

Approved: 3-26-98  
Date

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 23, 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  
Chris Courtwright, Legislative Research Department  
Don Hayward, Revisor of Statutes  
Shirley Higgins, Secretary to the Committee

Conferees appearing before the committee: Dick Brewster, Amoco  
Shirley Sicilian, Kansas Department of Revenue  
John Farmer, Kansas Independent Oil & Gas Association  
Bill Wix, Kansas Corporation Commission

Others attending: See attached list

The minutes of March 18 and March 19 were approved.

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

Senator Langworthy reminded the committee that at the last hearing on **SB 603** interested persons agreed to meet and negotiate. Those who attended the meeting included the following: Shirley Sicilian, Kansas Department of Revenue (KDOR); Dave Heinemann, Maurice Korphage, and Bill Wix of the Kansas Corporation Commission, (KCC); Dick Brewster, Amoco; Charles Wilson, BEREXCO; Ron Hein, Pioneer (Mesa); Jack Glaves, OXY USA, Duke Energy, and KN Energy; Don Schnacke, Kansas Independent Oil and Gas Association (KIOGA); and Ken Peterson, Kansas Petroleum Council.

Mr. Brewster reported for the group, noting that the goal of the group was to streamline and to remove administrative costs anticipated in administrating the bill's provisions. He also emphasized the intent of the bill was to provide an incentive for the oil and gas industry to invest money in Kansas. (Attachment 1)

In response to a question regarding the fiscal note, Senator Langworthy said the fiscal note is \$2,650,000. Mr. Brewster added that \$1.4 million of that amount represents revenue loss due to the exemption of irrigation gas. The balance represents administrative costs anticipated by the Department of Revenue and the KCC. He pointed out that some administrative costs would be eliminated by the proposed amendments. Mr. Brewster referred to previously distributed copies of a balloon of **SB 603** and summarized the proposed amendments.

Ms. Sicilian stood in support of the proposed amendments to **SB 603** which address administrative procedural issues she discussed at a previous hearing on the bill. As amended, the KCC would make the determinations about the base period and certify the numbers to KDOR. The taxpayer would apply to the Department. Also, the KCC would provide wellhead data needed by the Department in order to calculate the average wellhead price. Ms. Sicilian suggested technical amendments on page 2 and page 5 of the balloon to clarify that the intended price is the wellhead price.

Ms. Sicilian confirmed that the fiscal note would not be reduced as a result of any of the proposed amendments, noting that most of the amendments are clarifications.

Mr. Wix stood in agreement with Ms. Sicilian's suggested technical amendments. He added that he believed the bill was workable, but he still was concerned that it may take effect before the KCC has regulations in

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION, Room 519-S  
Statehouse, at 11:00 a.m. on March 23, 1998.

place. When he expressed this concern at the meeting, members of the group from the industry indicated they were willing to take that risk.

Due to the amount of the fiscal note, Senator Langworthy felt it was not realistic to move **SB 603** out of committee, but she felt it would be appropriate to work the amendments.

Senator Donovan suggested that the provision regarding irrigation gas be deleted to relieve some of the concern about the fiscal note. In his opinion, the main thrust of the bill was to prevent the energy industry from becoming more impoverished, and he felt this aspect of the bill was more important than a tax break for irrigation gas.

John Farmer, President of KIOGA, said the industry is in desperate straits. Many service companies are closing their doors, resulting in the loss of jobs. He estimates that 20 percent of the work force has been laid off since December when the crude price dropped. The bill would not solve the industry's problem with the crude price, but it would help stimulate production. The bill compliments the portion of **SB 500** which addresses marginal wells.

The meeting was adjourned at 12:00 p.m.

The next meeting is scheduled for March 24, 1998.





Amoco Corporation  
4334 N. W. Expressway  
Suite 275  
Oklahoma City, Oklahoma 73116  
405 848-0657  
405 848-0695 (FAX)

E. R. (Dick) Brewster  
Public & Government Affairs

Representing  
The Amoco Companies

March 23, 1998

Kansas Senate Committee on Assessment and Taxation  
Kansas Capitol Building  
Topeka, Kansas

Madam Chairman, members of the Committee:

We deeply appreciate the interest of this committee in Senate Bill 603, and the portion of the Kansas economy it seeks to support.

This bill has now been examined by a broad spectrum of the oil and gas industry and the two state agencies involved, and a number of amendments have been proposed. We have them here today for your consideration, and will review with you any questions you might have about them..

The amendments are designed to streamline and remove anticipated costs of administering the bill's provisions. We worked with staff representatives of the Corporation Commission and the Revenue Department to try to accomplish these goals, and I believe we were successful.

We also propose to remove from the list of projects for which the proposed severance tax incentive is allowed some projects which were thought to be subject to abuse.

x The bill is designed to attract more oil and gas investment dollars into Kansas by exempting from the severance tax "incremental" production achieved by certain types of additional investment.. The current levels of production are not exempted from the severance tax, so the bill will not erode current revenues. It will remove the "opportunity to tax" these incremental production volumes for a period of seven years.

Additional investment will increase current production, and will lengthen the life of wells because it will ultimately increase the amount of recoverable reserves in the affected formations.

✓ Senator Lee asked at an earlier hearing on the bill, whether some of these projects would be done, some of this money we seek to attract would be invested, without the incentives provided in Senate Bill 603. The answer is clearly yes. Some companies have already invested in some of these projects. And some may do so without the incentives. But, many companies have not made this investment in Kansas and many will not without the incentives. Some cannot afford to. Experience in New Mexico and Oklahoma shows that these kinds of incentives do in fact attract more investment dollars. And the only study I know of on these incentives shows additional payroll taxes and sales taxes resulting from this investment exceed the severance tax opportunity lost. And the states get the additional advantage of an extended life of oil and gas production as well.

Senate Assessment & Taxation  
3-23-98  
Attachment 1

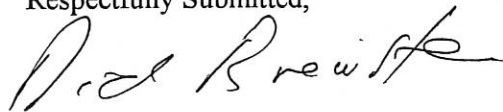
March 23, 1998

Page Two

We all know what has happened to the price of crude, and if it holds at the current low levels, gas prices will follow. Fortunately for Kansas, in which a large majority of severance tax revenues come from gas production, the gas price has held up better, at least for now. Some states, including Oklahoma, are looking at ways to cut the costs of producing oil and gas, recognizing that there is little any state can do to impact price. In Senate Bill 603, we seek only to provide an incentive for the oil and gas industry to invest money in Kansas... money that will be invested someplace.

We urge your favorable action on the proposed amendments and the bill itself. I appreciate your time and will be happy to answer any questions.

Respectfully Submitted,

A handwritten signature in cursive script, appearing to read "Dick Brewster".