Approved: 3-25-98
Date

MINUTES OF THE SENATE COMMITTEE ON ENERGY AND NATURAL RESOURCES.

The meeting was called to order by Chairperson David Corbin at 8:00 a.m. on March 23, 1998 in Room 254-E of the Capitol.

All members were present except:

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

Conferees appearing before the committee:
Erick Nordling, Hugoton, KS, Executive Secretary, Southwest Kansas Royalty Owners Association
Gregory J. Stucky, general counsel, Southwest Kansas Royalty Owners Association
John Crump, Lakin, KS, board member, Southwest Kansas Royalty Owners Association
Whitney Damron, on behalf of Anadarko Petroleum Corporation
Don Schnacke, Kansas Independent Oil and Gas Association
Jack Glaves, Oxy, USA, Inc.

Others attending: See attached list

SB 685 - Limitations on recovery from natural gas royalty owners of refunds ordered by FERC for property tax reimbursements.

Chairperson Corbin called on Senator Morris for background information regarding **SB 685**. Senator Morris gave a brief explanation of why the bill was necessary.

Erick Nordling testified in supported of **SB 685**. If enacted no producers of natural gas could maintain any action against royalty interest owners to obtain refunds of reimbursements for ad valorem taxes, ordered by the Federal Energy Regulatory Commission. He said, royalty owners seriously questioned the legal authority of the producers to seek reimbursement of the ad valorem tax refund from their royalty owners (Attachment 1). Included with his testimony is several letters from royalty owners opposing the producers authority to seek reimbursement or to withhold it from royalty checks.

Geogory Stucky said Senator Morris was to offer an amendment to **SB 685.** If that amendment is adopted, they would support the bill as amended. Senator Morris' amendment would declare that the statue of limitations have run on any action to recover such refunds from royalty owners (Attachment 2). Mr. Stucky responded to questions regarding the statutes of limitations.

John Crump supported the legislation, as he thought to try and collect from royalty owners is unjust and unfair. The royalty owners did not ask the companies to pay those taxes and they did not enter into agreements with them to do so. So for them to come back to the royalty owners now and require them to help correct a situation to which they were not a party is not fair. Mr. Crump said to collect these funds would be an administrative nightmare (Attachment 3).

Whitney Damron representing Anadarko Petroleum Corporation, thought that if enacted **SB 685** was a balanced piece of legislation fair to the interests of both royalty owners and producers in the state of Kansas (Attachment 4).

Donald Schnacke, said they were appearing as a neutral party. They have been involved in the application of the Kansas ad valorem tax issue with the FPC and FERC since 1974. He thought the legislation being discussed need a lot more study and suggested it be assigned to a sub-committee. He would be willing to help develop a solution (Attachment 5).

Mr. Schnacke, read a statement from David W. Nickel, chairman of the KIOGA State Legislative Committee, opposing the passage of **SB 685** in its present form (Attachment 6). Mr. Schnacke responded to questions.

Jack Glaves, OXY, USA, Inc., spoke in opposition to the bill. Chairperson Corbin asked him to submit his remarks in writing. He said he would, but it was not received.

Chairperson Corbin closed the hearing on **SB 685**.

The next meeting is scheduled for March 24, 1998.

The meeting adjourned at 9:00 a.m.

SENATE ENERGY & NATURAL RESOURCES COMMITTEE GUEST LIST

DATE: 3/23/98

NAME	REPRESENTING
Gregory J. Stucky	Southwest Kansas Royalty Owners Association
JOHN CRUMP	SWKROA
Jamie Clover Adams	Governor's Office
John D'Alonzo Jr.	Sen. Dyck
~~Ivan W. Wyatt~~	KFN
Laura McClure	119th Dist
Paul Johnson	PACK
Whitney Damron	Arada-Ko Petroleum Corporation
Gary K. Hayzlett	122nd DIST.
John Pinegar	Southwest Kansas Royalty Owners Association
Burke Nordling	
Ryan Nordling	
Barb Myers	
Barbara Nordling	
Joann Flower	Legislature - Dist 47
Bernie Nordling	SWKROA
Doug Schmidt	ICIOGA
Jack Glaves	City USA
ERICK NORDLING	SWKROA

SENATE ENERGY & NATURAL RESOURCES COMMITTEE GUEST LIST

DATE: 3/23/98

NAME	REPRESENTING
Bill Hargrove	K-State / KCARE
Shelby Smith	KSPS

SOUTHWEST KANSAS ROYALTY OWNERS ASSOCIATION

PHONE (316) 544-4333
FAX (316) 544-2230

209 EAST SIXTH STREET

P.O. BOX 250
HUGOTON, KS 67951

STATEMENT OF
ERICK E. NORDLING, EXECUTIVE SECRETARY
SOUTHWEST KANSAS ROYALTY OWNERS ASSOCIATION
HUGOTON, KANSAS 67951

RE: SENATE BILL NO. 685

March 23, 1998

To the Honorable Members of the Senate Energy and Natural Resources Committee.

INTRODUCTION

Chairman Corbin and Members of the Committee:

My name is Erick E. Nordling of Hugoton. I am an attorney and Executive Secretary of the Southwest Kansas Royalty Owners Association (SWKROA). I am appearing in support of S.B. No. 685. My remarks are made on behalf of members of our Association and on behalf of thousands of Kansas royalty owners.

BACKGROUND ON SWKROA

SWKROA is a non-profit Kansas corporation, organized in 1948 for the primary purpose of protecting the rights of landowners in the Hugoton Gas Field. We have a membership of around 2,500 members. Our membership primarily consists of landowners owning mineral interests in the Kansas portion of the Hugoton Field who are lessors under oil and gas leases, as distinguished from oil and gas lessees, producers, operators, or working interest owners.

RESPONSE BY KANSANS TO FERC KANSAS AD VALOREM TAX REFUND ORDER

Your Committee, as well as other members of the Kansas Legislature, is well aware of the tremendous burden placed on the Kansas oil and gas industry by the Circuit Court of Appeals for the District of Columbia and Federal Energy Regulatory Commission (FERC) rulings which require First Sellers to refund to the pipeline companies Kansas ad valorem taxes paid in excess of the maximum lawful price collected for a period from October 4, 1983, to June 28, 1988, including interest.

Senate Energy & Natural Resources

Attachment: 1

Date: 3-23-98 1-1

This refund obligation has been estimated to be anywhere from 350 million dollars to one billion dollars.

The Southwest Kansas Royalty Owners Association empathizes with the frustration and concerns of Kansas producers. We sincerely appreciate the efforts made by the Kansas Legislature through the adoption of Senate Concurrent Resolution 1616, with the House of Representatives concurring, urging Congress to enact legislation providing relief for Kansas gas producers from the payment of interest and penalties due on the refund obligation.

We also appreciate the efforts of Governor Bill Graves and the Kansas Corporation in seeking rehearing, clarification and stay of FERC's September 10, 1997, ruling and the efforts of the Kansas Congressional delegation in seeking relief through federal legislation to relieve Kansas First Sellers from the obligation of paying interest and any penalties on the refund.

Senate Bill 685 is simply the next step in relieving Kansas ad valorem tax reimbursements attributable to royalty interest owners.

This potential liability to Kansas royalty owners is conservatively estimated to range from seventy to one hundred million dollars.

BACKGROUND INFORMATION ON KANSAS AD VALOREM TAX

Prior to the passage of the Natural Gas Policy Act of 1978, the Federal Power Commission (FPC), (the predecessor of the Federal Energy Regulatory Commission (FERC)), had held that producers could increase the applicable just and reasonable rate to recover "state production, severance or similar taxes", and that any state ad valorem tax "based on production factors" was a "similar tax" which could be added to the national rate. In 1976, the FPC held that the Kansas ad valorem tax qualified because the bulk of the tax was based upon production factors.

In 1978, the NGPA set maximum lawful prices for the first sale of various categories of natural gas. Under Section 110(a)(1) of the NGPA, the first sale was allowed to exceed the maximum lawful price to the extent necessary to include "state severance taxes attributable to the production of such natural gas." The NGPA defined "state severance tax"," as "any severance, production, or similar tax, fee or other levy imposed on the production of natural gas."

In 1986, after Northern Natural Gas Company and Colorado Interstate Gas Company moved to reverse the rulings as to the Kansas ad

valorem tax classification, the Commission adhered to its prior rulings and held that the Kansas tax qualified because it was based on production factors. Review was then sought by the pipeline companies in court, eventually resulting in the ruling that the Kansas ad valorem tax did not qualify for reimbursement.

On May 19, 1994, the Federal Energy Regulatory entered an order in Colorado Interstate Co. v. FERC, 67 FERC P 61.209, reversing its prior ruling that the Kansas ad valorem tax is similar to a severance or production tax and qualified as an "add-on" to the first sale maximum lawful price under Section 110 of the Natural Gas Policy Act of 1978 (NGPA). The Commission concluded that the Kansas ad valorem tax is a tax on personal property and not a tax on production and therefore does not qualify for reimbursement under Section 110.

The ruling was made applicable to any revenues collected in excess of the applicable maximum lawful price upon any tax bill rendered after June 28, 1988. Producers affected by the order were given 180 days from the date of the final order to make the required refunds to the pipeline companies.

Almost five years after the Colorado Interstate decision was issued, the United States Circuit Court of Appeals for the District of Columbia, failing to defer to the decision of the Federal Energy Regulatory Commission to require refunds back to June 28, 1988, ordered Kansas ad valorem tax refunds retroactive to October 4, 1983!

On September 10, 1997, the Federal Energy Regulatory Commission (FERC) issued an order requiring producers to refund, by March 9, 1998, to the pipeline companies Kansas ad valorem taxes collected for a period from October 4, 1983 to June 28, 1988. In addition, FERC ruled that interest must also be paid on the amount due. Public Service Company of Colorado, et al, 80 F.E.R.C. P61,264 (1997).

The amount of refunds ordered by the appellate court and FERC for the five years in question was first estimated to be one billion dollars and is now estimated to be at least 338 million dollars, including interest. This huge fiscal and administrative burden is having a severe impact on the natural gas industry in Kansas.

ROYALTY OWNER CONCERNS AND PROBLEMS

Royalty owners seriously question the legal authority of the producers to seek reimbursement of the ad valorem tax refund from their royalty owners. Gregory J. Stucky, Association general

counsel, will address the legal arguments in more detail. Senate Bill 685 addresses the problem of producers in collecting refunds from their royalty owners.

The Federal Energy Regulatory Commission has no jurisdiction of Kansas royalty owners and yet it has placed on Kansas producers the burden of attempting to collect the tax. The order affects thousands of Kansas royalty owners, many of whom depend on their royalty income to supplement their social security and other retirement income.

There are several reasons we claim the refund is uncollectible from our royalty owners. Many of the royalty owners involved are now deceased and the estates have long since been closed. Current royalty owners who are being contacted for reimbursement acquired their mineral interests after 1988 and are not subject to the refund claim. Most importantly, it is our position that the claims are banned by the statute of limitations as will be discussed by Mr. Stucky.

Association members have been alerted through our newsletters of possible defenses to the claimed refunds. (See December 22, 1997 SWKROA newsletter attached). My office has been inundated with numerous calls and letters from concerned royalty owners. Attached are sample copies of some of this correspondence.

I personally received a letter from Dorchester Hugoton, Ltd., demanding me to pay Dorchester principal and interest by February 20, 1998, for the ad valorem refund, plus interest. The company advised that if I failed to send in a check, they would make deductions from my royalties to pay for "my portion" of the refund due to Panhandle Eastern Pipeline Company (PEPL). I have never had any contractual relationship with PEPL.

I did not own an interest in the Dorchester minerals until after 1988. When I purchased the minerals, I did not agree to assume any tax liability prior to my purchase of my mineral interest. In fact, Dorchester acknowledges that: "Based upon our records, we believe you acquired your interest after 1987." Dorchester now attempts to shift the burden to me to prove I did not assume the obligation to pay the disputed ad valorem taxes.

They state in their letter: "However, our records do not show that your acquisition excluded any responsibility for pre-1987 payments or refunds. Should you be unable or not responsible for refunding the total amount shown above, you are requested to send a letter explaining the reasons you are not responsible for refunding that amount." Curiously, my sister acquired an interest in the same minerals that I purchased. Her letter did not contain the quoted

language. Perhaps the letter was drafted differently because of my connection with SWKROA.

The obligation to pay royalty ad valorem taxes is a personal obligation and does not "follow the land."

A similar situation is presented for mineral owners who acquired their interest from an estate and the estate is closed. Under the Wylee case, refunds owed by a royalty interest owner will be deemed uncollectible where "(1) the royalty interest owner is deceased and his estate is closed." However, this has not stopped Kansas First Sellers from attempting to collect from royalty owners in such circumstances.

An example of this is shown by the attached letter from Graham-Michaelis Corporation to "Jeanette Plummer Estate, Paul Plummer, Jr., Executor." The Jeanette Plummer Estate has been closed for several years. I wrote to Graham-Michaelis on behalf of our client, Paul Plummer. The claimed total tax liability to the four Plummer heirs exceeded one hundred thousand dollars. Ralph Brock, a knowledgeable and well respected Wichita attorney, responded for Graham-Michaelis, and acknowledged that "we agree that the heirs of an estate of a person who received the tax reimbursement are not liable to refund any of the taxes paid on behalf of the decedent.

The Plummer heirs were in fact billed by Graham-Michaelis even though neither they nor the estate owed the refund. Had they not sought legal advice with reference to the claimed refund obligation, they would not have known that the refund was legally uncollectible. Our experience as lawyers has been that many people when they receive a bill of any kind will assume the bill is valid and pay it without consulting an attorney to verify the validity of the bill or any possible defenses.

It poses a serious problem when there is no consistency among First Sellers on whether to attempt to collect from heirs of an estate or from royalty owners who acquired their mineral interest after 1988. Some First Sellers are attempting to collect from current royalty owners since they apparently do not have addresses for persons owning the mineral interest during the period from 1983 to 1988.

Royalty owners, either current or historical (those who owned the interest from 1983 to 1988, but who no longer own the minerals), have no idea if the refund will be fairly allocated. First sellers may be handling their royalty owners differently. Some first sellers will aggressively seek billing adjustments from royalty owners while other companies may not be aggressive, which may result in some royalty owners being charged for the refund while others are relieved of the claimed obligation. This inconsistent

treatment is a great concern for royalty owners. Senate Bill 685 would treat all Kansas royalty owners fairly and equally.

The statute of limitations exception listed as a reason for uncollectibility, cited in Wylee, also treats all Kansas royalty owners fairly and equally. Mr. Stucky will further address this argument.

FERC has refused to grant a stay to the Kansas producers to determine the collectibility of the refund from royalty owners but has placed the burden on the producers to make that determination on a case by case basis. That will be a nightmare for the producers and royalty owners and an impossible financial burden for each royalty owner to defend in court against separate claims for refund.

We respectfully request your Committee and the Kansas Legislature to grant relief to Kansas royalty owners from the burden of having to defend against a claim for tax reimbursement with the passage of Senate Bill 685, with amendments.

Respectfully submitted,

Erick E. Nordling,
Executive Secretary, SWKROA

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SWKROA

SWKROA IS A PUBLICATION OF THE SOUTHWEST KANSAS ROYALTY OWNERS ASSOCIATION

P.O. Box 250 / Hugoton, Kansas 67951 / (316) 544-4333 December 22, 1997

SPECIAL NEWSLETTER

UPDATE ON KANSAS AD VALOREM TAX REFUND ISSUE

In the past few weeks, some SWKROA royalty owners who own mineral interests in the Hugoton Gas Field have begun to receive letters from pipeline companies regarding alleged overpayments of royalty made to them from 1983 to 1988. These letters have indicated the companies are seeking reimbursement from the royalty owners for the alleged overpayment. The implications of these demands are huge –and the impact could be widespread because the owners of royalty interests in the Hugoton Field reside not only in Southwest Kansas but throughout Kansas and, indeed, throughout the United States.

At issue is the Kansas ad valorem tax levied on gas production by the individual counties in Southwest Kansas. During the five year period in question, nearly all producers paid the different county treasurers the ad valorem taxes attributable to the interest of their royalty owners as well as the company's own interests. The producers then obtained reimbursement from their pipeline purchasers for those payments. This was done under orders of the Federal Energy Regulatory Commission (FERC) which permitted taxes to be included in the rates that producers could charge for the sale of gas.

As evidenced by the recent statements which some SWKROA members have received, some companies have now begun to seek from royalty owners the amount they paid for Kansas ad valorem taxes which were attributable to the interest of their royalty owners, including interest on those amounts. The amount of refunds is enormous, totaling well in excess of one billion dollars, including interest.

The Southwest Kansas Royalty Owners Association (SWKROA) has received numerous questions from its members about this situation. (A more detailed discussion of the history of the controversy may be found in earlier SWKROA newsletters.) We have interviewed Gregory J. Stucky, SWKROA's general counsel, in an attempt to answer some of those questions. His responses read as follows:

Question:

Have you seen some of the statements that pipeline companies have sent to royalty owners?

Answer:

Yes, I have. Most of these statements are accompanied by additional information which attempts to explain this situation. However, this additional information often appears to create the misleading impression that the FERC has ordered royalty owners to pay their producers and pipeline companies. The FERC's order, however, is directed to "First Sellers". That term does not include royalty owners. In fact, it was established long ago that the FERC does not have jurisdiction over royalty owners. Thus, royalty owners are not under any order to make payments to their producers and pipeline companies.

In most instances, the information accompanying the statements is totally inadequate to determine whether the statement is accurate. In some instances, there is no information regarding the amount of ad valorem taxes passed through in the gas rate or the dates when those ad valorem taxes were passed through. The statements lack documentation proving that ad valorem taxes were passed through at all. Before a royalty owner decides what to do, it would be prudent to ask for this information from the company that sent the statement.

Question:

Assuming a royalty owner receives the requested back-up information substantiating the amount claimed, should the royalty owner pay the statement?

Answer:

There are very substantial unresolved legal issues regarding those statements. For example, the claims for payment extend back to 1983, and there is obviously a significant question as to whether the claims might be outside of the statute of limitations.

It appears that producers may not have yet reimbursed the pipeline purchasers for the ad valorem taxes attributable to the royalty interests. Until that occurs, the producers cannot sue royalty owners for payment. If the producers eventually make payment of ad valorem taxes attributable to the interests of royalty owners and attempt to sue royalty owners for these amounts, there will be significant questions regarding the nature of the original payments by the producers. For example, did the producers voluntarily pay those taxes? Were the payments made under a mistake of law or a mistake of fact? The resolution of these questions and others may have substantial bearing on whether the producers can now recover against their royalty owners.

Question:

Is there a question as to whether the oil and gas lease itself would allow the producers' claims?

Answer:

Yes. In fact, an examination of the lease raises a whole host of questions. For instance, what is the nature of the ad valorem tax payments made by the producers in the 1980s? It is hard to characterize those payments as royalty because they went to the county treasurer not the royalty owner. Even if they could somehow be characterized as royalty payments, under a lease which provides for royalty based on the "market value" of gas, the producer would have to show that royalty, including any payments for Kansas ad valorem tax, exceeded the "market value" of that gas.

In the mid-1980s there were a series of lawsuits brought by classes of royalty owners challenging the manner in which the producers paid royalty under federal regulations. Those lawsuits were eventually settled, and the terms of those settlements must be examined to determine whether the producer can now re-open the manner in which royalty was paid during that period.

These are some examples of the issues that must be addressed before one can determine whether the royalty owner should pay the statements.

Question:

If a royalty owner did not own his or her interest in the 1980s, can the producer recover against that royalty owner?

Answer:

No. As a basic rule, if the royalty interest has been purchased, the purchaser would not be liable for the debt of the seller during the time of the seller's ownership. This rule would also apply to heirs of estates. However, the rule may not apply to inter vivos trust transfers where the beneficiary of the trust is also the settlor of the trust.

Question:

Do you think that if a royalty owner declines to make a voluntary payment of the statement that the producer will withhold the sum that the producer believes the royalty owner owes from future royalty checks?

Answer:

Before a producer can even consider that option, the present producer must be the same one which has the obligation to make the refund under the FERC order. For example, I believe that Panhandle Eastern Pipeline Company, as a pipeline company, made some royalty payments in the mid-1980s. It may have also paid the ad valorem taxes attributable to those royalty owners. If that is the case, Panhandle will not even have the option of withholding money from future royalty checks, because it no longer makes royalty payments.

If a producer has the option of withholding available to it, it would have to consider carefully the risks of pursuing that course. The producer would have to be fairly certain that it has the right to recover the money before it resorts to setting-off those amounts from royalty payments. If the producer is wrong, it would expose itself to the tort of conversion—the civil law equivalent of theft—and punitive damages could be assessed against it. It potentially has much to lose if it is wrong.

Question:

Can you estimate the impact of this issue on Kansas royalty owners?

Answer:

It appears that the total amount of Kansas ad valorem taxes at issue, including interest, is well over one billion dollars. Because of the way that ad valorem taxes are determined, royalty owners generally pay more than ⅛th of the amount that producers pay, although ⅛th is the normal fraction for royalty paid under old oil and gas leases. I would estimate that the ad valorem tax bill for royalty owners generally is in the range of 20 to 30 percent of the total ad valorem assessment rather than the usual ⅛th. Based on that estimate, Kansas royalty owners could potentially be asked to refund $300 million. That, of course, is a huge amount by anyone's standards.

Taken to a more individual level, any potential refund obligation could possibly represent several months of current royalty payments, or could extend for a year or longer.

Question:

What should an individual royalty owner do?

Answer:

SWKROA is keeping a very close watch on the situation and is exploring various options that it might be able to pursue to assist its membership. Due the complexity of the issues involved, if a royalty owner has a significant amount at stake, he should seek legal advice from his or her own lawyer. Because of all the complex unresolved issues about the producers' entitlement to recover from royalty owners, royalty owners should resist any urge to pay any statement they receive from their producers until they or their attorney have had a chance to carefully evaluate the situation.

Executive Secretary's Note:

SWKROA officials anticipate that within the next several months its members may be contacted by their producers making claim for ad valorem tax refunds during the period in question. The purpose of this Special Newsletter is to alert our members as to this possibility and the action to be taken with reference to such claimed refunds. Please notify this office if you receive any statement requesting reimbursement of ad valorem taxes. Your cooperation will be appreciated.

Best wishes for a Happy Holiday Season!

Sincerely,

Erick E. Nordling, Executive Secretary

Dorchester Hugoton, Ltd.

1919 S. Shiloh Road, Suite 600-LB 48, Garland, Texas 75042-8234 (972) 864-8610 Fax (972) 864-9095

February 6, 1998

Certified Mail
Return Receipt Requested

ERICK E & DEBBIE L NORDLING
JTWROS
209 E 6TH ST
HUGOTON, KS 67951-2613

RE: Kansas Ad Valorem tax reimbursements
due Panhandle Eastern Pipe Line Company
Owner No. 5248
Lease No. 17019801, Rickart #1

Dear Royalty Owner:

During the period 1983 through 1987 ad valorem taxes on the above referenced lease(s) were paid by Dorchester Hugoton (or the well operator) and reimbursed by Panhandle Eastern Pipe Line Company (PEPL) in addition to payments of the then current ceiling price for gas. Such payments and reimbursements included those attributable to your royalty interest. Following an extraordinarily lengthy multi-producer regulatory and judicial process, including denial of review by the U.S. Supreme Court, all such reimbursements must be refunded to PEPL with interest (at federally set rates to date of payment to PEPL) by March 9, 1998. Should Dorchester Hugoton be successful in reducing its refund to PEPL or should further regulatory, judicial, or legislative actions reduce the amount due PEPL, you will be promptly credited with your portion of such reductions. Your portion of such refund due PEPL is:

Principal	47.00
Interest	79.25
TOTAL:	$126.25

ACCORDINGLY WE REQUEST THAT YOU REMIT THE ABOVE TOTAL AMOUNT BY FEBRUARY 20, 1998. Please make your check payable to Dorchester Hugoton, Ltd. and send the payment to:

Dorchester Hugoton, Ltd.
1919 South Shiloh Road
Suite 600, LB 48
Garland, TX 75042-8234

Ksadvp1a.doc
Raley Dir.

If you prefer, Dorchester Hugoton will pay PEPL and deduct the above total amount (without additional interest) from your current royalty payments over a 4 month period beginning with the royalty check to be issued in March, 1998. TO ELECT THIS OPTION WE REQUEST YOU RESPOND BY FEBRUARY 20, 1998 BY SIGNING AND RETURNING ONE COPY OF PAGE TWO OF THIS LETTER.

Based upon our records, we believe you acquired your interest after 1987. However, our records do not show that your acquisition excluded any responsibility for pre-1987 payments or refunds. Should you be unable or not be responsible for refunding the total amount shown above, you are requested to send a letter explaining the reason(s) (including supporting deeds, etc.) that you are unable or not responsible for refunding that amount. PLEASE SEND ALL SUCH LETTERS BY FEBRUARY 20, 1998.

FAILURE TO RESPOND TO THIS LETTER BY EITHER REMITTANCE, SIGNING AND RETURNING ONE COPY, OR SENDING A LETTER OF EXPLANATION (WITH SUPPORTING DEEDS, ETC.) MAY RESULT IN IMMEDIATE PEPL REFUND DEDUCTIONS FROM YOUR NEXT ROYALTY CHECK(S).

Very truly yours,

Johnny L. Booth

Johnny L. Booth, Manager
Marketing and Royalties

JLB:cac

cc: Mr. Kim R. Schroeder

I hereby authorize Dorchester Hugoton, Ltd. to recover the above stated total amount of my portion of refund due PEPL by deduction from my royalty checks beginning in March, 1998 in 4 equal monthly parts for a total of $126.25.

ERICK E & DEBBIE L NORDLING, _____ Date

Ksadvp2.doc
Raley Dir.

LAW OFFICES OF

morris, laing, evans, brock & kennedy, chartered

FOURTH FLOOR, 200 WEST DOUGLAS WICHITA, KANSAS 67202-3084
(316) 262-2671 FAX: (316) 262-5991

RALPH R. BROCK
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KEN M. PETERSON
ROBERT D. OVERMAN
RICHARD D. GREENE
A. J. SCHWARTZ, JR.
DONALD E. SCHRAG
WILLIAM B. SORENSEN, JR.
DENNIS M. FEENEY

JEFFERY L. CARMICHAEL
ROBERT W. COYKENDALL
ROBERT K. ANDERSON
SUSAN R. SCHRAG
ROBERT E. NUGENT
MICHAEL LENNEN
KARL R. SWARTZ
ROGER L. THEIS
JANA DEINES ABBOTT
RICHARD F. HAYSE*

THOMAS R. DOCKING
DIANE S. WORTH
TIM J. MOORE
BRUCE A. NEY
JANET HUCK WARD
CARLOS J. NOLLA-CORRETJER
JAMES D. YOUNG
CHRIS A. GARCIA

Of Counsel
MARVIN W. MAYDEW*

*RESIDENT IN TOPEKA OFFICE

VERNE M. LAING, RETIRED
LESTER L. MORRIS 1901-1966
FERD E. EVANS, JR. 1919-1991

March 2, 1998

Erick E. Nordling
Kramer, Nordling & Nordling
109 East Sixth
Hugoton, KS 67951

Re: Kansas *ad valorem* tax refunds — Jeanette Plummer Estate

Dear Erick:

In response to your letter of February 27, 1998, addressed to Graham-Michaelis Corporation, we agree that the heirs of an estate of a person who received the tax reimbursements are not liable to refund any of those taxes paid on behalf of the decedent. Therefore, if we understand the facts correctly, your clients Mr. Paul Plummer, Jr., and his cousins have no liability. I believe that Barbara Wilcox of Graham-Michaelis advised Mr. Plummer of this by telephone, but this will confirm it in writing. Under these circumstances, the working interest owners can obtain from FERC a waiver as to any refund obligation attributable to a royalty interest paid to Jeanette Plummer or her estate.

Our agreement on the above renders moot any question concerning the other reasons stated in your letter. We agree with some and disagree with others, but there is no need to get into discussions concerning them with reference to the Plummers.

Best personal regards.

Very truly yours,

Ralph R. Brock
For the Firm

RRB:mk
cc: Graham-Michaelis Corporation

GRAHAM-MICHAELIS CORPORATION

W. A. MICHAELIS, JR.
PRESIDENT

MAIL ADDRESS
P. O. BOX 247
WICHITA, KANSAS
67201

TELEPHONE
(316) 264-8394

FAX
(316) 264-8398

G-M BUILDING • 211 NORTH BROADWAY • WICHITA, KANSAS 67202

February 5, 1998

Jeanette Plummer Estate
Paul Plummer, Jr., Executor
P. O. Drawer A
Johnson, KS 67855

Re: FERC Order of September 10, 1997, requiring refunds of Kansas ad valorem taxes -- Dockets No. RP 97-369-000; GP 97-3-000; GP 974-000; GP 97-5-000

Dear Royalty Owners:

During the long period of regulation of natural gas prices under the Natural Gas Act of 1974 and Natural Gas Policy act of 1978, Kansas ad valorem taxes could be legally recovered from the pipeline purchaser of the gas as an add-on to the ceiling prices per MMBtu without violating the maximum lawful prices established under those Acts. This was the specific ruling of the Federal Power Commission in 1974. On two occasions, in 1986 and 1987, its successor agency, the Federal Energy Regulatory Commission ("FERC"), upheld this ruling. As a result of administrative and court proceedings instigated by a pipeline company, in 1993 FERC reversed the prior rulings and ordered refunds of reimbursed ad valorem taxes paid under tax bills rendered after June 28, 1988, which were in excess of the maximum lawful prices. In essence, what had been legal for 19 years was retroactively declared illegal. These refunds have been paid. However, this 1993 order was appealed by the pipelines and pursuant to the court decision on appeal FERC issued an additional order on September 10, 1997, that the refunds now be made retroactive to include reimbursed taxes paid under tax bills rendered after October 4, 1983. All petitions for rehearing of the September 10 order were denied on January 28, 1998. Under the order, refunds, together with interest at FERC rates compounded quarterly, are due on or before March 9, 1998.

Pursuant to the September 10, 1997 FERC order, Graham-Michaelis Corporation ("G-M") received a Statement of Refunds Due ("SRD") from Colorado Interstate Gas Company in the amount of $917,845.12, including interest accrued only to December 31, 1997. The SRD did not contain a breakdown or determination of the refund amount as to the various leases for which the tax reimbursements were made or as to the working interest and royalty owners who received these reimbursements.

1-12

G-M has now made a determination of the leases for which the tax reimbursements were made, the parties who received these reimbursements and the amounts received, and the amount of each party's total liability under the SRD with interest accrued to March 9, 1998, at the FERC-prescribed rates. Enclosed herewith is a summary showing the total amount due from you for tax reimbursements paid to you, including this interest. It also shows by lease the dates and amounts reimbursed to you.

G-M hereby requests payment of the total amount owing by you as shown by the enclosed summary. We request that your remittance be made promptly so that the refund can be made in accordance with the FERC order.

Very truly yours,

GRAHAM-MICHAELIS CORPORATION

Jack L. Yinger
Vice President

JLY:bw
Enclosure

GRAHAM-MICHAELIS CORPORATION

STATEMENT OF REFUND DUE FROM OWNERS

02/05/98
04:14 PM
F:\COMMON\QDATA\83ADVAL\TOTALS1.WQ1

S/G OWNER NUMBER	OWNER TYP	OWNER NAME	LEASE NAME	REFUND YEAR	DEPOSIT DATE	PRINCIPAL AMOUNT OF DIRECT ITEM	PRINCIPAL TOTAL PER LEASE	PRINCIPAL TOTAL PER OWNER	INTEREST DUE ON EACH ITEM	TOTAL INTEREST TOTAL PER LEASE	TOTAL INTEREST TOTAL PER OWNER	GRAND TOTAL PRINCIPAL & INTEREST DUE
60150	RI	PLUMMER, JEANETTE ESTATE	CIG PLUMMER A	1983	07-29-85	335.37						
60150	RI	PLUMMER, JEANETTE ESTATE	CIG PLUMMER A	1984	10-30-86	364.47			616.25			
60150	RI	PLUMMER, JEANETTE ESTATE	CIG PLUMMER A	1985	10-30-86	477.47			563.48			
60150	RI	PLUMMER, JEANETTE ESTATE	CIG PLUMMER A	1986	10-26-87	427.45	1,604.76		738.18			
									581.34	2,499.25		
60150	RI	PLUMMER, JEANETTE ESTATE	CIG PLUMMER B	1983	07-29-85	345.88						
60150	RI	PLUMMER, JEANETTE ESTATE	CIG PLUMMER B	1984	10-30-86	742.95			635.56			
60150	RI	PLUMMER, JEANETTE ESTATE	CIG PLUMMER B	1985	10-30-86	854.86			1,148.62			
60150	RI	PLUMMER, JEANETTE ESTATE	CIG PLUMMER B	1986	10-26-87	845.00	2,788.69		1,321.64			
									1,149.21	4,255.03		
60150	RI	PLUMMER, JEANETTE ESTATE	CIG PLUMMER C	1983	07-29-85	524.55						
60150	RI	PLUMMER, JEANETTE ESTATE	CIG PLUMMER C	1984	10-30-86	540.83			963.87			
60150	RI	PLUMMER, JEANETTE ESTATE	CIG PLUMMER C	1985	10-30-86	727.44			836.14			
60150	RI	PLUMMER, JEANETTE ESTATE	CIG PLUMMER C	1986	10-26-87	768.57	2,561.39		1,124.64			
									1,045.26	3,969.91		
60150	RI	PLUMMER, JEANETTE ESTATE	CIG PLUMMER D	1983	07-29-85	276.03						
60150	RI	PLUMMER, JEANETTE ESTATE	CIG PLUMMER D	1984	10-30-86	620.70			507.21			
60150	RI	PLUMMER, JEANETTE ESTATE	CIG PLUMMER D	1985	10-30-86	655.55			959.62			
60150	RI	PLUMMER, JEANETTE ESTATE	CIG PLUMMER D	1986	10-26-87	638.70	2,190.98	9,145.82	1,013.50			
									868.64	3,348.97	14,073.15	23,218.97

BRISCOE, STANWAY & HARPER, P.C.
ATTORNEYS AT LAW

JAMES R. BRISCOE
S. GREGG STANWAY
STEVEN K. HARPER

P.O. BOX 120
HOTCHKISS, COLORADO 81419
(970) 872-3118
FAX (970) 872-4518

February 19, 1998

Dorchester Hugoton, Ltd.
1919 South Shiloh Road
Suite 600, LB 48
Garland, TX 75042-8234

FAX NO. (972)864-9095

ATTENTION: JOHNNY L. BOOTH, MANAGER MARKETING AND ROYALTIES

RE: KANSAS AD VALOREM TAX REIMBURSEMENTS
DUE PANHANDLE EASTERN PIPE LINE COMPANY
OWNER NO. 3660 (Jacobson) AND NO. 1324 (Conk)
LEASE NO. 17019801, RICKART #1

Dear Mr. Booth:

As the local Colorado attorney for Ms. Jacobson and Ms. Conk, this is to advise that they do not agree that any amounts be deducted from their current royalty payments. Likewise, they do not agree that they owe any money for any reason to Panhandle Eastern Pipe Line Company.

Any deduction or interference with the payment and delivery of payment of royalties due Ms. Jacobson and/or Ms. Conk shall be considered illegal and a conversion of their property, resulting in liability for Dorchester Hugoton, Ltd., for actual and punitive damages.

No royalties are currently being paid by Panhandle Eastern Pipe Line and, thus, no right of reimbursement or offset or deduction from the royalties due to Ms. Jacobson and/or Ms. Conk is either legal nor authorized.

The FERC order is directed to "first sellers", not to royalty owners, over which FERC has no jurisdiction.

Ms. Jacobson and Ms. Conk received their mineral interests through estate planning, gifting or inheritance and are not liable for any claimed reimbursement of any ad valorem taxes.

Any claim for reimbursement may be outside of the applicable statute of limitations and, thus, not legal nor enforceable.

Any ad valorem taxes that might have been paid by Panhandle Eastern Pipe Line Company were paid voluntarily, not by agreement or contractually, was made as a mistake of law or fact, and no debt or legal obligation to reimburse by a royalty owner exists.

The lease terms and the lawsuits in the 1980's by royalty owners challenging the manner of royalty payments affect and inhibit the creation of any debt of a royalty owner now.

Your letter of February 5, 1998, is inadequate to determine the accuracy of the statements contained therein because it fails to provide information concerning amounts of ad valorem taxes allegedly paid, the gas rate or the dates any ad valorem tax was allegedly passed through, and no documentation was provided to substantiate or prove that any ad valorem taxes were in fact passed through.

Very truly yours,

James R. Briscoe

JRB/mp

xc: Elizabeth Jacobson
Fern Conk
Kramer, Nordling & Nordling, Esq.
Southwest Kansas Royalty Owners Assn.

HAROLD O. NEFF
102 N. COLLEGE, SUITE 300
TYLER, TEXAS 75702
TEL. 903/592-8211

March 6, 1998

Helmerich & Payne, Inc.
P. O. Box 94111
Tulsa, Oklahoma 74194

Re: Ad Valorem Tax Refund
Neff Family Partnership
Owner ID No. 196944

Gentlemen:

I have received your letter dated February 19, 1998 in which you request that I remit to you $1,230.73. I understand you assert that this amount constitutes a refund owing to you for payments of ad valorem taxes which you claim to have made on my behalf on tax bills rendered between October 4, 1983 and June 28, 1988, plus interest at a rate established by the Federal Energy Regulatory Commission ("FERC"). I object to your request for several reasons, including, but not limited to, the following:

1. You apparently are claiming you have overpaid royalty amounts due to me under the terms of a written oil and gas lease. Those claimed overpayments would have occurred from about 1983 to 1988. I understand that the Kansas statute of limitations on written contracts, including oil and gas leases, is five years. Because the claimed overpayments occurred more than five years ago, you are barred from recovering them from me.

2. You did not receive permission or consent from me to pay the ad valorem taxes on my behalf. Needless to say, I did not agree to reimburse you for those ad valorem taxes. You, therefore, made those payments completely voluntarily and with an awareness that those payments might be eventually disallowed by FERC. There is no legal basis for you to now seek a refund from me.

3. Neither I, as a royalty owner, nor the royalty payments I receive, are subject to the jurisdiction of FERC. Your request for payment, apparently based on a FERC determination of what you were entitled to receive from the buyer of your gas, ignores the fact that the FERC does not have the authority to determine the amount of my royalty payments.

Without admitting that I am obligated to you for the ad valorem taxes you paid, I would obviously need the following additional information to substantiate your claim, if you still believe it to be valid after considering the above:

1. I would need from you copies of the ad valorem tax statements, evidence that you actually paid the ad valorem taxes, and documentation that the taxes were passed through to the ultimate consumer.

2. I would need proof from you that the amounts I received during the relevant period exceeded the applicable Maximum Lawful Price. In that connection, you would need to identify the specific production, by date and well, attributable to the royalty interest I owned which you have related to each alleged tax payment you made for me, in order for me to verify your apparent conclusion that payments exceeded the applicable Maximum Lawful Price.

In addition, I do not understand why you are attempting to charge me interest at a rate prescribed by FERC. As explained above, I am not subject to the jurisdiction of FERC, and I see no reason why I should pay interest on any money I might owe you.

I thank you in advance for a prompt response to the issues raised in this letter.

Sincerely,

NEFF FAMILY PARTNERSHIP

Harold O. Neff

Harold O. Neff
Managing Partner

HON:sf

Peggy colleen winn

Dec. 16, 1997

Kansas Pet. Inc.
c/o Argent Energy, Inc.
110 S. Main Suite 810
Wichita, Kans. 67202

Dear Mr. Remsberg and Mr. Tasheff

I am enclosing my check for the amount so desired. I wish you would "hold it up" until you have answered a few question for me. As you will note----I am pre-dating the check. Dec., 31, 1997.

First---of all assuming that your records are correct---how in the "devil" can you expect me to pay a bill that is 13 or 14 years old when the statue of limitations in every state that I am aware of is only 7 years or less.

Second---please show me the paper work that says that you can collect this from me. The statue, the billing, and where it says in MY lease agreement that I have to pay this.

Third---how did you calculate the $2,236.37 that you say I owe you.

Fourth---show me where I was notified back in 1980's, that this was even a possibility. I have nothing from you all or the pipeline to verify this.

I think you really owe me some answers and some verification, before you even think about cashing my check.

I may be a 75 year old ignorant lady but I do think I am entiled to a few more answers for a problem that happened 14 years ago.

Naturally I think this should be reported to your Kansas Sentor and Congressman. If and when I decide to write to the ones here in Texas I will certainly send you a copy.

Sincerely,

Mrs. Peggy Winn

Mrs. Peggy Winn
3421 Medina Ave.
Fort Worth, Texas, 76133

Phone: (817) 923--8356

P. S. Needless to say---this was a wonderful Christmas Present!!!!!!!!!

Kansas Petroleum, Inc.

225 NORTH MARKET STREET, SUITE 310

WICHITA, KANSAS 67202

(316) 267-2266

November 26, 1997

Re: FERC Order of September 10, 1997, requiring refunds of Kansas ad valorem taxes-
Dockets Nos. RP 97-369-000; GP 97-3-000; GP 974-000; GP 97-5-000

Dear Royalty Owners:

As you will recall, during the long period of regulation of natural gas prices under the Natural Gas Act and Natural Gas Policy Act of 1978 ("NGPA"), Kansas ad valorem taxes could be legally recovered from the pipeline purchaser as an add-on to the ceiling prices per MMBtu without violating the maximum lawful prices under those Acts. This was the specific ruling of the Federal Power Commission in 1974. In 1986 and 1987, the Federal Energy Regulatory Commission ("FERC") upheld this ruling. As a result of administrative and court proceedings instigated by a pipeline company, in 1993 FERC reversed the prior rulings. In essence, what had been legal for 19 years was retroactively declared illegal. After additional proceedings, FERC on September 10, 1997, ordered refunds of reimbursed ad valorem taxes in excess of the NGPA ceiling prices during the period from October 3, 1983, through June 28, 1988, together with interest compounded quarterly from the dates reimbursed.

Pursuant to this September 10, 1997, order, we have received Statements of Refunds Due from Northern Natural Gas Company, KN Energy, Inc., and Colorado Interstate Gas Company in the amounts of $463,329.31, $355,400.50, and $86,206.99, respectively. We anticipate receiving additional Statements of Refunds Due from other pipeline purchasers. Interest continues to accrue. We have analyzed these Statements in detail to insure their accuracy as to the individual leases involved, the amounts applicable to each lease, and whether these tax reimbursements were in excess of applicable ceiling prices.

Our records show that you received tax reimbursements from these pipelines, as shown on the attached invoice. Although the working interest owners are required to remit the actual refund of reimbursed royalty taxes to the pipelines, the royalty interest owners then become liable to the working interest owners for those refunded taxes on their royalty interests, plus applicable interest. Therefore, as operator, we will forward payment to the pipeline(s) for the amount attributable to each lease. You may either (1) forward payment to us in the amount of the invoice on or before December 31, 1997, or

(2) elect to have this amount, plus eight percent (8%) interest, recouped out of the future revenue stream from the lease. Please return a copy of this letter with your election indicated in the envelope provided.

Sincerely,

James C. Remsberg
President, Argent Energy, Inc.
as Operator for

James Tasheff
President, Kansas Petroleum, Inc.

[ ] (I) (We) will pay the invoice on or before December 31, 1997.

[ ] (I) (We) elect to have the reimbursement plus interest recouped out of future revenue from the lease.

P.S. Approximately two-thirds of the refund amounts are due to interest. Because it is grossly unfair, if not an outrage, for the producers and royalty owners to incur these liabilities even though they complied with the law as it existed for 19 years and which was confirmed on more than one occasion, Senator Roberts of Kansas has introduced Senate Bill 1388 in the United States Senate to prohibit the collection of interest or penalties on these refunds. A similar bill, HR 2903 IH has been introduced in the United States House by Congressman Moran of Kansas. Obviously, passage of this legislation will mean we can return to you a substantial portion of the Statement of Refunds Due. We have no way of knowing how long the return of interest monies will take, if the legislation is passed. Please know that we will promptly forward to you any amounts we receive from the pipeline(s). We urge you to contact your Senators and Congressmen to encourage them to support these bills. This is especially important if you are a resident of a state other than Kansas. We would appreciate receiving copies of any correspondence you send to your Senators and Congressmen.

KANSAS PETROLEUM, INC.
C/O ARGENT ENERGY, INC.
110 S. MAIN, STE 810
WICHITA, KS 67202
(316) 262-5111

********** I N V O I C E **********

WINN, PEGGY
3421 MEDINA

FORT WORTH, TX 76133

YOUR PROPORTIONATE SHARE OF INVOICE DATED 11/10/97 FROM NORTHERN NATURAL GAS CO.

WELLNAME	YEAR	OWNER NAME	OWNERSHIP	AMOUNT
BECKER-STEGALL	1983	WINN, PEGGY	0.04687500	$1,086.77
BECKER-STEGALL	1984	WINN, PEGGY	0.04687500	$1,149.50
		TOTAL DUE		$2,236.27

1-22

1429 Quail Avenue
Weatherford OK 73096
February 10, 1998

Johnny L. Booth
Dorchester Hugoton, Ltd.
1919 South Shiloh Road
Garland TX 75042-8234

Dear Johnny:

In reply to your request (demand) that I pay Dorchester taxes which you claim to have paid on behalf of my lease 1983 through 1987 -

I insist that you supply me with proof that you made these payments - dates, amounts and the rates you used bywhose authority.

Since you require an answer by February 20th, this information must be forthcoming shortly.

If you deduct these payments from my royalty checks without my approval, you may be guilty of conversion of money or worse.

Awaiting your reply.

Donna G. Bradford

Donna G. Bradford

DGB/db

Dorchester Hugoton, Ltd.

1919 S. Shiloh Road, Suite 600-LB 48, Garland, Texas 75042-8234 (972) 864-8610 Fax (972) 864-9095

February 5, 1998

Certified Mail
Return Receipt Requested

DONNA G BRADFORD
1429 QUAIL AVE
WEATHERFORD, OK 73096

RE: Kansas Ad Valorem tax reimbursements
due Panhandle Eastern Pipe Line Company
Owner No. 768
Lease No. 17020001, Bonnett #1

Dear Royalty Owner:

During the period 1983 through 1987 ad valorem taxes on the above referenced lease(s) were paid by Dorchester Hugoton (or the well operator) and reimbursed by Panhandle Eastern Pipe Line Company (PEPL) in addition to payments of the then current ceiling price for gas. Such payments and reimbursements included those attributable to your royalty interest. Following an extraordinarily lengthy multi-producer regulatory and judicial process, including denial of review by the U.S. Supreme Court, all such reimbursements must be refunded to PEPL with interest (at federally set rates to date of payment to PEPL) by March 9, 1998. Should Dorchester Hugoton be successful in reducing its refund to PEPL or should further regulatory, judicial, or legislative actions reduce the amount due PEPL, you will be promptly credited with your portion of such reductions. Your portion of such refund due PEPL is:

Principal	901.31
Interest	1,545.13
TOTAL:	$2,446.44

ACCORDINGLY WE REQUEST THAT YOU REMIT THE ABOVE TOTAL AMOUNT BY FEBRUARY 20, 1998. Please make your check payable to Dorchester Hugoton, Ltd. and send the payment to:

Dorchester Hugoton, Ltd.
1919 South Shiloh Road
Suite 600, LB 48
Garland, TX 75042-8234

Ksadvp1.doc
Raley Dir.

1-24

If you prefer, Dorchester Hugoton will pay PEPL and deduct the above total amount (without additional interest) from your current royalty payments over a 4 month period beginning with the royalty check to be issued in March, 1998. TO ELECT THIS OPTION WE REQUEST YOU RESPOND BY FEBRUARY 20, 1998 BY SIGNING AND RETURNING ONE COPY OF PAGE TWO OF THIS LETTER.

Should you be unable or not be responsible for refunding the total amount shown above, you are requested to send a letter explaining the reason(s) (including supporting deeds, etc.) that you are unable or not responsible for refunding that amount. PLEASE SEND ALL SUCH LETTERS BY FEBRUARY 20, 1998.

FAILURE TO RESPOND TO THIS LETTER BY EITHER REMITTANCE, SIGNING AND RETURNING ONE COPY, OR SENDING A LETTER OF EXPLANATION (WITH SUPPORTING DEEDS, ETC.) WILL RESULT IN IMMEDIATE PEPL REFUND DEDUCTIONS FROM YOUR NEXT ROYALTY CHECK(S).

Very truly yours,

Johnny L. Booth

Johnny L. Booth, Manager
Marketing and Royalties

JLB:cac

I hereby authorize Dorchester Hugoton, Ltd. to recover the above stated total amount of my portion of refund due PEPL by deduction from my royalty checks beginning in March, 1998 in 4 equal monthly parts for a total of $2,446.44.

DONNA G BRADFORD, _____ Date _____

Ksadvp2.doc
Raley Dir.

SENATE ENERGY AND NATURAL RESOURCES COMMITTEE

STATEMENT OF GREGORY J. STUCKY IN SUPPORT OF SENATE BILL 685, AS AMENDED BY SENATOR MORRIS

I am Gregory J. Stucky, an attorney in Wichita with the law firm of Fleeson, Gooing, Coulson & Kitch, LLC, and General Counsel of the Southwest Kansas Royalty Owners Association. The Southwest Kansas Royalty Owners Association is a non-profit association of royalty owners in the Kansas Hugoton Field dedicated to the protection of the interests of its members. Its actual membership numbers about 2,500, and the umbrella of its protection extends to thousands of other royalty owners in Kansas.

THE CIRCUMSTANCES THAT CREATED THE NEED FOR LEGISLATION

Senate Bill 685 relates to circumstances that extend back a quarter of a century. In 1974 the Federal Energy Regulatory Commission (FERC) established a rule that permitted natural gas producers to pass through Kansas ad valorem taxes to pipeline companies purchasing gas from those producers as part of the rate that those producers could charge the pipeline purchasers for that gas. The Kansas ad valorem taxes are assessed against producers and royalty owners, and after that FERC ruling the ad valorem taxes attributable to both were generally passed through to the pipeline purchasers.

In 1977, the Kansas legislature facilitated the pass-through of Kansas ad valorem taxes by permitting the direct payment by producers of the ad valorem taxes attributable to royalty owners. That amendment stated: "Upon the written request or consent submitted annually prior to April 1 by the owner of a gas lease where gas is being delivered into interstate commerce, the entire valuation may be assessed to such owner." K.S.A 79-330.

After the passage of that amendment, most producers requested that they "be assessed" the entire valuation of the ad valorem taxes, including that portion attributable to royalty owners. Therefore, at least after 1977, the monthly remittance royalty checks have not reflected payment by the producers of ad valorem taxes--because the transaction was between the producer and county treasurer on one hand and the producer and pipeline purchaser on the other.

The Natural Gas Policy Act of 1978 (NGPA) permitted producers to pass through "production-related" taxes to their pipeline purchasers. Relying on the NGPA, producers continued to pass through ad valorem taxes to the pipeline purchasers. In 1983, several parties filed petitions with FERC asserting that the FPC's 1974 order should be abandoned and the recovery of the Kansas ad valorem tax should be disallowed.

Upon reversal of its initial opinion by a federal court of appeals, the FERC held the Kansas ad valorem tax should properly be viewed as a property tax--not as a severance tax--and ordered refunds of those taxes that had been included in the rates producers charged after June 28, 1988, the date that the Court of Appeals in its first opinion suggested that the Kansas ad valorem tax could

not be recouped. On the second appeal, the Court of Appeals reversed the FERC's decision that recoupment should only extend back to 1988 and instead the Court of Appeals ruled that the producers had to refund the pipeline purchasers for payments relating to Kansas ad valorem taxes back to October, 1983, the date that the petitions had been filed with FERC. On September 10, 1997, the FERC ordered that the producers--the first sellers--make refunds to the pipeline companies for the wrongfully collected funds attributable to ad valorem taxes, together with interest.

The September 10 Order addressed the producer's obligation to refund of ad valorem taxes attributable to royalty owners. It stated:

> [W]e recognize that there may be situations where producers are unable to collect refunds attributable to royalty interest owners. . . . Thus, the Commission will consider waiver of refund on grounds of uncollectability from royalty owners on a case-by-case basis, if a person seeking such relief can demonstrate that it attempted to collect the refund from the royalty owner and that the refund is uncollectible. The standard for determining whether a refund is uncollectible from a royalty owner is set forth in *Wylee Petroleum Corp.* [33 FERC ¶61,014 (1985)]

Wylee , a copy of which is attached, states that refunds attributable to royalty owner interests "are deemed uncollectible under the following circumstances: . . . (4) the statutes of limitation prohibit operators from taking legal action against the royalty owners to obtain the refunds." (Other circumstances of uncollectability recognized by the FERC in *Wylee* include instances where the royalty owner is deceased and her estate is closed.)

HOW THE LEGISLATION WORKS

How does this all fit together? Simply put, **if the Kansas statutes of limitation prohibit producers from taking action against their royalty owners to obtain refunds, those refunds are deemed uncollectible, and producers are relieved of any obligation to make those refunds to the pipeline companies.**

The Kansas statute of limitations for actions on contract, such as an oil and gas lease, which governs the relationship between royalty owners and producers, is five (5) years. The refunds relate to recoupments made between 1983 and 1988, which is obviously more than five (5) years ago. It is therefore apparent that the applicable statute of limitations would bar an operator from recovering those refunds from its royalty owner.

Senate Bill 685, as revised by Senator Morris, declares that the statue of limitations has run on any action to recovery such refunds from royalty owners .

THE NEED FOR THE LEGISLATION

Why is this legislation needed? Most of the amounts that producers claim that royalty owners owe are probably rather insignificant–some as little as a few dollars. Notwithstanding the fact that the statute of limitations has run, if a royalty owner is still receiving royalty payments from

its producer, there is little a royalty owner can presently do if the producer decides to withhold those amounts from royalty payments. In fact, some producers have threatened to do just that. Particularly if the refund is relatively insignificant, the royalty owner has little resort against that action. At least for now, most producers, however, have taken a more prudent course of action and have not taken any steps to recover that money from royalty owners. Perhaps one reason why they have adopted this approach is that they understand that insurmountable hurdles–such as the statute of limitations–block their path.

This legislation is designed to create a level playing field–so that all royalty owners in Kansas might be treated in the same way, irrespective of who the producer might be. If Senate Bill 685, as amended, passes, there would be no need for aggressive collection efforts by some producers because those producers would know that Kansas law expressly both prohibits them from recovering those payments but, at the same time, shields them from any responsibility from making reimbursements to the pipeline companies for ad valorem taxes attributable to their royalty owners.

36TH ITEM of Level 1 printed in FULL format.

Wylee Petroleum Corporation

Docket No. SA85-19-000

FEDERAL ENERGY REGULATORY COMMISSION - Commission

33 F.E.R.C. P61,014; 1985 FERC LEXIS 964

Order Denying Petition for Adjustment

October 15, 1985

PANEL:
[*1]

Before Commissioners: Raymond J. O'Connor, Chairman; A. G. Sousa and Charles G. Stalon.

OPINION:

On March 21, 1985, Wylee Petroleum Corporation (Wylee) filed with the Commission a petition for adjustment pursuant to section 502(c) of the Natural Gas Policy Act of 1978 (NGPA) requesting relief from the refund requirements of Order Nos. 399 n1, 399-A n2, and 399-B [FERC Statutes and Regulations P30,597, P30,612, and P30,651]. n3 These orders established procedures governing the refund by first sellers of overcharges resulting from adjustment to the calculation of the Btu content of gas sold under the NGPA. n4 Wylee requests a waiver of its obligation to pay the Btu refund owed by Bowie Lumber Company, Ltd., owner of a 30 percent royalty interest in the Bowie Lumber Company No. 1 well in the Lake Boeuf Field, Lafourche Parish, Louisiana. Wylee was the operator of the gas well during the period the refund obligations accrued, and was billed by its pipeline-purchaser, Monterey Pipeline Company, for a total Btu refund of $30,919.35, including interest through May 3, 1985. Bowie's refund obligation as of that date was $9,275.81.

n1 49 Fed. Reg. 37,735 (September 26, 1984).

n2 49 Fed. Reg. 46,353 (November 26, 1984). [*2]

n3 50 Fed. Reg. 30,141 (July 24, 1985). Although Order No. 399-B was issued subsequent to the filing date of Wylee's petition, we interpret the request to include relief from Order No. 399-B as well.

n4 See Interstate Natural Gas Ass'n of America v. F.E.R.C., 716 F.2d 1 (D.C. Cir. 1983), cert. denied, 104 S.Ct. 1616 (1984) (charges for gas must be determined by measurement of Btu content under "wet" conditions rather than "as delivered").

Wylee requests waiver of Bowie's refund obligation because Bowie refuses to pay it, and the cost of collecting the refund from Bowie would be at least twice the amount owed. The well in question has been abandoned and the lease from Bowie was released on August 17, 1984. Wylee has advised the Commission's staff that it does not own or operate any other well in which Bowie has an interest. Thus, Wylee cannot collect Bowie's refund through billing adjustments.

Wylee's petition includes a letter from Bowie received in response to a bill rendered by Wylee for the Btu refund. Bowie disclaims any liability for Btu refunds. In its letter, Bowie states that it was not a party to the gas purchase contract between Wylee and Monterey Pipeline [*3] and that the payments Bowie received were based strictly on its lease agreement under which Wylee operated the property and not on Wylee's contract with Monterey. Bowie also states that even if a refund were due, the lease agreement provides no basis for charging interest.

Notice of Wylee's petition was issued on July 30, 1985, and published in the Federal Register on August 5, 1985 (50 Fed. Reg. 31,653). No motions to intervene have been filed in this proceeding.

The Commission concludes that Wylee's petition must be denied. In Order Nos. 399-A and 399-B, the Commission held that it has discretion to waive Btu refund obligations attributable to royalty interest owners, provided such refunds are shown to be uncollectible. n5 The Commission has not previously established standards for determining when a Btu refund obligation may properly be considered uncollectible for purposes of Order No. 399, et al. Upon review of the matter, the Commission holds that in cases where the well operator and royalty interest owners do not have an ongoing contractual relationship which would permit the operator to collect Btu refunds through billing adjustments, refunds owed by a royalty [*4] interest owner will be deemed uncollectible under the following circumstances: (1) the royalty interest owner is deceased and his estate is closed, (2) the royalty owner is bankrupt and the bankruptcy proceeding is closed, (3) the royalty owner cannot be located (proof that reasonable steps were undertaken to locate the owner must be submitted), or (4) statutes of limitation prohibit operators from taking legal action against the royalty owners to obtain the refunds. If any one of these standards is met, the Commission will consider the refund uncollectible and will waive the obligation. In cases where none of the standards are met, the Commission will grant a waiver of the refund obligation only where the applicant demonstrates that paying the refund will jeopardize its financial condition and thus constitute a special hardship within the meaning of section 502(c) of the NGPA.

n5 Order No. 399-A, n. 2 supra at 46,361 (November 26, 1984); Order No. 399-B, n. 3 supra at 30,142-143 (July 24, 1985).

Based on the record in this case, the Commission finds that Wylee has not met any of the foregoing standards for determining uncollectibility. The refusal by a royalty owner to [*5] pay its refund obligation does not mean the refund is uncollectible. Refusal to pay, therefore, does not constitute a basis for granting waiver. The Commission further finds that Wylee has not shown that its financial condition will be jeopardized in the event it is required to pay Bowie's refund of $9,275.81. n6 Accordingly, Wylee's petition for waiver is denied.

n6 First sellers may defer payment of that portion of the Btu refund obligation attributable to royalty interest owners until actually collected or until November 5, 1986, whichever occurs first. Order No. 399, n. 1 supra at 37,740.

The Commission orders:

Wylee's petition for adjustment is denied.

Good Morning, Ladies and Gentlemen: My name is John Crump; my wife and I reside in Lakin in Kearny County and own land and mineral rights there. I am a retired Foreign Service Officer of the U. S. Department of State and served 25 years as a diplomatic officer at various embassies, mostly in Europe, before retiring and returning to Lakin. I am a member of the Board of Directors of the Southwest Kansas Royalty Owners Association.

My residence in Lakin is located within the senatorial district of Steve Morris, of your committee, and my representative in the other chamber is Gary Hayzlett, who happens to be my neighbor in Lakin. I feel I am more than ably represented by those two members; my purpose in appearing before you this morning is to give you some additional views on the subject of the legislation before you--the problem of the unexpected and unfair effort to collect from royalty owners some of the monies owed by gas producing companies arising from the FERC ruling on ad valorem taxes. I speak to you as an individual and director of the Royalty Owners Association; I am not an attorney and I will not attempt to argue legal points, but will stress what I believe are some practical aspects of the problem.

I support the legislation contained in Senate Bill 685 for several reasons. First, the effort to collect from royalty owners is unjust and unfair. Royalty owners were not a part of the procedure followed by production companies in the period 1983 to 1988 when personal property taxes, the ad valorem tax, were paid to the various county treasurers by the gas production companies. We did not ask the companies to pay those taxes and we did not enter into agreements with them to do so. To come back to the royalty owners now and require us to help correct a situation to which we were not a party is not fair.

(I might note in passing that I feel a certain sympathy for the gas companies. They followed procedures which they understood to be correct in 1983 - 1988. Then, when the FERC told them to change those procedures, they did so. Now, they are told by FERC, supported by the courts, that they must go back and repay the purchasers of their gas, plus interest, for a portion of payments from those purchasers when they were correctly following FERC instructions. However, while I am sympathetic, I do not agree with the step which some of them have undertaken, which is to attempt to recover some of that repayment from royalty owners.)

The second reason I support this legislation is that it would help avoid what will, I believe, be an administrative nightmare. It will be difficult in many cases, impossible in some cases, and expensive and time-consuming in all cases for the gas companies to locate and correspond with individuals and institutions who owned the royalty interests in 1983 - 1988. Many individual owners have died, others have sold, split up or bequeathed their interests.

As committee members probably are aware, mineral interests, as property rights, are somewhat easier to split up, to sell and purchase, and to bequeath to heirs and trusts, in smaller amounts, than is the case with land and other property. As a result, gas companies today seldom pay royalties in the amount of the basic one-eighth or .125 of production values, but in fractions or decimals which have been divided, sub-divided, then divided again and again. When the Hugoton Field first came into production fifty and sixty years ago, the landowners were usually also the royalty owners because they owned the mineral interests under their land and the gas companies paid them one-eighth of the production. Today, it is increasingly the case that landowners do not own royalty interests under their land; those mineral interests have been divided into small increments and are owned by individuals residing elsewhere than in the Hugoton Gas Field Area.

I say all this to make the point that record keeping for the gas companies has become extremely tedious and difficult over the past several decades. If those companies now feel compelled to attempt to go back and establish ownership and financial liability for properties held fifteen years ago, the result will be administrative chaos. For example: I recently received a letter addressed to my mother from Kansas Natural Gas in Hays. The letter outlined the ad valorem tax problem and presented her with a bill for some hundreds of dollars. I telephoned the officer listed in the letter and explained that my mother was deceased and her estate was closed, that she had sold those royalty interests some six or seven years prior to her death and that she had died with no assets; that in fact, she had been on public assistance the last two years of her life; it appeared to me, therefore, that the debt, with which I disagreed in any case, was uncollectible.

A second example involves a colleague in Lakin who asked me about a similar letter and bill his sister had recently received from Helmerich and Payne, again for several hundred dollars; he pointed out that he owns the same amount of mineral interests in the same lease, but he has not received any notification. I received a letter last week from KN Energy with a bill for repayment of taxes paid for me in 1983; I did not acquire the mineral interest until 1984. As we go forward in time, these confusing and intermittent patterns of billing are sure to continue.

Mr. Chairman, if I may offer a personal opinion, I would say that this whole problem is an example of government at its worst. FERC, and the courts, have said to the gas companies, in effect, "You may have done what we told you to do fifteen years ago, but we have now decided that was not correct. By the way, you must now repay the millions of dollars you collected from your purchasers when you followed our instructions. Also, you must pay interest on that money." In my opinion, ladies and gentlemen, that is unfair, unjust, and unnecessary, and I believe SB 685 would help correct that.

Mr. Chairman, the third point I would like to make this morning in support of this legislation is to state that this is not just a problem for Southwest Kansas, but for all of Kansas. It is true that the natural resource we are discussing--the Hugoton Natural Gas Field--is located beneath the surface of ten counties in Southwest Kansas. It is also true that those ten counties derive most of their tax revenues from that resource. However, the mineral interest owners to whom the gas companies pay royalties reside throughout the state and, indeed, throughout the United States. Each of you probably has several hundred royalty owners residing within your senatorial district who receive monthly royalty payments from gas producing companies. These are not always individuals; mineral interests are also owned by companies, corporations, trusts and estates administered by banks in your districts, endowment funds of universities, charitable institutions, etc. throughout the state of Kansas. Just as an example, the Endowment Fund of the University of Kansas receives income in seven figures each year from Hugoton field mineral interests.

You might respond by saying that those individuals, companies and institutions are wealthy enough that they can absorb the financial burden of helping refund this incorrectly assessed payment. That is not always the case; many of the royalty payments, because of having been divided as I described earlier, go to royalty owners who are not well off and who depend on these payments to supplement incomes which are not substantial and often are retirement incomes. I do not wish to mislead you; I am not saying that a number of elderly persons are suddenly going to seek public assistance because of this ruling, but to say to an elderly person (or anyone else) that her or his royalty payment is going to be withheld for several months--or worse, that he or she must repay several hundred dollars--will be widely perceived as unfair throughout the State of Kansas.

Finally, Mr. Chairman, if I may be presumptious, I would like to suggest an additional clause for SB 685. As you know, several gas companies have begun collection efforts and some royalty owners have paid, rather than resist and argue. I would like to see a provision in the Bill that payments which have been collected by the gas companies under this effort must be refunded to those royalty owners who have already paid.

With that amendment, I support Senate Bill 685 and strongly urge its passage. THANK YOU!

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TO: **The Honorable David Corbin, Chairman**
And Members Of The
Senate Committee on Energy and Natural Resources

FROM: **Whitney Damron**
On Behalf Of
Anadarko Petroleum Corporation

RE: **SB 685** **Limitations on recovery from natural gas royalty owners of refunds ordered by FERC for property tax reimbursements.**

DATE: **March 23, 1998**

Good morning Chairman Corbin and Members of the Senate Committee on Energy and Natural Resources. My name is Whitney Damron and I appear before you today on behalf of my client, Anadarko Petroleum Corporation, in support of SB 685.

Anadarko, based in Houston, Texas, ranks as one of the nation's largest independent oil and gas exploration and production companies and has extensive investments in the Hugoton fields of southwest Kansas.

Anadarko believes that SB 685 is a balanced piece of legislation fair to the interests of both royalty owners and producers in the state of Kansas who are burdened by the recent Federal Energy Regulatory Commission orders requiring refunds of certain ad valorem taxes.

SB 685, if enacted, would protect royalty owners from suits seeking reimbursements of refunds for Kansas ad valorem taxes collected many years ago during the timeframes 1983-1988. At the same time, it would assist producers in

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potentially not being forced to refund certain Kansas ad valorem tax reimbursements attributable to royalty interests. The passage of this bill would in all likelihood eliminate the necessity for producers having to file lawsuits against royalty owners in order to have the amounts attributable to royalty interests deemed to be uncollectable by the FERC. Under current legal authority, the FERC only considers amounts due to be uncollectable under certain stringent conditions which require efforts at collection. This bill would eliminate the need for producers to have to institute actions to collect refund amounts from interest owners.

SB 685 provides some margin of relief to producers who are negatively impacted by the unfair and retroactive decision of the FERC requiring refunds of Kansas ad valorem taxes for years 1983 through 1988. Anadarko urges your favorable consideration of this legislation.

Thank you for your time this morning.

KANSAS INDEPENDENT OIL & GAS ASSOCIATION
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Statement of Donald P. Schnacke
Senate Energy & Natural Resources Committee
March 23, 1998

RE: SB 685

I am Donald P. Schnacke representing the Kansas Independent Oil & Gas Association. We are appearing as a friend of the Committee to give you our views on SB 685 in its present form. At this point we are neither a proponent or opponent. We believe a lot more thought needs to be given to this bill.

KIOGA has been involved in the application of the Kansas advalorem tax issue with the FPC and FERC since 1974. The refund procedure that has been ordered by FERC and ratified by the Federal Circuit Court for the District of Columbia has created considerable apprehension, frustration as well as financial burden among Kansas natural gas producers who are effected. Little did we know, that since 1974, relying on a federal agency to pass this tax through the rate base did we dream the producers would be compelled to refund back principal, interest and penalties dating back to 1983 - an amount that regardless of size, has gotten our attention. To some small independent producers it can mean bankruptcy.

As you know, this legislature just passed SCR 1616, which would support the passage of federal legislation that would give some relief in this matter. Two bills in the U.S. Congress have been introduced recently that address this issue. SB 686 is one in which KIOGA and the KCC agree that setting up a procedure to pay the money to the state of Kansas instead of to the pipelines, as FERC has ordered, is invalid and in conflict with federal law.

SB 685, approaches the issue in a different manner attempting to relieve the royalty interest holders of paying their respective share of the refunded money, despite the fact they have been enriched by this procedure dating back to 1974.

FERC has often repeated that it has adopted as a general policy that a first seller is responsible for its royalty interest. With that mandate in mind we offer the following comments:

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SB 685 is a gamble that FERC or any jurisdictional authority would honor the mandate of the Kansas legislature long after the deadline of March 9, 1998 imposed by FERC for payment of refunds.

Section 1(c) attempts to state that if a "decisional authority" - not FERC - does not recognize SB 685, the laws of Kansas and rights of a first seller are preserved. We think that conclusion needs to be carefully thought out. As it is written, we think that puts the first seller in a box and financial jeopardy as to its responsibility to its royalty interests.

Frankly, since SB 685 was introduced March 11th, our membership is greatly confused. There are a host of opinions and interpretations. The only concensus we have developed is that your committee needs to proceed with caution. We suggest a sub - committee be appointed to work with all the interests affected. We would pledge to work with you further to see if there is a workable solution, that does not leave the Kansas gas producers in jeopardy.

Donald P. Schnacke

DPS:SM

Statement of David W. Nickel
Depew and Gillen, L.L.C.
Attorneys at Law

March 23, 1998

RE: SB 685

My name is David Nickel of Wichita. I am the chairman of the KIOGA State Legislative Committee. I offer the following comments in opposition to passing SB 685 in its present form.

In 1974, the Federal Power Commission (FPC) ruled that Kansas royalty interest owners could collect their ad valorem taxes from the pipelines which bought gas from their leases. Many Kansas producers relied on that ruling. On behalf of their royalty interest owners, these producers collected from the pertinent pipelines the Kansas ad valorem taxes owed by their royalty interest owners; and, in turn, the producers paid the money collected from the pipelines to the royalty interest owners.

Importantly, the producers did not keep any of the money collected from the pipelines with respect to their royalty interest owners ad valorem taxes. The royalty interest owners, not the producers, received the benefit of the money collected from the pipelines.

In the 1990's, the Federal government changed its mind on this issue. In September 1997, the Federal Energy Regulatory Commission (FERC) ruled that from 1983 forward, the collection of the royalty interest owners; Kansas ad valorem taxes from the pertinent pipelines was unlawful in most cases. (The FERC is the successor of the FPC with respect to gas price regulation). The FERC ruled that to rectify the situation, the producers must collect from their royalty interest owners all of the money paid by the pipelines with respect to the royalty interest owners' Kansas ad valorem taxes from 1983 forward; and in turn the producers must pay this money to the pipelines.

Significantly, Kansas producers do not get to keep any of the money they collect from their royalty interest owners. The producers are merely the collecting agent under the relevant FERC ruling.

Under the FERC ruling, however the producer has to incur the cost of collecting the money from the royalty interest owners, which the FERC has not determined were wrongfully paid by the pipelines for their ad valorem taxes. Bluntly stated, this is unfair. The producers did not receive the benefit of the payments made by the pipelines with respect to the royalty interest owners' ad valorem taxes, yet still has to incur out-of-pocket costs to attempt to collect the money from their royalty interest owners.

But the situation is even far worse. The FERC staff has indicated that it generally considers the producers to be the guarantor of the royalty interest owners's obligation to pay the pipeline for the pertinent ad valorem taxes. Thus, if the royalty interest owner does not repay the pipeline for the ad valorem taxes which the pipeline initially paid for the royalty interest owner, then the producer may be forced to repay those taxes out of its own pocket.

It would seem unfair if Kansas gas producers are required to pay pipelines for their royalty interest owners' Kansas ad valorem taxes, even though those royalty interest owners, not the producers, were the recipients of the payments initially made by the pipeline. Yet, unless the FERC determines that a producer is not obligated to repay to the pipeline the money which the producer is unable to collect from its royalty interest owner, SB 685 could lead to that result.

There are few exceptions to this possible consequence. KIOGA believes that the proponents of SB 685 hope to fall into one of those exceptions. The particular exception which KIOGA believes that the proponents of SB 685 believe may be applicable is where collection of the pertinent royalty interest owner's ad valorem taxes is barred by a statute of limitation.

However, (although KIOGA believes it would be wrong) it is possible that the FERC will not recognize SB 685 as such an exception. The FERC may rule that (in spite of SB 685) Kansas producers are still required to repay the pipelines for the royalty interest owners' obligations. Such a FERC ruling would have devastating consequences to Kansas producers because, under SB 685, the producers could never collect this out of pocket cost back from the persons who received the benefit of the royalty interest ad valorem taxes, being the pertinent royalty interest owners.

SB 685 has a clause in Section 1 (c) which appears to be designed to ameliorate these possible harsh consequences. That clause states that the law shall return to the status quo if the "decisional authority" does not recognize SB 685.

However the effect, and even the intent of this clause, is subject to substantial variances of opinion. SB 685 does not have any guarantee that its passage will not result in Kansas producers having to bear the entire brunt of repayments of money for which the royalty interest owners received the benefit.

What should be abundantly clear is that SB 685 and FERC rulings may conflict; and the result of such a conflict is that Kansas producers would be forced to bear the devastating consequences of having to repay money which was given to the royalty interest owners. SB 685 must be carefully thought out. It could lead to very unfair consequences.

David W. Nickel