

Approved: 3-11-98
Date

MINUTES OF THE SENATE COMMITTEE ON ENERGY AND NATURAL RESOURCES.

The meeting was called to order by Chairperson David Corbin at 8:12 a.m. on March 6, 1998 in Room 254-E of the Capitol.

All members were present except: Senator Corbin and Senator Schraad

Committee staff present: Raney Gilliland, Legislative Research Department
Mary Ann Torrence, Revisor of Statutes
Lila McClafin, Committee Secretary

Conferees appearing before the committee:
Cindy Lash, Legislative Division of Post Audit
Maurice Korphage, Director, Conservation Division, Kansas Corporation Commission

Others attending: See attached list

Vice Chairperson Steve Morris announced the agenda for the meeting was a Performance Audit Report Reviewing the Activities of **The Corporation Commission's Conservation Division (oil and gas producers) A K-Goal Audit.** He called on Cindy Lash who was one of the auditors that conducted the review.

The written review contains a letter from Barbara J. Hinton, Legislative Post Auditor stating the report contains the findings, conclusions and recommendation from their completed audit. The report contains criteria the Division uses for assigning risk levels to Priority 1 abandoned wells. The report also contains recommendations for improving the Division's oversight of oil and natural gas production. The report is on file in the Department of Kansas Legislative Research Department.

Also, contained in the report is a letter in response to the audit, the letter is signed by members of the Kansas Corporation Commission. The letter notes that the Commission agrees with the need to provide appropriate written policy and procedures and proper levels of documentation should be maintained so that both regulatory programs and responses by industry can be routinely monitored for effectiveness.

Ms. Lash responding to questions, said the cost to plug an abandon well is about \$3600.00. She stressed the importance of record keeping at the district level, and thought this needed to be a priority of the staff in division offices. Responding to another question she said most of the abandon wells are located in the eastern and southeastern part of the state. Responding to a question concerning the people in the field plugging the wells, she did not get the sense that they were ripping off the state or driving up the cost.

Maurice Korphage, Director, Conservation Division, KCC, presented testimony responding to the recommendations contained in the audit report. He said they had received many useful recommendations, and some they were already implementing (Attachment 1).

Mr. Korphage responding to a question said the Risk-Based Data Management System they are implementing will help with developing a standard operating procedure for lease inspections. Starting next January 1, operators will have to take more financial responsibility.

The next meeting is scheduled for March 10, 1998.

The meeting adjourned at 8:55 a.m.

SENATE ENERGY & NATURAL RESOURCES
COMMITTEE GUEST LIST

DATE: 3-6-98

NAME	REPRESENTING
Cindy Lash	Post Audit
Tom Day	KCC
Don Schwacke	KIOGRA-



Kansas Corporation Commission

Bill Graves, Governor John Wine, Chair Susan M. Seltsam, Commissioner Cynthia L. Claus, Commissioner

February 19, 1998

Ms. Cindy Lash, Principal Auditor
Division of Legislative Post Audit
Mercantile Bank Tower
800 SW Jackson, Suite 1200
Topeka, Kansas



Dear Ms. Lash:

On February 17, the Kansas Corporation Commission submitted its formal response to the draft copy of the Division of Legislative Post Audit's review of certain elements of the Commission's regulation of the State's oil and gas industry. As part of that response, the Commission indicated that it would provide the audit team with specific responses to the conclusions and recommendations contained in the draft report. Enclosed you will find our response.

The audit team provided us with many useful recommendations, some of which we've already begun to implement. The Commission will internally prioritize remaining projects and initiatives so that staff may direct its efforts consistent with meeting the Commission's highest priority objectives.

Should you have any questions or if any member of the Division staff can be of further assistance please do not hesitate to contact us.

Sincerely,

Maurice Korphage ^{by} _{gon}

M.L. Korphage
Director, Conservation Division

CC: John Wine, Commission Chair
Commissioner Susan Seltsem
Commissioner Cynthia Claus
David Heinemann, Executive Director
File

Senate Energy & Natural Resources

Attachment: /

Date: 3-6-98

**Kansas Corporation Commission Response to
The K-GOAL Audit of the Conservation Division
Conducted by the Legislative Division of Post Audit**

February 17, 1998

Recommendations Page 16 and 17:

Recommendation 1

The Division has relied on the use of the Commission's General Rules and Regulations for the Conservation of Crude Oil and Natural Gas as a general written guide for staff to use in meeting regulatory goals of the Division. The Division supplements this with "in house" training at the Central Office and District levels. We agree that written policies and procedures would allow the Division to standardize its operational procedures. Some progress already has been made in standardizing procedures. The Division is in the final stages of developing a very detailed Quality Assurance Project Plan for water sampling by District field staff.

Recommendation 1a

The Division agrees with post audit recommendation that documentation of lease inspections and their results needs improving. This Division is currently developing a standard operating procedure for lease inspection. It appears the "surface facilities module" of the Risk-Based Data Management System (RBDMS) will effectively schedule and track such inspections.

Recommendation 1b

As the audit team noted, only one District office had a systematic approach for tracking all complaints received and documenting subsequent investigations. The second District now has a system for tracking complaints. Division-wide staff will be reviewing and recommending modifications before the system is implemented on a Division-wide basis.

Recommendation 1c and 1d

Again the Division agrees with the audit recommendation that current procedures for dealing with problem situations need to be expanded and formalized as written procedures.

Recommendation 2

The newly acquired RBDMS does have some built in data entry checks which should reduce data entry error. The Division will also seek assistance from the Commission's Information Services section as to additional efforts that could result in better quality control of data entry. Staff will also develop a monthly edit check for data entry validation.

Recommendation 3

Staff will develop a "raised exception" error check program for date validation (spud date and intent date verification, etc.) A central office staff person will be assigned to perform this review and another staff person will enter the data.

Recommendation 4

The Division agrees that scheduled and regular lease inspections should be increased and properly documented. The RBDMS "surface facilities module" appears to offer the best method of reaching this goal. Once properly customized and implemented the system would allow the district offices to properly track what leases have been inspected and when.

Recommendation 5

Division management took steps in the fall of 1997 by eliminating most of the clerical preparation work. The Commission will take additional steps to assure the timely handling of enforcement cases.

Recommendation 6

The Division would note that corrective action required by a Commission compliance order is not waived. The compliance problem that caused the order to be issued must be corrected. When a compliance order is appealed, the monetary penalties in that order are sometimes settled for a reduced amount, provided the underlying compliance problem has been satisfactorily corrected. An appeal of a Commission order requires a hearing. Holding such a hearing costs the Commission time and money. Field personnel who investigated the case must spend time preparing testimony and traveling to the Division office to testify at the hearing. Legal staff must prepare for the hearing and the case must be heard. In many cases a settlement of the monetary penalty is cost effective for the Commission. Second and subsequent penalties issued against the same operator are rarely mitigated. Mitigation of a monetary penalty was never intended to affect whether an operator qualifies for reduced financial assurance.

Recommendation 7

The Division agrees that it should ensure that all proration orders are properly enforced. In an effort to bring "out of tolerance" wells into compliance, without incurring negative impacts to agricultural gas users in the field areas, the Division will notify all operators with "over tolerance" wells to immediately limit production to 75 mcf per day or less. Production department staff will perform quarterly reviews of the status of "over tolerance" wells and instruct operators who have failed to maintain limited production by letter that the well or wells are to be shut-in until such time as compliance with the proration order is achieved.

Recommendations Page 27

Recommendation 1a

While the plugging practice set out in this recommendation represents current Commission practice, the Commission will set this out in a formal plan as suggested by the auditors.

Recommendation 1b and 1c

The Division does place a high priority on the orderly completion and reinspection of abandoned well sites. Use of technological improvements such as GPS (Global Positioning Systems) has allowed the Division to complete rapid and precise mapping and documentation of over 1600 abandoned well sites in the District III field area during the last six months. A grant application for support of additional GPS equipment has been filed with the Environmental Protection Agency (EPA), and when implemented will allow even more rapid and widespread use of this technology through out the Division. Additional GPS units will be purchased for District III where the vast majority of the sites are located.

Recommendation 2

The Division agrees with this recommendation. Satisfactorily resolving the number of abandoned wells that need to be plugged can only be achieved with supplemental outside funding. The Abandoned Well / Site Remediation Fund which was created by house Substitute for Senate Bill 755 of the 1996 legislature is set to expire on June 30, 2002. The Commission concurs with the audit recommendation that an extension of the program as opposed to additional current funding is the most practical method to achieve the desired results as set forth in S.B. 755.

Recommendation 3

Currently the Division, through its District offices, does seek bids for services for well pluggings and remediation activities where those costs are expected to be less than \$10,000. However the Commission has requested the State's Division of Purchases to assist in preparing a standard bid procedure for well plugging and remediation services. Procedures are being drafted and adopted for use by District staff following those guidelines as suggested by the audit team in this recommendation. In addition the Division has contacted the Department of Administration, Division of Purchasing seeking assistance in staff training. The Commission plans to streamline its current procedures.

Recommendations Page 32

Recommendation 1

The recommendations made in this section call for legislative action to correct perceived deficiencies in the statute covering financial assurance (K.S.A. 55-155) and Commission regulations based on that statute. The Division would note that the Financial Assurance Program has been in place less than sixty days and there is little data currently available to warrant significant changes as the program applies to producers. However legislative clarification as to segregation and use of the funds derived from the program would be helpful.

Recommendation 2

Currently when an authorization for expenditure request is received, it is reviewed by the legal department to determine that the field inspector has reviewed the files of the Register of Deeds, the County Assessor, the Conservation Division including the District office, and the U.S. Bankruptcy Court. The Districts will now also check with past oil and gas purchasers for records that might reflect potentially responsible parties. Generally a determination not to pursue a potentially responsible party is based on a number of factors which include among others: a filing of bankruptcy, ability to locate the party, and death. Sworn financial statements indicating an inability to pay have also been accepted in a limited number of cases. In addition, now that the Division is working closely with the Department of Administration on collection of fines and recoupment of costs, other recovery vehicles are available such as Order in Aid proceedings through District Courts. The Division is developing a procedure to ensure that all reasonable efforts are taken to pursue responsible parties, and that such efforts are appropriately documented.