Approved: 1-26-99
Date

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION.

The meeting was called to order by Chairperson Senator Audrey Langworthy at 11:10 a.m. on January 21, 1999, in Room 519-S of the Capitol.

All members were present except: Senator Hardenburger - excused

Committee staff present: Chris Courtwright, Legislative Research Department
April Holman, Legislative Research Department
Don Hayward, Revisor of Statutes Office
Shirley Higgins, Committee Secretary

Conferees appearing before the committee: Senator Janis Lee
Charles Ranson, Kansas Inc.
Richard Koll, Vess Oil Corporation
David P. Williams, Kansas Corporation Commission
Charles B. Wilson, BEREXCO INC.
Dr. Lee Gerhardt, Kansas Geological Survey
Dr. Timothy R. Carr, Kansas Geological Survey
Danny N. Biggs, Pickrell Drilling Company, Inc.
Dennis V. Klima, Klima Well Service Inc.

Others attending: See attached list.

The minutes of the January 19, 1999, meeting were approved.

SB 18–Income taxation; allowing a credit for property tax paid upon the working interest of certain oil wells.

Senator Janis Lee, co-author of the bill, noted that the seriousness of the crude oil price crisis has deepened and now threatens the oil industry's ability to survive in Kansas and that the situation requires immediate attention by the Kansas Legislature. For this reason, she and Senator Corbin introduced **SB 18** which provides a refundable income tax credit for 100 percent of the property taxes paid on the working interest of an oil lease with an average daily production of 15 barrels or less per well. The bill would provide permanent relief from property taxes for marginal wells, a relief from the only tax most of those wells pay. The bill is designed to allow a rebate on the property taxes paid in December of 1998 if the legislation is passed by April. Hopefully, the tax relief will allow more of the marginal wells to be kept in production, thus saving many ancillary jobs. In conclusion, Senator Lee called attention to a sheet of quick facts about Kansas stripper wells which was handed out along with copies of her written testimony. (Attachment 1)

Charles Ranson, Kansas Inc., testified in support of **SB 18**. He commented that he understands and appreciates Senator Lee's comments concerning the critical needs of the small, marginal oil producer as well as the larger producers. He stated that Kansas Inc. endorses any steps that can be taken to provide relief for the oil and gas industry. He noted that the oil and gas industry clearly is in severe distress today. Prices are low, taxes are high, wells are being plugged, rigs are being sold, and skilled workers are leaving the state. Mr. Ranson has seen estimates that as many as 3,600 to 5,000 jobs will be lost in the oil and gas industry. He went on to say that the assumptions on which the severance tax was based have proved to be faulty, noting that when the severance tax was initially proposed, the assumption was that the price of oil would rise to $55 or higher per barrel. That assumption simply has not been true. While the state can do nothing about the price of oil and gas, it can and must remove obstacles to renewed investments when prices turn upward in future years. He encouraged the Committee to think in terms of what can be done today to begin to create a good environment for renewed production in years ahead. In his opinion, **SB 18** would stop the financial bleeding taking place in the industry today.

Richard Koll, representing Vess Oil Corporation and the Kansas Independent Oil and Gas Association, followed with further testimony in support of **SB 18**. He distributed a handout containing graphs and a fact sheet on Kansas oil and gas. With the aid of the graphs, Mr. Koll discussed the current trends in the oil and gas industry and the contributions the oil and gas industry makes to the economy of the state as outlined on the fact sheet.. He views each marginal well as a Kansas resident consumer that expends approximately $10,344 on Kansas jobs, goods, and services. This amounts to over $417 million annually. It would take over 20,000 new jobs in Kansas to offset the loss of the purchase power of the Kansas marginal oil well base. (Attachment 2) In conclusion, Mr. Koll emphasized that the oil and gas business has never been as bad as it is currently. In his opinion, **SB 18** would be a significant aid in keeping marginal wells in operation.

David Williams, Kansas Corporation Commission, presented an executive summary of oil and gas production in Kansas in 1998, noting that southwestern Kansas remains the primary natural gas region of the state with approximately 78 percent of the total yearly statewide gas production. During 1998, Kansas has experienced an overall decline in oil and gas production, resulting in well plugging and a reduction in exploratory drilling. Mr. Williams discussed various charts and graphs regarding Kansas' oil and gas fields, oil and gas production, prices, drilling intents, and well plugging. (Attachment 3) In conclusion, Mr. Williams echoed the concerns of other conferrees regarding the crisis the oil industry is facing due to importation of cheap oil from foreign sources at the expense of the domestic oil industry. He does not anticipate that there will be drilling of as many wells next year as drilled this year. His long-term forecast is that plugging will increase, and Kansas companies will go bankrupt.

Charles Wilson, vice president with BEREXCO INC., an oil and gas exploration and production company in Wichita, informed the Committee that BEREXCO drastically reduced drilling and workovers in 1998 solely because it did not have the cash flow to pay for it. Currently, the company has very few leases that are profitable although everything possible is being done to cut expenses to vendors, utilities, or taxes paid. He noted that many low volume leases are now exempt from the ad valorem tax on reserves; however, they are still pay on the equipment. Referring to statistics regarding sample leases attached to his written testimony, Mr. Wilson illustrated the impact such taxes have on the bottom line. He pointed out that wells that are not exempt due to low volume experience a cash loss after deduction of ad valorem taxes. (Attachment 4) In conclusion, Mr. Wilson said **SB 18** would result in the availability of additional cash flow which could be used to avoid premature abandonment of significant reserves.

Dr. Lee Gerhardt, Director of the Kansas Geological Survey, stated that the Kansas Geological Survey does not provide advocacy of any bills that appear before the Committee, but as stewards of the state's natural resources and environment, it is responsible for providing information about Kansas' natural resources. He introduced Dr. Timothy Carr, chief of the Petroleum Research Section, to brief the Committee on the state of the Kansas petroleum industry and its impact on the state's economy and revenues.

Dr. Carr stated that, likewise, he did not come as an advocate of any legislation before the Committee but to present an analysis of the petroleum industry's present state. He discussed the following major points: (1) The oil and gas industry is a major component of the Kansas economy, (2) The Kansas oil and gas industry is price and cost sensitive, (3) Kansas oil and gas is produced by 3,000 operating companies that employ 6,900 citizens and numerous persons outside the state, (4) The Kansas petroleum industry is in crisis, (5) All Kansas citizens need to be concerned, and (6) The impact of decreased tax revenue at the state and local level will be significant. Dr. Carr also discussed information extracted from Kansas Geological Survey open file reports attached to his written testimony. (Attachment 5)

Danny Biggs, Pickrell Drilling Company, Inc., testified in support of **SB 18**. Pickrell has been operating in Kansas for 50 years, drilling over 2,000 prospects. Today, Pickrell operates 280 wells, down from 400 wells ten years ago. Mr. Biggs has worked for Pickrell for 40 years and has experienced good and bad years, but the last 14 months have been the worst ever. He noted that an estimated 40 percent of the marginal wells have been shut down and more will be shut down if low prices continue, and, in turn, service and supply companies will be lost. He contended that the American taxpayer has no concept of the real cost of imported crude oil and continues to believe that, as long as gasoline is cheap, foreign crude must be a bargain. He believes there are possible solutions which can be implemented by state government, and **SB 18** is part of the solution. (Attachment 6)

Dennis Klima, Klima Well Service of Claflin, followed with further testimony in support of **SB 18.** He noted that his business has been plagued by the effect of low oil prices since 1986. His business has lost money for nine months in a row because the operator could not afford to pull the stripper production. He believes that, if something is not done immediately, his business and many small businesses like his will fail. Currently, he can barely meet the payroll needs of his company, and he has dissolved the pension plan because he could not afford to contribute to it. He urged the Committee to support the bill as a means to help an industry in severe crisis. (Attachment 7)

There being no further time, the hearing on **SB 18** was continued.

Written testimony strongly supporting **SB 18** was submitted by David P. Bleakley, Eastern Kansas Oil and Gas Association. (Attachment 8)

The meeting was adjourned at 12:10 p.m.

The next meeting is scheduled for January 25, 1999.

SENATE ASSESSMENT AND TAXATION COMMITTEE
GUEST LIST

DATE: January 21, 1999

NAME	REPRESENTING
Jack Craves	Duke Cty + KN Energy
Heinemann	KCC
DAVID WILLIAMS	KCC
SCOTT SCHNEIDER	McGILL, GRAHES & ASSOC.
JANET BUCHANAN	KDOR
Sheila Walker	KDOR
Jamie Clover Adams	Governor's Office
Jim Langford	DOB
Alan Steppat	KLPG
Jim Allen	EKOGA
Ron Hein	Pioneer Natural Resources
Doug Smith	SWKROA
Kelly Kultala	City of Overland Park
Don Schnacke	KIOGA

STATE OF KANSAS

JANIS K. LEE
ASSISTANT MINORITY LEADER
STATE SENATOR, 36TH DISTRICT
BARTON, ELLSWORTH, JEWELL,
LINCOLN, MITCHELL, OSBORNE,
PHILLIPS, REPUBLIC, RUSSELL
AND SMITH COUNTIES
RR 1, BOX 145
KENSINGTON, KANSAS 66951
(785) 476-2294 HOME
(785) 296-7366 TOPEKA

TOPEKA

SENATE CHAMBER

COMMITTEE ASSIGNMENTS
RANKING MEMBER: ASSESSMENT & TAXATION
MEMBER: ENERGY & NATURAL RESOURCES
EDUCATION
PUBLIC HEALTH AND WELFARE
UTILITIES
LEGISLATIVE EDUCATIONAL
PLANNING
SRS TRANSITION OVERSIGHT

Senate Assessment and Taxation Committee

SB 18

The seriousness of the crude oil price crisis has deepened and now threatens the oil industry's ability to survive in Kansas. This situation requires immediate attention by the Kansas legislature.

That is why Senator Corbin and I introduced SB 18 which will provide a refundable income tax credit for 100% of the property taxes paid on the working interest of an oil lease with an average daily production of 15 barrels or fewer per well. The refundable credit will be for tax year 1998 and forward. If the legislation is passed by April, 1999 there would be immediate relief for our producers.

This legislation was developed with 4 major goals in mind. 1. To provide meaningful relief for marginal oil wells in Kansas by eliminating their most siginificant tax burden. 2. To prevent the premature loss of as much oil production in Kansas as is economically feasible. 3. To preserve as many ancillary jobs as possible. 4. To prevent the damage to our environment that can occur when oil producer go bankrupt and cannot afford to appropriately plug wells.

Legislation enacted in Kansas in 1998, has already exempted all oil wells producing 10 barrels or fewer a day from the severance tax whenever the average price for oil is less than $13 a barrel. Considering that 97% of the oil wells in Kansas produce 10 barrels per day or fewer and 98% produce 15 barrels or fewer a day, it is obvious that this legislation is greatly needed if many of the marginal wells are to continue production in Kansas.

This proposal will provide permanent relief from property taxes for these marginal wells, relief from the only tax most of these wells will pay. By making the relief a refundable income tax credit, the burden will not be shifted to the other property tax payers at the local level, but will be absorbed at the state level.

When oil wells are shut down many ancillary jobs are lost. Hopefully this tax relief will allow more of the marginal wells to be kept in production, thus saving many ancillary jobs.

Oil wells are a major part of the economy of our state, but more importantly, the oil that is produced is essential to the vitality or our nation. While the Kansas Legislature does not have the ability to affect the international scene or create a national energy policy, we do have the ability to provide relief for our producers on the cost side by eliminating the property taxes on the working interest of our marginal wells.

Senate Assessment & Taxation
1-21-99
Attachment 1

QUICK FACTS ABOUT
KANSAS STRIPPER WELLS

- 40,000 KANSAS STRIPPER WELLS PRODUCE 30,000,000 BARRELS OF OIL PER YEAR
- EACH STRIPPER WELL GENERATES $10,344 FOR KANSAS JOBS, GOODS AND SERVICES AMOUNTING TO OVER $417,000,000 ANNUALLY
- STRIPPER WELLS RETURN OVER $60,000,000 ANNUALLY TO LANDOWNERS IN ROYALTY PAYMENTS, MANY IN RURAL COMMUNITIES
- IT WOULD TAKE OVER 20,000 NEW JOBS IN KANSAS TO REPLACE THE PURCHASING POWER OF KANSAS' STRIPPER WELLS
- AMERICA IMPORTS OVER 50% OF THE CRUDE OIL IT CONSUMES
- THE ESTIMATED COST OF DEFENDING FOREIGN CRUDE IS $80 PER BARREL
- EACH KANSAS STRIPPER WELL FUELS 29 AMERICANS AND YOU

PROTECT AMERICAN OIL FIRST!!!!

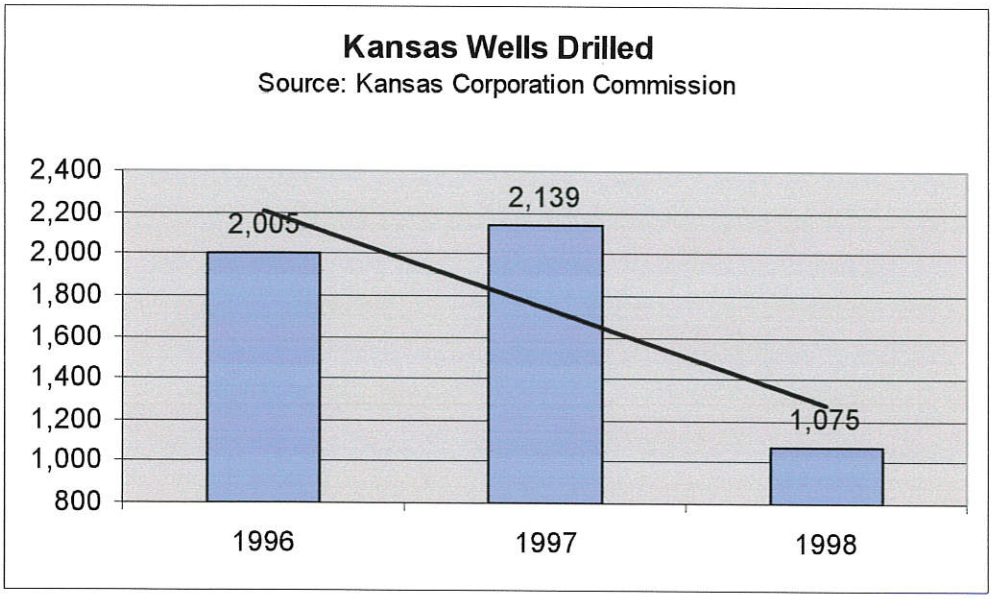
VESS OIL CORPORATION

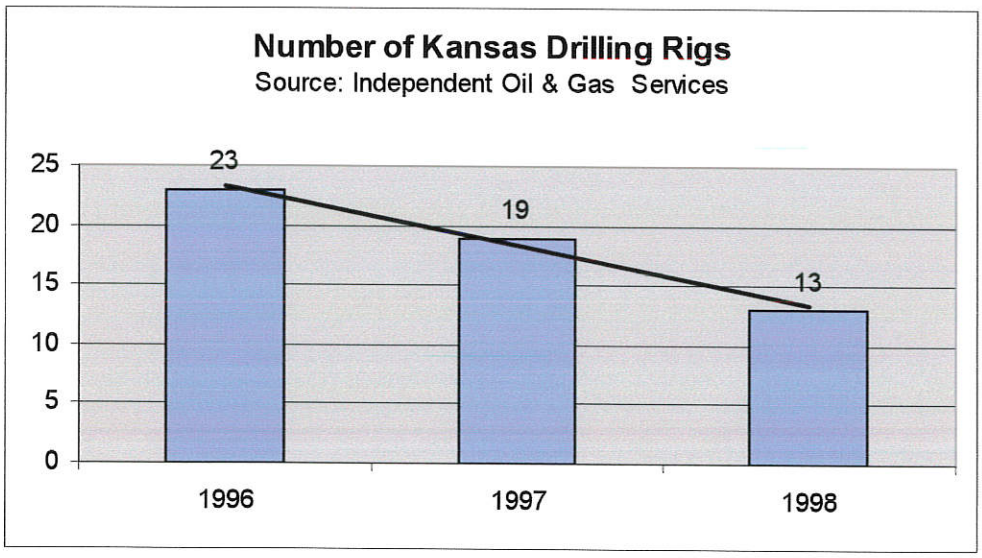
Testimony of
Richard J. Koll, C.P.A.
Chairman of the Ad Valorem Tax Committee
Kansas Independent Oil and Gas Associtaion

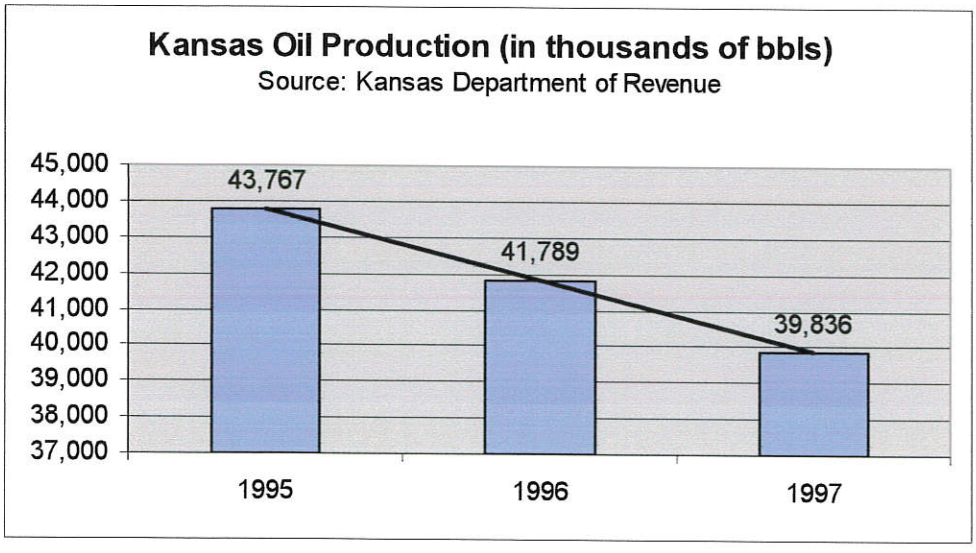
On Senate Bill 18
Before the Senate Committee on
Assessment and Taxation

January 21,1998

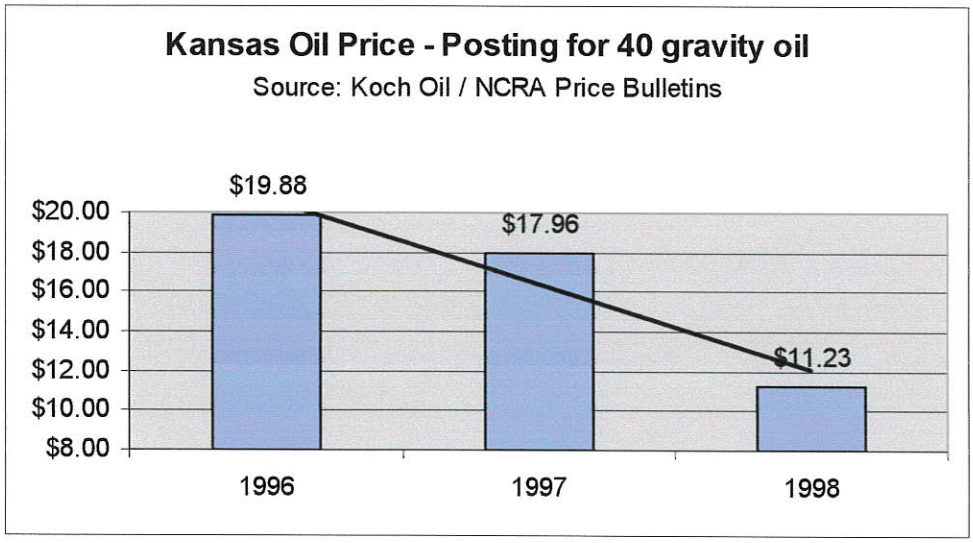
Senate Assessment & Taxation
1-21-99
Attachment 2

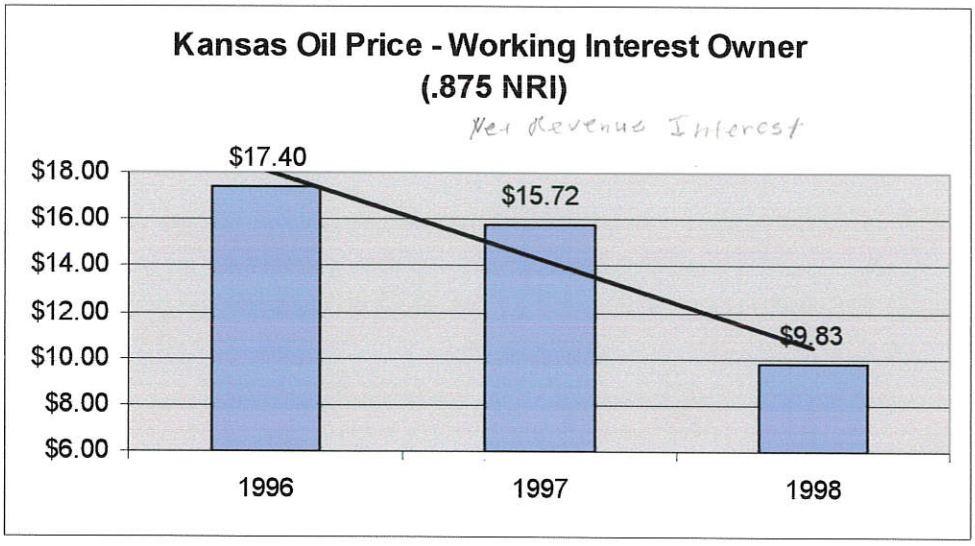


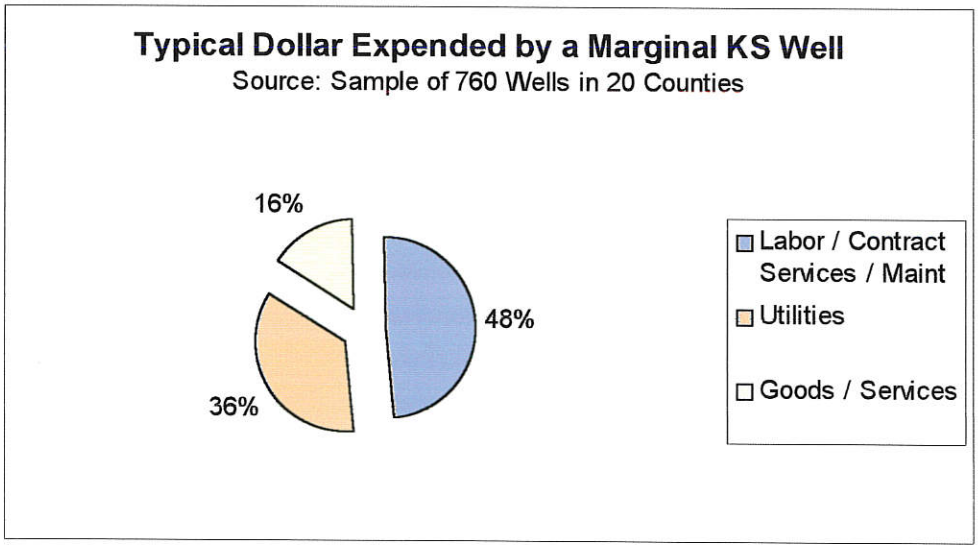




Information provided by Vess Oil Corporation







Information provided by Vess Oil Corporation

VESS OIL CORPORATION

FACT SHEET - KANSAS OIL AND GAS

INDUSTRY TRENDS/CONTRIBUTIONS AT A GLANCE

TRENDS

- Kansas drilling activity has declined 47% from 1996 - 1998
- Active rotary rigs have declined 43% from 1996 - 1998
- Kansas oil production has declined 47% from 1984 - 1997
- Kansas oil production has slumped to a 63 year low in 1997
- Kansas posted price for oil has declined 44% from 1996 - 1998
- Direct oilfield employment has declined 59% from 1984 - 1997

CONTRIBUTIONS

- Kansas is home to over 40,000 marginal wells
- Each marginal well is a resident Kansas consumer expending approximately $10,344 on Kansas jobs, goods and services. This amounts to over $417,000,000 annually.
- It would take over 20,000 new jobs in Kansas to offset the loss of purchase power of the Kansas marginal oil well base.
- Typical dollar expended by a marginal Kansas well is allocated as follows:

Labor/Contract Services/Maintenance	- 48%
Utilities	- 36%
Goods/Services	- 16%

- Marginal wells return over $60,000,000 annually to landowners in royalty payments. A significant portion of these funds remain in the rural farm community.

FACT.DOC

8100 E. 22nd NORTH • BUILDING 300 • WICHITA, KANSAS 67226 • (316) 682-1537

CURRENT STATISTICS - KANSAS

Kansas Common Oil Price (DWA - December 98 - 40 gravity)	$ 7.85/Bbl.
Kansas Common Oil Price (weighted average 1998 - 40 gravity)	$11.23/Bbl.
Active Rotary Rigs (statewide January 1999)	10 rigs
Direct Oilfield Employment (statewide)	6,900 jobs

	1993	1994	1995	1996	1997	1998
Severence Tax - Oil	$24,538,000	$19,621,000	$17,102,000	$16,704,000	$19,670,000	$15,556,000
Severence Tax - Gas	$74,142,000	$81,634,000	$60,034,000	$51,662,000	$61,742,000	$51,690,000

	1993	1994	1995	1996	1997
Ad Valorem Tax - Oil	$40,306,245	$23,373,464	$27,441,610	$26,500,000	$32,200,000
Ad Valorem Tax - Gas	$76,491,934	$93,582,217	$85,905,070	$79,900,000	$90,300,000

Severence Tax Rate - Oil 4.33%

PERTINENT TAX LAWS - KANSAS

AD VALOREM

3 BOPD/well(less than 2,000) - equipment only
5 BOPD/well (2000' or greater)- equipment only
Shut-in leases - equipment only
5 BOPD/lease - 25% assessment rate
100 MCFPD/lease - 25% assessment rate

SEVERENCE

5 BOPD/well - exempt
6 BOPD/well - exempt for waterflood
New pool - exempt first 24 months
Reactivated wells - exempt for 10 years

REFERENCE SOURCE DETAIL

Kansas Oil and Gas Industry Trends

	1984	1987	1993	1994	1995	1996	1997	Trend
Kansas Oil Production (in thousands)	75845	60545	49625	46733	43,767	41789	39836	47% Decline

The last time Kansas annual production was less than 50,000,000 barrels was in 1934. This is a 63 year low.

SOURCE: 1984 - Present - Kansas Department of Revenue
1978 - 1984 - Energy Information Administration
1925 - 1977 - Bureau of Mines, Mineral Yearbook Volumes I and II

	1984	1987	1993	1994	1995	1996	1997	1998
Kansas Oil Price Working Interest Owner $/Bbl. (.875 NRI)	25.18	15.49	14.39	13.25	14.24	17.40	15.72	9.83

SOURCE: Monthly postings taken from Koch Oil Company/NCRA price bulletins. Kansas Common - 40 gravity.

	1984	1987	1993	1994	1995	1996	1997	
Oilfield Employment	16700	9800	7500	6900	6700	6800	6900	60% Decline

SOURCE: Kansas Department of Human Resources Labor Market Survey.

	1984	1987	1993	1994	1995	1996	1997	1998	
Kansas Wells Drilled	15198	5214	2274	2057	1977	2005	2139	1075	93% Decline

SOURCE: Kansas Corporation Commission

There are over 40,000 marginal oil wells in Kansas according to the National Stripper Well Survey published by IOGCC and Kansas Geological Survey Open-File Report 98-50. A sample of 760 wells in over 20 counties indicated average well expenditures in 1998 of $862 per well per month. This converts to $10,344 annual consumption per well. The typical dollar expended by a marginal well in 1998 went to the following:

Labor/Contract Services/Maintenance	-	48%
Utilities	-	36%
Goods/Services	-	16%

SOURCE: Vess Oil Corporation

CALCULATION DETAIL

Direct Oilfield Employment - Marginal Wells

15 BOPD/well or less $\frac{40329}{41520} = 97\%$

5 BOPD/well or less $\frac{37,568}{41,520} = 90\%$

$\frac{40329}{41520}$ = 97% of Active Well Base

$\frac{37,568}{41520}$ 90% of Active Well Base

Total direct oilfield employment	6900 (2)
Marginal well base employment (6900 x .97)	6693

Marginal Well Employment Equivalent

Annual Kansas consumption per average marginal well	$10,344 (3)
Annual disposable income per average Kansas job	$20,307 (4)

$\frac{10,344}{20,307}$ = .51 marginal well job equivalent ratio

Marginal well job equivalent (.51 x 40,329)	20,568

ESTIMATED ANNUAL UTILITY CONSUMPTION

Average annual utility consumption per marginal well	$3,636 (3)
Total estimated annual utility consumption	$151,000,000

(1) National Stripper Well Survey published by IOGCC and Kansas Geological Geological Survey Open-File Report 98-50.

(2) Kansas Dept. of Human Resources Labor Marketing Survey (1997 Estimate)

(3) 760 well samples/22 counties

(4) Kansas Dept. of Human Resources Statewide Annual Wage Average (1996)

Total Private Wages	$24,573
Fed/State WH	4,266
Disposable Income	**$20.307**

OVERVIEW OF KANSAS OIL AND GAS PRODUCTION FOR 1998

David P. Williams
Kansas Corporation Commission - Conservation Division
Production Supervisor - Environmental Geologist
Wichita, Kansas
January 21, 1999

EXECUTIVE SUMMARY

Oil and gas production in Kansas has been established in 91 counties throughout the state. Southwestern Kansas remains the primary natural gas producing region of the state, with approximately 78% of the total yearly statewide gas production. This gas production is attributed to three major producing fields: Hugoton (61.1%); Panoma (15.2%); and Greenwood (1.7%). The remaining gas production (22%) is statewide from all other fields.

During 1998, Kansas has experienced an overall decline in oil and gas production, resulting in a reduction in exploratory drilling and well plugging. The decline in natural gas production is estimated to be approximately 8%, with the average wellhead gas price declining approximately 12.8%.[1] The decline in oil production is more dramatic and is estimated to be approximately 24%, with the yearly average posted price for "Kansas common" crude oil declining by more than 37.4%.[2]

Drilling permits, as approved by the Kansas Corporation Commission (KCC) have decreased from the prior year total by approximately 51.6%. A comparison of the number of actual wells drilled with the number of permits issued shows a decrease of more than 45.5%. With the decrease in well permits, a decline in the number of active Kansas rotary drilling rigs of similar proportion is noted (-47.4%).[3]

The 1998 Kansas well plugging activity by licensed operators shows a statewide decrease in total well plugging of more than 18.5% from the prior year period (all well types). The percentage breakdown of this decrease by category of wells plugged (from the prior year period by well type) is as follows: dry and abandoned well plugging (~36.9%); oil well plugging (~16.1%); gas well plugging (~15.6%); salt water disposal plugging (~18.7%); enhanced recovery well plugging (~4.0%); and other well plugging (~34.6%).

EXHIBITS

Figure 1:	Oil & Gas Fields in Kansas;
Figure 1 A:	Anadarko Basin Province in Kansas;
Figure 1 B:	Major Producing Gas Fields in Kansas;
Figure 2:	Kansas Gas Product by Major Gas Field 1984-1998;
Figure 2 A:	Data source: Figure 2;
Figure 3:	Kansas Gas & Average Wellhead Price 1984 - 1998;
Figure 4:	Kansas Oil Product & Kansas Average Posted Crude Oil Price 1984-1998..
Figure 4A:	Data source: Figure 3 and 4;[1]
Figure 5:	KCC Total Intents to Drill Permitted for Kansas 1989-1998;
Figure 6:	KCC Drilling Intents Permitted Vs. Wells Actual Drilled in Kansas 1996-1998;
Figure 6 A:	Kansas Intent Permits and Monthly Crude Oil Posted Price 1996-1998;
Figure 7:	Kansas Active Rig Count 1995-1998;
Figure 7A:	Data source: Figure 7;
Figure 8:	Kansas Well Plugging Summary 1987-1998;
Figure 8A:	Data source: Figure 8.

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1 The Total Gas Production and Average Yearly Gas Price Is Estimated for 1998.

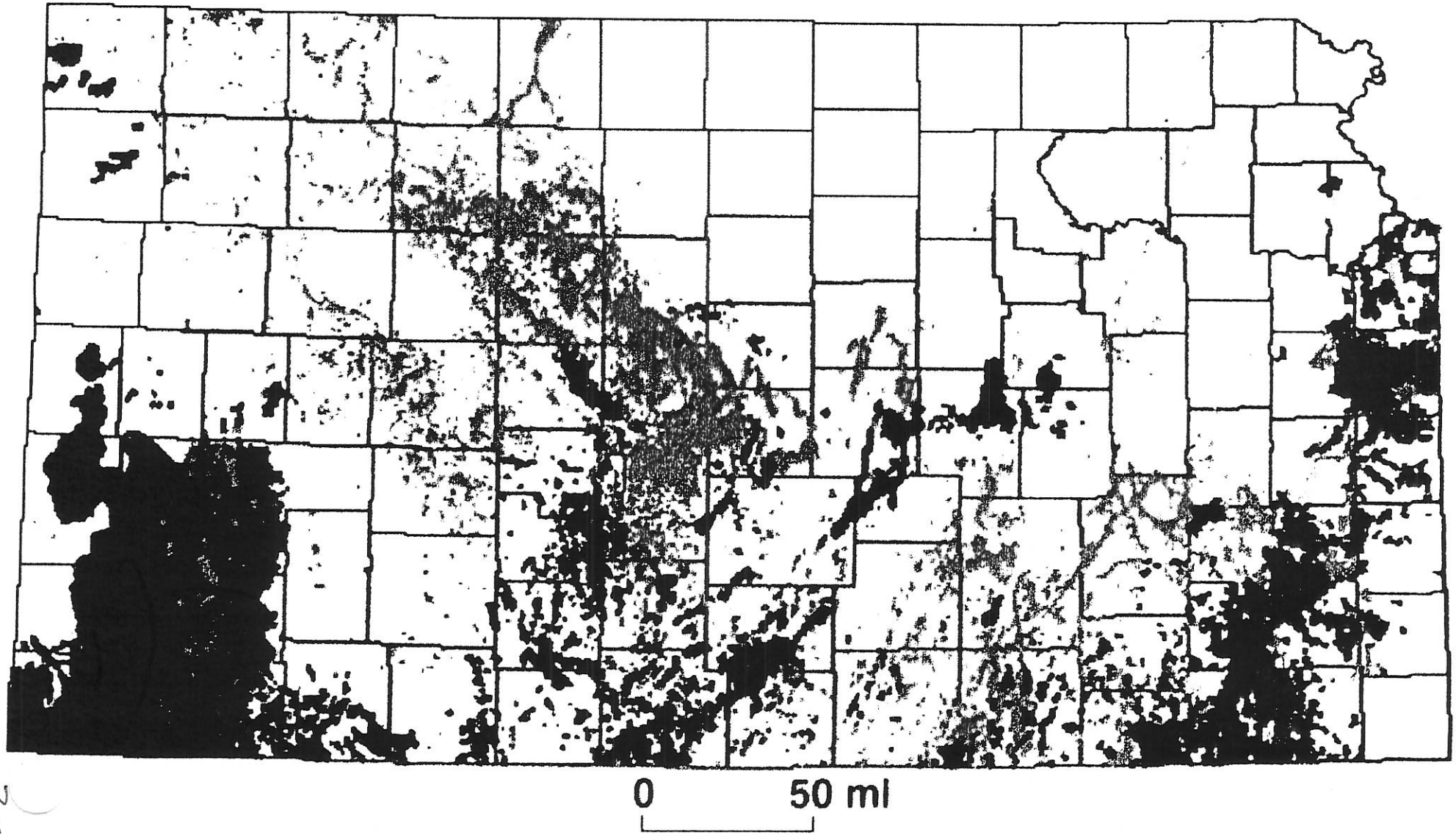
2 The Total Oil Production Is Estimated for 1998. Data Source for the 1998 Average Posted Crude Oil Price Is from National Cooperative Refinery Association (NCRA).

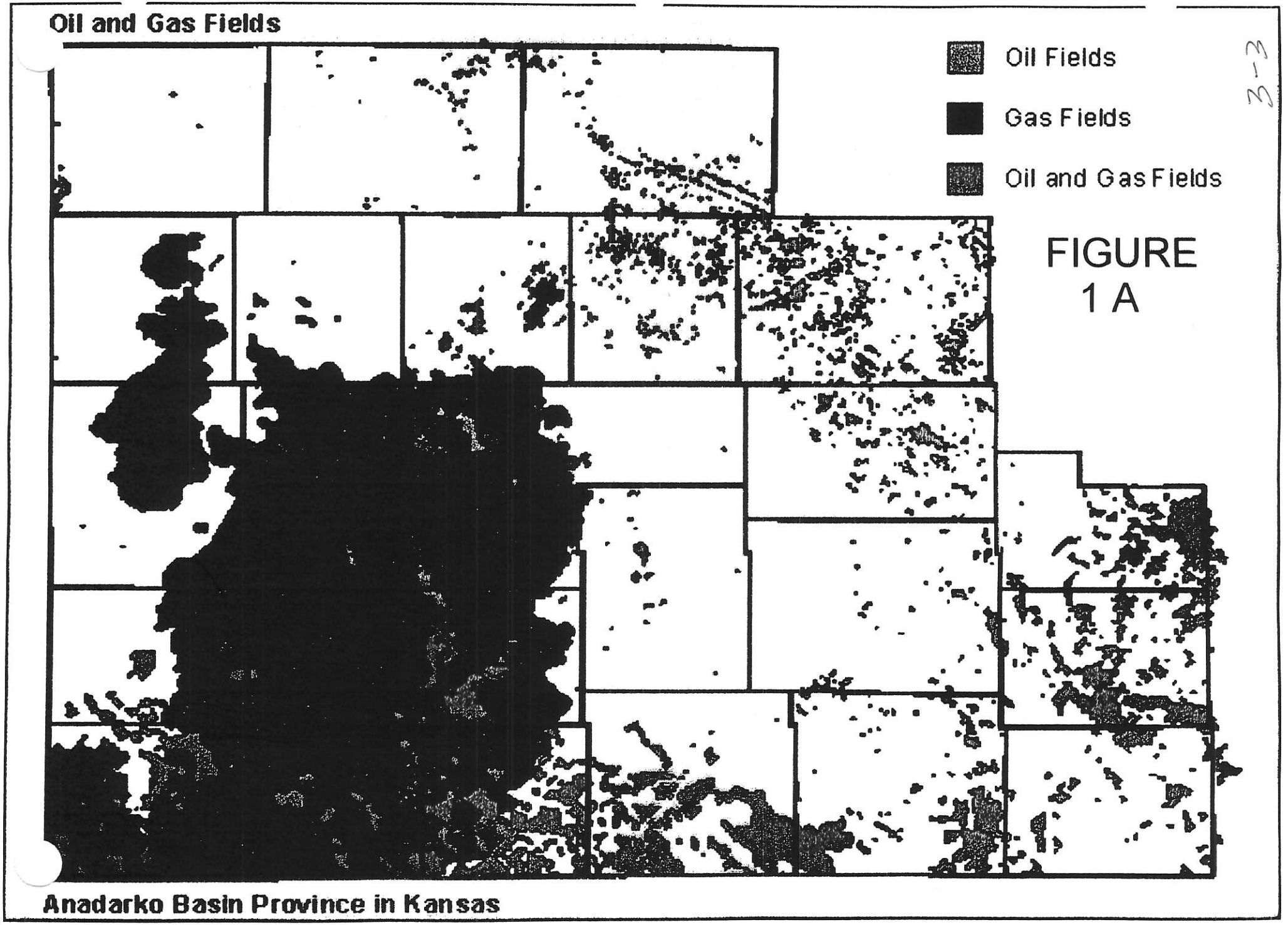
3 Kansas Active Rig Count is estimated for 1998 from source: Baker Hughes Rig Count as published in Oil & Gas Journal.

Oil and Gas Fields in Kansas

Gas
Oil
Shallow Gas
Oil and Gas
Gas Storage

Figure 1




Oil and Gas Fields
Oil Fields
Gas Fields
Oil and Gas Fields
FIGURE
1 A
Anadarko Basin Province in Kansas

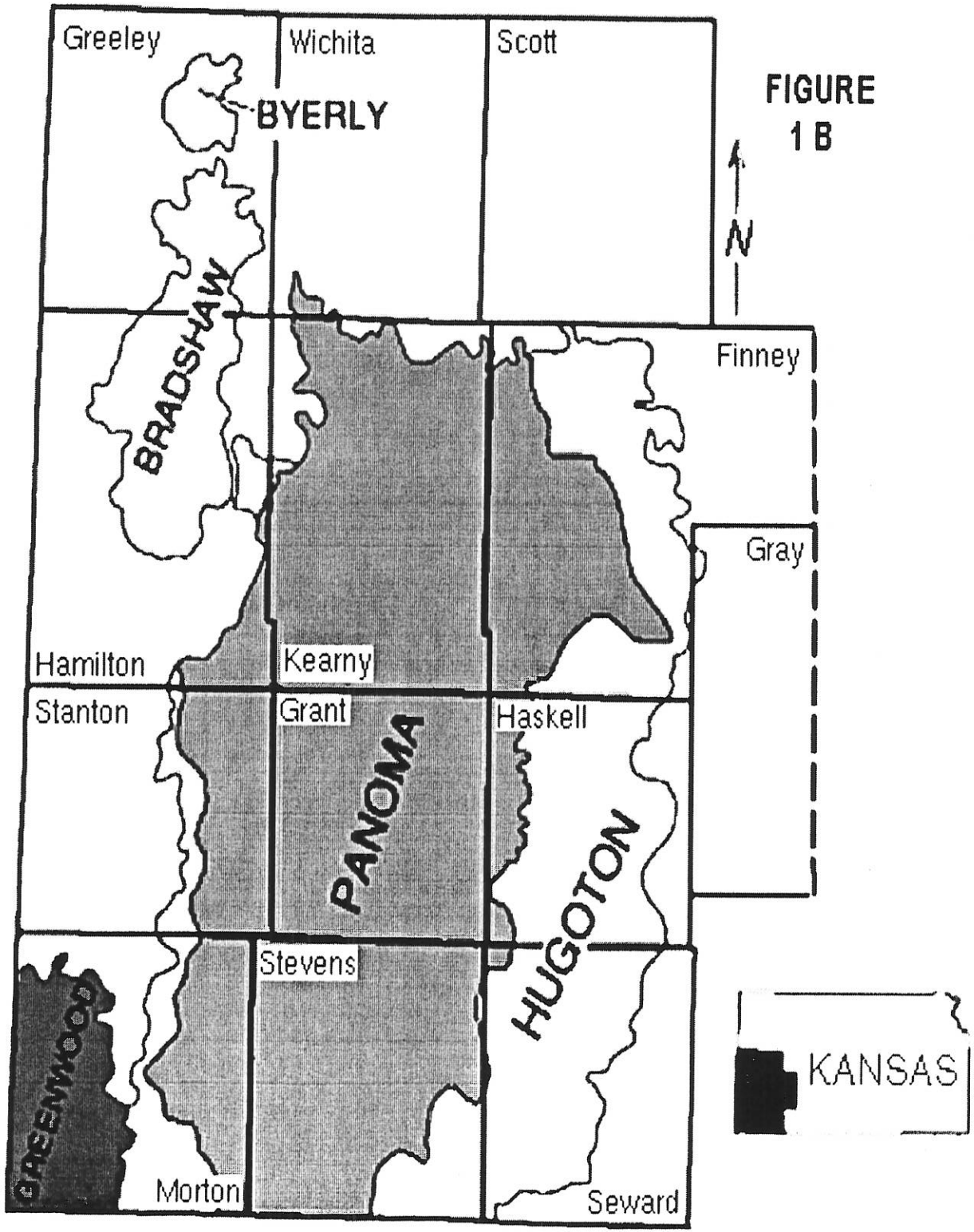

Greeley
Wichita
Scott
BYERLY
BRADSHAW
Finney
Gray
Hamilton
Kearny
Stanton
Grant
PANOMA
Haskell
HUGOTON
Stevens
GREENWOOD
Morton
Seward
N
KANSAS

FIGURE 1B

KANSAS GAS PRODUCT
BY MAJOR GAS FIELDS 1984-1998

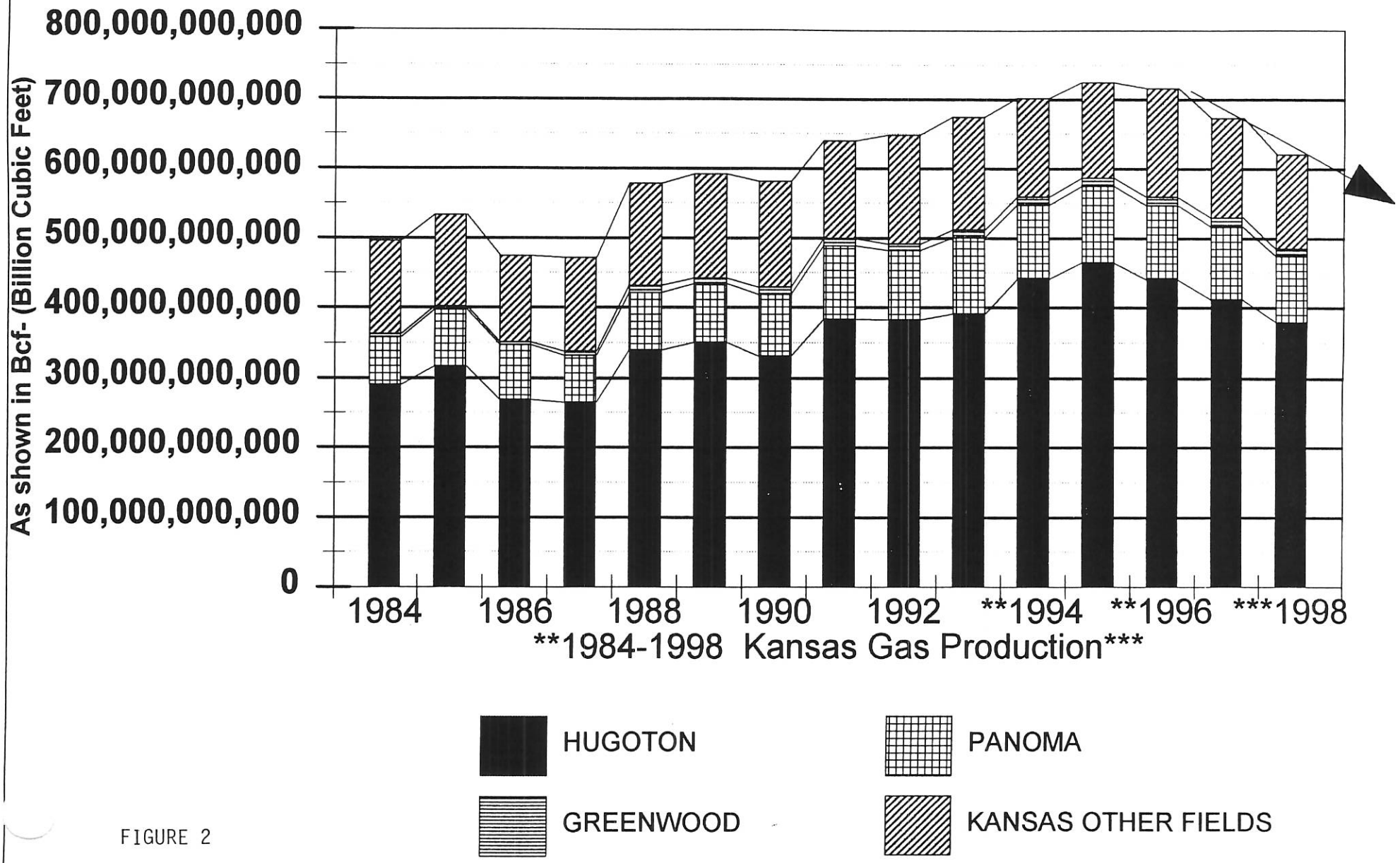


FIGURE 2

DPW/KCC/1/12/99 ***1998 TOTAL IS ESTIMATED USING 6 MONTHS ACTUAL GAS PRODUCTION. **ALL VOLUMES SUBJECT TO K.D.O.R. REVISIONS.

Year	Hugoton	Panoma	Greenwood	Other	*Kansas Total
1984	290995962000	66922616000	4293909000	133564513000	495777000000
1985	316548466000	80087990000	4643765000	132119779000	533400000000
1986	268555088000	78615361000	3363674000	123310877000	473845000000
1987	265182345000	66642440000	6298196000	133520019000	471643000000
1988	339118768000	81940915000	10689315000	146597002000	578346000000
1989	350524593000	83584922000	7959640000	149902845000	591972000000
1990	330848686000	87891593000	10573915000	152233806000	581548000000
1991	383873739000	104475235000	10744602000	140349424000	639443000000
1992	383052317000	99407711000	9066859000	156504113000	648031000000
1993	390785539000	109909545000	10756566000	162661350000	674113000000
**1994	441397484000	106396869000	11936901000	142326746000	702058000000
**1995	464754564000	110322497000	11328752000	139025187000	725431000000
**1996	440622738000	106518234000	12497639000	156774389000	716413000000
**1997	412091038000	104923975000	12655338000	143926649000	673597000000
***1998	380040000000	94410000000	10403000000	136147000000	621000000000

** Original Hugoton, Panoma & Greenwood volumes as reported has been adjusted for post period corrections to reflect actual production/year

***1998 Estimated total production volume is from first six months of actual production then projected for total year.

***1998 Estimated Hugoton, Panoma & Greenwood production volume is from from first 11 months of actual production then projected.

FIGURE 2A

KANSAS GAS & AVERAGE WELLHEAD $
1984 - 1998

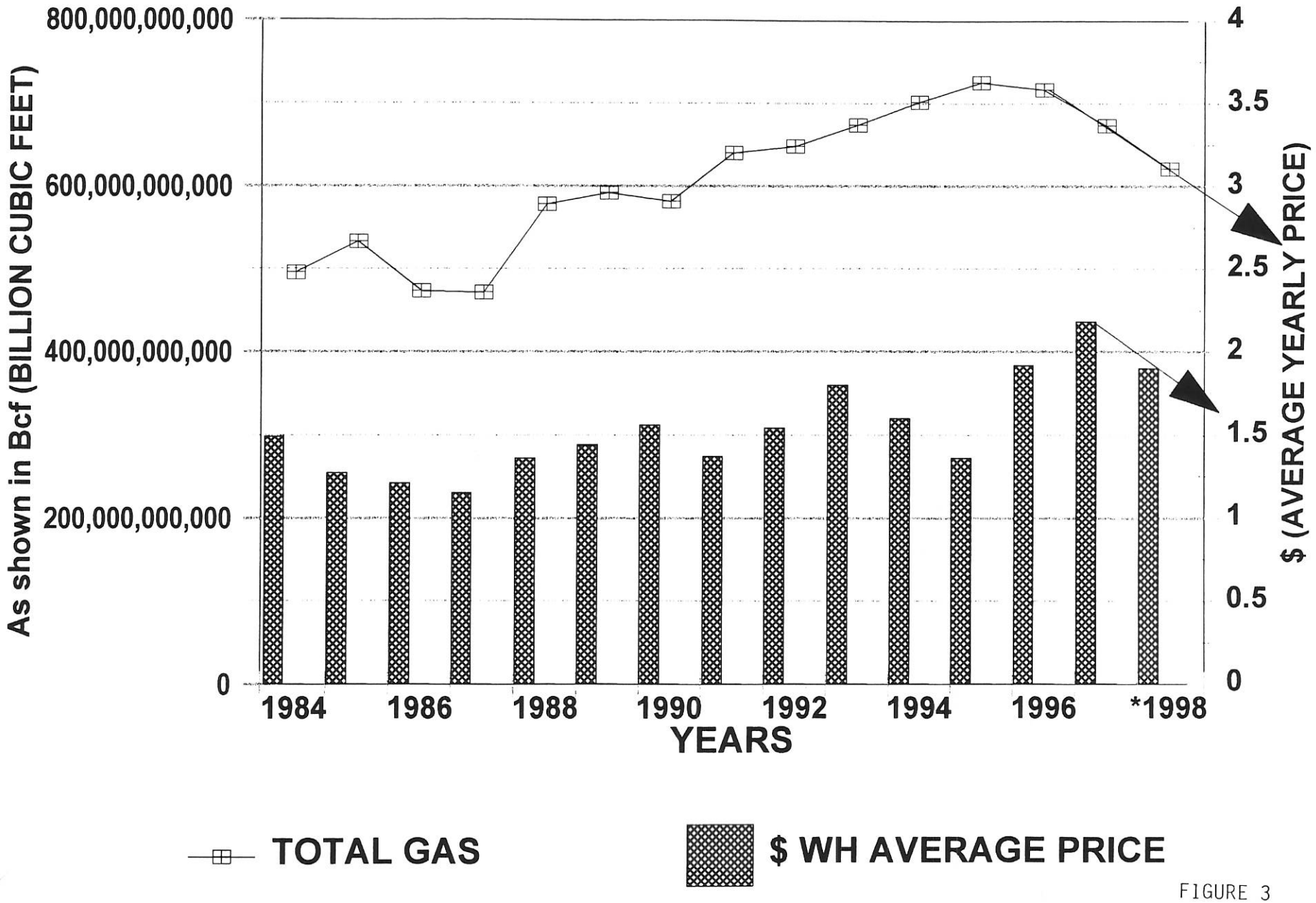


FIGURE 3

KCC/DPW-1/12/1999. *1998 Gas Volumes & $ WH Price are Estimated. Prior Year 1984-1997 Data Source: KDOR & E.I.A.

Kansas Oil Product & Ave Posted $
1984 - 1998 & Trend

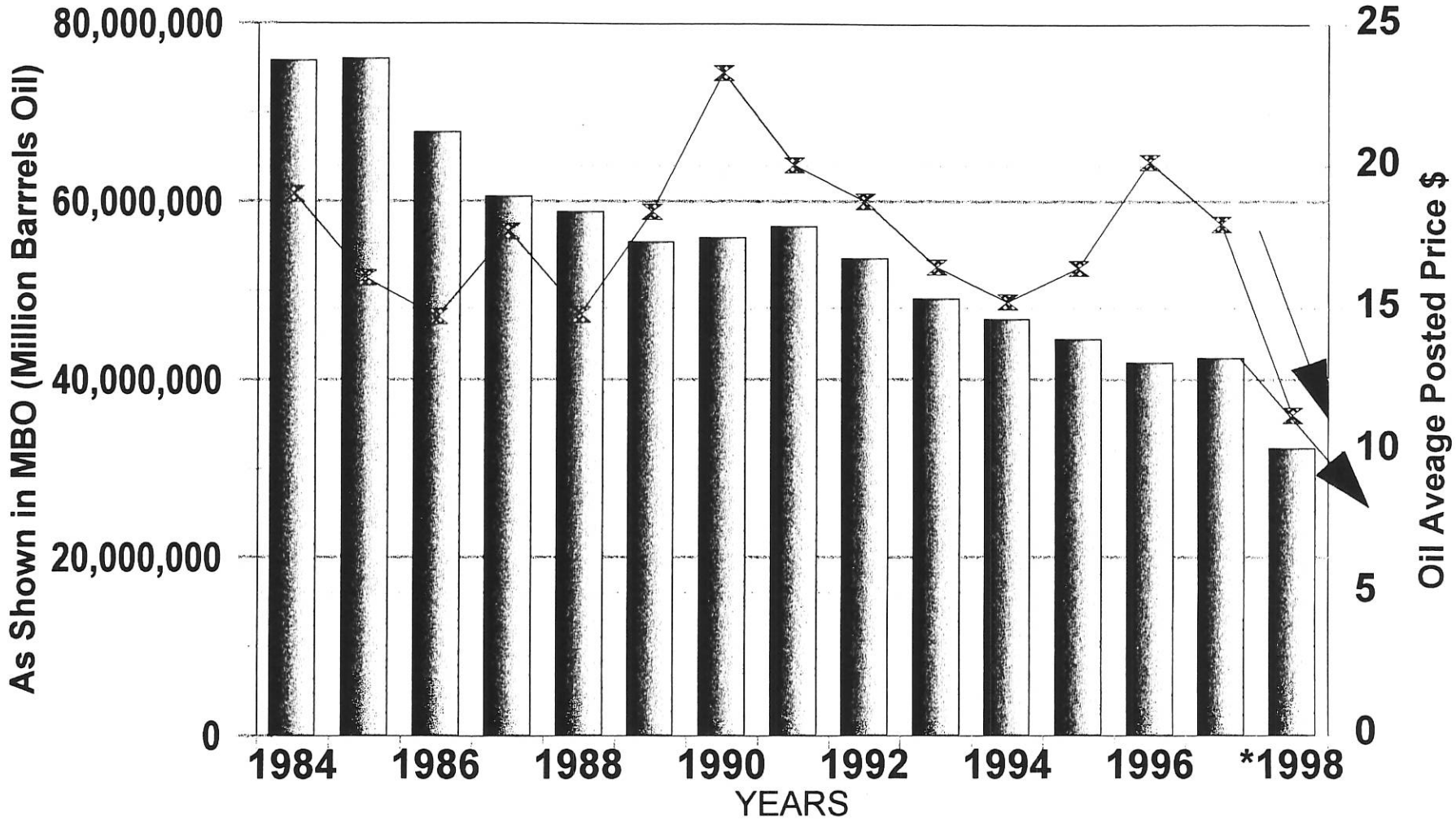


FIGURE 4

KCC/DPW-1/12/1999. *1998 Estimated Oil Volume. Oil Average Poste Price $ Data: KDOR & NCRA Kansas Posted Price Reports.

YEAR	TOTAL GAS	TOTAL OIL	WH GAS $	KS OIL POSTED AVE.$
1984	495,777,000,000	75,845,000	1.49	19
1985	533,400,000,000	76,020,000	1.27	16.1
1986	473,845,000,000	67,819,000	1.21	14.73
1987	471,643,000,000	60,545,000	1.15	17.7
1988	578,346,000,000	58,865,000	1.36	14.8
1989	591,972,000,000	55,486,000	1.44	18.39
1990	581,548,000,000	55,957,000	1.56	23.27
1991	639,443,000,000	57,209,000	1.37	20.04
1992	648,031,000,000	53,632,000	1.54	18.76
1993	674,113,000,000	49,045,000	1.8	16.43
1994	702,058,000,000	46,748,000	1.6	15.22
1995	725,431,000,000	44,501,000	1.36	16.39
1996	716,413,000,000	41,841,000	1.92	20.15
1997	673,597,000,000	42,426,000	2.18	17.95
*1998	621,000,000,000	32,246,000	1.9	11.23
* 1998 TOTAL OIL & GAS VOLUMES AND GAS WELLHEAD PRICE ARE ESTIMATED FOR TOTAL YEAR.				
* 1998 KANSAS AVERAGE POSTED OIL PRICE DATA SOURCE: 1998 N.C.R.A. POSTED PRICE REPORTS				

3-9

FIGURE 4A

3-9

KCC-DPW 1/12/1999. DATA SOURCE: KDOR, EIA & NCRA REPORTS. DATA MAY BE SUBJECT TO REVISION.

KANSAS TOTAL INTENTS PERMITTED

1989 - 1998

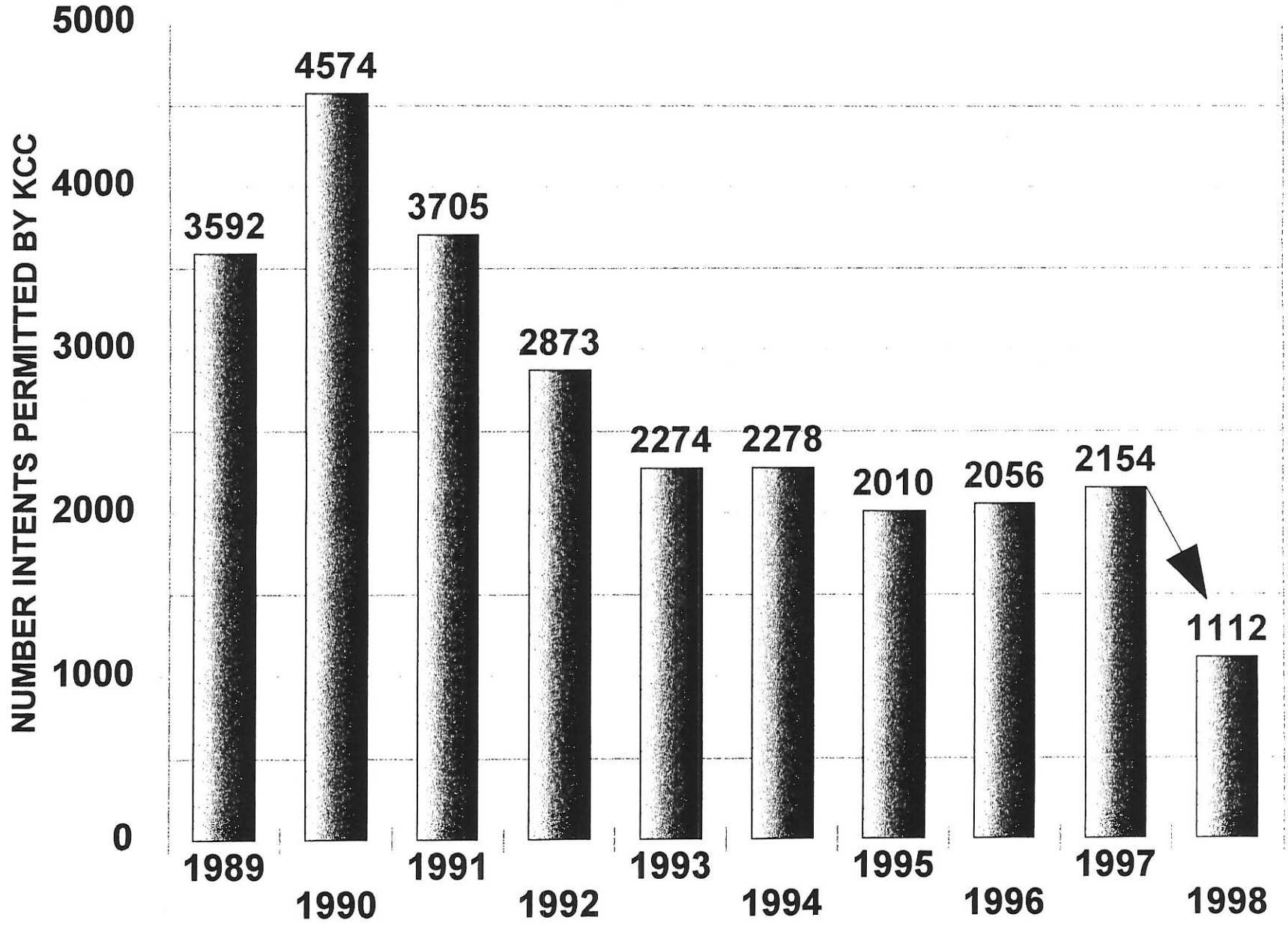


FIGURE 5

KCC DPW 1/13/1999.

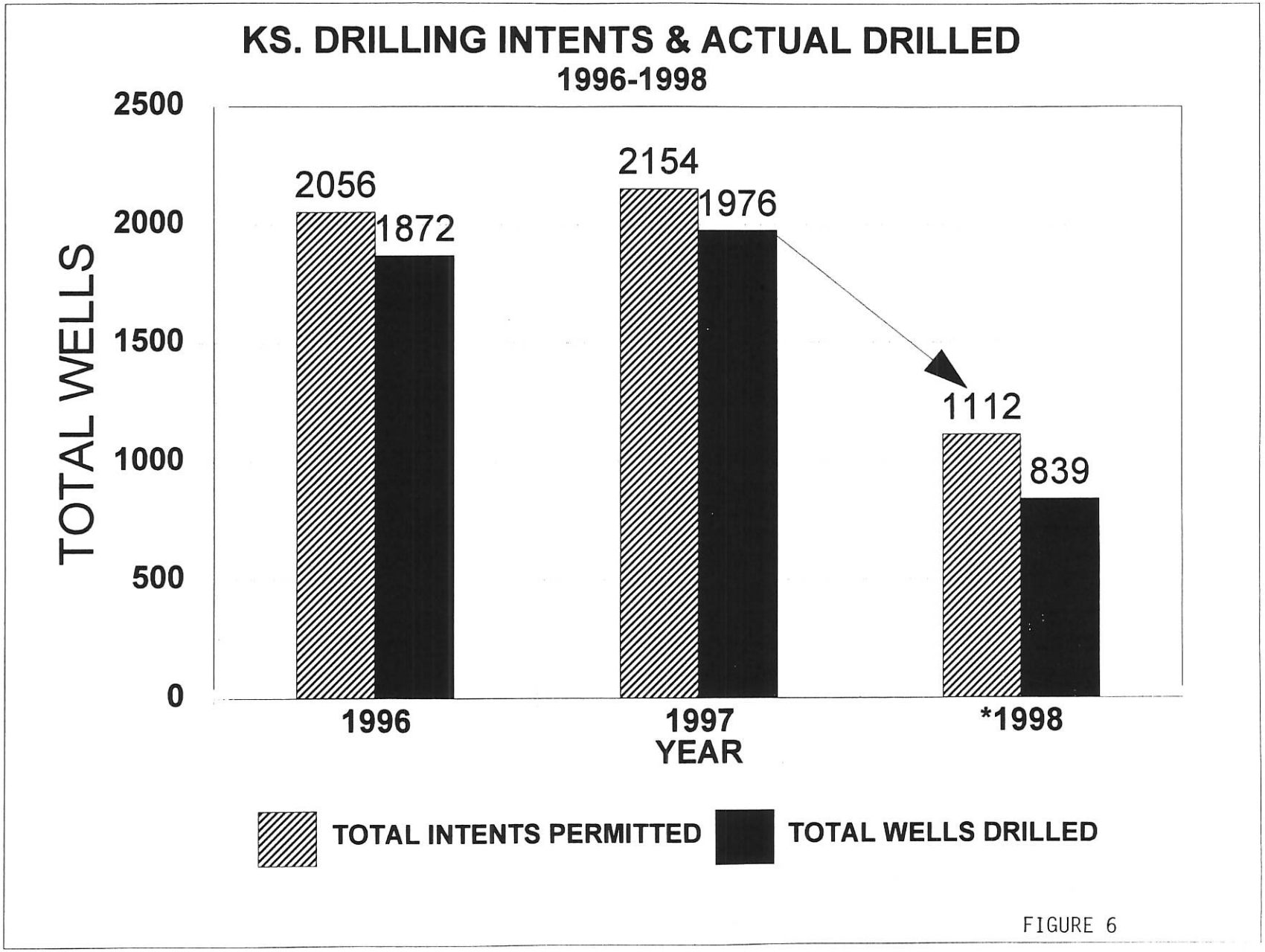
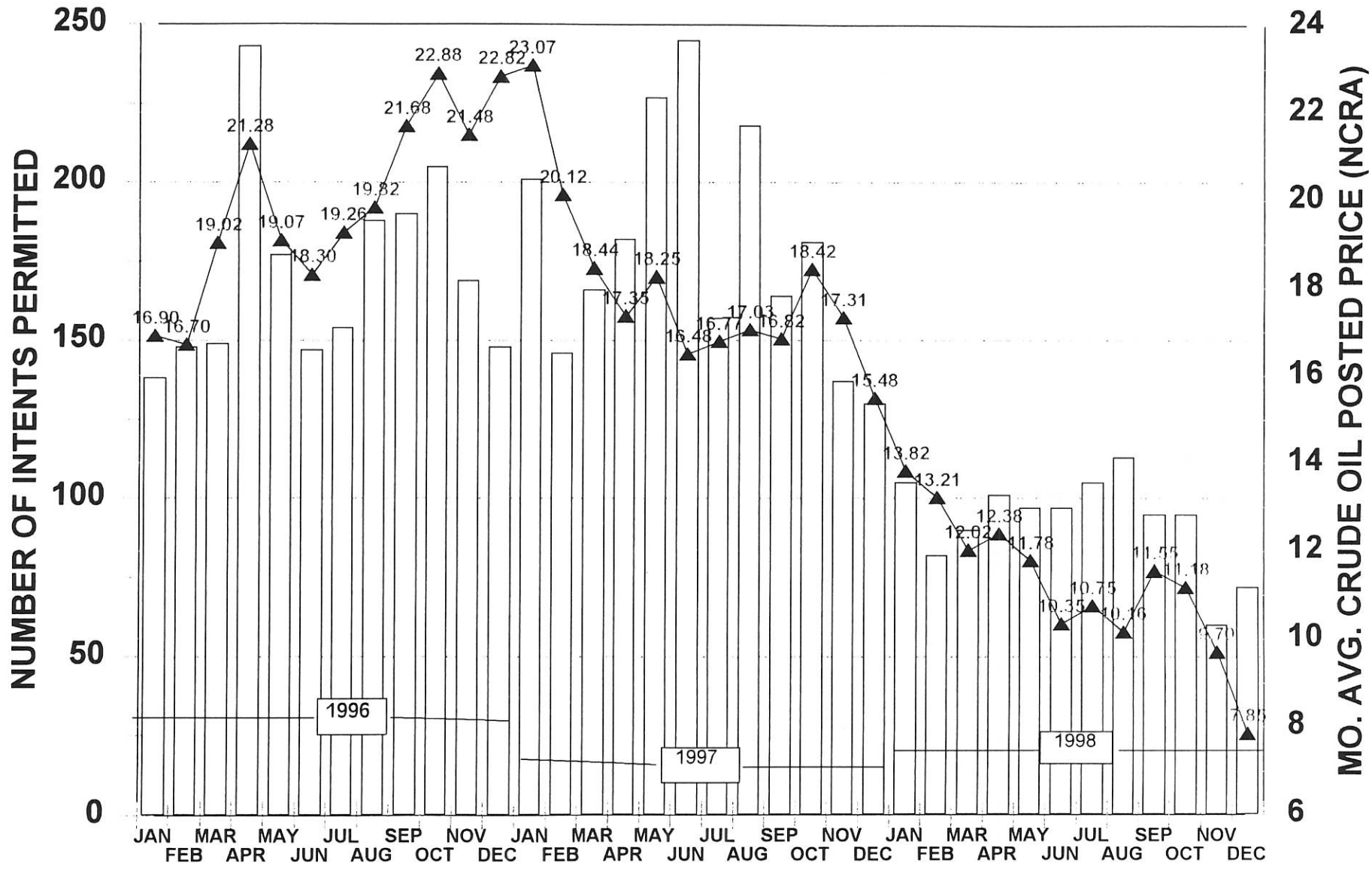


FIGURE 6

KCC/DPW 1/14/1999. *1998 DATA IS FROM ACTUAL PERMITS APPROVED AND ASSOCIATED SPUD CALLS RECEIVED FOR NEW WELLS DRILLED..

KS. INTENT COUNT OF APPROVED PERMITS
1996 THROUGH 1998



MO. AVG. KS. OIL POSTED PRICE (NCRA)

FIGURE 6A

KCC/DPW 1/13/1999. TOTALS INCLUDE ALL OIL, GAS, SWDW, ENH. REC., STORAGE & CATHODIC WELLS.

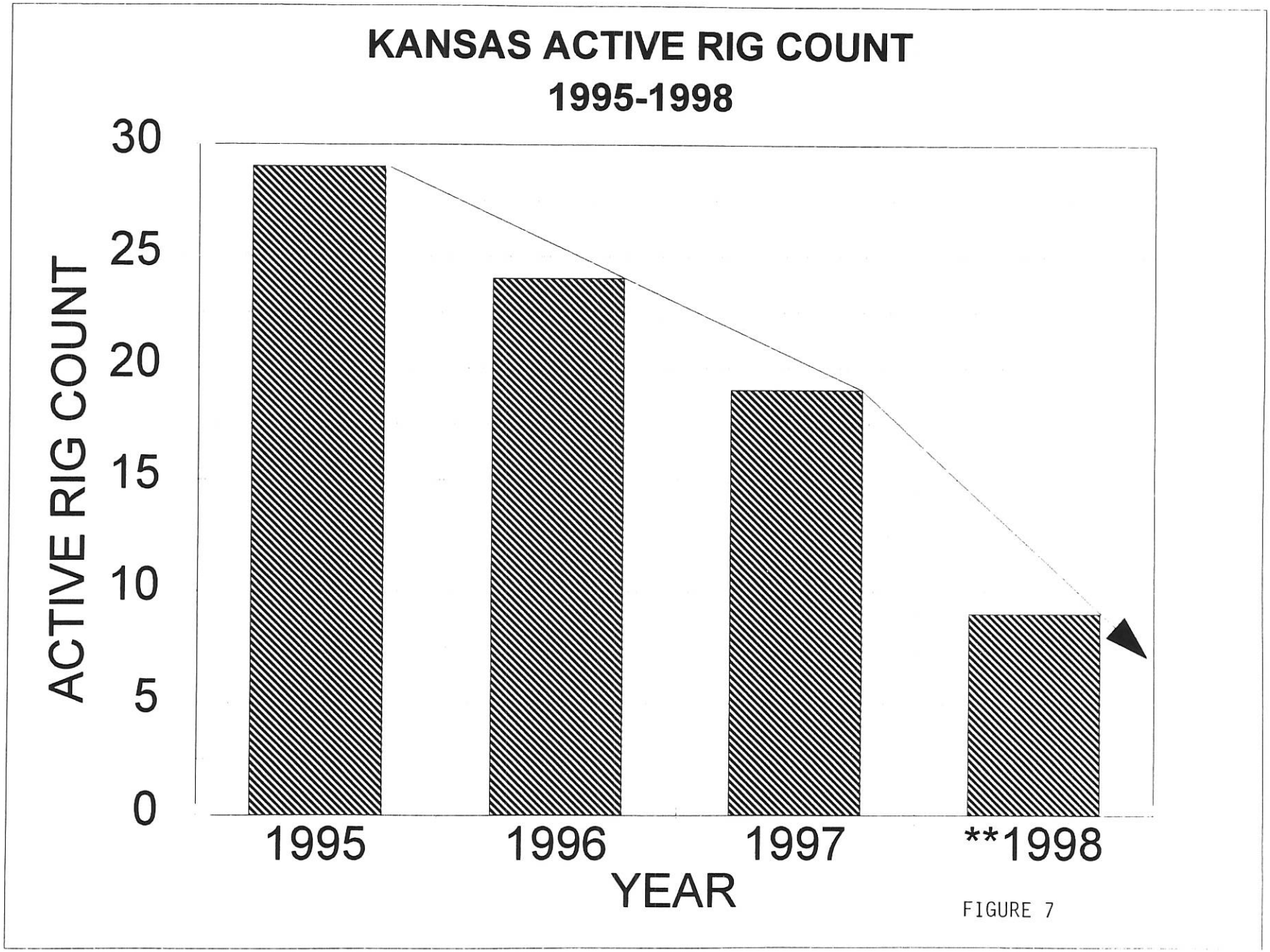


FIGURE 7

KCC/DPW 1/12/1999. ** 1998 RIG COUNT IS ESTIMATED FROM BAKER HUGHES RIG COUNT AS PUBLISHED IN THE OIL & GAS JOURNAL.

YEAR	KANSAS AVERAGE RIG COUNT*
1995	29
1996	24
1997	19
**1998	9

* YEARLY AVERAGE BY SOURCE: BAKER HUGHES RIG COUNT AS PUBLISHED IN OIL & GAS JOURNAL.

**1998 AVERAGE TOTAL HAS BEEN ESTIMATED.

3-14

FIGURE 7A

-DPW 1/12/1998. *Data Source: Baker Hughes Rig Count as published in Oil & Gas Journal.

3-14

KANSAS WELL PLUGGING SUMMARY
1987 - 1998

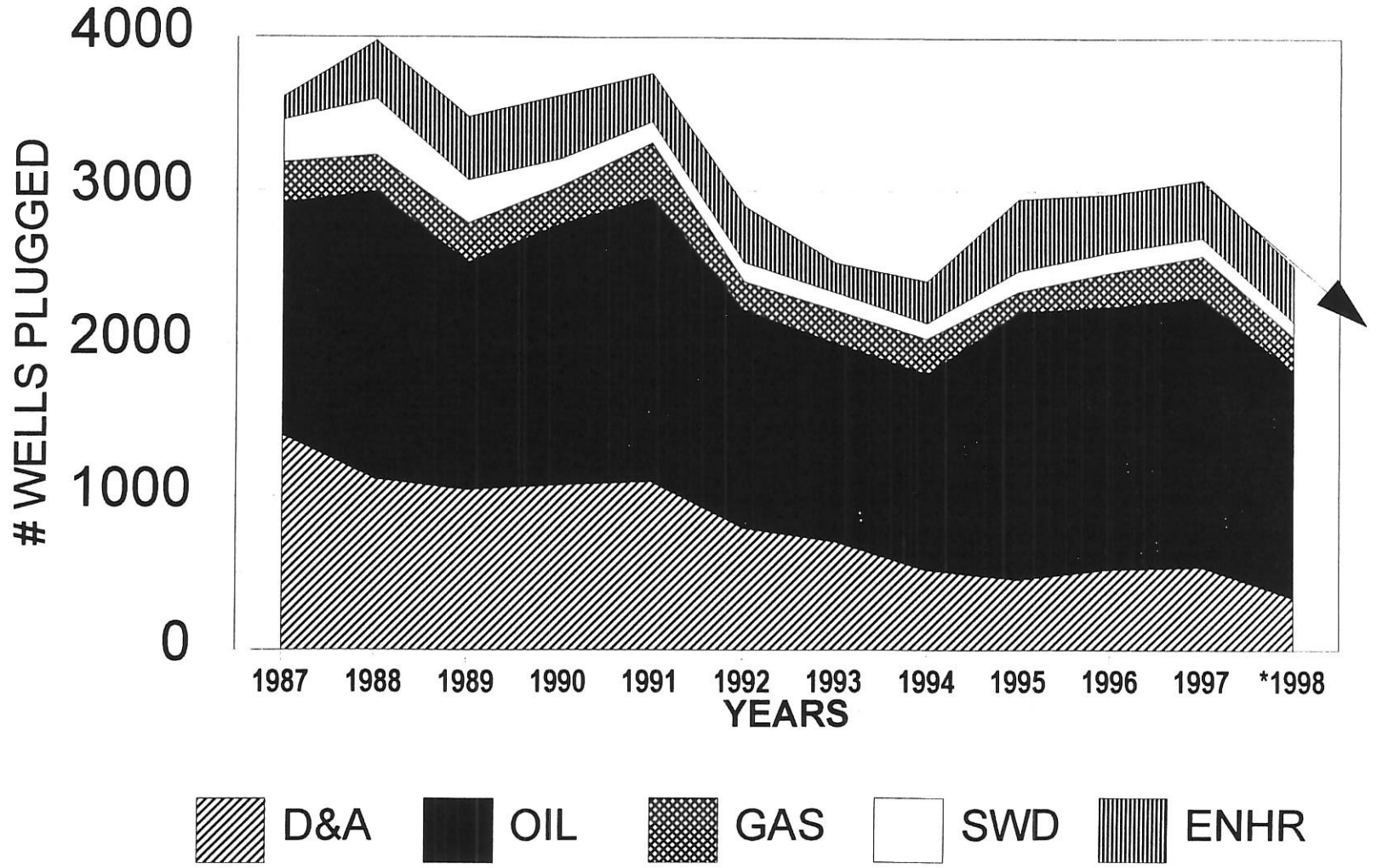


FIGURE 8

KCC/DPW 1/12/1999 * FIRST TIME TOTAL SUBJECT TO KCC REVISIONS.

KANSAS WELL PLUGGINGS 1987-1998

AR	D&A	OIL	GAS	SWD	ENHR	OTHERS	TOTAL PLUGGED
1987	1396	1521	264	280	150	616	3667
1988	1112	1883	238	363	378	42	4016
1989	1039	1490	254	280	416	13	3492
1990	1073	1704	250	179	414	18	3638
1991	1095	1860	356	136	319	12	3778
1992	792	1427	188	126	367	62	2962
1993	707	1298	213	119	195	7	2539
1994	520	1282	229	104	272	27	2434
1995	456	1749	134	134	470	117	3060
1996	525	1716	226	134	380	16	2997
1997	539	1765	269	123	375	26	3097
1998	340	1480	227	100	360	17	2524

3-14

FIGURE 8A

3-15

KCC-DPW 1/12/1998. *1998 IS SUBJECT TO KCC REVISIONS AS FIRST TIME TOTAL.

CHARLES B. WILSON
TESTIMONY BEFORE THE
SENATE COMMITEE
JANUARY 21, 1999

My name is Charles B. Wilson and I am a vice president with BEREXCO INC., an oil and gas exploration and production company located in Wichita. BEREXCO currently employees over 300 personnel and we operate nearly 1000 oil and gas wells in 44 Kansas counties. We are independently owned by Robert Beren of Wichita.

BEREXCO's expenditures for new drilling come from internally generated cash flow. Like all other companies, in 1998 we drastically reduced drilling and workovers, solely because we did not have the cash flow to pay for it.

We are reported to be the largest oil producer in the state, but that is not a statistic we strive for. Our management focuses on the profitability of every lease. We treat each lease as if it were a stand alone separate business, with its own revenues and corresponding expenses. Today, we have very few leases that are profitable. Everything possible is being done to cut expenses to vendors, utilities or taxes paid.

Due to recent legislation, of which we appreciate, we have many low volume leases that are now exempt from the ad valorem tax on reserves, but still pay on the equipment. However, I want to show you a few examples of high volume, high expense one-well leases that are paying ad valorem taxes, and the impact such taxes have on the bottom line.

Senate Assessment & Taxation
1-21-99
Attachment 4

LEASE NAME - WILLIAMS												
												11 mo's
	Jan-98	Feb-98	Mar-98	Apr-98	May-98	Jun-98	Jul-98	Aug-98	Sep-98	Oct-98	Nov-98	YTD
BARRELS	498.51	500.85	496.75	329.64	654.74	488.92	488.38	329.1	487.84	493.31	493.39	5261.43
GROSS VALUE	$7,507.56	$7,202.22	$6,586.91	$4,493.00	$8,524.72	$5,651.91	$5,865.44	$3,745.16	$6,288.26	$6,102.25	$5,348.35	$67,315.78
NET REVENUE % TO WORKING INTEREST	0.87500	0.87500	0.87500	0.87500	0.87500	0.87500	0.87500	0.87500	0.87500	0.87500	0.87500	0.87500
NET REVENUE TO WORKING INTEREST	$6,569.12	$6,301.94	$5,763.55	$3,931.38	$7,459.13	$4,945.42	$5,132.26	$3,277.02	$5,502.23	$5,339.47	$4,679.81	$58,901.31
CASH OPERATING EXPENSES	($5,976.97)	($4,506.70)	($4,788.83)	($5,216.14)	($5,193.24)	($4,889.27)	($5,871.84)	($5,276.88)	($4,262.50)	($4,605.61)	($6,300.35)	($56,888.33)
NET CASH BEFORE AD VALOREM TAXES	$592.15	$1,795.24	$974.72	($1,284.77)	$2,265.89	$56.15	($739.58)	($1,999.87)	$1,239.73	$733.86	($1,620.54)	$2,012.98
LESS: AD VALOREM TAX												**-$872.76**
NET CASH AFTER AD VALOREM TAXES												$1,140.22
THIS WELL AVERAGED **16** BARRELS PER DAY												
AD VALOREM TAXES ARE **76%** OF THE REMAINING NET CASH TO THE WORKING INTEREST.												

4-2

4-3

LEASE NAME - SMITH												
1												
												11 MO'S
	Jan-98	Feb-98	Mar-98	Apr-98	May-98	Jun-98	Jul-98	Aug-98	Sep-98	Oct-98	Nov-98	YTD
BARRELS	468.87	331.93	495.66	440.12	160.02	164.98	798.51	497.96	483.4	333.75	504.01	4679.21
GROSS VALUE	$7,061.19	$4,773.16	$6,572.45	$5,998.83	$2,083.46	$1,907.17	$9,590.11	$5,666.79	$6,231.03	$4,128.48	$5,463.47	$59,476.14
NET REVENUE % TO WORKING INTEREST	0.87500	0.87500	0.87500	0.87500	0.87500	0.87500	0.87500	0.87500	0.87500	0.87500	0.87500	0.87500
NET REVENUE TO WORKING INTEREST	$6,178.54	$4,176.52	$5,750.89	$5,248.98	$1,823.03	$1,668.77	$8,391.35	$4,958.44	$5,452.15	$3,612.42	$4,780.54	$52,041.62
CASH OPERATING EXPENSES	($2,533.67)	($8,006.53)	($3,649.18)	($3,500.17)	($6,167.06)	($5,614.80)	($3,068.58)	($4,658.11)	($9,739.59)	($3,382.92)	($2,803.14)	($53,123.75)
NET CASH BEFORE AD VALOREM TAXES	$3,644.87	($3,830.02)	$2,101.71	$1,748.81	($4,344.03)	($3,946.03)	$5,322.77	$300.33	($4,287.44)	$229.50	$1,977.40	($1,082.13)
LESS: AD VALOREM TAX												**-$1,916.95**
NET CASH AFTER AD VALOREM TAXES												($2,999.08)

THIS WELL AVERAGED **14.18** BARRELS PER DAY.

AD VALOREM TAXES ARE **64%** OF THE NET CASH LOSS TO THE WORKING INTEREST

LEASE NAME - LENDON												
	Jan-98	Feb-98	Mar-98	Apr-98	May-98	Jun-98	Jul-98	Aug-98	Sep-98	Oct-98	Nov-98	11 MO'S YTD
BARRELS	165.69	164.53	328.71	324.65	287.61	319.23	176.76	160.21	320.61	162.39	324.2	2734.59
GROSS VALUE	$2,495.29	$2,365.94	$4,358.70	$4,424.98	$3,744.68	$3,690.30	$1,992.44	$1,823.19	$4,132.66	$2,008.76	$3,514.33	$34,551.27
NET REVENUE % TO WORKING INTEREST	0.82031	0.82031	0.82031	0.82031	0.82031	0.82031	0.82031	0.82031	0.82031	0.82031	0.82031	0.82031
NET REVENUE TO WORKING INTEREST	$2,046.92	$1,940.81	$3,575.50	$3,629.87	$3,071.81	$3,027.20	$1,634.42	$1,495.59	$3,390.07	$1,647.81	$2,882.85	$28,342.84
CASH OPERATING EXPENSES	($2,491.19)	($3,352.68)	($3,742.76)	($3,853.74)	($1,430.92)	($4,856.01)	($1,192.50)	($2,457.76)	($2,168.79)	($1,192.50)	($2,659.02)	($29,397.87)
NET CASH BEFORE AD VALOREM TAXES	($444.27)	($1,411.87)	($167.26)	($223.87)	$1,640.89	($1,828.81)	$441.92	($962.17)	$1,221.28	$455.31	$223.83	($1,055.03)
LESS: AD VALOREM TAX												**-$545.12**
NET CASH AFTER AD VALOREM TAXES												($1,600.15)

THIS WELL AVERAGED **8.28** BARRELS PER DAY.

AD VALOREM TAXES ARE **34%** OF THE NET CASH LOSS TO THE WORKING INTEREST.

4-4

LEASE NAME - RILEY												
	Jan-98	Feb-98	Mar-98	Apr-98	May-98	Jun-98	Jul-98	Aug-98	Sep-98	Oct-98	Nov-98	11 MO'S YTD
BARRELS	169.85	347.12	171.61	334.67	352.01	171.31	331.28	354.7	169.17	337.02	183.81	2922.55
GROSS VALUE	$2,557.94	$4,991.59	$2,275.55	$4,561.55	$4,395.39	$1,980.34	$3,978.68	$4,036.49	$2,180.60	$4,168.93	$1,992.50	$37,119.56
NET REVENUE % TO WORKING INTEREST	0.84766	0.84766	0.84766	0.84766	0.84766	0.84766	0.84766	0.84766	0.84766	0.84766	0.84766	0.84766
NET REVENUE TO WORKING INTEREST	$2,168.25	$4,231.15	$1,928.88	$3,866.63	$3,725.78	$1,678.65	$3,372.55	$3,421.56	$1,848.40	$3,533.82	$1,688.96	$31,464.63
CASH OPERATING EXPENSES	($6,035.55)	($5,297.26)	($3,405.77)	($2,576.65)	($3,980.65)	($1,853.43)	($1,497.30)	($1,926.46)	($1,826.33)	($2,553.21)	($2,170.00)	($33,122.61)
NET CASH BEFORE AD VALOREM TAXES	($3,867.30)	($1,066.11)	($1,476.89)	$1,289.98	($254.87)	($174.78)	$1,875.25	$1,495.10	$22.07	$980.61	($481.04)	($1,657.98)
LESS: AD VALOREM TAXES												**-$655.92**
NET CASH AFTER AD VALOREM TAXES												($2,313.90)

THIS WELL AVERAGED **8.85** BARRELS PER DAY.

AD VALOREM TAXES ARE **28%** OF THE NET CASH LOSS TO THE WORKING INTEREST.

4-5

KANSAS GEOLOGICAL SURVEY

1930 Constant Ave., Campus West
The University of Kansas
Lawrence, Kansas 66047-3726
phone 785-864-3965
fax 785-864-5317

Madam Chair and Members of the Committee:

My name is Timothy R. Carr. I am Chief of the Petroleum Research Section of the Kansas Geological Survey and Co-Director of the University of Kansas Energy Research Center. I do not come as an advocate of any legislation before the committee, but to inform you of the importance of the Kansas petroleum industry on our state's economy, and my analysis of the industry's present state.

These are the major points that I would like to express to the committee:

1) The oil and gas industry is a major component of the Kansas economy. The average value of Kansas oil and gas at the wellhead is $2.0+ billion. Over the last half of the twentieth century the value of oil and gas is comparable to the cash receipts for all the crops grown in the state. Kansas is one of the few states in the Union that remain, to the present day, a net exporter of energy. Oil and gas production contributes directly to the wealth generated in Kansas.
2) The Kansas oil and gas industry is price and cost sensitive. In the first half of 1998, over 98% of the 41,520 producing oil wells made less than 15 barrels of oil per day. These stripper wells produce over 73% of the oil in Kansas. As the average price for oil has dramatically decreased during 1998, so has Kansas production. Kansas monthly oil production has declined approximately a million barrels per month from February to July of 1998. This unprecedented decline is paralleled by a price decline from $14.00 to $10.00 per barrel. In December, average prices were in the $8.00 per barrel range and monthly production was probably in the vicinity of 2 million barrels.
3) Kansas oil and gas is produced by 3,000 operating companies that employ 6,900 Kansas citizens and numerous people outside the state in towns such Oklahoma City, Denver and Houston. Employment in Kansas is distributed throughout the 90 counties that have reported petroleum production with concentrations in locales such as Chanute, Liberal, Hays, Russell, and Wichita.
4) The Kansas petroleum industry is in crisis. In 1997 the value of oil and gas produced at the well head was $2.25 billion. In 1998, I estimate the value of oil and gas at $1.6 billion. The decrease value of over $600 million is concentrated in oil. In terms of barrels, oil production in 1998 will decrease by 25% and the value will decrease more than 50%. This is an unprecedented decrease in production that is related to the decrease in oil prices.
5) All Kansas citizens need to be concerned. Using input-output multipliers from the US Department of Commerce's Bureau of Economic Analysis, one can estimate the impact of decreased value of oil and gas on the output of the Kansas economy (a decrease of approximately $950 million) and employment (in excess of 6,000 Kansas

Senate Assessment & Taxation
1-21-99
Attachment 5

citizens). Note: that these would not just be people employed directly in the petroleum industry, but would be the mechanic in Bazine or the waitress in Iola.

6) The impact of decreased tax revenue at the state and especially local level will be significant. In western and south central Kansas many counties derive a very large portion of their ad valorum taxes from oil and gas production (in some cases in excess of 50%). Raising mill rates to compensate for the decreased valuations could result in a negative feedback loop. In addition, the salaries and royalty incomes of many Kansas citizens are undergoing a negative impact. The total negative impact on the state economy should be felt in terms of reduced state and local tax revenue.

These are the main points that I would like to stress. I would like to walk you through the attached figures that were extracted from Kansas Geological Survey Open-File reports. Additional information is available in two attached reports entitled:

1998 Kansas Oil and Gas Production: An Examination of the Importance of Stripper Production, and

1998 Kansas Oil and Gas Production and Value

Attached Figure 1. Value of Kansas oil and gas production at the wellhead and cash receipts for all crops from 1953 to 1998. Dollar values are times 1,000.

Attached Figure 2. Kansas oil production for January through July of 1998 and average monthly-posted price per barrel for the best quality Kansas oil exclusive of transportation costs. Due to the dominance of stripper wells, monthly production is strongly influenced by price.

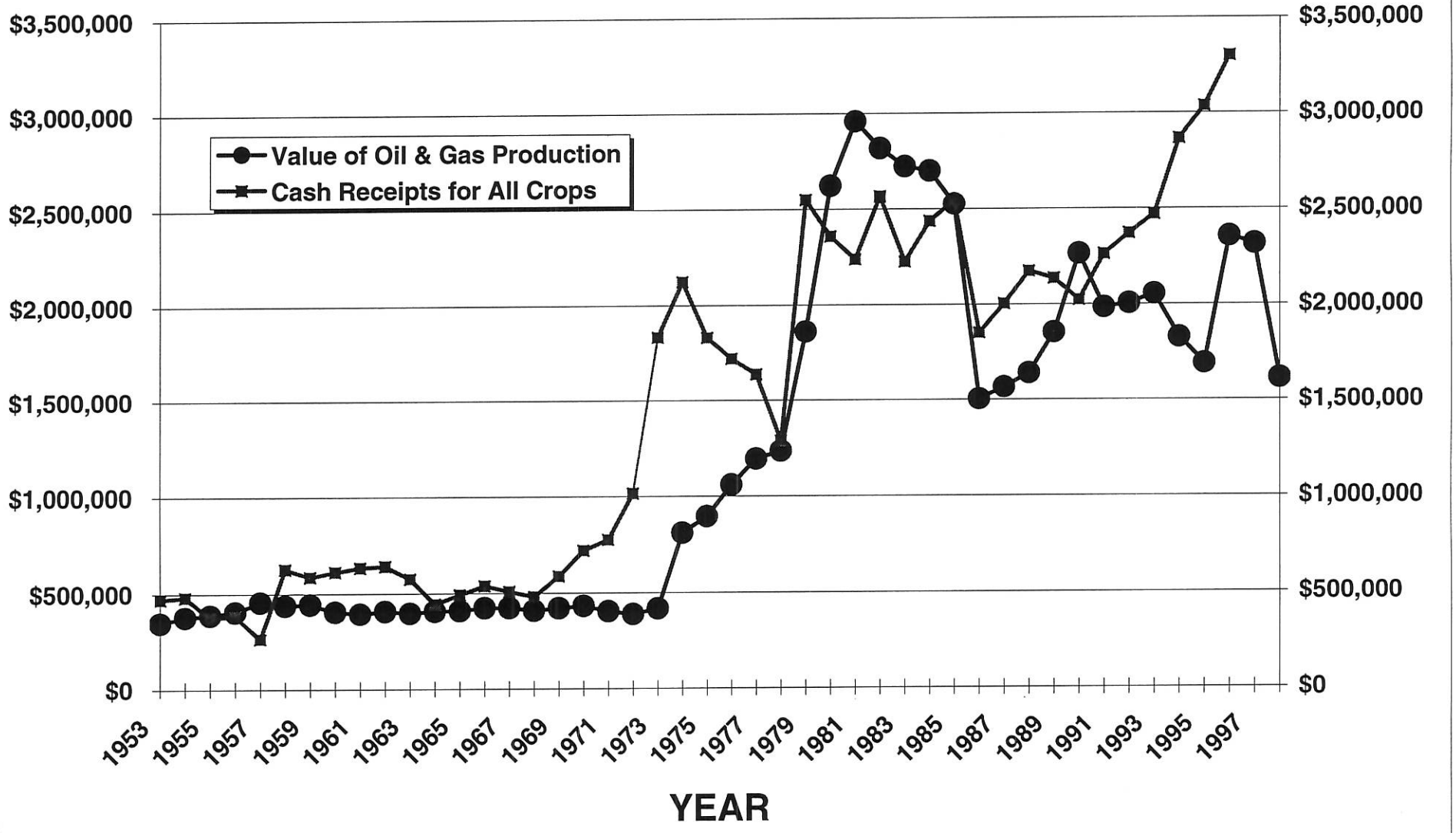
Attached Figure 3. Monthly and cumulative Kansas oil production for 1998. Cumulative annual production for 1998 is estimated to be just over 29 million barrels. Production in 1998 represents a significant decline from the nearly 40 million barrels produced in 1997. Similar analysis was carried out for gas.

Attached Figure 4. Map showing the distribution of Kansas counties that have produced oil and gas. Figure is from the web site of the Kansas Geological Survey (http://www.kgs.ukans.edu/PRS/petro/interactive.html).

Attached Figure 5. Map showing total well footage (thousand feet) by county for the 10-year period from 1987 to 1996. Drilling statistics provide a metric to show the relative importance of petroleum activity in different regions of Kansas. The greatest activity is located in southwest, central and south-central Kansas.

I thank you for your time and consideration.

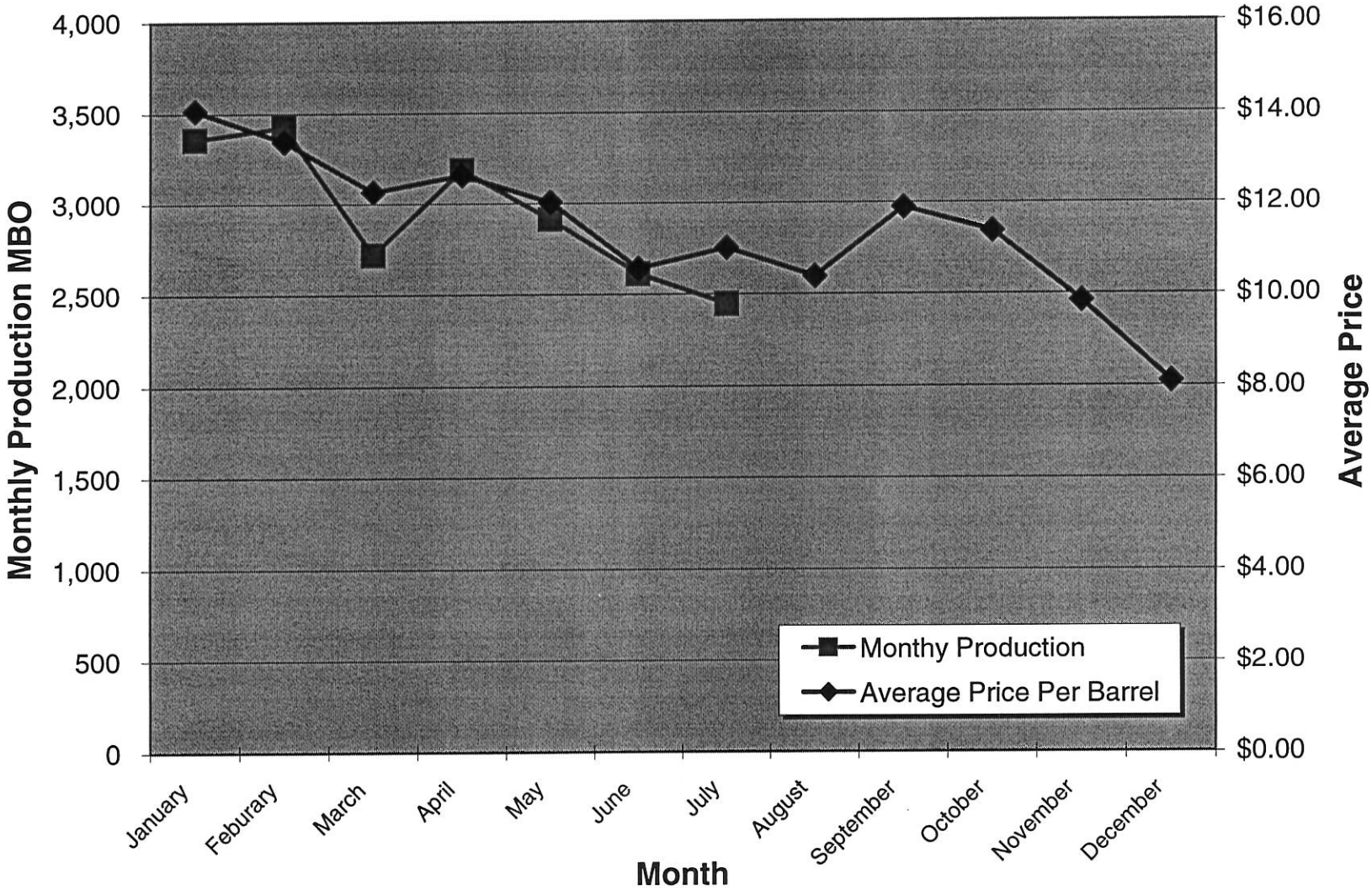
KANSAS PRODUCTION ($1,000)



Kansas Geological Survey

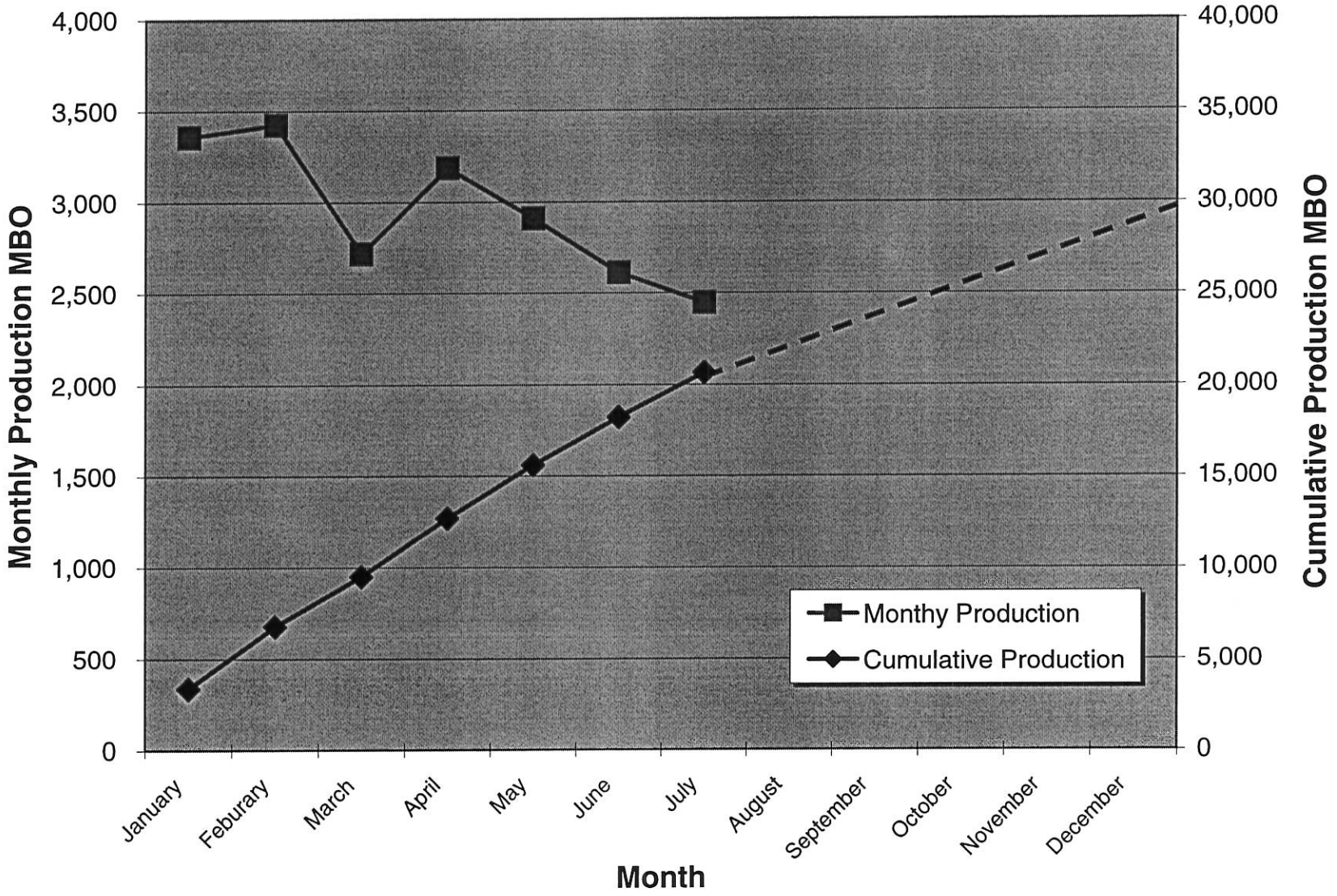
T. Carr, 1/20/99

Kansas Oil Production 1998



5-5

Kansas Oil Production 1998

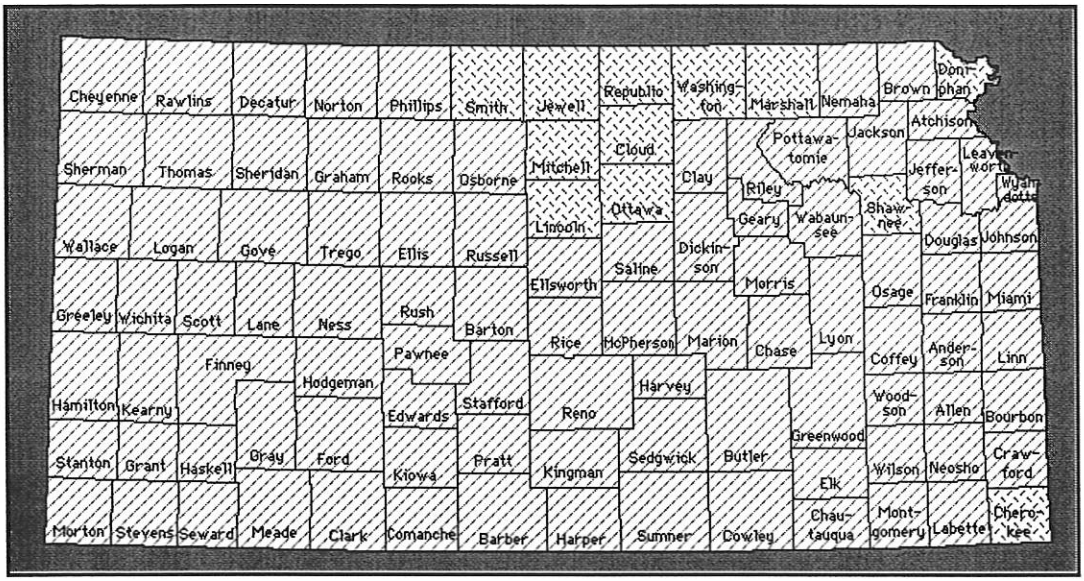


5-

Kansas Geological Survey | Oil and Gas | County Oil & Gas Production

1995 Total Oil and Gas Production in Kansas

Click on the county you wish to examine, or select from the list below. Counties colored in include oil and gas field maps. Counties colored in have had no oil or gas production.



Allen || Anderson || Atchison || Barber || Barton || Bourbon || Brown || Butler || Chase || Chautauqua || Cherokee || Cheyenne || Clark || Clay || Cloud || Coffey || Comanche || Cowley || Crawford || Decatur || Dickinson || Doniphan || Douglas || Edwards || Elk || Ellis || Ellsworth || Finney || Ford || Franklin || Geary || Gove || Graham || Grant || Gray || Greeley || Greenwood || Hamilton || Harper || Harvey || Haskell || Hodgeman || Jewell || Jackson || Jefferson || Johnson || Kearny || Kingman || Kiowa || Labette || Lane || Leavenworth || Lincoln || Linn || Logan || Lyon || Marion || Marshall || Mcpherson || Meade || Miami || Mitchell || Montgomery || Morris || Morton || Nemaha || Neosho || Ness || Norton || Osage || Osborne || Ottawa || Pawnee || Phillips || Pottawatomie || Pratt || Rawlins || Reno || Republic || Rice || Riley || Rooks || Rush || Russell || Saline || Scott || Sedgwick || Seward || Shawnee || Sheridan || Sherman || Smith || || Stanton || Stevens || Sumner || Thomas || Trego || Wabaunsee || Wallace || Washington || Wichita || Wilson || Woodson || Wyandotte

Total Oil Production:

```
Total Producing Area =      1,424,970 acres (approx.)

During 1995          =     44,113,000 BBL
Through 1995         =  5,802,691,000 BBL

Producing Wells      =         40,755
```

Total Gas Production:

```
Total Producing Area =      6,568,360 acres

During 1995          =    713,473,000 M Cu. Ft.
Through 1995         = 31,957,139,000 M Cu. Ft.

Producing Wells      =         14,924
```

These data are adapted from the work of Douglas L. Beene, Kansas Geological Survey.

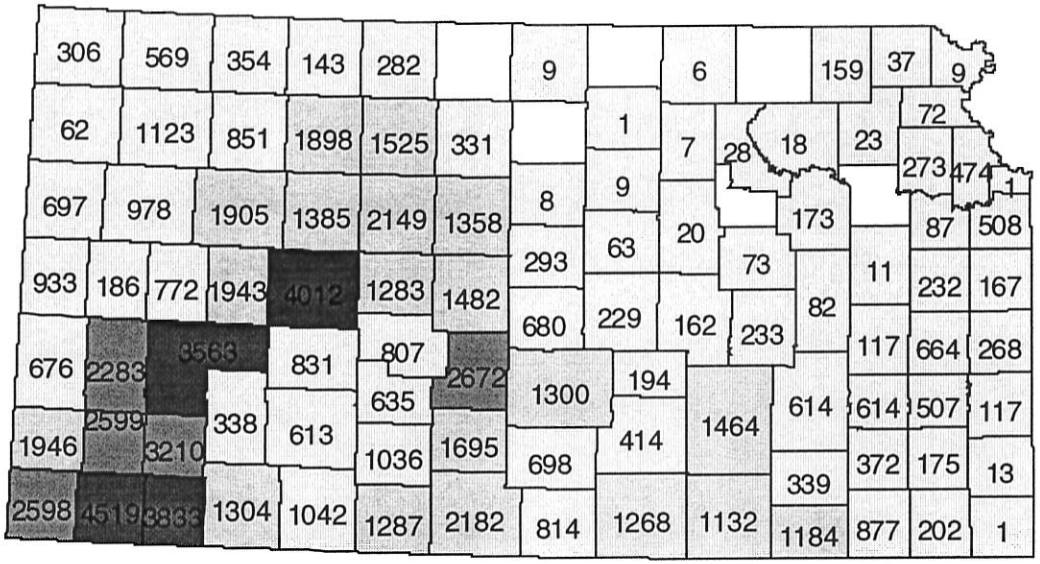
Kansas Geological Survey
Send comments and/or suggestions to webadmin@kgs.ukans.edu
URL = http://www.kgs.ukans.edu/PRS/petro/interactive.html

Kansas Oil and Gas Exploration - 10 Year History & Future Strategies

Exploration Activity

1987 to 1996 Well Footage by County

(All Wells)



COUNTY	FOOTAGE (Mft)
STEVENS	4,519
NESS	4,012
SEWARD	3,833
FINNEY	3,563
HASKELL	3,210
STAFFORD	2,672
GRANT	2,599
MORTON	2,598
KEARNY	2,283
BARBER	2,182

1998 Kansas Oil and Gas Production: An Examination of the Importance of Stripper Production

Kansas Geological Survey Open-File Report 98-50

Timothy R. Carr and Paul M. Gerlach

5-8

Introduction

This Open-File report builds on Carr and Gerlach (1997) in an attempt to develop a perspective on the trends in the relative importance of stripper well production to Kansas oil and gas production. Stripper wells are economically marginal oil and gas wells that produce at relatively low rates. The definition of stripper wells varies. For oil, stripper production is usually defined as production rates of between 5 and 15 barrels of oil per day (BOPD). Stripper gas production would generally be anything less than 90 thousand cubic feet per day (MCFPD).

Wells that are producing at stripper well rates make up a significant portion of Kansas oil and gas production, and more importantly represent a very large portion of existing well bores. These well bores represent a very large capital investment that is at risk of being plugged and abandoned.

Procedure

We examined the most recent available production data from the Kansas Department of Revenue from the period of January through May 1998. This provides a five-month period to average production and to capture leases that report production only on an intermittent basis. All leases that produced any oil or gas during the five-month period were extracted from the oil and gas production database. Lease production was divided by the number of wells listed for each lease and then by 150 days to obtain an estimated average daily production per well.

Results: Oil Production

Oil production in the first five months of 1998 was reported from 13,998 leases with 41,520 wells (Table 1a). The number of leases is comparable to 1997 data (14,234 as reported by Carr and Gerlach, 1997). However, the number of oil wells is significantly higher in the present study (41,520 compared to 31,691). This change in well number is the result of different data sources. Commercial data were used in the 1997 Open-File Report, while data from the Kansas Department of Revenue (DOR) are used in the present study. Based on conversations with operators the DOR data are believed to more accurately reflect the number of producing oil wells.

Total oil production in the first five months of 1997 was 15,117,274 barrels of oil (Table 1a). This is an average monthly production of 3,023,454 barrels of oil. Average daily per well production would be 2.4 barrels of oil. The reported 1998 production represents a 9.2% decline compared to the first five months of 1997.

The number of oil wells grouped by production rate shows that over 98% of the oil wells in Kansas average less than 15 BOPD (Table 1a). Approximately 40,829 wells producing 73.2% of the state's oil would be considered as stripper production. This represents a very large number of well bores that are at risk to abandonment. Comparing production rates and number of wells between 1998 and 1997 shows that there has been a significant decrease in the number of high production rate wells (> 30 BOPD) and there contribution to total production. The number of wells falling in the low production rate

classes has increased. In part, this reflects the significant decrease in drilling and workover activity that can be attributed to the historically low Kansas oil prices.

Results: Gas Production

Gas production in the first five months of 1997 was reported from 15,059 leases with 17,780 wells (Table 2a). Total production was 238.1 billion cubic feet. This is an average monthly production of 47.6 billion cubic feet. Average daily per well production would be 90 MCF. The reported 1998 gas production represents a 17% decline compared to the first five months of 1997, and reflects production declines in the gas fields of southwest Kansas.

The number of gas wells grouped by production rate shows that 59% of the gas wells in Kansas average less than 90 MCFPD (Table 2a). Approximately 10,487 wells producing 17.8% of the state's gas would be considered as stripper production.

References Cited

Carr, Timothy R. and Paul M. Gerlach, 1997, Kansas oil and gas production: An examination of the importance of stripper production: Kansas Geological Survey Open-File Report 97-64, 4p.

Table 1a -- Kansas Oil Production from January through May 1998

BOPD/Well	Producing Leases Number	% of Total	Cum %	Producing Wells Number	% of Total	Cum %	Oil Production Barrels	% of Total	Cum %
0-5	11492	82.1%	82.1%	37568	90.5%	90.5%	7,360,477	48.7%	48.7%
5.01-10	1510	10.8%	92.9%	2709	6.5%	97.0%	2,691,637	17.8%	66.5%
10.01-15	398	2.8%	95.7%	552	1.3%	98.3%	1,007,429	6.7%	73.2%
15.01-20	174	1.2%	97.0%	210	0.5%	98.8%	546,492	3.6%	76.8%
20.01-30	189	1.4%	98.3%	227	0.5%	99.4%	835,882	5.5%	82.3%
30.01-40	91	0.7%	99.0%	98	0.2%	99.6%	510,911	3.4%	85.7%
40.01-50	37	0.3%	99.2%	41	0.1%	99.7%	274,388	1.8%	87.5%
50.01-75	52	0.4%	99.6%	60	0.1%	99.9%	537,119	3.6%	91.1%
75.01-100	23	0.2%	99.8%	23	0.1%	99.9%	298,173	2.0%	93.0%
100.01	32	0.2%	100.0%	32	0.1%	100.0%	1,054,766	7.0%	100.0%
Totals	13,998	100.0%		41,520	100.0%		15,117,274	100.0%	

Data Source: Kansas Department of Revenue

Table 1b -- Kansas Oil Production from January through May 1997

BOPD/Well	Producing Leases Number	% of Total	Cum %	Producing Wells Number	% of Total	Cum %	Oil Production Barrels	% of Total	Cum %
0-5	10774	75.7%	75.7%	26866	84.8%	84.8%	6,526,169	39.2%	39.2%
5.01-10	2001	14.1%	89.7%	3052	9.6%	94.4%	3,105,384	18.6%	57.8%
10.01-15	565	4.0%	93.7%	735	2.3%	96.7%	1,345,447	8.1%	65.9%
15.01-20	305	2.1%	95.9%	371	1.2%	97.9%	964,759	5.8%	71.7%
20.01-30	248	1.7%	97.6%	310	1.0%	98.9%	1,121,575	6.7%	78.4%
30.01-40	116	0.8%	98.4%	125	0.4%	99.3%	634,003	3.8%	82.2%
40.01-50	38	0.3%	98.7%	74	0.2%	99.5%	496,082	3.0%	85.2%
50.01-75	98	0.7%	99.4%	70	0.2%	99.7%	647,921	3.9%	89.1%
75.01-100	41	0.3%	99.7%	39	0.1%	99.8%	517,047	3.1%	92.2%
100.01	48	0.3%	100.0%	49	0.2%	100.0%	1,301,898	7.8%	100.0%
Totals	14,234	100.0%		31,691	100.0%		16,660,285	100.0%	

From Carr and Gerlach (1997)

Table 2a -- Kansas Gas Production from January through May 1998

MCFPD/Well	Producing Leases Number	% of Total	Cum %	Producing Wells Number	% of Total	Cum %	Gas Production MCF	% of Total	Cum %
0.1-40	4669	31.0%	31.0%	7351	41.3%	41.3%	11,849,170	5.0%	5.0%
40.01-60	1291	8.6%	39.6%	1305	7.3%	48.7%	9,792,013	4.1%	9.1%
60.1-90	1816	12.1%	51.6%	1831	10.3%	59.0%	20,799,415	8.7%	17.8%
90.01-120	1854	12.3%	63.9%	1867	10.5%	69.5%	29,408,431	12.4%	30.2%
120.01-150	1599	10.6%	74.6%	1600	9.0%	78.5%	32,591,169	13.7%	43.9%
150.1-300	3314	22.0%	96.6%	3316	18.6%	97.1%	100,288,900	42.1%	86.0%
300.1-450	385	2.6%	99.1%	385	2.2%	99.3%	20,014,475	8.4%	94.4%
450.1-600	75	0.5%	99.6%	75	0.4%	99.7%	5,850,614	2.5%	96.8%
>600.01	56	0.4%	100.0%	56	0.3%	100.0%	7,528,553	3.2%	100.0%
Totals	15,059	100.0%		17,786	100.0%		238,122,740	100.0%	

Data Source: Kansas Department of Revenue

Table 2b -- Kansas Gas Production from January through May 1997

MCFPD/Well	Producing Leases Number	% of Total	Cum %	Producing Wells Number	% of Total	Cum %	Gas Production MCF	% of Total	Cum %
0.1-40	4133	27.9%	27.9%	4271	28.5%	28.5%	10,933,155	3.8%	3.8%
40.01-60	1181	8.0%	35.9%	1195	8.0%	36.5%	8,855,886	3.1%	6.9%
60.1-90	1499	10.1%	46.0%	1501	10.0%	46.6%	16,791,699	5.8%	12.7%
90.01-120	1451	9.8%	55.8%	1454	9.7%	56.3%	22,996,709	8.0%	20.6%
120.01-150	1473	10.0%	65.8%	1482	9.9%	66.2%	30,027,065	10.4%	31.1%
150.1-300	4052	27.4%	93.2%	4052	27.1%	93.2%	126,892,649	44.0%	75.0%
300.1-450	754	5.1%	98.3%	754	5.0%	98.3%	40,375,195	14.0%	89.0%
450.1-600	139	0.9%	99.2%	139	0.9%	99.2%	10,977,057	3.8%	92.8%
>600.01	118	0.8%	100.0%	118	0.8%	100.0%	20,690,313	7.2%	100.0%
Totals	14,800	100.0%		14,966	100.0%		288,539,728	100.0%	

From Carr and Gerlach (1997)

Kansas Geological Survey, Open File Report 98-56

1998 Kansas Oil & Gas Production and Value

by Timothy R. Carr
Kansas Geological Survey
Open-File Report 98-56

Summary

As a result of a drastic drop in oil prices and relatively soft gas prices during 1998, the overall revenue generated by oil and gas production in Kansas is expected to decrease from 1997 levels by more than $600 million at the wellhead (Table 1). This decrease will have a significant impact on the Kansas economy and employment. Using regional economic multipliers from the US Department of Commerce an attempt was made to estimate the potential economic impact to the Kansas economy and the Kansas oil and gas industry. Based on preliminary analysis the Kansas economy could receive a negative impact of $900 million and employment in the oil and gas industry could be reduced by more than 5,000 people.

Table 1 - Summary of Kansas oil and gas production, and value at wellhead for 1997 and 1998.

Year	Oil Production Barrels * 1,000	Average Price $/bbl	Total Oil Value $ * 1,000	Gas Production Mcf *1,000	Average Price $/Mcf	Total Gas Value $ * 1,000
1997	39,836	$18.63	$742,145	692,295	$2.18	$1,509,203
1998 (est.)	29,082**	$11.76*	$342,000	630,000***	$2.03*	$1,271,000

Notes:

* Average prices through November 1998. Gas price is average of spot market prices reported to the Natural Gas Clearinghouse, Inc (NGC). Oil price is the average purchase price for the best quality crude as reported by Koch Industries, Wichita.
** Estimated oil production using reported production during the first six months of 1998 (see Figure 2).
** *Estimated gas production using reported production during the first six months of 1998 (see Figure 5).

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1998 Oil Production

Oil production in Kansas is available in databases of the Kansas Geological Survey for the first six months of 1998. The production data was generated by the Kansas Department of Revenue. Monthly production displays a decreasing trend through the first six months of the year (Figure 1). The average wellhead price has continued to decline and should result in continued monthly production declines through the remainder of 1998. Monthly production was used to generate a cumulative production curve for the first six months of 1998 (Figure 2). Extrapolation for the remainder of the year provides an estimated 1998 production of just over 29 million barrels of oil (Figure 2 and Table 1). If this estimate is correct, the annual production decline from 1997 to 1998 will be over 10 million barrels (Table 1 and Figure 2). Monthly production and average wellhead price were used to generate a cumulative wellhead value for oil production for the first six months of 1998 (Figure 3). Extrapolation for the remainder of the year provides an estimated 1998 production value of approximately $342 million dollars (Figure 3 and Table 1). This estimated value for oil at the wellhead is a decrease of $400 million (>50%) from the 1997 wellhead value. It is probably not an overstatement that a decline of this magnitude can have a significant impact on the Kansas economy.

Figure 1 - Kansas monthly oil production, and average monthly wellhead price for 1998.

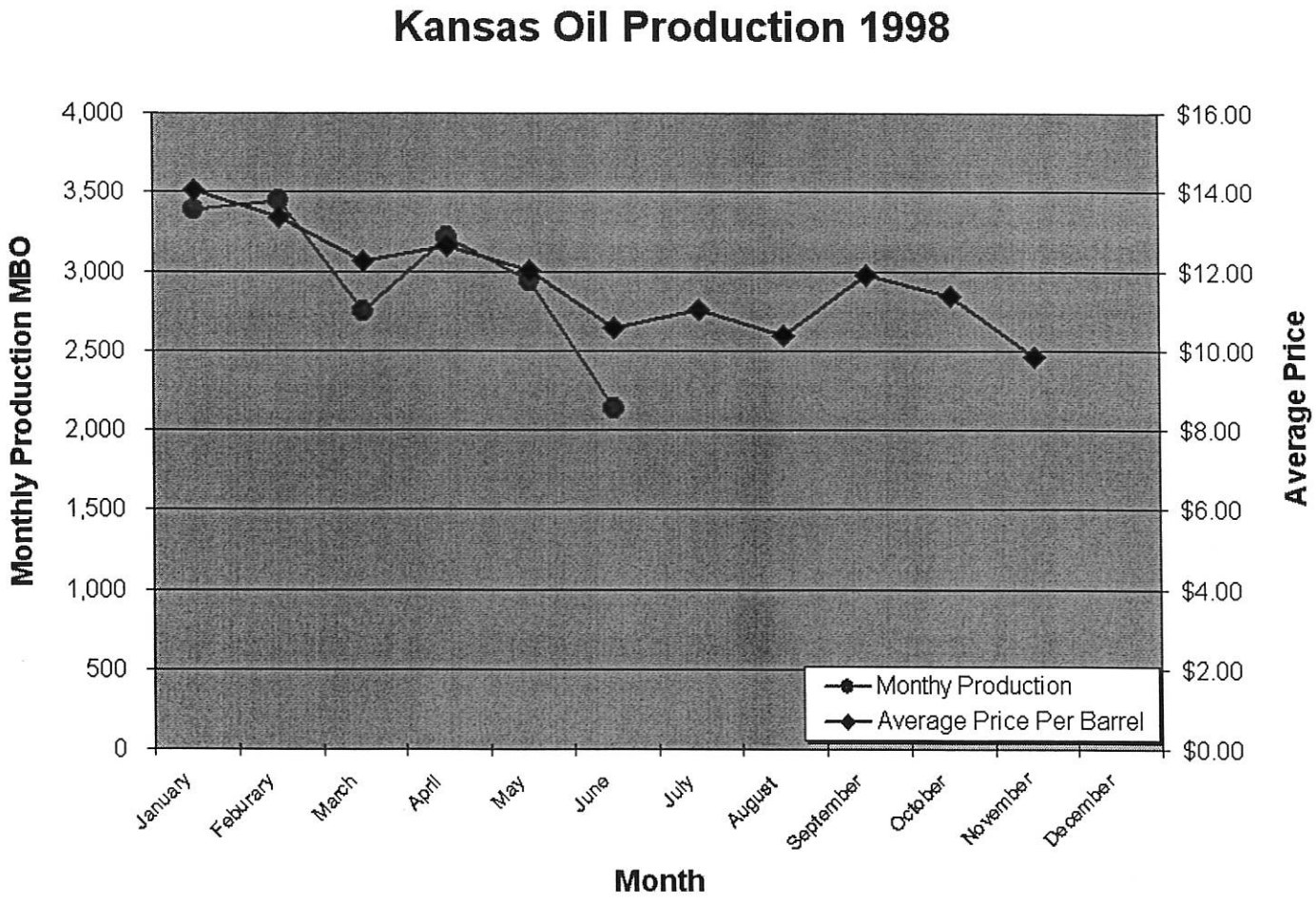

Figure 2 - Kansas monthly and cumulative oil production for the first six months of 1998. Annual production for 1998 is estimated by extrapolation of the cumulative production curve.

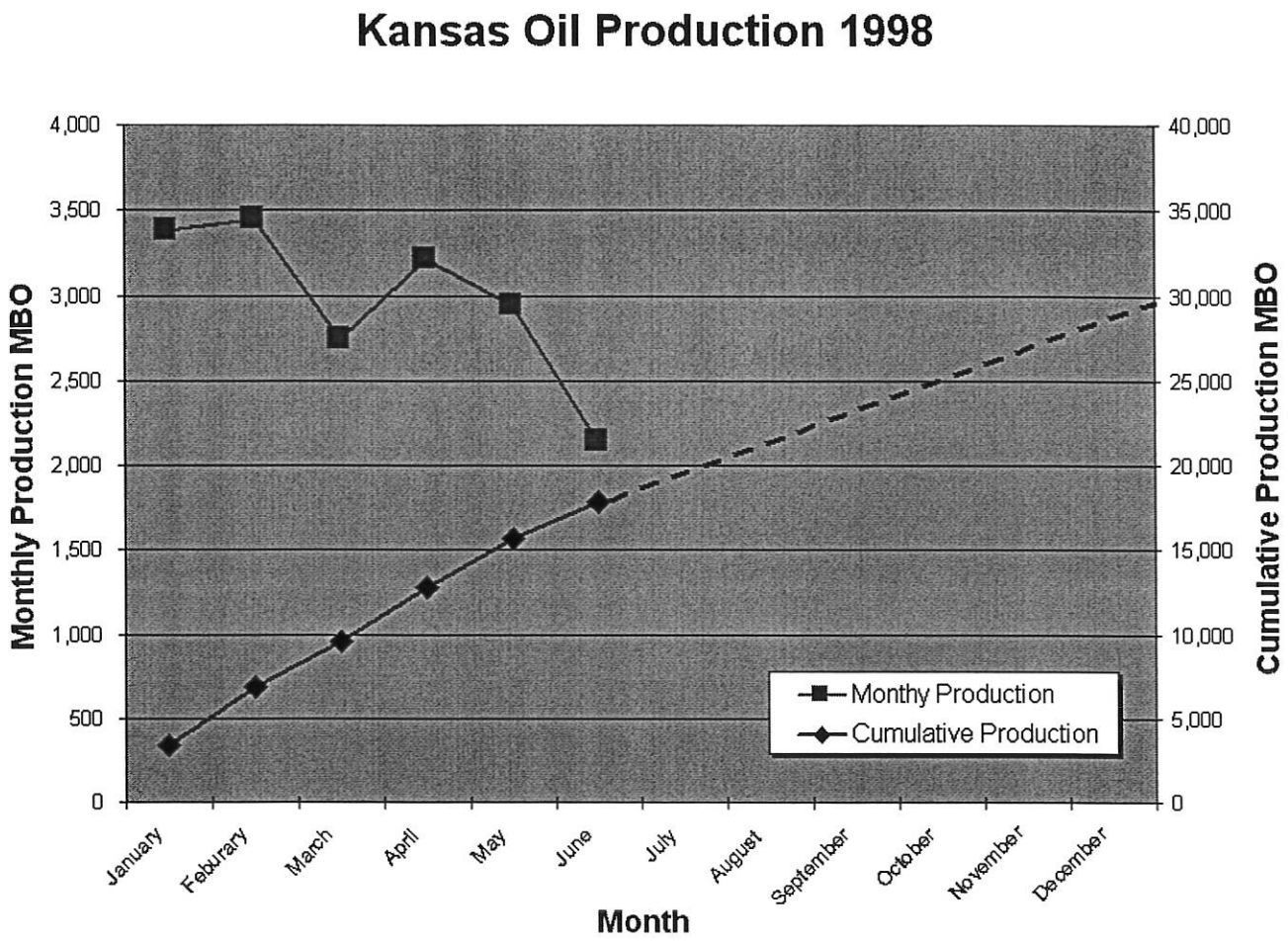

Figure 3 - Kansas monthly and cumulative value of oil production for the first six months of 1998. Value of annual production for 1998 is estimated by extrapolation of the cumulative value curve. The estimated value of $342 million is consistent with the estimated annual production volumes and average wellhead prices.

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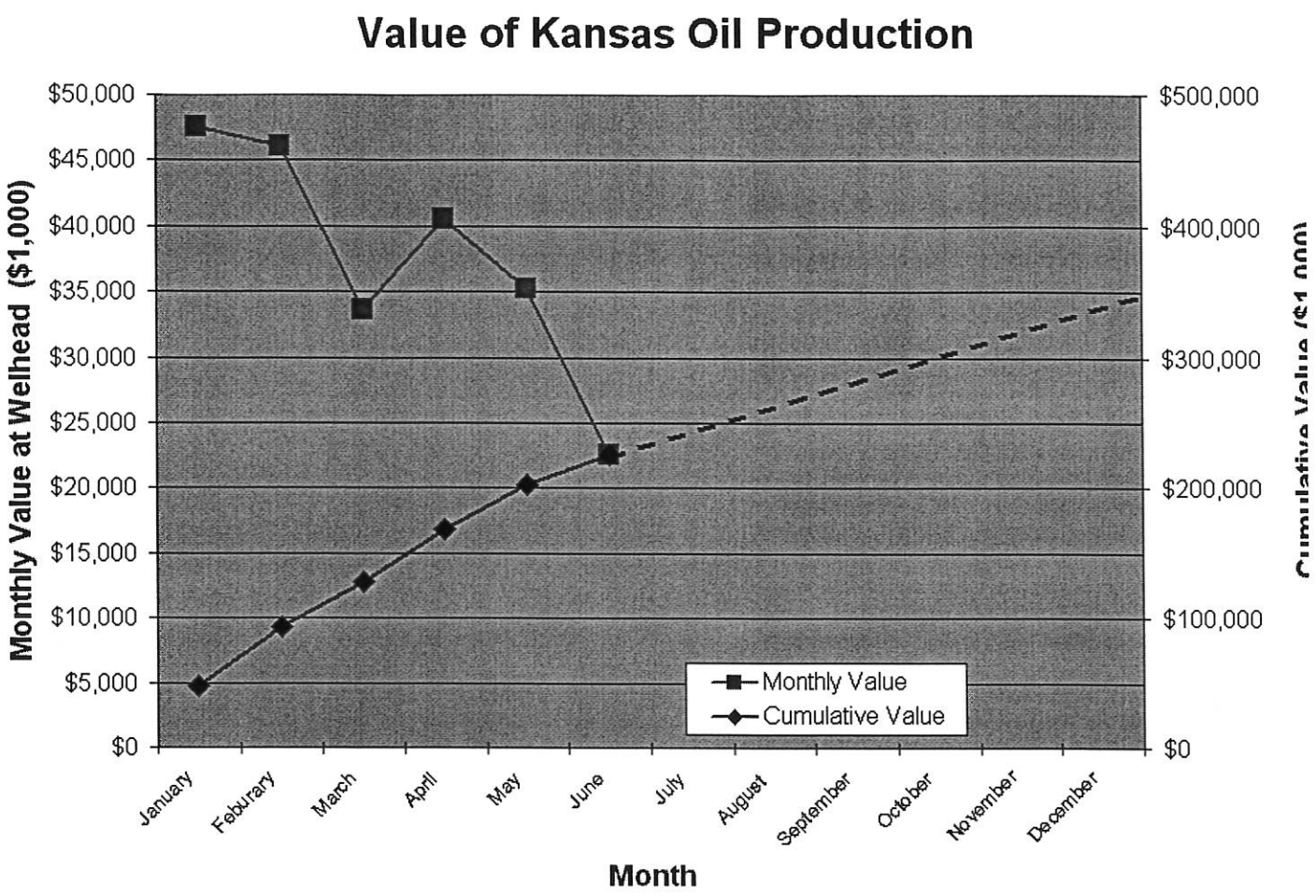

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Estimated Economic Impact--Oil Production

The US Department of Commerce's Bureau of Economic Analysis (BEA) prepares regional input-output multipliers that allow the estimation of the total economic impact of the addition or removal of industries or projects to a given region. This study uses these multipliers to investigate the economic impact of the estimated 1998 decrease in oil and gas production on Kansas. These estimates are extrapolated to determine the economic impact of the decline in value of oil and gas production to both the overall economy and the oil and gas industry specifically.

The BEA multipliers account for the interdependence of economic activity throughout a given region, where a region comprises one or more counties. Multipliers are provided for output, earnings and employment, considering final demand and direct effect. These multipliers, plus assumptions of projects or programs introduced into a region, can be used to calculate variables such as the increase in the output value. Multipliers are also instrumental in calculating earnings income such as wages, salaries or proprietor's income less any contributions to private pension funds, and employment levels.

Final demand multipliers for Kansas used in this report are reported in "Regional Multipliers: A User Handbook for the Regional Input-Output Modeling System (RIMS II): US Department of Commerce's Bureau of Economic Analysis, 1992", and the " The Economic Impact of Stripper Wells in the United States: Interstate Oil and Gas Compact Commission, 1998".

The decreased in revenue from 1998 oil production in Kansas is estimated at $400 million (tables 1 and 2a). Using final demand multipliers, the lost output to the Kansas economy is estimated at $599 million with estimated lost earnings of $77 million (Table 2a). Statewide lost employment is estimated at 5,680 (Table 2a). Direct effect multipliers can be used to estimate the impact of decreased in revenue from 1998 oil production on the Kansas oil and gas industry (Table 2b). The industry is estimated to face a decrease of $39 million in earnings and a potential decrease of 3,641 employees. The estimated 1997 employment in the oil and gas industry was approximately 6,900.

Table 2a - Estimated economic effects of oil prices and estimated decreased oil production on the Kansas economy.

Estimated 1998 Decrease in Revenue at Wellhead (Million $)	Final Demand Multiplier Output	Final Demand Multiplier Earnings	Final Demand Multiplier Empoyment	Lost Output (Million $)	Lost Earnings (Million $)	Lost Employment
$400	1.4982	0.1925	14.2	$599.28	$77	5,680

Figure 2b - Estimated economic effects of oil prices and estimated decreased oil production on the Kansas oil and gas industry.

Direct Effect Multiplier Earnings	Direct Effect Multiplier Employment	Lost Earnings (Million $)	Lost Employment
0.0984	9.1014	$39.36	3,641

1998 Gas Production

Gas production in Kansas is available in databases of the Kansas Geological Survey for the first six months of 1998. The production data is was generated by the Kansas Department of Revenue. Monthly production displays a fluctuating trend through the first six months of the year (Figure 4). The latest production figures (June) may be subject to revision. The average wellhead price shows a decline into the second half of 1998. Monthly production was used to generate a cumulative production curve for the first six months of 1998 (Figure 5). Extrapolation for the remainder of the year provides an estimated 1998 gas production of just over 630 billion cubic feet (Figure 5 and Table 1). If this estimate is correct, the annual production decline from 1997 to 1998 will be approximately 60 billion cubic feet (Table 1 and Figure 4). Monthly production and average wellhead price were used to generate a cumulative wellhead value for gas production for the first six months of 1998 (Figure 6). Extrapolation for the remainder of the year provides an estimated 1998 production value of approximately $1,271 million dollars (Figure 6 and Table 1). This estimated value for gas at the wellhead is a decrease of more than $200 million from the 1997 wellhead value.

Figure 3 - Kansas monthly gas production, and average monthly wellhead price for 1998.

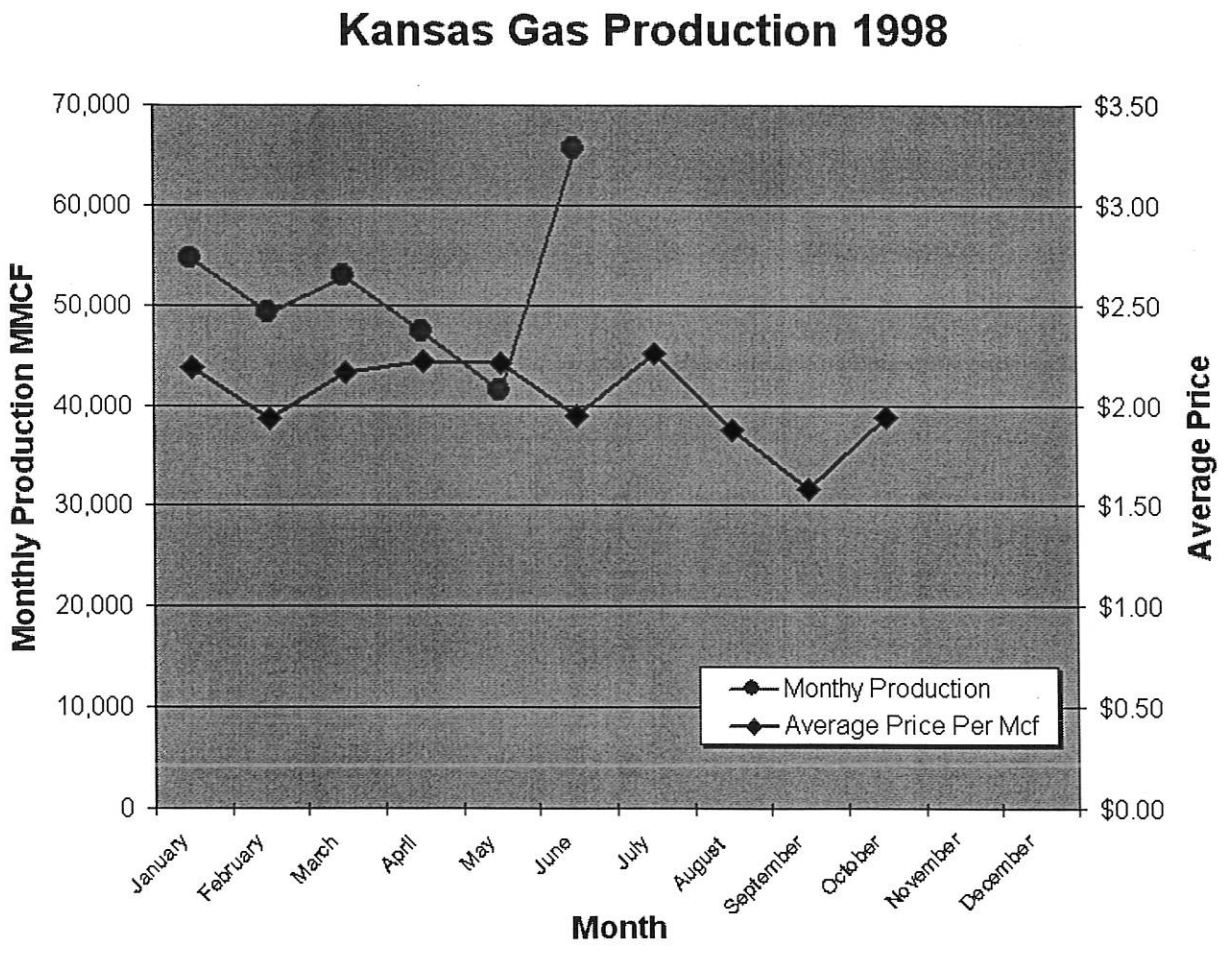

Figure 2 - Kansas monthly and cumulative gas production for the first six months of 1998. Annual production for 1998 is estimated by extrapolation of the cumulative production curve.

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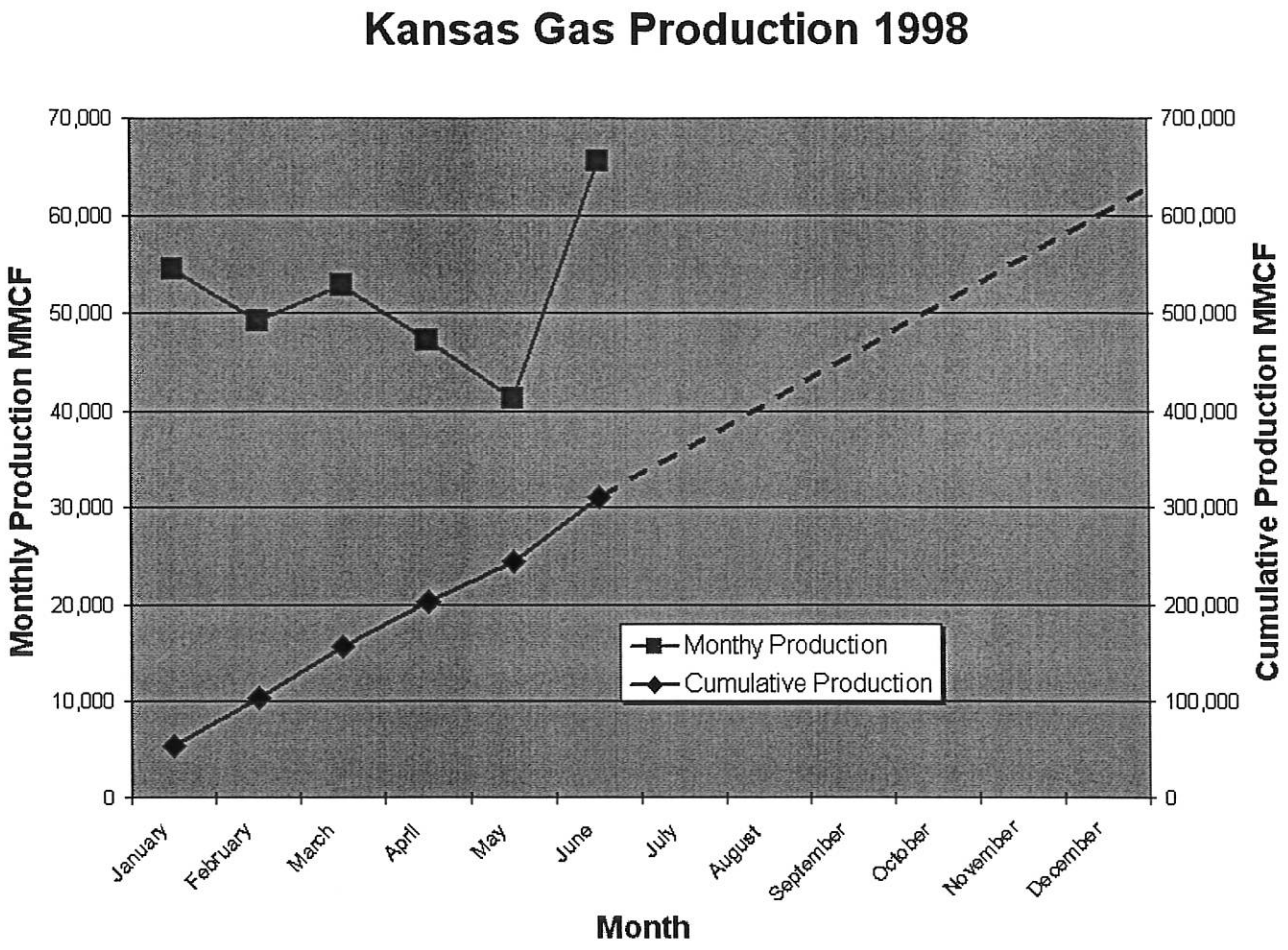

3 - Kansas monthly and cumulative value of gasproduction for the first six months of 1998. Value of annual production for 1998 is estimated by extrapolation of the cumulative value curve. The estimated value of $1,271 million is consistent with the estimated annual production volumes and average wellhead prices.

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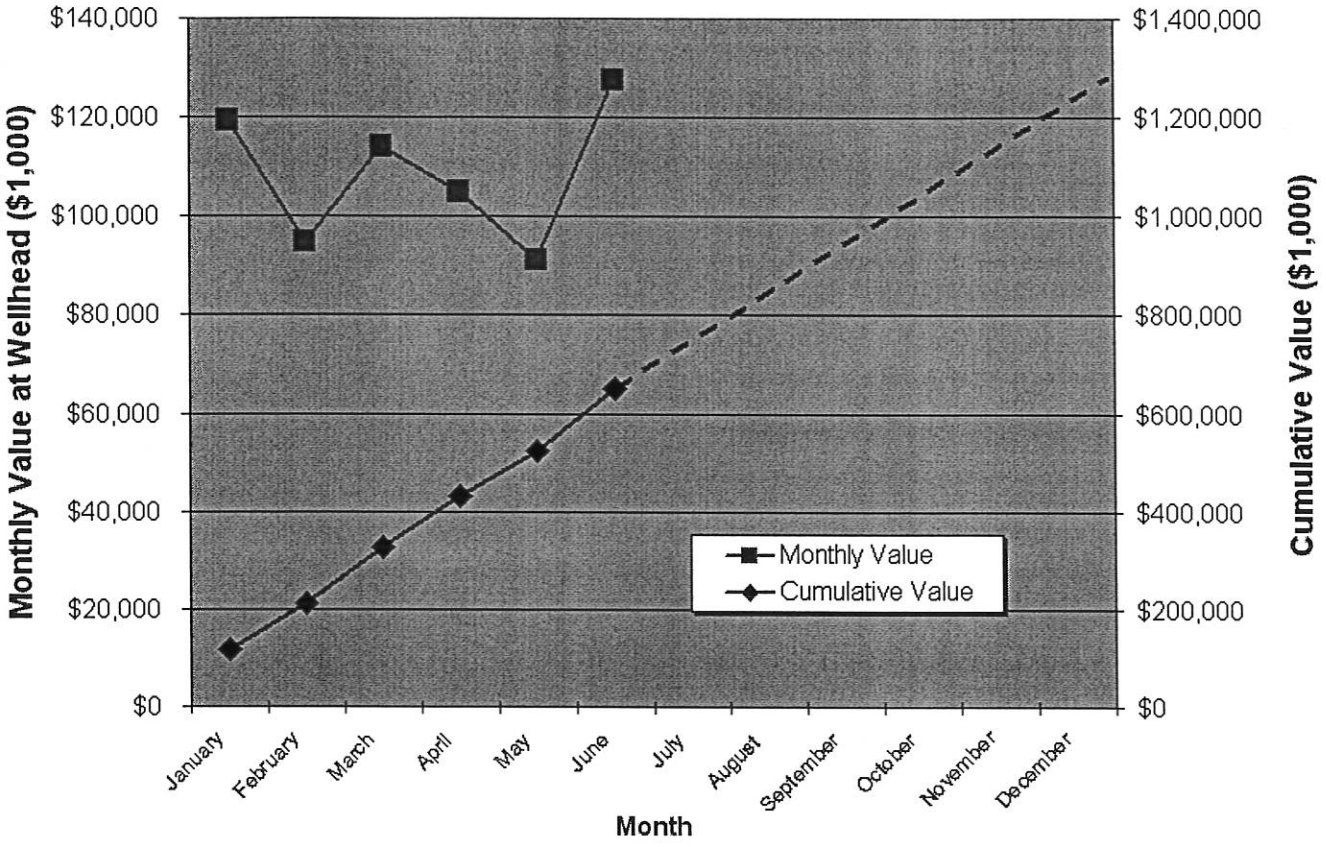
Value of Kansas Gas Production



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Estimated Economic Impact--Gas Production

The US Department of Commerce's Bureau of Economic Analysis (BEA) regional input-output multipliers (see discusion above for more explanation of multipliers) were used to estimate the impact of the $238 million in decreased revenue from 1998 gas production in Kansas (tables 1 and 3a). Using final demand multipliers, the lost output to the Kansas economy is estimated at $356 million with estimated lost earnings of $46 million (Table 2a). Statewide lost employment is estimated at 3,380 (Table 3a). Direct effect multipliers can be used to estimate the impact of decreased in revenue from 1998 gas production on the Kansas oil and gas industry (Table 3b). The industry is estimated to face a decrease of $23 million in earnings and a potential decrease of 2,166 employees. Added to the effect of decreased revenue from oil production the estimated impact on the oil and gas industry is may be catastrophic. These are estimates that are subject to debate and flaws in analysis.

Table 2a - Estimated economic effects of oil prices and estimated decreased gas production on the Kansas economy.

Estimated 1998 Decrease in Revenue at Wellhead (Million $)	Final Demand Multiplier Output	Final Demand Multiplier Earnings	Final Demand Multiplier Empoyment	Lost Output (Million $)	Lost Earnings (Million $)	Lost Employment
$238	1.4982	0.1925	14.2	$356.57	$46	3,380

Figure 2b - Estimated economic effects of gas prices and estimated decreased gas production on the Kansas oil and gas industry.

Direct Effect Multiplier Earnings	Direct Effect Multiplier Employment	Lost Earnings (Million $)	Lost Employment
0.0984	9.1014	$23.42	2,166

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TESTIMONY OF
DANNY N. BIGGS, VICE-PRESIDENT
PICKRELL DRILLING COMPANY, INC.
ON SENATE BILL 18
BEFORE THE SENATE COMMITTEE ON
ASSESSMENT AND TAXATION
JANUARY 21, 1999

Madame Chair and Members of the Committee:

My name is Danny Biggs and I reside in Great Bend, Kansas. I am Vice-President and co-owner of Pickrell Drilling Company, Inc., an independent oil and gas drilling and production company headquartered in Wichita, Kansas with field offices in Great Bend, Kingman, and Ness City. We have two rotary drilling rigs and three well servicing rigs. Pickrell has been operating in Kansas for fifty years, drilling over 2000 prospects. Today we operate 280 wells, down from 400 wells ten years ago. Our current employment is at 54.

I have worked for Pickrell for forty years, starting out as a roustabout, pumper, rig hand and truck driver. I have experienced good years and bad years in the forty-three years I have been associated with the oil and gas industry, but the last fourteen months have been the worst ever.

This industry has been devastated by the historically low oil prices. Unlike the major companies, our only source of income is

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at the well head and we have no control of the price we receive for our product. At last count, only nine drilling rigs were running in Kansas and none of them were exploring for oil.

Large and small independent producers are shutting in wells, laying off employees and slashing budgets.

Great Bend has lost at least twelve service and supply companies and thirty more that I know of, have shut down in surrounding areas. With an estimated 40% of the marginal wells shut down and many more will be shut down if the low prices continues, the remaining service and supply companies will be lost.

The American taxpayer has no concept of the real cost of imported crude oil and continues to believe that as long as gasoline is cheap, foreign crude must be a bargain.

That leaves the Kansas oil producer to compete with a heavily subsidized oil import business. The administration and the Department of Energy should inform the American people of the real cost of foreign oil.

A recent article in Platt's Oilgram News covers a secretive meeting last September 26 between Saudi Arabia and seven major U.S. oil companies. It was reported that oil prices would stay low and the Saudis would allow the U.S. companies to develop and

increase Saudi Arabia reserves and production and enable them to regain their market share. If this happens, many independents will not be able to survive a sustained period of low prices.

As the Kansas representative to the Independent Petroleum Association of America and President of the National Stripper Well Association, I made three visits to Washington, D.C. last year. All three were disappointing trips.

I believe there are possible solutions and actions that can be implemented by our State government that could play a major role in the survival of the Kansas Oil Industry.

We have utilized every cost cutting measure possible to continue operating.

The lay offs have been significant and painful. The decline in activity is rippling through our economies.

Please help save this important industry and help retain the jobs of hundreds of hardworking dedicated Kansans.

Thank you very much for this opportunity to tell our story.

KLIMA WELL SERVICE INC.
610 WEST FRONT STREET
CLAFLIN, KANSAS 67525
PHONE: 316-587-3333

Statement of Dennis V. Klima
President
Klima Well Service, Inc.
Claflin, Kansas
January 21, 1999

Re: S.B. 18 - Income Taxation

Madam Chair and Members of the Committee

My name is Dennis V. Klima. I am a member of KIOGA and have been in the oil well servicing business for 22 years. Since February of 1986 our business has been plagued by the low oil prices. When oil prices fall below $14.00 per barrel every operator around our area has to stop and rethink where his business is headed. In 1986 well pulling shut off like a faucet. Our business lost money for 9 months in a row because the operator could not afford to pull the stripper production. We and the remaining 1/3 of well service business depend heavily on operators in Kansas to provide work to keep us busy. This is why I feel this is so important that whatever relief they can receive would help so many down the line. Within 6 months, if something is not done immediately many small businesses like mine will not be here. I do not have to tell you the impact on Kansas when businesses fail. The past 6 months has been a nightmare for us, our men and all other businesses in our area. Agriculture and oil are the two main industries in our area and neither are doing well. If oil prices do not pick up soon, our business will fail. I employ 14 men and 2 women at the present time and they are all good people. We have been

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struggling to make payroll and keep benefits for our employees, such as insurance and uniforms. We have dissolved our pension plan because we could not afford to contribute to it. Our men need raises in pay that we can not afford to give. They can barely make it from payday to payday. It burdens me to see the small checks I issue to the men, wondering how they are going to live. Madam Chair and Members of the Committee, I must tell you everyone in the oil industry, I know, or have talked to is in a similar state now. Most of us do not know how we're going to survive and others are seriously contemplating getting out of the oil field altogether.

KLIMA WELL SERVICE INC.

610 WEST FRONT STREET
CLAFLIN, KANSAS 67525
PHONE 316-587-3333

December 14, 1998

UNITED STATES ENERGY DEPT.
THE HONORABLE
BILL RICHARDSON

Dear Sir:

Since February of 1986, the oil industry has been suffering from low prices. I'm sure the remaining 1/3rd. of the well service businesses, like mine, are in the same situation I'm in. We have all been fighting hard to stay in business to this point, but if the government does not respond immediately to our distress call, I truely beleive there will no longer be an oil field in this area and if something would happen to gas prices, the whole state will follow. In other words, the oil fields in Kansas will be like the dinosaurs, EXTINCT.

Sincerely,

Dennis V. Klima

Dennis V. Klima, President
KLIMA WELL SERVICE, INC.

A few other businesses and people this effects.
KAR Products - Kyle Grover
floor hand - Nathan Manley
Office Products Inc. - Gerald J. Dinkel
Cintas - Jay Richards

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SENATE COMMITTEE ON ASSESSMENT AND TAXATION
January 21, 1999
RE: SB 18 - An Act allowing a tax credit for personal property tax paid upon the working interest of certain oil wells.

Testimony of David Bleakley - Legislative Chairman
Eastern Kansas Oil and Gas Association
&
Director of Acquisitions & Land Management
Colt Energy, Inc.

The Eastern Kansas Oil and Gas Association (EKOGA) strongly supports SB 18.

Our association represents and supports eastern Kansas oil and gas producers, service companies, royalty owners and associated businesses along with the overall welfare of the Kansas oil and gas industry in this state.

In testimony supporting SB 18, EKOGA feels this tax incentive or any incentive for that matter that helps an industry that is in one of its lowest depressions in history is worthy of consideration.

Our industry (except for a few short months off and on) has been flat on is back since 1986, the year of the oil bust. Now, almost 13 years later the current price being paid for a barrel of oil in Southeast Kansas is $8.75. Adjusted for inflation this price is far worse than the lowest point in 1986, in fact it is the lowest price paid in 50 years.

We do not see SB 18 single handedly saving our industry, but this Bill along with others will collectively help more producers hang on until the price can recover. This industry has given a lot to this state in the past and we believe it will in the future, but right now **today** we need help from our state to survive. Any incentive to help preserve this industry and the jobs and revenue it generates for the state economy is important.

Therefore, Mr. Chairman and members or this Committee, we urge you to vote in favor of SB 18 and show the men and women and families of this state in the oil and gas business that Topeka wants to help.

Thank you for your time.

David P. Bleakley

Senate Assessment + Taxation
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Attachment 8