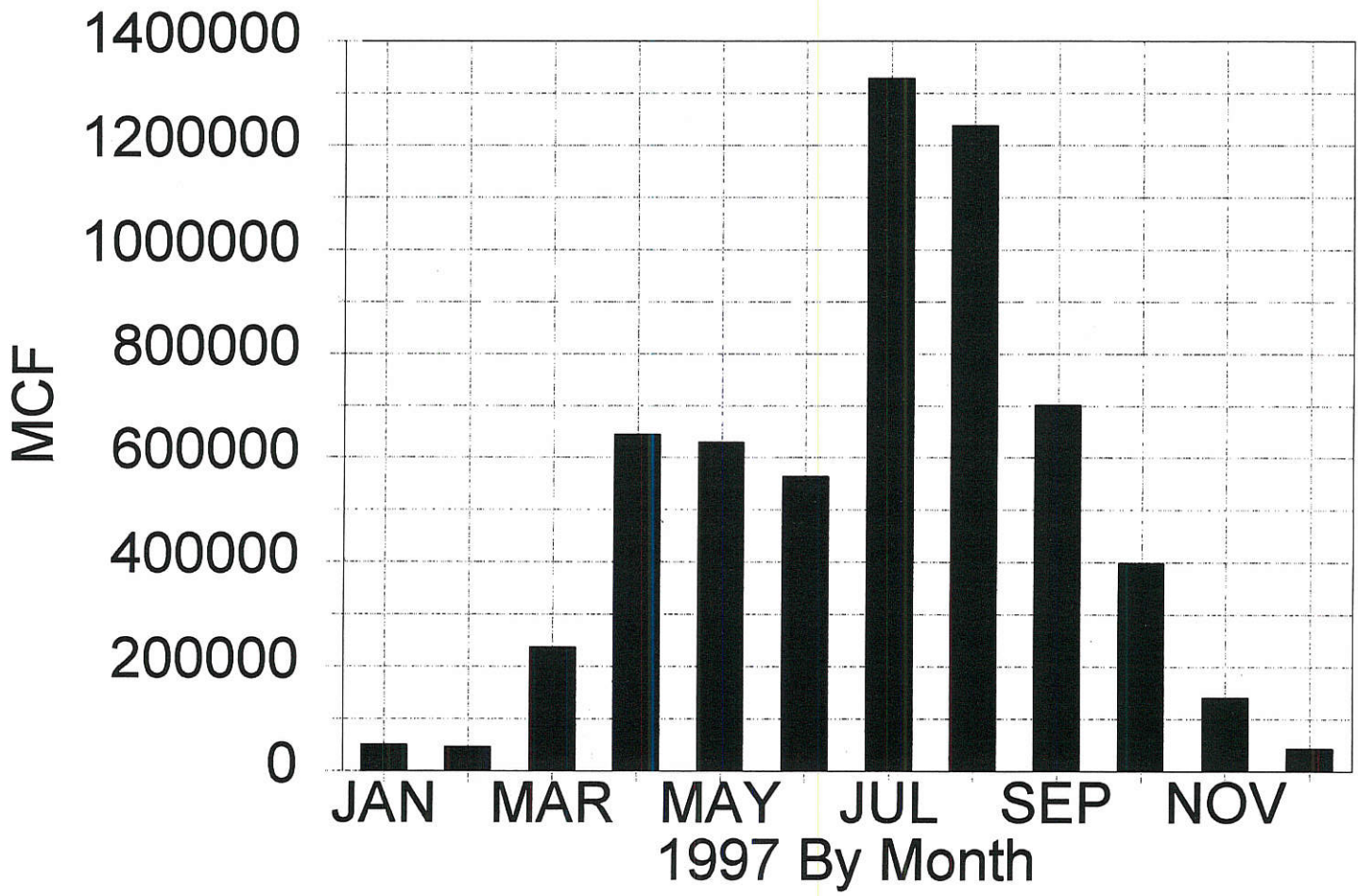
The Oklahoma legislation has been revisited each of the last three years by the Oklahoma Legislature and in each instance the relevant statutes have been liberalized.

Finally there would be other attendant expenses within the Commission in terms of office space, desks, computers, equipment and development of a new computer program. Attached you will find a copy of those projected costs.

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

Irrigation Gas By Month

Six Operators**-(Southwestern Kansas)



**THESE OPERATORS PRODUCE APPROXIMATELY 75% OF TOTAL HUGOTON-PANOMA-GREENWOOD GAS PER YEAR. JB KCC 3/6/98

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2-4

COMPANY	WELLS	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL/YR	AVG/WELL
AMOCO	536	11264	19101	59282	252060	188602	149911	445243	411593	204338	124532	57951	10338	1934215	3608.6101
ANADARKO	100	481	1012	9826	29436	24019	26326	62831	52663	28303	16426	2597	18	254138	2541.38
MOBIL	573	12515	13713	78321	136486	183909	162174	482981	241233	148711	85163	19091	10834	1575131	2748.9197
OXY USA	291	23893	5138	20450	116877	142867	159753	125884	396176	228860	116208	62218	21873	1420197	4880.4021
PIONEER	304	3226	6402	69049	109533	89112	66462	211861	136523	91957	57354	0	0	841479	2768.023
PLAINS	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL	1804	51379	45366	236928	644392	628509	564626	1328800	1238188	702169	399683	141857	43063	6025160	3521.1021

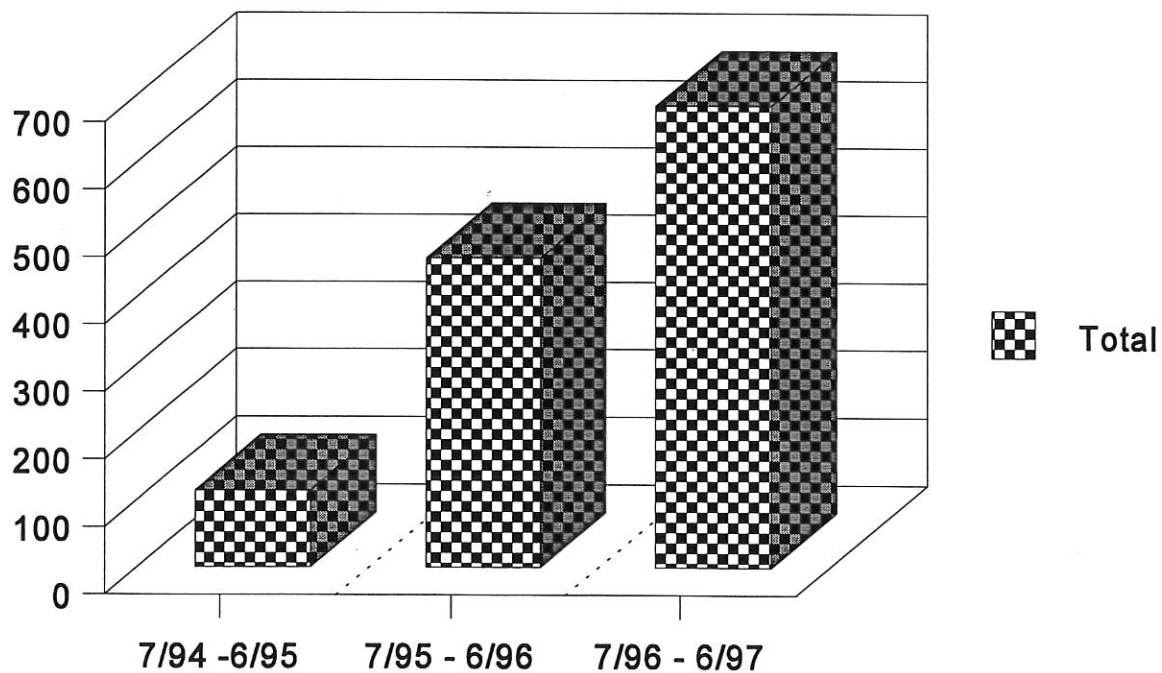
5-8

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Applications for Severance Tax Exemptions (7/94 through 6/97)
 Oklahoma Corporation Commission

Exemption	SB841 (7/94-6/95)	SB495 (7/95-6/96)	SB911 (7/96-6/97)	Total
New Discovery	0	0	33	33
Gen. Prod. Enhancement	82	198	5	285
Workovers	2	73	149	224
Recompletion	0	128	351	479
Reactivate Inactive Well	13	38	76	127
Deep Well Exemption	7	20	53	80
Horizontal Drilling	0	1	16	17
Enhanced Recovery	10	0	0	10
Total	114	458	685	1257

History of Applications For Severance Tax Exemptions
 Oklahoma



Staffing Costs SB 603

Position	Environmental Geologist II	Engineering Associate II
Range	29	28
Salary	\$44,455.49	\$42,215.05
Office Space	\$1,656.00	\$1,656.00
Communcations*	\$693.60	\$693.60
Capital Outlay **	\$3,303.00	\$3,303.00
Total	\$50,108.09	\$47,867.65

Position	Office Assistant III	Keyboard Operator I
Range	13	11
Salary	\$21,908.99	\$20,147.87
Office Space	\$1,150.00	\$1,150.00
Communcations*	\$586.80	\$586.80
Capital Outlay **	\$3,123.00	\$3,123.00
Total	\$26,768.79	\$25,007.67

Grand Total \$149,752.20

* includes local telephone service, Kans-A-N, internet connection, and voicemail for geologist and engineer

** includes desk, chair, side chair (2 for engineer and geologist), and PC

Shirley K. Sicilian, Director
Office of Policy & Research
Kansas Department of Revenue
915 SW Harrison St.
Topeka, KS 66612-1588



(785) 296-3081
FAX (785) 296-7928

Office of Policy & Research

MEMORANDUM

TO: Senator Audrey Langworthy
Chair, Senate Assessment and Taxation Committee

FROM: Shirley Klenda Sicilian

RE: Senate Bill 603

DATE: March 11, 1998

Senator Langworthy and members of the Senate Assessment and Taxation Committee, thank you for the opportunity to testify today regarding Senate bill 603. My name is Shirley Sicilian and I am Director of the Office of Policy & Research at the Kansas Department of Revenue.

The bill as introduced would require the secretary of revenue to work in conjunction with the Corporation Commission to adopt rules and regulations for making certain determinations required under new section 6. The department's fiscal note requests some clarification that would assist us in carrying out that responsibility. Because the Corporation Commission has addressed these already, and because under the proposed amendments the department would, appropriately, no longer have that responsibility, I will not reiterate these here.

There is one clarification I would like to address which is specific to the department of revenue. That is that under the proposed amendments, the taxpayer would apply to the Corporation Commission for the tax exemption. (Page 5, new section (C) between lines 36 and 37). The department of revenue is charged with responsibility for administration of the tax statutes. Normally, taxpayers would be instructed to apply to the department of revenue for a tax exemption. It would be more appropriate to direct the KCC to make certain determinations, such as whether a well has undergone a "production enhancement project," what the "base production" was, etc. and to certify those determinations to the department of revenue. The department of revenue would then administer the tax exemption.

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Attachment 3



PUBLIC POLICY STATEMENT

SENATE COMMITTEE ON ASSESSMENT & TAXATION

**RE: SB 603 – Providing severance tax exemptions
for certain oil and gas production.**

**March 11, 1998
Topeka, Kansas**

**Presented by:
Leslie J. Kaufman, Assistant Director
Public Affairs Division
Kansas Farm Bureau**

Senator Langworthy and members of the committee, thank you for the opportunity to appear today in support of the concepts contained in SB 603. I am Leslie Kaufman. I serve Kansas Farm Bureau as the Assistant Director of Public Affairs.

SB 603 provides incentives for greater recovery of oil and gas from mature wells and exempts gas used as fuel for agricultural irrigation from severance tax.

As we understand it, the goal behind the exemption for gas extracted for agricultural irrigation is to encourage gas producers to invest in equipment or methods which maintain or increase sales volumes and help

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insurer farmers have a reliable, usable and reasonably priced fuel for irrigating. We are very supportive of this goal.

Our members, especially irrigators in southwest Kansas, are very concerned about the ability to acquire gas on a consistent basis, at useable pressures and affordable prices. The severance tax exemption for agricultural irrigation gas provides an incentive to gas producers to continue to maintain, or even increase, sales to irrigation customers through investment in equipment and methods to maximize well production.

Our voting delegates have enacted policy supporting state legislative or regulatory commission action designed to prolong the life of existing gas fields which will insure access to and provide a dependable, timely, uninterrupted supply of affordable natural gas for irrigation during the growing season and for other agricultural purposes. (See attached policy CNR-9). We see the concepts of SB 603 targeted at these same policy goals and, as such, we would respectfully request the committee support these concepts.

Thank you.

Natural Gas

CNR-9

We support national and state legislative or regulatory commission action to prolong the life of existing gas fields which will insure access to and provide a dependable, timely, uninterrupted supply of affordable natural gas for irrigation during the growing season and for other agricultural purposes.

Natural gas sales from the so-called "spot market" are often used to increase the price of natural gas sold to irrigators. This is a problem that we believe must be addressed by the State of Kansas. The Kansas Corporation Commission (KCC) and the Kansas Legislature should examine the "spot market" sales and protect against the adverse economic impact on irrigation farmers. We are in favor of continuing the alternate fuels tax credits.

CHARLES B. WILSON
STATEMENT BEFORE THE SENATE ASSEMENT AND
TAXATION COMMITTEE
COMMITTEE
MARCH 11, 1998

Madam Chairman and Members of the Committee:

My name is Charles B. Wilson. I am a vice president with BEREXCO INC. Our headquarters are in Wichita. BEREXCO, and its affiliated companies are owned by the Robert Beren family of Wichita. The companies began doing business in Kansas in the early 1950's. BEREXCO currently has over 260 employees and has oil and or gas operations in 44 Kansas counties. In each of these counties we are employing personnel, paying property taxes and purchasing goods and services. Additionally, we have operations in Nebraska, Colorado, Oklahoma, Arkansas and Texas.

We are in support of SB 603 and thank you very much for allowing an opportunity to discuss this bill. Additionally, I want to thank this committee for its support of the Governor's and your Committee's tax bill because it has several provisions that will help prevent the plugging of marginal wells. SB 603 compliments the tax bill in that it encourages investment to increase production from existing wells.

The oil industry is currently being slammed by low prices. On January 1st of last year we had a Kansas oil price of \$24.00. Today, our price is currently \$11.25 a barrel. We do not see any relief in sight as world-wide crude oil inventories are bulging. The only hope is for OPEC to agree to reduce their production significantly. So far, they have not shown a willingness to do so.

Although Kansas crude oil production is insignificant to world supply (Kansas' entire production in 1998 will be equal to two days of Persian Gulf production), the Kansas oil and gas industry is of vital interest to the state of Kansas. This industry employs approximately 10,000 Kansans and it pays an estimated \$350,000,000 in property, severance, sales and income taxes annually. This industry is not insignificant to Kansas.

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Today's oil price is devastating to this industry. We have many marginal wells that are hanging on at an \$18 oil price, let alone a \$11.00 oil price. The infrastructure is eroding and some of the effects are irreversible if wells are prematurely abandoned with reserves remaining. The oil and gas industry has many sub-industries that service our wells. Many service companies are leaving the business due to declining production. To provide some anecdotal evidence, yesterday, I learned that National Supply of Russell and Baker Tools of Hill City are closing their stores this month. Also, a highly technical well servicing company from Russell is shutting down. Additionally, a monumental announcement came from Koch Oil Company that it was discontinuing its purchasing, gathering and trucking businesses in Kansas. Kansas is where this giant company got its start.

What can SB 603 do for our industry? First of all it will send a message that our government is interested in helping, and every little bit helps right now. This legislation creates a mechanism to encourage re-investment into existing wells to stimulate production. If such re-investment results in an increase in production, then this incremental production is exempt from the state's severance tax for a period of seven years.

As our production engineers prepare their economic analyses for production enhancement projects, the 4.3% Kansas severance tax is a component of that analysis. Being able to eliminate this cost, will certainly be a positive factor in approving such investment projects.

I have discussed this legislation with other interested parties, including the KCC. I believe our goal should be to have legislation that is clearly written so the KCC can implement applicable rules and regulations that are unambiguous and do not cause unnecessary and expensive burdens on the KCC. You have been presented with several proposed amendments and revisions to the legislation regarding the mechanics of its implementation. To avoid confusion in approving a final bill, may I suggest to the Committee that either a sub-committee be formed to work with all parties to clean up the bill or that you have all parties, including the KCC, get together to present a bill agreed upon by all. Either course could be handled rather quickly.

Again, I urge your support of SB 603 and thank you for your consideration.

I would welcome any questions.