

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE.

The meeting was called to order by Chairperson David Corbin at 10:45 a.m. on February 13, 2001, in Room 519-S of the Capitol.

All members were present except:

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

Conferees appearing before the committee: Dick Brewster, bp
Jack Glaves, Occidental Oil and Gas Company (Oxy)
Bob Krehbiel, Kansas Independent Oil and Gas Association
Charles Wilson, BEREXCO Inc.
Senator Mark Taddiken
Bill Becker, AgraMark
Joe Lieber, Kansas Cooperative Council
Mike Beam, Kansas Livestock Association
Greg Krissek, Kansas Corn Growers and
Kansas Grain Sorghum Producers Association
Bill Fuller, Kansas Farm Bureau

Others attending: See attached list.

The minutes of the February 7, 2001, meeting were approved.

SB 51—severance taxation; concerning incremental severance and production of oil and gas, exemption—as amended by Committee on Utilities.

Dick Brewster, representing bp, testified in support of **SB 51**. He noted that the bill amends a statute enacted three years ago and that the existing statute is designed to bring incentives for bringing to the market incremental production which occurs as the result of production enhancement projects. He explained that incremental production (production over and above the base production of the well) is exempt from the severance tax under the provisions of the bill for a period of seven years, if the project qualifies. In addition, certain oil or gas brought to market by virtue of three dimensional seismic based wells is exempted. Mr. Brewster recommended three amendments. The first amendment would clarify the definition of base production for a gas well, the second would provide an exemption from coal bed gas production, and the third would strike the price threshold. (Attachment 1)

As part of his testimony, Mr. Brewster distributed copies of data from the Natural Gas Supply Association furnished by Ken Peterson, Kansas Petroleum Council. The data concerns current natural gas supplies and what the Association feels the future holds for the natural gas market with regard to the growing demand for natural gas. (Attachment 2) Mr. Brewster noted that, today, natural gas consumption in the United States is between 21 and 22 trillion cubic feet a year. In the next decade and half, consumption will increase to 30 trillion cubic feet. It is estimated that the industry will spend \$650 billion to keep pace with the demand for natural gas. For this reason, the Association encourages the removal of the price threshold on the incentives so that Kansas remains competitive with other states in attracting oil and gas investment dollars.

John Glaves, Occidental Oil and Gas Company (Oxy), testified in support of **SB 51**. He explained that Oxy is one of the most active producers in the southwest Kansas area and is particularly involved in deeper exploration ventures, which are relatively expensive and high risk. He noted that existing tax incentives have encouraged Oxy to drill 32 wells and that Oxy particularly utilizes the exemption in extensive three dimensional seismic, which is vital to exploration in Hugoton. He said that the exemption has resulted in over 300 applications, and as its availability becomes more generally known, it will be a continued source for new investment capital for Kansas exploration. In this regard, he called attention to a pie chart attached to his

CONTINUATION SHEET

written testimony, which shows the types of projects utilized by the industry, and to a list of applications filed by independents, which was compiled by the K.C.C. He said the utilization of the exemption and the employment of the technologies that qualify for the exemption have resulted in additional drilling and additional production. He also called attention to a chart showing that the production of gas in Kansas has been declining every year since 1985. He emphasized that something must be done to abate the decline. In conclusion, Mr. Graves said the exemption would encourage deeper drilling to discover buried stream beds which can be very productive. He noted that the fiscal note is low, \$725,000 to \$750,000. (Attachment 3)

Bob Krehbiel, Kansas Independent Oil & Gas Association (KIOGA), testified in support of **SB 51**. He informed the Committee that Eastern Kansas Oil and Gas Association authorized him to testify on their behalf. He went on to state that the purpose of this exemption to the severance tax was to encourage investment in the kinds of enhanced production cited in the statute, to increase production, to prevent waste, and to create jobs and the associated economic activity which results. However, recent price increases above the price limitations have eliminated the use of this incentive for exploration. Mr. Krehbiel contended that maintaining the viability of the incremental production exemption to the severance tax is critical to the continuance of enhancement activity in Kansas. In this regard, he cited a recent study commissioned by the Interstate Oil and Gas Compact Commission, which indicates that such incentives pay off for the state's economy. (Attachment 4) Mr. Krehbiel gave a copy of the study to Chairman Corbin, who indicated that it will remain on file in his office for review by interested committee members.

Charles Wilson, BEREXCO Inc., gave final testimony in support of **SB 51**. He began by itemizing projects qualifying for the exemption. He said BEREXCO saw the value of the tax incentive to re-invest cash flow into enhancing its existing production, and he discussed statistics regarding BEREXCO's enhancement activity after the exemption was made effective July 1, 1998. He maintained that the exemption for incremental production from severance taxation makes Kansas competitive for new project investments. He commented that producers, the state, and the county economies, will all be net winners with the passage of **SB 51**. (Attachment 5)

Chairman Corbin called attention to written testimony in support of **SB 51** submitted by Ron Hein on behalf of Pioneer Natural Resources USA, Inc. (Attachment 6) and Erick E. Nordling, Southwest Kansas Royalty Owners Association (Attachment 7). There being no others wishing to testify, the hearing on **SB 51** was closed.

SB 84—Income taxation; providing a credit for investments in certain agricultural cooperatives.

Senator Mark Taddiken, testified in support of **SB 84**. He explained that the purpose of the bill is to assist agricultural producers in retaining control of their products further into the processing chain, thus increasing their potential for profit. The bill provides tax incentives to assist in raising the needed capital. It allows a credit of 25 percent of the amount invested up to a maximum of \$2,500. An investor would be able to sell or transfer the credit if they so desired. Senator Taddiken offered two amendments. One would restrict any single project from receiving more than 25 percent of the total yearly tax credits, and the other would reserve 10 percent of the total yearly tax credits for projects costing less than \$1 million. Senator Taddiken believes the program would not only assist rural Kansans but also would have a positive impact on the state treasury in the long run. (Attachment 8)

Senator Lee commented that she recently received an e-mail concerning this issue from Jennifer Mathes who served on the Governor's 21st Century Task Force on Agriculture. Ms. Mathes stated that the task force's recommendation was not limited to cooperatives but included other value-added sectors in the state. Senator Lee asked if there was specific reason for limiting the bill to cooperatives. In response, Senator Taddiken said the bill is an attempt to pass the profits to farmers or producers, and one concern with opening it up to any business was the possibility that taxpayers would be funding some of the larger value added businesses. Senator Lee clarified that Ms. Mathes discussed the task force's intent to encourage individual producers to invest in a project that could stimulate their local economies. Senator Lee will submit the e-mail with Ms. Mathes' suggestions at the next committee meeting for the Committee's consideration.

Bill Becker, AgraMark, testified in support of **SB 84**. He explained that he is a producer in northeast Kansas and discussed the changes he has seen in agriculture since he began farming in 1977. When he began, he decided to add value to his crops by feeding livestock. He had a fairly large pork production facility and also fed cattle. With the event of consolidation in agriculture and corporate livestock feeding, he decided to leave pork production. He had to increase his crop production to offset the loss from adding value with livestock.

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Fifteen years ago when he sold livestock, he achieved approximately 50 percent of what the consumer spent for meat. For the past ten to twelve years, he has delivered corn directly to a local corn processor, who processes the corn into corn grits which are rolled into corn flakes. Corn flakes are sold at about \$3.00 a box, and about 15 cents of that \$3.00 goes back to the producer. By no longer adding value, over time he has lost the percentage share of what is received from the consumer.

Mr. Becker went on to say that, about four years ago, he had an opportunity to represent Farmland Industries in the National Institute for Cooperatives in Minnesota. At that time, producers in the rural area of Minnesota he toured were addressing the same problems with cooperatives as Kansas. One thing he noticed was that rural development there was different from Kansas. New homes were being constructed in the rural area he visited. He discovered that the added value in processing plants there brought value back to the producer and created jobs. Many of the new homes were not homes for producers but were homes for contractors and other new people moving into the area.

Mr. Becker explained that six months after he returned from Minnesota, an elevator operator in his local area (Everest) made a decision to sell the facility, but could find no buyer. Mr. Becker was one of twenty-one local producers and businessmen who combined resources and bought the facility. After four years, they have approximately a 25 percent return on their investment, and the City of Everest has been revitalized. He explained further that his group decided that it should have an organization larger than the core group in the Everest community; therefore, they put together another cooperative that is focused entirely on marketing crops in niche markets and bringing value back into their production. The first year, it brought back approximately \$230,000 to member owners. Recently, the group purchased a Quaker Oats facility at St. Joseph. He feels that the Quaker Oats facility will give the group an opportunity to move up the value chain and achieve some of the values seen in agriculture twenty years ago. Mr. Becker emphasized that one of the keys to the Quaker Oats opportunity was the tax credit in the State of Missouri, which has a cap of \$6 million, \$1.5 million per individual opportunity and a \$15,000 level for an individual producer. He pointed out the tax credit allows a producer to bring forth much more equity than if it was not in place.

Joe Lieber, Kansas Cooperative Council, testified in support of the concept of **SB 84** and discussed what he perceives to be technical problems with the language. He questioned the meaning of "economic value" on line 21, and "eligible person" in Section 1(3). He also questioned if a traditional farm cooperative which needs a new feed mill could sell stock to its current members to build it and if a traditional farm cooperative could sell stock to a producer that promises to deliver a specified quantity of product consistent with a marketing agreement. He offered an amendment to ensure that traditional farm cooperatives can be involved. He also addressed concerns regarding how the tax credit would be divided. In this regard, he called attention to examples of the Missouri and Oklahoma laws that address his concerns attached to his written testimony. In conclusion, Mr. Lieber said the Committee should be aware that not all added value cooperatives are successful. (Attachment 9)

Chairman Corbin called the Committee's attention to written testimony in support of **SB 84** submitted by Representative Sharon Schwartz, who was unable to testify due to the fact that the House of Representatives was in session. (Attachment 10)

Mike Beam, Kansas Livestock Association, testified in support of **SB 84**. He began by expressing appreciation to Senator Taddiken and others who requested the introduction of the bill. He pointed out that subsection (c) provides that the tax credits to be transferred to others with a state income tax liability. In his opinion, the provision will cause more producers to participate. He commented that most marketing cooperatives view themselves as meal providers instead of commodity producers. He noted that agricultural marketing cooperatives are not a new concept, and followed with a discussion of examples of successful cooperative marketing ventures (Sunkist Growers, Blue Diamond Growers, Ocean Spray, and US Premium Beef). He believes that the best opportunity for many Kansas producers is to pursue similar marketing arrangements. (Attachment 11)

Greg Krissek, Kansas Corn Growers and Kansas Grain Sorghum Producers Association, testified in support of **SB 84**. He said one of the best opportunities that exists for Kansas' producers involves going beyond merely producing a generic unprocessed commodity, and the return on investment in farming pales when compared to the returns common to the food and agricultural commodity processing industries. Mr. Krissek discussed new Missouri ethanol plants which formed with cooperatives as part of their legal structure so that their members could utilize a similar income tax credit available under Missouri law. He believes potential Kansas ventures would increase in number with the availability of the income tax credit provided in the bill. (Attachment 12)

CONTINUATION SHEET

Bill Fuller, Kansas Farm Bureau, gave final testimony in support of **SB 84**. He agreed with other conferees that the bill will provide a financial incentive for many farmers and ranchers to invest in producer owned businesses that will add value to the crops they grown and the livestock they raise. He commented that subsection (d) on page 2 of the bill limits the fiscal exposure to the state budget to \$2 million. He said the limit may be even more necessary today when the Legislature is dealing with a tight budget as a result of reduced revenue collections. (Attachment 13)

There being no others wishing to testify, the hearing on **SB 84** was closed.

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

The next meeting is scheduled for February 14, 2001.

SENATE ASSESSMENT AND TAXATION COMMITTEE GUEST LIST

DATE: February 13, 2001

NAME	REPRESENTING
Bill Fuller	Kansas Farm Bureau
Charlie Wilson	Berexco
Bob Knechtel	Krogg
Justin Holstin	Ks Coop Council
Joe Lieber	Ks. Co-op Council
Jim Allen	EKOGA
Bill Becker	AgroMarket
GEORGE PETERSEN	Ks TAXPAYERS NETWORK
Kelley Kuetala	City of Overland Park
Judy Shaw	SWKIA
Bill Brady	Ks Gov't Consulting
Pat Harbace	Amador
Tom BORNE	SRBA
Chris Wilson	Ks Seed Industry Ass'n
Sharon Shurtz	Representative 166th
Scott Bruner	DOB
Rebecca Reed	KIDA
Greg Krussek	Ks Corn Growers Assoc
Connie Fischer	KDOCH - Ag. Division

Comments to:

The Kansas Senate Committee on Taxation

on

Senate Bill No. 51

**February 13, 2001
Topeka, Kansas**

Submitted by:

**Dick Brewster
Director, Government Affairs
bp**

*Senate Assessment + Taxation
2-13-01
Attachment 1*

Mr. Chairman, Members of the Committee, for the record, my name is Dick Brewster, and I am Director of Government Affairs for bp.

First, let me express my appreciation to the Committee for the opportunity to review Senate Bill No. 51 with you today.

Senate Bill No. 51 modifies Section 1 (b) (6) of K.S.A.79-4217. Section 1 (b) of K.S.A. 79-4217 is a list of exceptions to the state severance tax. Subsection (6) provides that oil or gas resulting from certain "production enhancement projects" is exempt for a fixed time period of 7 years.

Production enhancement projects include defined investment, or activity, that results in "incremental" production, or production volumes that would not be obtained except for the project -- the investment. An enhancement project also includes the initial drilling of certain wells that bear an extra-ordinary front loaded cost, wells defined in the law as being based on "new technology. The law exempts from the severance tax this incremental, or additional production and production from the qualifying new wells based on new technology. No existing production was exempted as the result of adoption of this law three years ago.

The idea behind enactment of the measure three years ago was to encourage investment in Kansas gas and oil production. It has done that. Jack Graves, representing OXY, and others who will speak with you in a few minutes will provide specific examples of production and revenue, which have resulted from the incentives provided by this legislation.

"Incremental production" resulting from production enhancement projects increases the life of mature oil and gas fields, resulting in the production of more oil and gas from those fields in the long term, and provides an immediate increase in gas or oil into the marketplace from these areas. Wells based on new technology, wells that have an unusually high front-end cost, can increase overall production in Kansas as well. Both mean more jobs in Kansas, more payroll and sales tax revenue, and more property tax revenue for the state and local governments. These revenues exceed the cost to the state from foregoing the severance tax revenue for a period of time. And, ultimately, the state will pick up the severance tax revenues as well.

The current law, however, has a significant problem: The severance tax exemption goes away during any fiscal year which follows a calendar in which the average price of Kansas gas is over \$2.50 per Mcf, and Kansas crude oil sells for over \$20.00 per barrel. I surely don't have to say that prices are now above these thresholds.

Senate Bill No. 51 eliminates these price thresholds. We recommend this action because it is important for Kansas to be competitive with other states in attracting investment. According to the Natural Gas Supply Association and the Energy Information Administration, U. S. demand for natural gas will increase from the current annual level of around 22 trillion cubic feet, to 30 Tcf in the next dozen or so years. Finding and bringing to market adequate gas supplies will require producers to spend an estimated \$648 billion, or some \$40 billion a year in the next decade and a half. All producing areas, and potential areas will be competing for this investment. With the price caps, Kansas remains less than fully competitive for the investment that will happen. Texas and Louisiana have removed price caps from their investment incentives. Oklahoma is looking at removing its incentive thresholds. The amendment that appears on page 6 of the bill, lines 31 through 37, removes these thresholds from current law.

The amendment to current law which appears on line 11 of page 6 is intended to include another type of well which, like 3 Dimensional seismic based wells, have an extraordinary high front end cost. Specifically, provides an exception for coal bed gas production. Unlike a typical gas well, in which water comes to the well bore as it replaces the gas which has been produced, in coal bed production, water must first be removed in order to get the gas to flow to the well bore. Handling this water is a very high initial cost, and we believe this kind of incentive may help bring coal bed gas production to eastern Kansas.

The amendment in the definition of base production, beginning at line 38 on page 4 and going to line 6 on page 5, clarifies the determination of base production for a gas well. The language currently in the statute was really designed to deal with oil production. The change in the definition of base production for a gas well is needed to accommodate the increasing number of wells in the Hugoton area that will have to have vacuum applied wells – which have no wellhead pressure.

The essential part of the bill is the elimination of the price threshold. Increased production and deliverability means additional property taxes to state and local governments. Unlike many states, Kansas imposes a property tax on the value of the oil or gas lease, and that taxable value increases as production increases. Property taxes, on the average, are about double the severance tax for a given well or lease. And, of course, there is the additional sales and income tax paid by the additional employees who come with the additional activity resulting from these incentives.

Mr. Chairman, Members of the Committee, again, I appreciate the chance to review this bill with you. I will be happy to respond to any questions. I urge approval of Senate Bill 51 by the Committee.

Respectfully Submitted,

Dick Brewster



Natural Gas Supply Association

Issues

Supply and Demand Effects in an Evolving U.S. Natural Gas Market

-- A Briefing Paper

Section 1: The Issues

Section 2: Growing demand for natural gas

1. Energy demand tracks economic growth
2. Growth in consumption of natural gas
 - Environmental benefits
 - Increased demand from power sector
3. Natural gas storage
4. Move to year-round capacity utilization
5. Weather impacts
 - Winter
 - Summer

Section 3: Meeting the challenge of supplying the market

1. Near-term challenge
 - Regional base of U.S. production
 - How technology is helping
 - Lag time in bringing new supplies to the market
 - Maturity of existing asset base
2. Long-term challenge
 - Land access issues
 - Capital access
3. What the industry is doing now to meet demand

*Senate Assessment & Taxation
2-13-01
Attachment 2*

Section 4: How the market works

1. Natural gas is a commodity traded in an open market
2. Highly competitive industry
3. Supply and demand cycles
4. Comparison with earlier government-controlled market
5. Government intervention would be short sighted.

Section 1: The Issues

Growing demand for natural gas

- The U.S. economy is strong and over time, energy demand tends to track economic growth. Recent fluctuations in natural gas prices are the market's way of balancing supply and demand.
- Natural gas is a clean, safe, efficient and reliable fuel. Consequently, demand from all customer sectors is rising, particularly as a fuel of choice for new power plants. The Energy Information Agency (EIA) forecasts demand for 2000 to increase 4.3 percent from 1999 and continue to grow 26 percent by 2010.
- Weather can significantly impact demand for natural gas. The move towards gas fired electricity generation will create year-round demand for natural gas as utilities and energy service providers meet year-round and increasing electricity demand.
- The traditional natural gas market is evolving from one that essentially meets seasonal peak demand to one where capacity is more fully used year-round.
- Recently, supply has lagged rising demand as reflected in higher prices, but natural gas producers are working hard to bring more gas into the market.

Meeting the challenge of supplying the market

- Almost 90 percent of natural gas consumed in the U.S. is produced domestically. Most of the remainder comes from Canada via underground pipelines.
- The accessible domestic natural gas resource base is mature. Although it is adequate in the near-term, significant challenges will have to be met to meet future market demand. . The National Petroleum Council study titled Natural Gas, Meeting the Challenges of the Nation's Growing Natural Gas Demand (NPC Study), projects that producers will have to invest approximately \$658 billion in upstream capital from 1999 to 2015 to meet demand growth for natural gas.
- Access to multiple-use government lands with high impact resource potential is

crucial for security of supply.

- ❑ Drilling for natural gas declined in the wake of the dramatic fall in commodity prices in 1998 –1999 and the resulting lack of investment capital. It takes time to recover from that decline in investment.
- ❑ But natural gas producers are responding. Today, with tight supply and rising demand, producers are working hard to bring more natural gas to the market. Three out of four U.S. drilling rigs are currently busy drilling for natural gas. Since last October, the industry has had an average of 680 rigs working and gas well completions have increased 30 percent to more than 1,000 per month.

How the market works

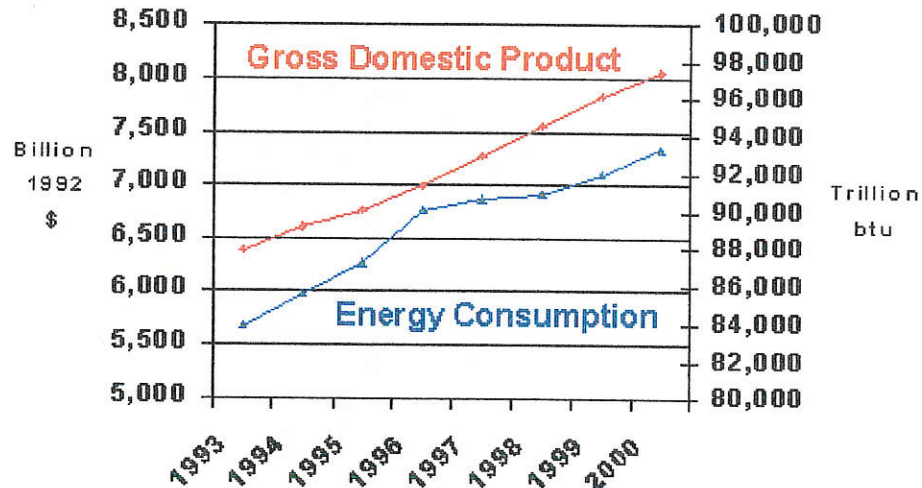
- ❑ The natural gas market is open and competitive. The daily price of gas is determined by the commodity market and is traded at numerous delivery hubs throughout the nation. Although most residential users receive their natural gas from a utility, the price that they pay is determined on an open and competitive market.
- ❑ There are around 8,000 producers each making independent decisions every day about their operations.
- ❑ The top five producers supply only 17 percent of the U.S. market demand, so there are no dominant players.
- ❑ Price movements occur as the supply and demand interact. Because of the lag time inherent in matching supply with increased demand, supplies can become out of balance with demand, sometimes resulting in higher prices.
- ❑ Consumer's benefit from an open and competitive natural gas market with lower prices and increased reliability. Historically, government intervention into a competitive market has created shortages and increased prices.

Section 2: Growing demand for natural gas

1. Energy demand tracks economic growth

- ❑ The strong economy has increased energy demand from all consumer sectors
- ❑ of the natural gas industry.

Economic Growth vs. Overall Energy Consumption



Sources: Economic Indicators, June 2000, Government Printing Office

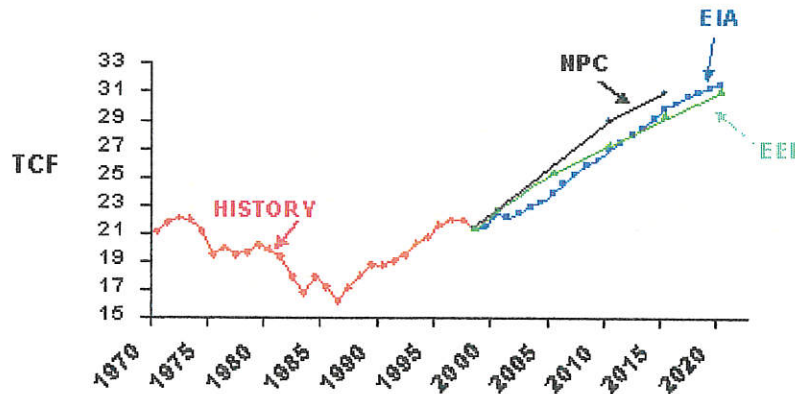
Oil & Gas Journal, January 31, 2000

*Energy Consumption includes all energy sources.

2. Growth in consumption of natural gas

- **All sectors:** The rising demand for natural gas is being seen across all customer sectors. The choice of natural gas is partly due to its environmental benefits. Switching to natural gas as a fuel source helps companies, energy service providers and utilities comply with Clean Air Act regulations. Additionally, gas competes favorably as an economically attractive source of energy.
- **Forecast Demand:** The EIA predicts an increase of 3.5 to 4.0 percent in natural gas demand for electricity generation over 1999 levels during the first half of 2000. The National Petroleum Council forecasts that electricity generation is expected to account for almost 50 percent of demand growth between now and 2015.

Natural Gas Demand is Forecasted to Grow

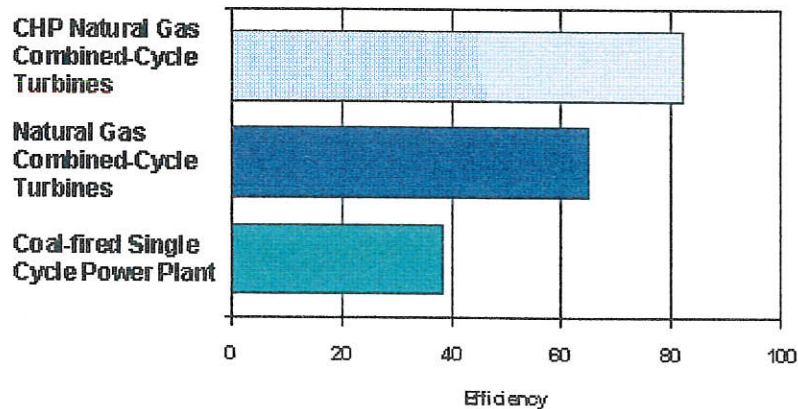


Source: Compiled by NGS&A

Acronyms: Edison Electric Institute, Energy Information Administration, National Petroleum Council

- **Power Generation:** New technology being used in natural gas-fired power stations provides lower emissions, improved efficiencies, at a lower construction cost leading to a significant growth in natural gas demand.
- **More efficient:** New combined-cycle gas turbine power generating equipment is considerably more efficient than competing technologies.

Natural Gas Combined-Cycle Turbines are Efficient

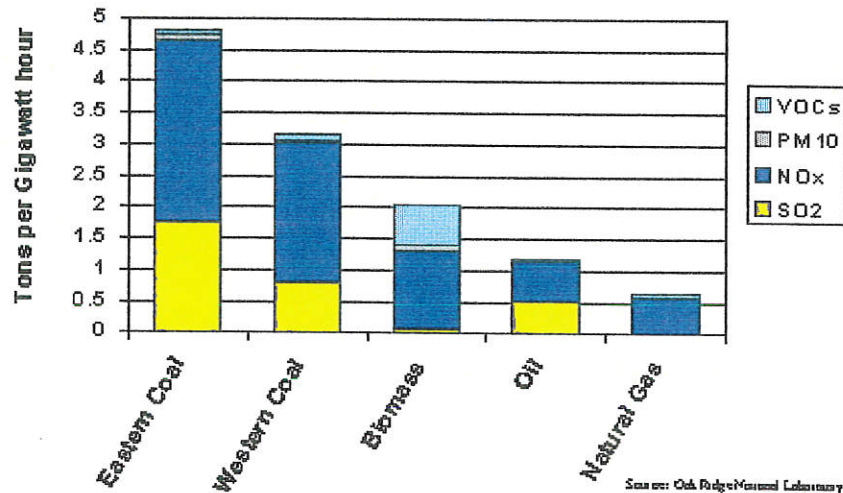


Sources: Gas Research Institute and Marathon Oil Company Acronym: Combined Heat and Power (or Cogeneration)

- **Less pollution:** Atmospheric emissions from CCGT power stations are much lower than from power stations using competing fuels with existing technology.

Natural Gas Is Clean

Emissions From Electric Power Generation by Fuel



Acronyms: Volatile Organic Compounds (VOCs)

(VOCs) Particulate Matter (PM10)

Nitrogen oxide (Nox)

Sulfur dioxide (SO2)

- **Construction forecast:** Because of these benefits, significant growth in the construction of gas-fired electricity generators is forecast.

New Capacity

ANNOUNCED GAS-FIRED COMBINED CYCLE CAPACITY ADDITIONS									
Region	Announced Capacity Additions								
	No. Of Units	Total Capacity (MW)							
		1998	1999	2000	2001	2002	2003	2004-2007	Total
West	25	0	0	260	2,600	1,600	9,120	1,520	15,100
New England	31	0	1,312	3,600	1,100	900	0	0	13,912
Mid Atlantic	62	130	11	1,520	1,310	0,100	2,000	0	3,371
South East	51	264	0	2,500	3,320	0,500	9,500	4,500	20,824
Mid West	32	111	313	1,200	4,111	1,200	3,333	0	12,868
South West	64	120	1,312	0,500	13,310	10,100	4,100	0	31,122
Other Regions	29	151	0	2,000	1,000	0,000	2,500	1,000	14,500
Total	300	1,396	4,523	18,786	35,350	38,335	50,758	7,746	156,894
1. Excludes 30,122 MW of projects that are unlikely to be completed.									
2. Excludes 33,333 MW of units.									
Source: Annual reports, announcements, and trade press articles (as of May 2003), EIA, Inc.									

3. Natural gas storage

- Extensive underground storage is available at strategic locations throughout the gas delivery system, from the production centers to the market centers. These storage facilities provide load balancing functions and some price stability.
- Access to storage allows individual gas buyers to acquire supplies during lower demand or off-peak periods and store the gas near its point of use for delivery during peak-use periods, such as during cold winter weather.
- Producers sell natural gas to the individual gas buyers for injection into storage.
- The ability to store gas compensates for temporary production disruptions, such as hurricanes, and enhances reliability of service.

4. Shifting market from peak to year-round

- Natural gas traditionally has a seasonal demand pattern based on winter residential and commercial heating demand; now it is also experiencing a strong summer market, as natural gas demand for electric generation grows.

5. Weather has a significant impact on the demand for natural gas.

- **Winter:** Prolonged cold spells, below the seasonal norm, will increase demand for space heating and power generation requirements.

- **Summer:** Prolonged hot weather, beyond the seasonal norm, will also drive summer demand as natural gas fuels most new electricity generation capacity and utilities respond to air conditioning usage.

Section 3: Meeting the challenge of supplying the market

1. Near-term challenge

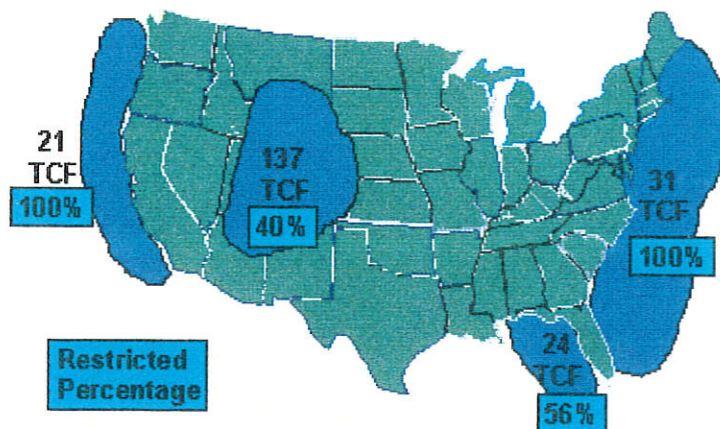
- Regional base of U.S. production
 - **Most supplies are from U.S.:** almost 90 percent of the natural gas consumed in the U.S. is produced in America. Most of the remaining natural gas supplies are transported from neighboring Canada via pipelines.
 - **Reserve base:** the National Petroleum Council estimates proven reserves from the lower-48 and Alaska at 167 TCF. At current production rates this is enough to meet existing demand for 7 years. However, the development potential of additional resources is considerable. While the NPC estimates total natural gas resource base for the lower-48 and Alaska at 1,779 TCF, it must be remembered that only a small portion of these reserves will be capable of commercial development with today's technology.
- Technology is helping
 - Advanced technologies help protect the environment and keep costs down.
 - Technology has revolutionized how natural gas is found and produced, resulting in minimal and temporary disturbances to the environment.
 - More natural gas can be produced with fewer wells thanks to 3-D seismic processes that analyze geological structures with greater precision.
 - Directional and horizontal drilling technology allows a variety of productive reservoirs to be accessed from one location.
 - Offshore wells can safely capture natural gas in ocean depths of thousands of feet in areas far offshore.
- Lead time in bringing new supplies to the market
 - There is a lag between the time producers begin to drill and the time it takes for the gas to reach the market. It can take anywhere from a few months to several years to bring supply to market, depending upon the geographic location and point in the exploration and development cycle at which producers begin the process.

- **Wells:** If a drilling prospect in a currently producing field already exists, it takes an average of three months to bring that gas to market. If, however, wildcat exploration for new fields is required to locate new sources of natural gas, it can take as long as several years for that gas to reach market, depending on the complexities of development.
 - **Workers:** The industry responds to volatility in commodity prices by adjusting investment levels accordingly. The recent dramatic fall in prices led to a reduction in the need for rig workers. Training new workers or rehiring skilled workers is part of the gearing up process and takes time.
 - **Safety and Environmental Compliance:** The industry is committed to produce natural gas safely and in compliance with all environmental regulations. In responding to the growing demand for natural gas we will never compromise these cornerstones of our business for the sake of expediency.
- Maturity of existing asset base
 - A major concern of natural gas producers is the maturity of the existing asset base. Discoveries within the known basins are becoming progressively smaller and the productivity of wells being drilled today has a shorter life. The ability to profitably develop new production from some of these basins is becoming challenging.

2. Long-term challenge

- Access to areas of high impact reserve potential is crucial.
 - The primary concern with respect to the resource base is that many government lands are off limits or subject to significant restrictions:
 - 100 percent of offshore land on both coasts;
 - 56 percent of the eastern Gulf of Mexico resources; and,
 - 40 percent of the Rocky Mountain region resources.

Resource Base Affected by Access Restrictions



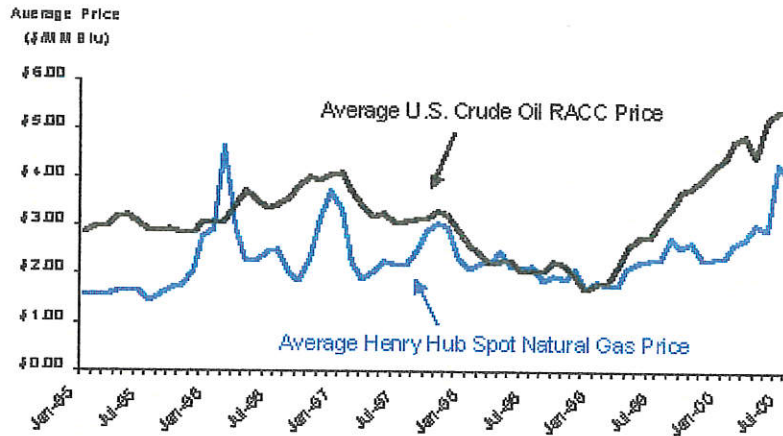
Source: National Petroleum Council

- The National Petroleum Council estimates that producers will be required to invest \$658 billion in upstream capital by 2015. This will require annual average capital expenditures of \$39 billion, an increase of 44 percent over the annual average of \$27 billion invested from 1991 through 1998.
 - Comprehensive and coordinated federal policy and cooperative efforts by industry and other stakeholders can meet the challenges.

3. The industry is working to meet demand

- Producers are responding to the market by drilling for more natural gas.
 - The price collapse of natural gas and oil in 1998 and 1999 resulted in the industry allocating less capital to exploration and production activities.

Low Natural Gas and Oil Prices (1995 – 2000)

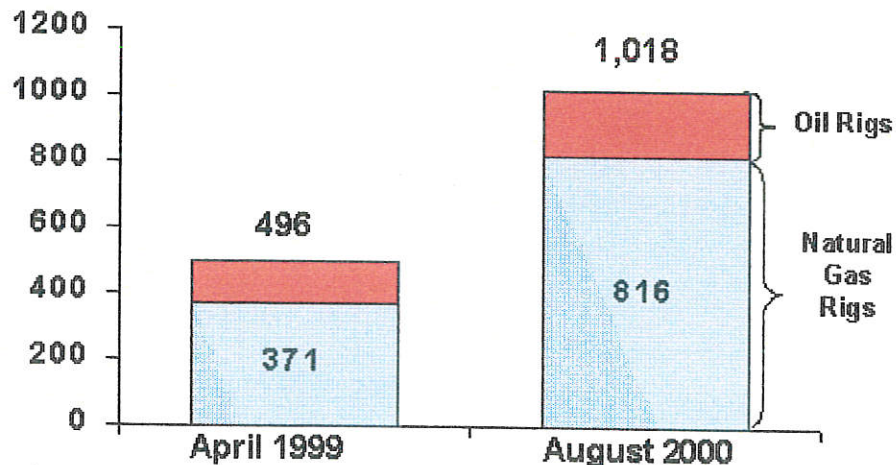


Source: Energy and Environmental Analysis, Inc.

- **Increased rig activity:** Three out of four of the active U.S. drilling rig fleet is engaged in drilling for natural gas. Baker Hughes estimates that as of September 2000 there are 816 rigs currently drilling for gas. The company forecasts an average of 680 for the year, an all time high and 20 percent more than the 1997 record of 566. This activity rate does not include drilling for coal seam methane, which is also rising.

Natural Gas Producers are Responding

Natural Gas Rigs Have Doubled



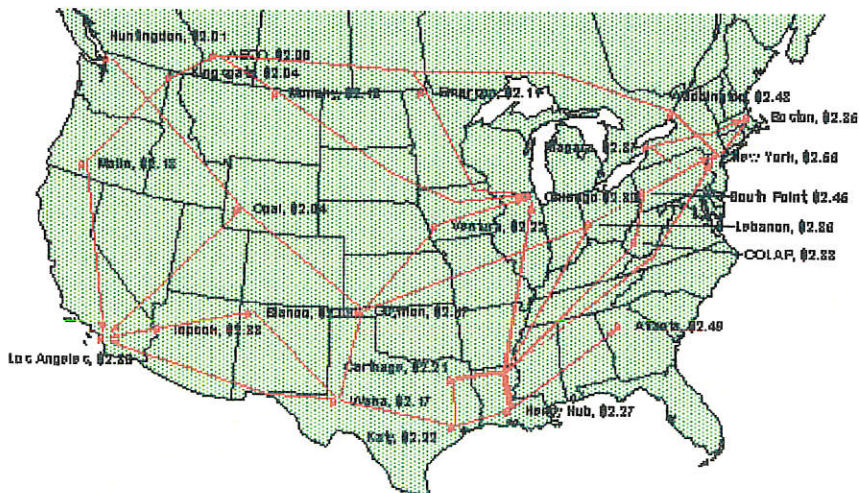
➤ **Well completions:** Well completions, another measure of exploration and production activity, are up almost 30 percent in the first quarter 2000 over fourth quarter 1999 activity. Completions currently are averaging over 1,000 per month.

Section 4: How the market works

1. Natural gas is a commodity traded in an open market

- ❑ Natural gas behaves like any other commodity market; for example, wheat and orange juice are commodities.
- ❑ The price of natural gas is determined by the market (the laws of supply and demand) and is traded through a multi-hub system close to major markets and distribution systems.

Average 1999 Natural Gas Prices at Major Hubs and City Gates



- ❑ Futures contracts for natural gas are traded on the New York Mercantile Exchange (NYMEX).

2. The natural gas industry is highly competitive

- A competitive, free marketplace works to everyone's advantage. History has shown that over the long term, customers benefit from a competitive natural gas market through lower prices and reliable service.
 - The natural gas producing industry is highly competitive with thousands of participants.
 - Even after the recent mergers, the top five major and integrated producers, which explore for, produce, refine and distribute natural gas products, represent only 17 percent of U.S. market demand.
 - Independent producers, which explore for and produce natural gas, account for 65 percent of domestic natural gas produced in the U.S.

3. Supply and demand cycles

- Cycles in the natural gas market are similar to supply and demand variations in other commodity markets. Supply constraints in the market will be reflected in higher prices, but these are generally short lived as suppliers respond to demand. Over time, the market balances itself.

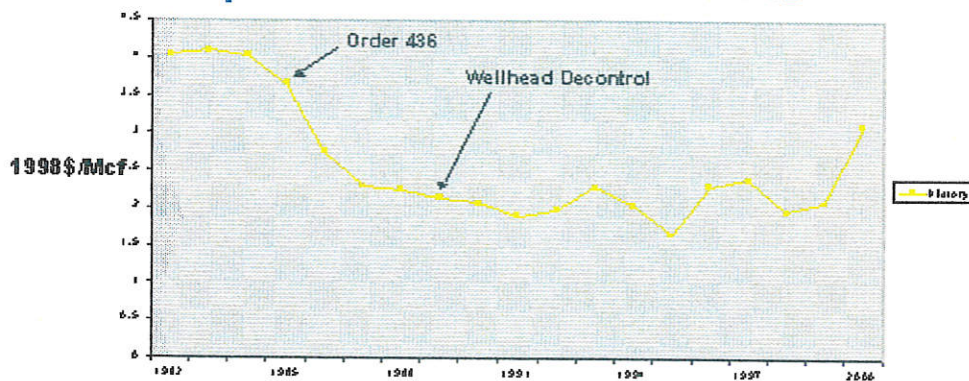
4. Comparison with earlier government-controlled market

- *Free markets haven't always been allowed to work for natural gas, and consumers have suffered the consequences.*
 - From the mid-1950s to the late 1970s, the federal government controlled most wellhead gas prices. But government officials set the interstate price so low that it actually cost producers more to find and produce natural gas than they could sell it for, thus limiting available supplies.
 - By the mid-1970s, the natural gas supply crisis had reached the point where natural gas service was no longer available to many new customers. During the winter of 1976-77, the federal government's pricing plan led to constraints of natural gas (in non-natural gas producing states) that caused service curtailments for large manufacturing plants and even some schools and homes. More than 20 consuming states declared emergency situations.
 - Congress responded and enacted the *Natural Gas Policy Act of 1978* in an attempt to move from wellhead price controls to deregulation. This law gradually phased out price controls for some natural gas prices at the wellhead. Unfortunately, where some price controls still existed distorted the market by imposing different rules and price ceilings..
 - During the late 1980s, Congress and the Federal Energy Regulatory Commission finally began moving toward a more market-oriented approach to the regulation

of natural gas wellhead pricing. In 1989, Congress enacted the *Natural Gas Wellhead Decontrol Act*, which phased out price controls on natural gas at the wellhead and gradually eliminated FERC regulation of producer sales of natural gas until full decontrol in 1993.

- Clear unfettered price signals are critical for having an efficient and responsive mechanism for matching supplies with demand.

Free Market has Resulted in Lower Prices Than during the period of Price Controls



Source: Energy Information Administration



August 2000

Contact: Laurie Cramer

Phone: 202/326-9300

Fax: 202/326-9330

**STATEMENT BY JACK GLAVES FOR
OCCIDENTAL OIL AND GAS COMPANY ON SB 51
BEFORE SENATE ASSESSMENT AND TAXATION COMMITTEE**

FEBRUARY 13, 2001

Occidental Oil and Gas Company has a long history in Kansas through its predecessor company Cities Service, that was a developer of the El Dorado field since the First World War. Oxy is currently one of the most active producers in the Southwest Kansas area and is particularly involved in deeper exploration ventures. These are relatively expensive and high risk. The existing tax incentives have encouraged the drilling by Oxy of 32 wells (14 gas and 18 oil) involving an expenditure of approximately 13 million dollars. The drilling program resulted in 15 dry holes costing an additional 2.25 million dollars.

The forgone severance tax is more than offset by added ad valorem taxes received by the counties involved, by a margin of approximately 2 to 1. (roughly \$2.00 of ad valorem tax for \$1.00 of severance tax)

Oxy has particularly utilized the exemption in extensive 3 D seismic that is vital to exploration in the complex geology of the deeper formations underlying the Hugoton.

The attached pie chart reflects the breakdown for industry utilization of the exemption. As you can see 3 D and compression are the major vehicles both of which are prime sources of new and expanded production.

The exemption has encouraged not only Oxy and Anadarko to devote capital to Kansas but it has also resulted in extensive activity by the independents. The KCC list of certifications reflects use of the incentive by Vess Oil Corporation, Pickrell Drilling, Mull Drilling and others from Wichita, American Warrior of Garden City, John Farmer of Russell and many others involving projects ranging from Elk and Butler Counties to the East across the state to North Central and Northwest Kansas; Graham, Ellis, Russell, Lane and Gove counties, as well as the traditional Southwest Kansas gas area.

Bottom line, the exemption has resulted in over 300 applications and as its availability becomes more generally known we believe it can be a continued source for new investment capital for Kansas exploration.

Its cost is not a budget buster.

The attached Department of Revenue transmittal reflects exempt production of

*Senate Assessment & Taxation
2-13-01
Attachment 3*

228,000 bbls of oil and 2,300 mcf of gas for the first eight months of 2000, involving a tax exemption of \$274,000 attributable to oil and \$307,000 for gas.

The history of exemptions in the producing states has shown they are net revenue producers for the state and local government as well as oil and gas production enhancers for the economy.

Oxy's staff is seeking authorization for 20 million dollars for additional Kansas exploration for this year.

We believe the discontinuance of the incentive, by not passing the Bill, would send the wrong message to the decision makers as to where to spend investment dollars.

We urge your favorable consideration of SB 51.

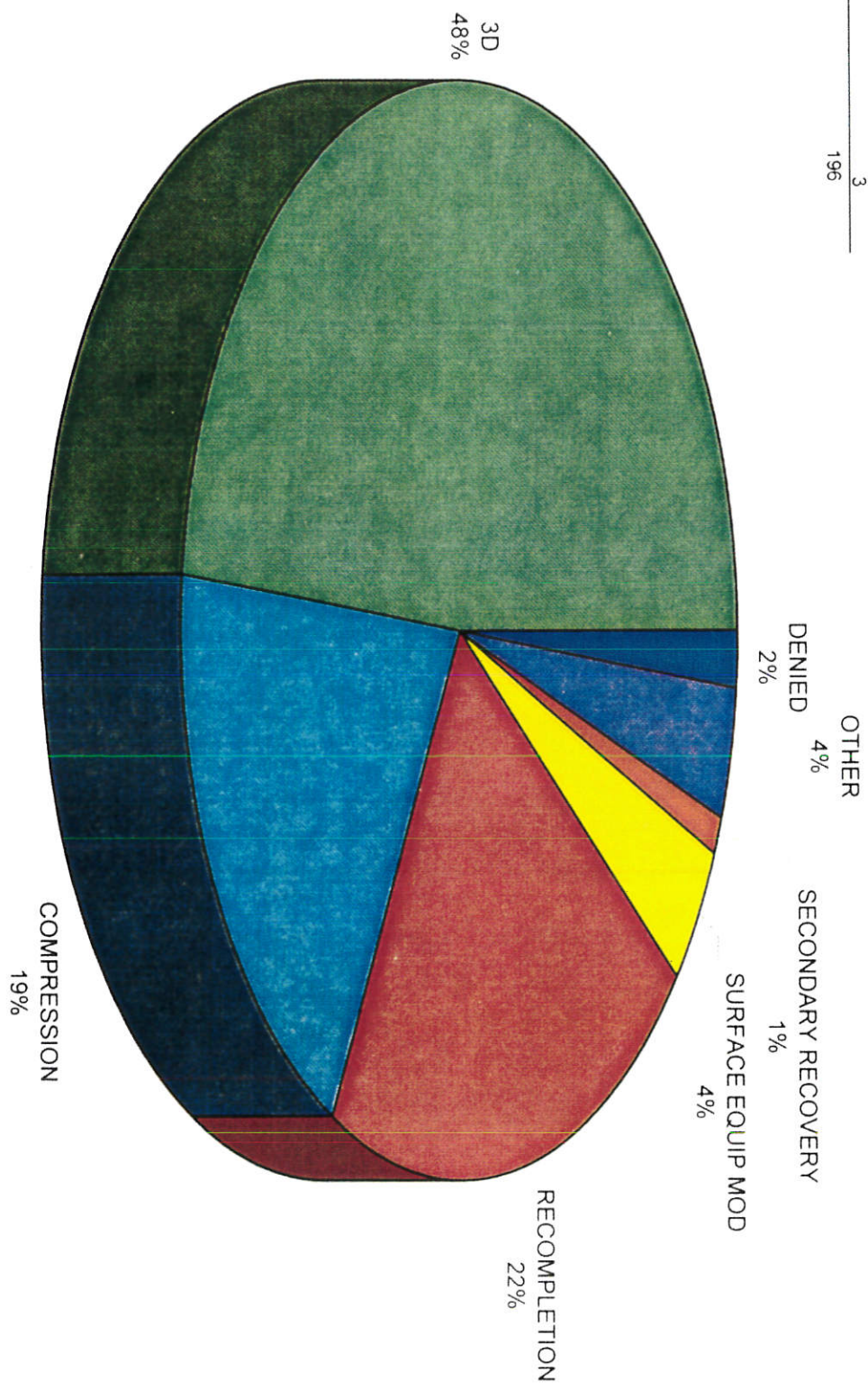
Respectfully submitted,

Jack Graves

CER-1 APPLICATIONS BY TYPE

1999 TO PRESENT

ENHANCEMENT TYPE	TOTALS
3D	95
COMPRESSION	37
RECOMPLETIONS	43
SURFACE EQUIP. MOD.	8
OTHER	8
SECONDARY REC.	2
DENIED	3
TOTAL	196



4-3-4

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Jan 30 '01

Fax: 316-337-6211

K.C.C. Wichita

CERTIFICATION NO	WELL NAME	OPERATOR	COUNTY	SEC-TWP-RGN	DATE RECEIVED	DATE DENIED/APPROVED	STARTUP DATE OF PROJECT	ENHANCEMENT TYPE
CER 3281	RICE A 32	VESS OIL CORPORATION	BUTLER	5-26-4E	MARCH 25, 1999	APRIL 19, 1999 APPROVED	FEBRUARY 22, 1999	SURFACE EQUIP MOD
CER 4931	FORSYTHE 0 1	PICKRELL DRILLING CO.	BARBER	17-32-12W	APRIL 7, 1999	MAY 4, 1999 APPROVED	FEBRUARY 6, 1999	SURFACE EQUIP MOD
CER 4992	ADAMSON A 5	ANADARKO	SEWARD	11-34-34W	APRIL 20, 1999	DECEMBER 17, 1999 APPROVED	JANUARY 6, 1999	3D
CER 4993	COOK A 2	ANADARKO	SEWARD	35-33-34W	APRIL 20, 1999	DECEMBER 17, 1999 APPROVED	JANUARY 26, 1999	3D
CER 4994	HEADRICK A 3	ANADARKO	SEWARD	11-35-34W	APRIL 20, 1999	DECEMBER 17, 1999 APPROVED	FEBRUARY 26, 1999	3D
CER 4285	KUENDOMMENT G 1	ANADARKO	MORTON	21-33-39N	APRIL 20, 1999	JUNE 9, 1999 APPROVED	SEPTEMBER 30, 1998	3D
CER 4936	LYNCH B 2	ANADARKO	MORTON	28-33-40W	APRIL 20, 1999	JUNE 30, 1999 APPROVED	OCTOBER 29, 1998	3D
CER 4997	KEATING'S STEPHENS A 5	ANADARKO	SEWARD	2-34-34W	APRIL 20, 1999	DECEMBER 17, 1999 APPROVED	DECEMBER 17, 1998	3D
CER 4998	USA BAKER G 3	ANADARKO	MORTON	33-33-41W	APRIL 20, 1999	OCTOBER 6, 1999 APPROVED	AUGUST 20, 1999	3D
CER 4999	LEMERT C 1	ANADARKO	SEWARD	7-35-33W	APRIL 20, 1999	DECEMBER 17, 1999 APPROVED	DECEMBER 10, 1998	3D
CER 49310	BOLES B 5	ANADARKO	SEWARD	4-35-34W	APRIL 21, 1999	DECEMBER 17, 1999 APPROVED	FEBRUARY 11, 1999	3D
CER 49911	BLOOM C 1	ANADARKO	SEWARD	7-35-33W	APRIL 21, 1999	DECEMBER 17, 1999 APPROVED	DECEMBER 29, 1998	3D
CER 49912	HIV CANNON A 1	ANADARKO	STEVENS	24-33-36W	APRIL 22, 1999	OCTOBER 21, 1999 DENIED		DENIED
CER 49913	HEADRICK A 7	ANADARKO	SEWARD	11-35-34W	APRIL 22, 1999	DECEMBER 17, 1999 APPROVED	AUGUST 12, 1999	3D
CER 49914	McHARGUE B 1	ANADARKO	SEWARD	14-35-34W	APRIL 22, 1999	DECEMBER 17, 1999 APPROVED	JULY 6, 1999	3D
CER 49915	USA GUNKLE A 3	ANADARKO	MORTON	1-33-41W	APRIL 22, 1999	OCTOBER 12, 1999 APPROVED	JULY 30, 1998	3D
CER 49916	YOUNGMEYER 12-1H	DOLOMITE RESOURCES	ELK	12-29-8E	APRIL 26, 1999	MAY 12, 1999 APPROVED	JANUARY 1, 1999	3D
CER 5991	DALE 2	MIDCO EXPLORATION	COMANCHE	34-32-18W	MAY 3, 1999	JUNE 2, 1999 APPROVED	JANUARY 14, 1999	3D
CER 5992	FISHER 1	KENWORTHY OPER.	EDWARDS	27-24-18W	MAY 12, 1999	MAY 17, 1999 APPROVED	JULY 24, 1999	SURFACE EQUIP MOD
CER 5993	KELLER D 1	ANADARKO	SEWARD	25-32-32W	MAY 12, 1999	AUGUST 12, 1999 APPROVED	JULY 7, 1999	COMPRESSION
CER 5994	BLACK D 1H	ANADARKO	HASKELL	20-30-34W	MAY 15, 1999	AUGUST 12, 1999 APPROVED	JULY 13, 1999	COMPRESSION
CER 5995	MILLER 1	KENWORTHY OPER.	EDWARDS	35-24-16W	MAY 27, 1999	AUGUST 12, 1999 APPROVED	MAY 1, 1999	SURFACE EQUIP MOD
CER 5996	KANSAS CITY LIFE 3	K. C. TAYLOR CO. INC.	SEWARD	3-35-31W	MAY 26, 1999	JUNE 17, 1999 APPROVED	SEPTEMBER 1, 1998	SURFACE EQUIP MOD
CER 5997	EMERICK A 1	ANADARKO	COMANCHE	24-31-18W	MAY 19, 1999	JANUARY 27, 2000 APPROVED	JULY 15, 1999	COMPRESSION
CER 6991	MORRISSE 1	EDMISTON OIL CO.	KINGMAN	24-30-10W	JUNE 1, 1999	NOVEMBER 5, 1999 APPROVED	AUGUST 25, 1998	OTHER
CER 6992	FRICE A 1	EDMISTON OIL CO.	KINGMAN	24-30-10W	JUNE 1, 1999	NOVEMBER 5, 1999 APPROVED	DECEMBER 1, 1998	OTHER
CER 6993	FRICE D 1	EDMISTON OIL CO.	KINGMAN	24-30-10W	JUNE 1, 1999	NOVEMBER 5, 1999 APPROVED	DECEMBER 2, 1998	OTHER
CER 6994	JONES D 1	WILTON PETROLEUM INC	LANE	34-16-27W	JUNE 17, 1999	SEPTEMBER 15, 1999 DENIED	JULY 10, 1998	DENIED
CER 6995	MERRITT MLP 1-35	HARRIS OIL & GAS CO	GRANT	35-29-35W	JUNE 21, 1999	OCTOBER 15, 1999 APPROVED	APRIL 10, 1999	3D
CER 6996	BFC WARRIOR TRUST 15-11	HARRIS OIL & GAS CO	MORTON	15-32-40W	JUNE 21, 1999	OCTOBER 5, 1999 APPROVED	MAY 29, 1999	3D
CER 6997	SIMPSON 2-35	HARRIS OIL & GAS CO	HASKELL	35-20-33W	JUNE 23, 1999	SEPTEMBER 20, 1999 APPROVED	APRIL 27, 1999	RECOMPLETION
CER 6998	SIMPSON 3-35	HARRIS OIL & GAS CO	HASKELL	35-30-33W	JUNE 23, 1999	SEPTEMBER 20, 1999 APPROVED	APRIL 15, 1999	OTHER
CER 6999	SIMPSON 5-35	HARRIS OIL & GAS CO	HASKELL	35-30-33W	JUNE 23, 1999	SEPTEMBER 20, 1999 APPROVED	MAY 5, 1999	RECOMPLETION
CER 69910	KIRBY 1-17	CHESAPEAKE OPER. INC	HASKELL	17-29-39W	JUNE 25, 1999	DECEMBER 6, 1999 APPROVED	FEBRUARY 24, 1999	RECOMPLETION
CER 69911	RATH 1	PELICAN HILL O&G INC	CHEYENNE	23-2-42W	JUNE 25, 1999	OCTOBER 20, 1999 APPROVED	MARCH 25, 1999	3D
CER 69912	RATH 2	PELICAN HILL O&G INC	CHEYENNE	23-2-42W	JUNE 25, 1999	OCTOBER 20, 1999 APPROVED	MARCH 25, 1999	3D
CER 69913	BRYANT 1-20	ANADARKO	HASKELL	20-30-34W	JUNE 29, 1999	OCTOBER 20, 1999 APPROVED	JULY 18, 1998	COMPRESSION
CER 69914	REAL ESTATE A 2	ANADARKO	GRANT	16-30-35W	JUNE 29, 1999	OCTOBER 20, 1999 APPROVED	JULY 2, 1998	COMPRESSION
CER 69915	REAL ESTATE A 3H	ANADARKO	GRANT	16-30-35W	JUNE 29, 1999	OCTOBER 20, 1999 APPROVED	JULY 2, 1998	COMPRESSION
CER 7991	LIVINGSTON A 2H	ANADARKO	GRANT	17-29-36W	JULY 13, 1999	DECEMBER 20, 1999 APPROVED	JULY 13, 1998	COMPRESSION
CER 7992	ILLINOIS BANKER LIFE 1-17	ANADARKO	GRANT	17-29-36W	JULY 13, 1999	DECEMBER 20, 1999 APPROVED	JULY 13, 1998	COMPRESSION
CER 7993	REAL ESTATE A 1	ANADARKO	GRANT	16-30-35W	JULY 15, 1999	DECEMBER 20, 1999 APPROVED	FEBRUARY 24, 1999	COMPRESSION
CER 7994	SPALDING 1-25	ANADARKO	STEVENS	25-32-36W	JULY 21, 1999	JANUARY 28, 2000 APPROVED	SEPTEMBER 9, 1998	COMPRESSION
CER 7995	DEVLIN 1-19	ANADARKO	FINNEY	19-26-34W	JULY 26, 1999	MARCH 29, 2000 APPROVED	MARCH 30, 1999	COMPRESSION
CER 8991	KERSTETTER 1-29	AMERICAN WARRIOR INC	COMANCHE	29-32-19W	AUGUST 5, 1999	NOVEMBER 5, 1999 APPROVED	FEBRUARY 21, 1999	3D
CER 8992	RICH 1-29	AMERICAN WARRIOR INC	COMANCHE	29-32-19W	AUGUST 5, 1999	NOVEMBER 5, 1999 APPROVED	FEBRUARY 21, 1999	3D
CER 8993	BYRD 1-28	AMERICAN WARRIOR INC	COMANCHE	28-32-15W	AUGUST 5, 1999	NOVEMBER 5, 1999 APPROVED	FEBRUARY 21, 1999	3D
CER 8994	KERSTETTER 1-33	AMERICAN WARRIOR INC	COMANCHE	33-32-15W	AUGUST 5, 1999	NOVEMBER 5, 1999 APPROVED	FEBRUARY 21, 1999	3D
CER 8995	DEVLIN A 1H	ANADARKO	FINNEY	19-26-34W	AUGUST 5, 1999	MARCH 29, 2000 APPROVED	APRIL 20, 1999	COMPRESSION
CER 8996	KIOWA CATTLE B 1H	ANADARKO	HASKELL	20-30-34W	AUGUST 5, 1999	MARCH 30, 2000 APPROVED	MARCH 11, 1999	COMPRESSION
CER 8997	MURPHY UNIT 1-27	ANADARKO	HASKELL	27-30-34W	AUGUST 5, 1999	MARCH 30, 2000 APPROVED	MARCH 23, 1999	COMPRESSION
CER 8998	RAMSEY 1	OIL PROD. INC OF KS	FORD	38-28-21W	AUGUST 6, 1999	DECEMBER 6, 1999 APPROVED	MARCH 8, 1999	COMPRESSION
CER 8999	DURKEE 1	OIL PROD. INC OF KS	KIOWA	31-28-20W	AUGUST 6, 1999	DECEMBER 6, 1999 APPROVED	MARCH 8, 1999	COMPRESSION
CER 89910	CHALFANT 1	OIL PROD. INC OF KS	FORD	35-28-21W	AUGUST 6, 1999	DECEMBER 6, 1999 APPROVED	MARCH 8, 1999	COMPRESSION
CER 89911	TUCKER 1H	ANADARKO	GRANT	24-28-35W	AUGUST 9, 1999	APRIL 11, 2000 APPROVED	MAY 7, 1999	COMPRESSION
CER 89912	TATE A 1	ANADARKO	GRANT	17-29-36W	AUGUST 9, 1999	APRIL 11, 2000 APPROVED	APRIL 1, 1999	COMPRESSION
CER 89913	UNGLES C 1H	ANADARKO	HASKELL	35-30-34W	AUGUST 9, 1999	APRIL 11, 2000 APPROVED	APRIL 15, 1999	COMPRESSION
CER 89914	HEU 1-8	ANADARKO	STEVENS	9-33-37W	AUGUST 11, 1999	APRIL 11, 2000 APPROVED	FEBRUARY 17, 1999	COMPRESSION
CER 89915	COOK A 1	BEREN CORPORATION	BARBER	8-34-12W	AUGUST 23, 1999			
CER 89916	SEIBERT 1	BEREXCO INC	STAFFORD	31-24-15W	AUGUST 23, 1999	FEBRUARY 1, 2000 DENIED	NOVEMBER 13, 1998	DENIED
CER 89917	SCHIFF 1	BEREXCO INC	BARBER	36-32-11W	AUGUST 23, 1999			
CER 89918	LFE 3-17	BEREXCO INC	BARBER	17-30-15W	AUGUST 23, 1999			
CER 89919	LDH 1	BEREXCO INC	HASKELL	35-29-33W	AUGUST 23, 1999			
CER 89920	POWELL 8-22	BEREXCO INC	HASKELL	22-28-33W	AUGUST 23, 1999			
CER 89921	THUROW 1	BEREXCO INC	STEVENS	13-31-36W	AUGUST 23, 1999			
CER 89922	LIVINGSTON A 1	ANADARKO	GRANT	17-29-36W	AUGUST 25, 1999	APRIL 13, 2000 APPROVED	MARCH 25, 1999	COMPRESSION
CER 89923	MYERS B 2	ANADARKO	MORTON	33-32-40W	AUGUST 26, 1999	APRIL 13, 2000 APPROVED	JUNE 8, 1999	COMPRESSION
CER 89924	MORRISON A 1	ANADARKO	MORTON	33-32-40W	AUGUST 26, 1999			
CER 89925	GODDARD B 1-5	ANADARKO	MORTON	6-34-41W	AUGUST 26, 1999	MAY 1, 2000 APPROVED	NOVEMBER 17, 1998	RECOMPLETION
CER 89926	GREGG F 6	ANADARKO	HASKELL	4-29-34W	AUGUST 26, 1999	MAY 1, 2000 APPROVED	AUGUST 29, 1998	RECOMPLETION
CER 89927	SIMMONS A 1	OXY USA INC	MORTON	15-32-39W	AUGUST 30, 1999	DECEMBER 27, 1999 APPROVED	MAY 25, 1999	3D
CER 89928	FERGUSON 17-1	DOLOMITE RESOURCES	COWLEY	17-30-8E	AUGUST 27, 1999	JANUARY 7, 2000 APPROVED	AUGUST 9, 1999	3D
CER 89929	JACK DUNNE 1-35	YOUNGER ENERGY CO	LANE	35-18-28W	AUGUST 31, 1999	OCTOBER 12, 1999 APPROVED	JULY 31, 1999	3D
CER 89930	PRICE 1-25	OIL PROD. INC OF KS	FORD	25-28-21W	AUGUST 31, 1999	DECEMBER 27, 1999 APPROVED	MARCH 8, 1999	COMPRESSION
CER 89931	STEELE 2	AMERICAN WARRIOR INC	ELLIS	4-13-16W	AUGUST 31, 1999	JANUARY 26, 2000 APPROVED	JUNE 23, 1999	3D

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Jan 30 '01

Fax: 516-337-6211

K.C.C. Wichita

CER 59932	PRICE 2-25	OIL PROD. INC OF KS	FORD	4-28-21W	AUGUST 31, 1999	DECEMBER 27, 1999 APPROVED	MARCH 8, 1999	COMPRESSION
CER 59937	RUSCO CAVIS 3-25	MURFIN DRUG CO	ELLIS	25-11-20W	SEPTEMBER 3, 1999	JANUARY 28, 2000 APPROVED	NOVEMBER 30, 1999	3D
CER 59932	J.W. HALL 1-17	MURFIN DRUG CO	ELLIS	17-11-19W	SEPTEMBER 3, 1999	JANUARY 5, 2000 APPROVED	JUNE 30, 1999	3D
CER 59933	UNRUH D 2	ONEOK RESOURCES CO	KIOWA	27-30-18W	SEPTEMBER 7, 1999	JANUARY 5, 2000 APPROVED	AUGUST 20, 1998	RECOMPLETION
CER 9904	ADAMS L 2	ANADARKO	HASKELL	33-29-34W	SEPTEMBER 8, 1999	MAY 9, 2000 APPROVED	JULY 13, 1999	COMPRESSION
CER 9925	MURPHY D 2	ANADARKO	HASKELL	34-29-34W	SEPTEMBER 8, 1999	MAY 9, 2000 APPROVED	JULY 13, 1999	COMPRESSION
CER 9996	MURPHY D 3	ANADARKO	HASKELL	34-29-34W	SEPTEMBER 8, 1999	MAY 9, 2000 APPROVED	JULY 13, 1999	COMPRESSION
CER 9907	MURPHY D 4	ANADARKO	HASKELL	34-29-34W	SEPTEMBER 8, 1999	MAY 9, 2000 APPROVED	JULY 13, 1999	COMPRESSION
CER 10991	HOLLAND UNIT 19-1	IMPERIAL AMERICAN OIL	ELLIS	19-11-19W	OCTOBER 8, 1999	JANUARY 26, 2000 APPROVED	SEPTEMBER 13, 1999	3D
CER 10992	BROLIER O 2H	ANADARKO	STEVENS	28-31-35W	OCTOBER 12, 1999	MAY 10, 2000 APPROVED	JUNE 21, 1999	COMPRESSION
CER 10993	WCLF 1 1	YOUNGER ENERGY CO	GOVE	24-11-26W	OCTOBER 12, 1999	JANUARY 17, 2000 APPROVED	SEPTEMBER 30, 1999	SECONDARY RECOVERY
CER 10994	JAMISON A 1	YOUNGER ENERGY CO	GOVE	25-11-28W	OCTOBER 12, 1999	JANUARY 17, 2000 APPROVED	SEPTEMBER 21, 1999	SECONDARY RECOVERY
CER 10995	PYLE B 1	ANADARKO	COMANCHE	14-31-18W	OCTOBER 14, 1999	MAY 10, 2000 APPROVED	NOVEMBER 12, 1998	COMPRESSION
CER 10996	INTERSTATE 1-21	ANADARKO	MORTON	21-34-43W	OCTOBER 15, 1999	MAY 10, 2000 APPROVED	JULY 29, 1998	RECOMPLETION
CER 10997	MAYBERRY 1-4	ANADARKO	MORTON	4-34-43W	OCTOBER 15, 1999	MAY 10, 2000 APPROVED	OCTOBER 21, 1998	RECOMPLETION
CER 10998	KANSAS 1-22	ANADARKO	MORTON	22-34-43W	OCTOBER 15, 1999	MAY 10, 2000 APPROVED	AUGUST 20, 1998	RECOMPLETION
CER 10999	SCHINSTOCK 2	BEREXCO INC	HODGEMAN	16-24-27W	OCTOBER 15, 1999			
CER 109310	SEBES, FRANK 1	BEREXCO INC	HODGEMAN	16-24-27W	OCTOBER 15, 1999			
CER 109911	MERRITT MLP 2-35	HARRIS OIL & GAS CO	GRANT	35-29-35W	OCTOBER 18, 1999	MAY 10, 2000 APPROVED	SEPTEMBER 7, 1999	3D
CER 109932	KANSAS 1-21	ANADARKO	MORTON	21-34-42W	OCTOBER 18, 1999	JUNE 22, 2000 APPROVED	SEPTEMBER 12, 1999	RECOMPLETION
CER 109913	STEVENSON 3-24	ANADARKO	GRANT	24-29-39W	OCTOBER 20, 1999	JULY 3, 2000 APPROVED	JANUARY 14, 2000	COMPRESSION
CER 109914	WHITE 3-10	ANADARKO	HASKELL	10-29-34W	OCTOBER 20, 1999	DECEMBER 19, 2000 APPROVED	MAY 12, 1999	RECOMPLETION
CER 109915	WHITE 5-10	ANADARKO	HASKELL	10-29-34W	OCTOBER 20, 1999	JULY 3, 2000 APPROVED	JULY 8, 1999	RECOMPLETION
CER 109916	WARREN A 2H	ANADARKO	HASKELL	10-29-34W	OCTOBER 20, 1999	JULY 3, 2000 APPROVED	JULY 8, 1999	COMPRESSION
CER 109917	SMITH 1	HINKLE OIL COMPANY	FINNEY	1-22-34W	OCTOBER 20, 1999	FEBRUARY 4, 2000 APPROVED	JUNE 28, 1999	RECOMPLETION
CER 109918	TUCKER H 2H	ANADARKO	GRANT	6-30-13W	OCTOBER 20, 1999	JULY 24, 2000 APPROVED	JANUARY 14, 1999	COMPRESSION
CER 109919	WARREN 1-1	ANADARKO	FINNEY	24-29-35W	OCTOBER 20, 1999	JULY 24, 2000 APPROVED	JUNE 28, 1999 APPROVED	COMPRESSION
CER 17991	DALE 1	MIDCO EXPLORATION	COMANCHE	1-22-34W	NOVEMBER 4, 1999	JANUARY 24, 2000 APPROVED	AUGUST 31, 1999	RECOMPLETION
CER 11992	DEVATT 1	OIL PROD. INC OF KS	BARBER	34-52-18W	NOVEMBER 12, 1999	OCTOBER 31, 2000 APPROVED	OCTOBER 1, 1999	RECOMPLETION
CER 11993	DALE 2	OIL PROD. INC OF KS	COMANCHE	10-34-13W	NOVEMBER 12, 1999	OCTOBER 31, 2000 APPROVED	SEPTEMBER 12, 1999	RECOMPLETION
CER 17994	KOEHN 1-24	VINCENT OIL CORP	KIOWA	26-32-18W	NOVEMBER 12, 1999	NOVEMBER 12, 1999	SEPTEMBER 10, 1999	3D
CER 11995	YOST 1-23	VINCENT OIL CORP	KIOWA	24-29-18W	NOVEMBER 15, 1999	JANUARY 7, 2000 APPROVED	SEPTEMBER 10, 1999	3D
CER 11990	USA 7-1	ANADARKO	MORTON	29-29-18W	NOVEMBER 15, 1999	JANUARY 7, 2000 APPROVED	AUGUST 20, 1999	3D
CER 11997	BERGER A 1	OXY USA INC	HASKELL	1-34-42W	NOVEMBER 17, 1999	JULY 24, 2000 APPROVED	AUGUST 8, 1999	RECOMPLETION
CER 11998	BERGER A 2	OXY USA INC	HASKELL	22-27-34W	NOVEMBER 19, 1999	MARCH 29, 2000 APPROVED	MARCH 27, 1999	3D
CER 11999	MADDY D 1	OXY USA INC	HASKELL	22-27-34W	NOVEMBER 19, 1999	MARCH 29, 2000 APPROVED	MAY 28, 1999	3D
CER 119910	MLP CAVNER B 1	OXY USA INC	HASKELL	15-27-34W	NOVEMBER 19, 1999	MARCH 17, 2000 APPROVED	NOVEMBER 9, 1999	3D
CER 119911	MLP CAVNER D 1	OXY USA INC	STEVENS	32-31-38W	NOVEMBER 19, 1999	MARCH 17, 2000 APPROVED	SEPTEMBER 3, 1999	3D
CER 119912	MLP CAVNER E 1	OXY USA INC	STEVENS	31-31-38W	NOVEMBER 19, 1999	MARCH 17, 2000 APPROVED	MAY 8, 1999	3D
CER 119913	MLP CORNELL UNIV. A 1	OXY USA INC	STEVENS	31-31-38W	NOVEMBER 19, 1999	MARCH 17, 2000 APPROVED	JULY 21, 1999	3D
CER 119914	MLP YOUNGREN B 1	OXY USA INC	STEVENS	15-32-39W	NOVEMBER 19, 1999	MARCH 17, 2000 APPROVED	NOVEMBER 6, 1999	3D
CER 119915	BRINKMAN C 1	OXY USA INC	STEVENS	11-32-39W	NOVEMBER 19, 1999	MARCH 20, 2000 APPROVED	OCTOBER 1, 1999	3D
CER 119916	FREY E 1	OXY USA INC	HASKELL	23-27-34W	NOVEMBER 19, 1999	MARCH 20, 2000 APPROVED	OCTOBER 12, 1999	3D
CER 119917	PARCEL #1-35	MIDCO EXPLORATION	HASKELL	13-27-34W	NOVEMBER 19, 1999	MARCH 20, 2000 APPROVED	AUGUST 25, 1999	3D
CER 119918	CHARLS BREEDING #3-1210	MIDCO EXPLORATION	COMANCHE	35-32-18W	NOVEMBER 23, 1999	JANUARY 24, 2000 APPROVED	NOVEMBER 13, 1999	RECOMPLETION
CER 12991	MCPHERSON COLLG A2-27	HARRIS OIL & GAS CO	MORTON	10-32-40W	NOVEMBER 23, 1999	FEBRUARY 25, 2000 APPROVED	NOVEMBER 19, 1999	3D
CER 12992	MCPHERSON COLLG A2-28	HARRIS OIL & GAS CO.	STANTON	27-29-39W	DECEMBER 1, 1999	MARCH 15, 2000 APPROVED	OCTOBER 1, 1999	OTHER
CER 12993	CAMPION A 1	ANADARKO	STANTON	28-29-39W	DECEMBER 1, 1999	MARCH 15, 2000 APPROVED	NOVEMBER 1, 1999	OTHER
CER 12994	TUCKER M 1	ANADARKO	SEWARD	25-33-34W	DECEMBER 7, 1999	DECEMBER 17, 1999 APPROVED	JUNE 4, 1999	3D
CER 12995	TODD 2-3	MIDCO EXPLORATION	SEWARD	6-35-33W	DECEMBER 7, 1999	DECEMBER 17, 1999 APPROVED	AUGUST 30, 1999	3D
CER 12996	MLP MUNCY A 1	HARRIS OIL & GAS CO.	COMANCHE	3-33-18W	DECEMBER 13, 1999	JANUARY 24, 2000 APPROVED	DECEMBER 7, 1999	3D
CER 12997	ASHER 3	VESS OIL CORPORATION	STEVENS	14-31-38W	DECEMBER 13, 1999	MAY 30, 2000 APPROVED	JANUARY 30, 1999	3D
CER 12998	ASHER 1	VESS OIL CORPORATION	BARTON	34-20-14W	DECEMBER 22, 1999	APRIL 11, 2000 APPROVED	DECEMBER 20, 1999	RECOMPLETION
CER 12999	REINHARDT C #2	VESS OIL CORPORATION	BARTON	34-20-14W	DECEMBER 22, 1999	APRIL 11, 2000 APPROVED	DECEMBER 22, 1999	RECOMPLETION
CER 129910	ADAMS 2-31	JOHN O. FARMER, INC	RUSSELL	25-14-15W	DECEMBER 17, 1999	MARCH 28, 2000 APPROVED	JULY 24, 1999	OTHER
CER 129911	BARNES 1-30	R.C. TAYLOR COMPANIES	MEADE	31-34-30W	DECEMBER 22, 1999	MAY 17, 2000 APPROVED	OCTOBER 29, 1999	RECOMPLETION
CER 1001	STEVEN'S A H	AMERICAN WARRIOR, INC.	COMANCHE	30-32-19W	DECEMBER 21, 1999	MAY 30, 2000 APPROVED	NOVEMBER 6, 1999	3D
CER 1002	ANDERSON A #4	ANADARKO	HASKELL	17-30-34W	JANUARY 10, 2000	JULY 24, 2000 APPROVED	OCTOBER 22, 1999	COMPRESSION
CER 1003	PEPPERD 1-35	VESS OIL CORPORATION	HASKELL	10-10-24W	JANUARY 10, 2000	APRIL 11, 2000 APPROVED	DECEMBER 18, 1999	RECOMPLETION
CER 1004	INEZ BEAN 1-4	MIDCO EXPLORATION	COMANCHE	35-32-18W	JANUARY 18, 2000	FEBRUARY 29, 2000 APPROVED	JANUARY 3, 2000	3D
CER 1005	PEPPERD 1-2 OMAHA	R.J. PATRICK OPER. CO	COMANCHE	4-32-19W	JANUARY 24, 2000	MAY 30, 2000 APPROVED	JANUARY 4, 2000	3D
CER 2001	MINOR 1-31	MIDCO EXPLORATION	COMANCHE	2-33-18W	JANUARY 31, 2000		JANUARY 21, 2000	RECOMPLETION
CER 2002	INTERSTATE 1-10	ANADARKO	MORTON	31-33-41W	FEBRUARY 14, 2000	JULY 24, 2000 APPROVED	JANUARY 5, 1999	RECOMPLETION
CER 2003	MARJORIE H 19-1	ANADARKO	MORTON	10-34-43W	FEBRUARY 14, 2000	JULY 24, 2000 APPROVED	JANUARY 13, 1999	RECOMPLETION
CER 2004	SCHOENHALER 32-1	IMPERIAL AMERICAN OIL	ELLIS	19-11-19W	FEBRUARY 15, 2000	MAY 18, 2000 APPROVED	DECEMBER 6, 1999	3D
CER 2005	SMITH 1-8	IMPERIAL AMERICAN OIL	ELLIS	32-11-20W	FEBRUARY 15, 2000	APRIL 25, 2000 APPROVED	FEBRUARY 2, 2000	3D
CER 2006	DAVIES 2-6	ANADARKO	MORTON	8-34-43W	FEBRUARY 16, 2000	JULY 24, 2000 APPROVED	FEBRUARY 3, 2000	RECOMPLETION
CER 2007	S-LARP B 1	ANADARKO	SEWARD	6-34-31W	FEBRUARY 16, 2000	JULY 24, 2000 APPROVED	FEBRUARY 12, 1999	RECOMPLETION
CER 3001	BRECHESLEN A-1	ANADARKO	MORTON	12-35-43W	FEBRUARY 17, 2000	AUGUST 21, 2000 APPROVED	DECEMBER 2, 1999	COMPRESSION
CER 3002	EASTIN A 1	ANADARKO	STEVENS	16-35-38W	MARCH 1, 2000	SEPTEMBER 6, 2000 APPROVED	JANUARY 13, 2000	RECOMPLETION
3003	MILLS A 33	BELPORT OIL, INC	LANE	18-19-27W	MARCH 8, 2000	MAY 25, 2000 APPROVED	MAY 6, 1999	3D
304	MILLS A 38	VESS OIL CORPORATION	BUTLER	22-25-05E	MARCH 8, 2000			
305	MLP MURPHY 1-3	VESS OIL CORPORATION	BUTLER	22-25-05E	MARCH 14, 2000			
3006	MLP STUBBS 1-11	CHESAPEAKE OPER. INC.	HASKELL	3-30-34W	MARCH 14, 2000	JUNE 7, 2000 APPROVED	DECEMBER 19, 1999	3D
CER 3007	MLP LESLIE 1-26	CHESAPEAKE OPER. INC.	HASKELL	11-30-35W	MARCH 16, 2000	JUNE 7, 2000 APPROVED	FEBRUARY 6, 1999	3D
CER 3008	MLP BLACK 1-2	CHESAPEAKE OPER. INC.	HASKELL	26-29-34W	MARCH 16, 2000	MARCH 18, 2000	JANUARY 25, 1999	3D
CER 3009	MLP CLAWSON TRST 2-35	CHESAPEAKE OPER. INC.	HASKELL	2-30-34W	MARCH 16, 2000	JUNE 20, 2000 APPROVED	MAY 7, 1999	3D

CER 30010	MCFALL 1	JOHN O. FARMER, INC.	PIRATT	28-29-13W	MARCH 20, 2000	JUNE 7, 2000 APPROVED	JANUARY 27, 2000	RECOMPLETION
CER 30011	GRAEFF 2	MULL DRILLING CO. INC.	LANE	9-17-28W	MARCH 21, 2000	JUNE 23, 2000 APPROVED	MARCH 13, 2000	30
CER 30012	VORAK 1	AZTEC OIL COMPANY	KINGMAN	15-29-07W	MARCH 21, 2000	JUNE 20, 2000 APPROVED	JANUARY 31, 2000	RECOMPLETION
CER 30013	VORAN 2	AZTEC OIL COMPANY	KINGMAN	15-29-07W	MARCH 21, 2000	JUNE 20, 2000 APPROVED	JANUARY 31, 2000	RECOMPLETION
CER 30014	HJV MILLER A 1	ANADARKO	STEVENS	28-32-35W	MARCH 27, 2000	JULY 3, 2000 APPROVED	MARCH 8, 2000	30
CER 4001	KOHL 1-19	MURFIN DRILLING CO. INC.	ELLIS	19-11-19W	APRIL 5, 2000	JUNE 29, 2000 APPROVED	JANUARY 12, 2000	30
CER 4002	WILLIAM UNN 2-32	MURFIN DRILLING CO. INC.	CHEYENNE	32-02-41W	APRIL 5, 2000	JUNE 30, 2000 APPROVED	NOVEMBER 17, 1999	30
CER 4003	HJV BAUGHMAN C 1	ANADARKO	SEWARD	18-31-34W	APRIL 6, 2000	AUGUST 21, 2000 APPROVED	MARCH 14, 2000	30
CER 4004	ADAMS 1	R. C. TAYLOR COMPANIES	SEWARD	25-34-31W	APRIL 14, 2000	OCTOBER 2, 2000 APPROVED	FEBRUARY 17, 2000	RECOMPLETION
CER 4005	NUSSER 1	BECKER OIL CORPORATION	HASKELL	3-27-03W	APRIL 19, 2000			
CER 4006	KINZIE 5	JOHN O. FARMER, INC.	PRATT	23-29-13W	APRIL 20, 2000	JULY 19, 2000 APPROVED	NOVEMBER 10, 1999	RECOMPLETION
CER 5001	EMERICK A 2	H & B PETROLEUM CORP.	COMANCHE	24-31-15W	MAY 9, 2000	OCTOBER 9, 2000 APPROVED	FEBRUARY 2, 2000	SURFACE EQUIP MOD
CER 5002	KANE A 1	H & B PETROLEUM CORP.	KIOWA	17-30-16W	MAY 9, 2000	OCTOBER 9, 2000 APPROVED	FEBRUARY 11, 2000	SURFACE EQUIP MOD
CER 5003	HORACE 1-17	EAGLE CREEK CORP.	MEADE	17-34-29W	MAY 10, 2000			
CER 5004	TOUD 1-3	MIDCO EXPLORATION	COMANCHE	3-33-18W	MAY 22, 2000	AUGUST 29, 2000 APPROVED	MAY 10, 2000	RECOMPLETION
CER 5005	STERLING FISCHER 1-5	MURFIN DRILLING CO. INC.	ELLIS	5-11-20W	MAY 24, 2000	AUGUST 29, 2000 APPROVED	MAY 10, 2000	30
CER 5006	HEINMARK FISCHER 1-5	MURFIN DRILLING CO. INC.	ELLIS	5-11-20W	MAY 24, 2000	AUGUST 29, 2000 APPROVED	MARCH 7, 2000	30
CER 5007	PARSLOW 1-11	ANADARKO	MORTON	11-34-42W	MAY 26, 2000	AUGUST 29, 2000 APPROVED	JULY 17, 1998	RECOMPLETION
CER 5008	MLP CLOSE A 1	OXY USA, INC.	STEVENS	34-31-39W	MAY 30, 2000	OCTOBER 2, 2000 APPROVED	APRIL 12, 2000	30
CER 5009	MLP FORD A 1	OXY USA, INC.	STEVENS	10-32-39W	MAY 30, 2000	SEPTEMBER 15, 2000 APPROVED	MARCH 17, 2000	30
CER 50010	MLP CORNELL UNIV B 1	OXY USA, INC.	STEVENS	15-32-39W	MAY 30, 2000	SEPTEMBER 15, 2000 APPROVED	FEBRUARY 16, 2000	30
CER 50011	WARD D 1	OXY USA, INC.	HASKELL	24-27-34W	MAY 30, 2000	OCTOBER 2, 2000 APPROVED	APRIL 23, 2000	30
CER 50012	WARD D 2	OXY USA, INC.	HASKELL	24-27-34W	MAY 30, 2000	OCTOBER 2, 2000 APPROVED	MAY 10, 2000	30
CER 50013	FREY F 7	OXY USA, INC.	HASKELL	13-27-34W	MAY 30, 2000	OCTOBER 5, 2000 APPROVED	DECEMBER 3, 2000	30
CER 50014	FREY F 3	OXY USA, INC.	HASKELL	13-27-34W	MAY 30, 2000	OCTOBER 5, 2000 APPROVED	JANUARY 12, 2000	30
CER 50015	FREY F 5	OXY USA, INC.	HASKELL	13-27-34W	MAY 30, 2000	OCTOBER 5, 2000 APPROVED	MARCH 13, 2000	30
CER 50016	FREY F 6	OXY USA, INC.	HASKELL	13-27-34W	MAY 30, 2000	OCTOBER 5, 2000 APPROVED	MARCH 28, 2000	30
CER 50017	FREY F 7	OXY USA, INC.	HASKELL	13-27-34W	MAY 30, 2000	OCTOBER 5, 2000 APPROVED	MAY 10, 2000	30
CER 50018	MOODY D 2	OXY USA, INC.	HASKELL	15-27-34W	MAY 30, 2000	OCTOBER 25, 2000 APPROVED	MARCH 27, 1999	30
CER 50019	BRINKMAN C 2	OXY USA, INC.	HASKELL	23-27-34W	MAY 30, 2000	OCTOBER 25, 2000 APPROVED	JANUARY 15, 2000	30
CER 50020	MORISSEE 1-3	ANADARKO	MORTON	3-34-43W	MAY 30, 2000	OCTOBER 25, 2000 APPROVED	OCTOBER 14, 1999	RECOMPLETION
CER 50021	KANSAS REGENTS 2-15	ANADARKO	MORTON	15-34-42W	MAY 30, 2000	OCTOBER 25, 2000 APPROVED	JULY 15, 1998	RECOMPLETION
CER 50022	DALE 3	MIDCO EXPLORATION	COMANCHE	34-32-18W	MAY 30, 2000	OCTOBER 25, 2000 APPROVED	MAY 10, 2000	30
CER 6001	MURPHY 1-33	ANADARKO	MORTON	33-32-42W	JUNE 1, 2000	OCTOBER 25, 2000 APPROVED	MAY 2, 1999	RECOMPLETION
CER 6002	KRIGS 2-26	RED OAK ENERGY, INC.	GREELEY	76-18-42W	JUNE 5, 2000	OCTOBER 25, 2000 APPROVED	JULY 9, 1999	30
CER 6003	RAIZLAFF B-2	ANADARKO	STEVENS	32-23-38W	JUNE 8, 2000	OCTOBER 25, 2000 APPROVED	OCTOBER 26, 1998	RECOMPLETION
CER 6004	GINTHER-HAGEN 1-17	MURFIN DRILLING CO. INC.	ELLIS	17-11-19W	JUNE 9, 2000	OCTOBER 25, 2000 APPROVED	MAY 30, 2000	30
CER 6005	VANTAGE 31-1	IMPERIAL AMERICAN OIL	ELLIS	31-11-20W	JUNE 9, 2000	OCTOBER 25, 2000 APPROVED	APRIL 15, 2000	30
CER 6006	MURKPATHICK 2-14	VESS OIL CORPORATION	BUTLER	18-26-05W	JUNE 12, 2000	DECEMBER 6, 2000 APPROVED	APRIL 6, 1998	RECOMPLETION
CER 6007	HALL B 8	VESS OIL CORPORATION	ELLIS	26-11-17W	JUNE 12, 2000	DECEMBER 6, 2000 APPROVED	MARCH 16, 2000	OTHER
CER 6008	BROWN-SOALLY A 1	VESS OIL CORPORATION	BUTLER	16-26-04W	JUNE 12, 2000	DECEMBER 6, 2000 APPROVED	AUGUST 6, 1999	SURFACE EQUIP MOD
CER 6009	WHEELER 1	TGT PETROLEUM CORP.	KIOWA	3-28-19W	JUNE 22, 2000	OCTOBER 5, 2000 APPROVED	JANUARY 31, 2000	RECOMPLETION
CER 60010	BERTHA UNIT 3-32	MURFIN DRILLING CO. INC.	CHEYENNE	32-02-41W	JUNE 18, 2000	DECEMBER 6, 2000 APPROVED	MAY 30, 2000	30
CER 60011	GREGG F-7	ANADARKO	HASKELL	4-29-34W	JUNE 22, 2000	DECEMBER 6, 2000 APPROVED	APRIL 7, 1998	RECOMPLETION
CER 60012	KASSELMAN 1	VINCENT OIL CORP.	KIOWA	10-23-17W	JUNE 23, 2000	DECEMBER 15, 2000 APPROVED	MARCH 17, 2000	SURFACE EQUIP MOD
CER 60013	VARNER A 43	VESS OIL CORPORATION	BUTLER	17-28-04E	JUNE 28, 2000	DECEMBER 15, 2000 APPROVED	JULY 18, 1999	RECOMPLETION
CER 60014	UMMEL 4-H	MULL DRILLING CO. INC.	NESS	23-19-24W	JUNE 28, 2000	DECEMBER 15, 2000 APPROVED	MAY 1, 2000	HORIZONTAL
CER 60015	ZERENER 1-A	D. S. LANGSTON	SUMNER	8-31-3W	JUNE 28, 2000	NOVEMBER 20, 2000 APPROVED	JANUARY 26, 2000	RECOMPLETION
CER 60016	YUNCKER 6-14	ANADARKO	HASKELL	14-29-34W	JUNE 30, 2000	DECEMBER 15, 2000 APPROVED	OCTOBER 23, 1999	RECOMPLETION
CER 7001	COLTER 1	GRAVES DRILLING CO. INC.	COMANCHE	11-33-19W	JULY 7, 2000	DECEMBER 13, 2000 APPROVED	JUNE 28, 2000	30
CER 7002	HJV MOORE A 1	ANADARKO	HASKELL	22-28-34W	JULY 10, 2000	DECEMBER 13, 2000 APPROVED	JUNE 12, 2000	30
CER 7003	EITEL A 1	MULL DRILLING CO. INC.	LANE	21-17-27W	JULY 24, 2000	DECEMBER 13, 2000 APPROVED	JULY 7, 2000	RECOMPLETION
CER 7004	SPRIGGS A 2	WOOLSEY PETROLEUM	BARBER	32-33-13W	JULY 24, 2000	DECEMBER 14, 2000 APPROVED	JULY 2, 1999	RECOMPLETION
CER 7005	DONALD HERD 2-10	R. J. PATRICK OPER CO	COMANCHE	10-33-19W	JULY 24, 2000	DECEMBER 15, 2000 APPROVED	JULY 12, 2000	30
CER 7006	GARRISON C 1	OXY USA INC.	HASKELL	22-27-34W	JULY 31, 2000	DECEMBER 15, 2000 APPROVED	JULY 20, 2000	30
CER 7007	MLP SHANK A 1	OXY USA INC.	STEVENS	31-31-39W	JULY 31, 2000	DECEMBER 15, 2000 APPROVED	JULY 8, 2000	30
CER 7008	GARRISON B 1	OXY USA INC.	HASKELL	22-27-34W	JULY 31, 2000	DECEMBER 15, 2000 APPROVED	MAY 11, 2000	30
CER 7009	GARRISON B 2	OXY USA INC.	HASKELL	22-27-34W	JULY 31, 2000	DECEMBER 15, 2000 APPROVED	JUNE 2, 2000	30
CER 70010	SCHUH A 1	OXY USA INC.	HASKELL	27-27-34W	AUGUST 7, 2000	DECEMBER 15, 2000 APPROVED	JUNE 22, 2000	30
CER 70011	SLEEPER DEWEFF 1-A	BELFORT OIL, INC.	LANE	18-19-27W	JULY 28, 2000	NOVEMBER 29, 2000 APPROVED	MAY 1, 2000	30
CER 70012	NOVOTNY 1	JOHN O. FARMER INC.	PRATT	21-20-13W	JULY 28, 2000	OCTOBER 6, 2000 APPROVED	APRIL 24, 2000	RECOMPLETION
CER 8001	BOLES F 5	ANADARKO	SEWARD	2-35-34W	AUGUST 2, 2000	DECEMBER 18, 2000 APPROVED	JUNE 30, 2000	30
CER 8002	SPRIGGS D 1	WOOLSEY PETROLEUM	BARBER	33-33-13W	AUGUST 4, 2000	DECEMBER 15, 2000 APPROVED	MAY 29, 1999	RECOMPLETION
CER 8003	COUNTRY CLUB 1	WOOLSEY PETROLEUM	PRATT	10-28-13W	AUGUST 4, 2000	DECEMBER 15, 2000 APPROVED	SEPTEMBER 16, 1998	SURFACE EQUIP MOD
CER 8004	SLEEPER 1	DIXON-DEARMORE OIL CO	STAFFORD	9-22-11W	AUGUST 8, 2000	DECEMBER 18, 2000 APPROVED	DECEMBER 21, 1999	RECOMPLETION
CER 8005	WHITE 3-10	ANADARKO	HASKELL	10-29-34W	AUGUST 11, 2000	DECEMBER 19, 2000 CANCELED		CANCELED
CER 8006	SHAFER D 2	ANADARKO	STEVENS	39-32-38W	AUGUST 16, 2000	DECEMBER 19, 2000 APPROVED	JULY 13, 2000	30
CER 8007	SEE 1	YOUNGER ENERGY CO	PRATT	7-26-13W	AUGUST 17, 2000	DECEMBER 19, 2000 APPROVED	OCTOBER 12, 1999	SECONDARY RECOVERY
CER 8008	SEE 4	YOUNGER ENERGY CO	PRATT	7-26-13W	AUGUST 17, 2000	DECEMBER 19, 2000 APPROVED	OCTOBER 12, 1999	SECONDARY RECOVERY
CER 8009	SEE 5	YOUNGER ENERGY CO	PRATT	7-26-13W	AUGUST 17, 2000	DECEMBER 19, 2000 APPROVED	OCTOBER 12, 1999	SECONDARY RECOVERY
80010	PRESICO A 3	OXY USA INC.	HASKELL	25-27-34W	AUGUST 18, 2000	DECEMBER 19, 2000 APPROVED	JULY 28, 2000	30
80011	MLP CLOSE B 1	OXY USA INC.	STEVENS	10-32-39W	AUGUST 18, 2000	DECEMBER 20, 2000 APPROVED	AUGUST 11, 2000	30
CER 80012	KELLS D 1	OXY USA INC.	HASKELL	27-27-34W	AUGUST 18, 2000	DECEMBER 20, 2000 APPROVED	JULY 26, 2000	30
CER 80013	ZEIGLER A 1	MULL DRILLING CO. INC.	KIOWA	28-27-20W	AUGUST 18, 2000			
CER 80014	SANDERS 3	MULL DRILLING CO. INC.	HARPER	6-31-08W	AUGUST 18, 2000			
CER 80015	SELFRIDGE A 1	MULL DRILLING CO. INC.	LANE	16-17-27W	AUGUST 18, 2000	DECEMBER 20, 2000 APPROVED	MAY 3, 2000	RECOMPLETION
CER 80016	BANTA A 2	MULL DRILLING CO. INC.	KINGMAN	11-20-28W	AUGUST 18, 2000	DECEMBER 20, 2000 APPROVED	JANUARY 27, 2000	RECOMPLETION

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CER 80017	TERWALIGER NE UNIT 1	MULL DRILLING CO. INC.	LANE	26-16-23W	AUGUST 18, 2000			
CER 80018	TERWALIGER NE UNIT 3	MULL DRILLING CO. INC.	LANE	36-16-23W	AUGUST 18, 2000			
CER 80019	CITY OF LIBERAL "C" 1	ANADARKO	SEWARD	39-34-34W	AUGUST 28, 2000	DECEMBER 20, 2000 APPROVED	JUNE 1, 1999	SECONDARY RECOVERY
CER 80020	LONNE T 1-4	MULL DRILLING CO. INC.	LANE	4-17-26W	AUGUST 28, 2000			
CER 80021	GREGG F 9	ANADARKO	HASKELL	4-29-34W	AUGUST 30, 2000			
CER 80022	GREGG F 12	ANADARKO	HASKELL	4-29-34W	AUGUST 30, 2000			
CER 80023	GREGG F 11	ANADARKO	HASKELL	4-29-34W	AUGUST 30, 2000			
CER 80024	GREGG F 10	ANADARKO	HASKELL	4-29-34W	AUGUST 30, 2000			
CER 9001	RAICLIFF B 1	ANADARKO	STEVENS	18-33-37W	SEPTEMBER 6, 2000			
CER 9002	FISCHER HEIRS 1-4	MURFIN DRILLING CO. INC.	ELLIS	4-11-20W	SEPTEMBER 7, 2000			
CER 9003	HANKS 1	MULL DRILLING CO. INC.	LANE	29-17-27W	SEPTEMBER 13, 2000			
CER 9004	HANKS B 1	MULL DRILLING CO. INC.	LANE	21-17-27W	SEPTEMBER 13, 2000			
CER 9005	SHYDER 2	MULL DRILLING CO. INC.	NESS	11-16-26W	SEPTEMBER 13, 2000			
CER 9006	MURPHY D 2	ANADARKO	HASKELL	34-29-34W	SEPTEMBER 13, 2000			
CER 9007	MILLS 2	MULL DRILLING CO. INC.	BARBER	24-32-14W	SEPTEMBER 14, 2000			
CER 9008	PFEFFER 1-8	MURFIN DRILLING CO. INC.	ELLIS	8-11-20W	SEPTEMBER 15, 2000			
CER 9009	TJET-BILL 1	HESS OIL COMPANY	ELLIS	2-11-19W	SEPTEMBER 29, 2000	DECEMBER 7, 2000 APPROVED	FEBRUARY 22, 2000	3D
CER 90010	TJADEN A 2	MULL DRILLING CO. INC.	KINGMAN	33-30-8W	SEPTEMBER 29, 2000			
CER 10001	MEYER 10-7	PETROSANTANDER	FINNEY	10-23-31W	OCTOBER 10, 2000	NOVEMBER 29, 2000 APPROVED	AUGUST 18, 1999	3D
CFH 10002	MEYER 10-8	PETROSANTANDER	FINNEY	10-23-31W	OCTOBER 10, 2000	NOVEMBER 29, 2000 APPROVED	OCTOBER 18, 1999	3D
CER 10003	SHERMAN 8	PETROSANTANDER	FINNEY	11-23-31W	OCTOBER 10, 2000	NOVEMBER 29, 2000 APPROVED	SEPTEMBER 17, 1999	3D
CER 10004	SHERMAN 9	PETROSANTANDER	FINNEY	12-23-31W	OCTOBER 10, 2000	NOVEMBER 29, 2000 APPROVED	NOVEMBER 17, 1999	3D
CER 10005	MACKAY 7	PETROSANTANDER	FINNEY	12-23-31W	OCTOBER 10, 2000	NOVEMBER 29, 2000 APPROVED	DECEMBER 20, 1999	3D
CER 10006	MACKAY 8	PETROSANTANDER	FINNEY	12-23-31W	OCTOBER 10, 2000	NOVEMBER 29, 2000 APPROVED	AUGUST 21, 2000	3D
CER 10007	MACKAY 9	PETROSANTANDER	FINNEY	12-23-31W	OCTOBER 10, 2000	NOVEMBER 29, 2000 APPROVED	OCTOBER 19, 1999	3D
CER 10008	BULGER 7-11	PETROSANTANDER	FINNEY	7-23-30W	OCTOBER 10, 2000	NOVEMBER 29, 2000 APPROVED	NOVEMBER 19, 1999	3D
CER 10009	BULGER 7-13	PETROSANTANDER	FINNEY	7-23-30W	OCTOBER 10, 2000	NOVEMBER 29, 2000 APPROVED	NOVEMBER 19, 1999	3D
CER 10010	PAULS 9-7	PETROSANTANDER	FINNEY	9-23-31W	OCTOBER 10, 2000	NOVEMBER 29, 2000 APPROVED	JUNE 20, 2000	3D
CER 10011	SCOTT 4-10	PETROSANTANDER	FINNEY	4-23-31W	OCTOBER 10, 2000	NOVEMBER 29, 2000 APPROVED	MAY 19, 2000	3D
CER 10012	TURRENTINE 10-1	PETROSANTANDER	FINNEY	10-23-31W	OCTOBER 10, 2000	NOVEMBER 29, 2000 APPROVED	SEPTEMBER 26, 2000	3D
CER 10013	TILLER A 1	ANADARKO	HASKELL	10-29-34W	OCTOBER 11, 2000			
CER 10014	CHARLES 2-12	ANADARKO	HASKELL	12-29-34W	OCTOBER 10, 2000			
CER 10015	MYERS TRUST 1-30X	MURFIN DRILLING CO. INC.	CHEYENNE	30-2-41W	OCTOBER 17, 2000			
CER 10016	H M WRIGHT 1	VINCENT OIL CORP	KIOWA	24-29-19W	OCTOBER 25, 2000			
CER 10017	VADA BELLE UNIT 18-1	IMPERIAL AMERICAN OIL	ELLIS	18-11-19W	OCTOBER 29, 2000			
CER 10018	WAGNON 1-9	AMERICAN WARRIOR INC	COMANCHE	9-33-18W	OCTOBER 30, 2000			
CER 10019	LYTLE 1-17	AMERICAN WARRIOR INC	COMANCHE	17-33-18W	OCTOBER 30, 2000			
CER 10020	KERSTETTER 2-33	AMERICAN WARRIOR INC	COMANCHE	33-32-19W	OCTOBER 30, 2000			
CER 10021	BEELEY 1	AMERICAN WARRIOR INC	COMANCHE	10-33-18W	OCTOBER 30, 2000			
CER 10022	CARTHRAE 1-4	AMERICAN WARRIOR INC	COMANCHE	4-33-16W	OCTOBER 30, 2000			

Kansas Oil Production in 12 SW Kansas Counties						
County	1st 5 mo. Of					
	1995	1996	1997	1998	1999	2000
Hamilton	867	6,576	4,251	1,827	2,043	2,334
Wichita	42,508	42,774	45,803	52,121	39,370	48,653
Greeley	261,977	276,120	171,361	148,319	144,863	129,652
Gray	135,623	123,747	113,930	108,835	106,337	77,551
Grant	599,335	488,585	428,383	322,937	296,599	198,616
Haskell	1,870,143	2,204,939	2,413,976	1,905,297	1,703,268	1,576,188
Finney	2,581,087	2,564,709	2,548,026	2,731,365	2,888,197	1,751,018
Kearney	650,812	528,003	432,364	399,215	347,296	235,818
Morton	1,136,056	861,237	721,351	676,139	650,282	387,143
Stevens	681,613	560,899	439,137	403,752	453,328	368,227
Stanton	573,697	691,487	504,472	363,013	277,176	239,371
Seward	1,751,540	1,453,104	1,141,448	1,179,670	856,636	537,382
Totals	10,285,258	9,802,180	8,964,502	8,292,490	7,765,395	5,551,953

Source: Kansas Geological Survey

STATE OF KANSAS
Bill Graves, Governor

Customer Relations
Mineral Tax Section
Kansas Department of Revenue
915 SW Harrison St.
Topeka, KS 66625



Division of Taxation

DEPARTMENT OF REVENUE
Stephen S. Richards, Secretary

(785) 296-7713
FAX (785) 296-2073
Hearing Impaired TTY (785) 296-6461

FACSIMILE TRANSMITTAL SHEET

DATE: 1/10/2001

NUMBER OF PAGES INCLUDING TRANSMITTAL SHEET: 1

TO:

NAME: KSPC
ORGANIZATION: KSPC

PHONE:
FAX: 235-6179

FROM:

LARRY NEWMAN

KANSAS DEPARTMENT OF REVENUE, CUSTOMER RELATIONS

PHONE: 785 296 5447

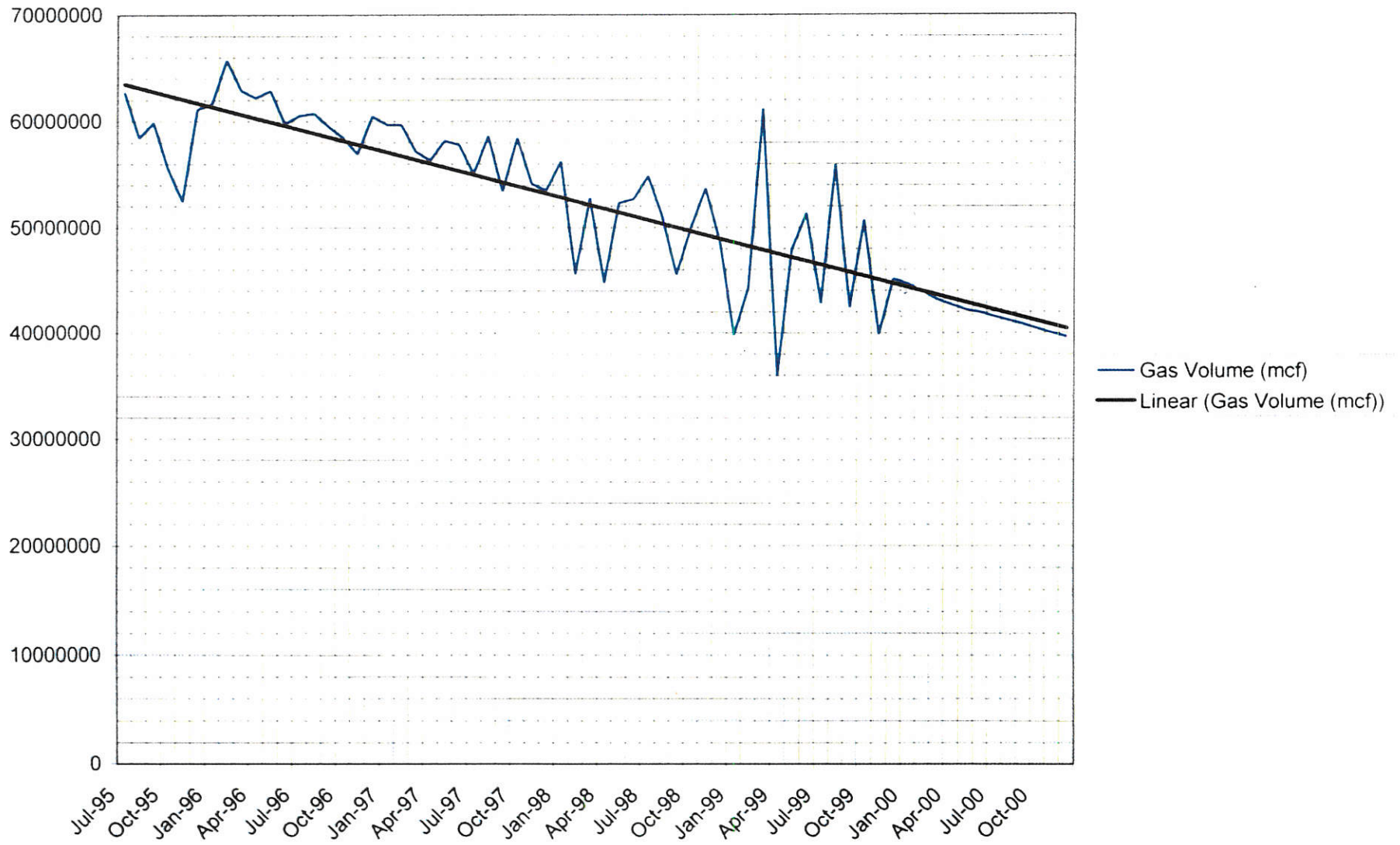
FAX: 785 296 4993

This is in response to your Incremental Exemption inquiry.

These figures are for 1/1/2000 through 8/30/2000.

	Exempt Production	Exempt Value	Exempt Tax
Oil	228,325 bbls	\$6,320,726	\$273,687
Gas	2,309,145 mcf's	\$7,085,978	\$306,823

Monthly Gas Production Volumes (July 95 to November 99)



SENATE COMMITTEE ON ASSESSMENT AND TAXATION

Tuesday, February 13, 2001

SENATE BILL NO. 51

TESTIMONY OF

Robert E. Krehbiel, Exec. Vice President
Kansas Independent Oil & Gas Association

*Senate Assessment + Taxation
2-13-01
Attachment 4*

Mr. Chairman and Members of the Committee:

My name is Robert E. Krehbiel and I am appearing on behalf of the Kansas Independent Oil & Gas Association. Kioga was organized 65 years ago to represent the interests of the many independents who explore for and produce oil and gas in Kansas. We are appearing in support of SB 51 to amend K.S.A. 79-4217.

K.S.A. 79-4217 includes a severance tax exemption for a period of seven years given to the incremental production resulting from a production enhancement project begun on or after July 1, 1998. Qualifying enhancement projects are defined by statute and rules and regulations have been developed by the Kansas Corporation Commission. Qualifying projects include work-overs, re-completions, secondary recovery projects, the addition of mechanical devices to de-water a gas or oil well, replacement or enhancement of surface equipment, installation or enhancement of compression equipment, and new discoveries resulting from the use of new technology such as three dimensional seismic. Incremental severance and production is defined as production in excess of base production. Base production is the average monthly amount of production for the 12-month period immediately prior to the project beginning date, minus the monthly rate of production decline. The monthly rate of production decline would be determined with reference to the same 12-month period used to determine the base production. The monthly rate of production decline is the decline that would have occurred except for the enhancement project. The credit does not apply in any fiscal year if in the preceding calendar year the price exceeded, in the case of oil, \$20 per barrel; or, in the case of natural gas, \$2.50 per Mcf.

The purpose of this severance tax exemption was to incent investment in the kinds of enhanced production cited in the statute, to increase production, prevent waste and create jobs and the associated economic activity which results. This exemption has been very effective and has been utilized by various independent oil and gas producers. Recent price increases above the price limitations have eliminated the use of this incentive to exploration.

The severance tax in addition to the property tax is a major disincentive to exploration and production in Kansas. We believe that the severance tax should be eliminated in its entirety.

The exploration and production component of the Kansas industry and the Kansas resource base can no longer support the severance tax. It is a tax from a bygone era which, when coupled with the ad valorem tax, creates an effective tax rate which is three times higher than for that of any other industry in Kansas. This combination of taxes is punitive in nature, imposed at a time when investments in oil and gas exploration would yield a competitive rate of return. Since inception of the tax the industry has lost over 10,000 employees, over 165 fewer rigs are operating and production continues to decline. The exploration and production component of the oil and gas industry has been decimated by a decade and a half of low wellhead prices.

Maintaining the viability of the incremental production exemption to the severance tax is critical to continue to incent enhancement activity in the State of Kansas. A recent study commissioned by the Interstate Oil and Gas Compact Commission indicates that such incentives pay off for the States economy. States receive up to \$39 in increased gross output for each incentive dollar granted. Up to \$5.20 in new salaries is generated for each tax dollar the industry keeps. The typical oil and gas incentive attracts about \$1.098 billion in investment activity during its life and creates 6,000 work years. A copy of the IOGCC Briefing Paper with Key Findings from the study is attached.

We encourage you to pass SB 51. Thank you very much for your consideration.

**CHARLES B. WILSON
TESTIMONY BEFORE THE
SENATE ASSESSMENT AND TAXATION COMMITTEE
SB 51
FEBRUARY 13, 2001**

My name is Charles B. Wilson and I am a vice president with BEREXCO INC., an independently owned oil and gas exploration and production company headquartered in Wichita. BEREXCO currently employs over 300 personnel and we operate nearly 1000 oil and gas wells in 44 Kansas counties, as well as having operations in 6 other states.

As you know current legislation provides a seven year exemption from severance tax on oil and gas production increases, or incremental production, which result from investments in production enhancement projects. Such qualified projects after July 1, 1998 include: workovers of wells; recompletions into a different producing zone within the same well bore; secondary recovery projects; adding dehydration equipment; replacing or enhancing surface equipment; adding compression for gas wells; and new discoveries as a result of new exploration technology.

The severance tax, as is true with any tax related to a business activity, reduces the cash flow from that activity. We at BEREXCO saw the value of this tax incentive to re-invest cash flow into enhancing our existing production. Granted the paper work requirements are somewhat burdensome and many producers have been slow to take advantage of this exemption, we at BEREXCO have been proactive in our business decisions regarding the availability of the credit.

Following are some facts of our activity since the exemption was made effective July 1, 1998:

1998 (after 7/1/98) - 10 wells were enhanced

1999 - Spent ~\$500,000 enhancing 39 wells. A year later, oil production is up 115 BPD

2000 - Spent \$2,728,000 enhancing 117 oil wells and 63 gas wells.

*Senate Assessment & Taxation
2-13-01
Attachment 5*

Since July 1, 1998, 232 enhancement projects have been completed by BEREXCO. Of these, 51 did not meet the qualifications for the severance tax exemption, because simply said, they were not successful in generating any incremental production. 105 applications have been sent to the KCC for approval, of which 6 have now been formerly approved. The remaining 76 applications are in various stages of internal preparation at BEREXCO.

As our production has increased due to investing in projects, additional revenue has accrued to us, and a significant portion of the total investment has been recouped. The incremental impact will not only benefit us. Jobs have been created and the local economies have felt the multiplier effect from project dollars spent by us. Royalty owners have received increased revenues from the production increases, while not bearing any of the cost of the projects. Additional county ad valorem taxes have or will increase and certainly additional state income taxes (at a rate higher than they severance tax rate) have been or will be paid as a result of our investments.

Capital for new investments comes from the cash flow generated from existing wells. The Kansas severance tax reduces the cash flow available for new drilling. As we evaluate where to allocate capital for new investment, Kansas projects compete with projects in the other states in which we operate. Moreover, there are many operators in Kansas, besides BEREXCO, that have operations in other states. The Kansas severance tax, when added to the county ad valorem tax, calculates to a tax of nearly 10% on gross revenues. This rate of tax, as a reduction from gross revenues, regardless of net profits, creates a significant disincentive when consider investing in new Kansas projects, compared to projects offered in other states. However, the exemption from severance tax for incremental production, makes Kansas competitive for new project investments.

fortunately now, pursuant to the price caps in the existing provisions of the exemption rules appears we will lose this credit for the next year. The loss of the credit, not only affects the economics of the projects already completed, but creates a disincentive for entering into new projects.

Among other modifications to the statute which we also support, SB 51 removes these price caps. We encourage your support of SB 51 so we can continue evaluating possible projects without having to worry about losing this incentive. I believe every party will be a net winner with the passage of this bill.

HEIN AND WEIR, CHARTERED

Attorneys at Law

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Ronald R. Hein

Email: rhein@hwchtd.com

*Stephen P. Weir**

Email: sweir@hwchtd.com

*Admitted in Kansas & Texas

**Testimony re: SB 51
Senate Assessment and Taxation Committee
Presented by Ronald R. Hein
on behalf of
Pioneer Natural Resources U.S.A., Inc.
February 13, 2001**

Mr. Chairman, Members of the Committee:

My name is Ron Hein, and I am legislative counsel for Pioneer Natural Resources USA, Inc. Pioneer is one of the largest independent exploration and production oil and gas companies in North America, with major natural gas production in the Hugoton field in Southwest Kansas.

Pioneer supports SB 51. Specifically, Pioneer supports the removal of the cap on the price of gas in K.S.A. 79-4217(b)(6)(D), at page 6, lines 25-31, and the addition of the two new exemptions set out in K.S.A. 79-4217(b)(6)(A)(4)(viii) and (ix), at page 5, line 43, and page 6, lines 1-5.

Pioneer supports these changes because anything that the State of Kansas can do to remove disincentives to increase production of oil and gas, either from new technologies or otherwise, will be positive to the citizens of Kansas and this nation. Kansas' tax structure which includes a 4.33% severance tax on oil and gas in addition to ad valorem tax, which is based upon production, results in taxes higher than other oil and gas producing states. When companies are choosing where to invest their money in enhanced recovery projects or other expensive technological methodologies for increasing or finding new production, Kansas' combined severance and ad valorem tax operates as a disincentive to invest in Kansas.

Because you are hearing from other producers regarding the details of enhanced recovery and SB 51, we will not repeat those here, but will simply indicate our support for the passage of this bill.

Thank you very much for permitting me to submit this written testimony, and if you have any questions, I will be available to respond to them.

*Senate Assessment & Taxation
2-13-01
Attachment 6*

Statement of
Erick E. Nordling, Executive Secretary
Southwest Kansas Royalty Owners Association
Hugoton, Kansas 67951

February 13, 2001

To the Honorable Members of the Senate Committee on Assessment and Taxation:

RE: Senate Bill 51 relating to exemptions from severance taxation for incremental severance and production of oil and gas

Chairman Corbin and Members of the Committee:

My name is Erick E. Nordling of Hugoton. I am Executive Secretary of the Southwest Kansas Royalty Owners Association (SWKROA). I am appearing on behalf of members of our Association and on behalf of Kansas royalty owners to support of Senate Bill No. 51 dealing with exemptions from severance taxation for incremental severance and production of oil and gas.

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 2,300 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.

One of the early objective of our Association, formed in 1948, was to fight a severance tax. We have maintained that position throughout the years, even though a severance tax was eventually enacted.

We believe that any severance tax acts to reduce the long term development of our energy resources and makes our nation more dependant on foreign energy and thus more vulnerable to price increases. We also note that mineral production in Kansas is declining and will continue to do so in the years to come, thus creating a declining and unstable tax source for the state.

SEVERANCE TAX EXEMPTION BILL

Senate Bill No. 51 is an industry sponsored bill which, in part, grants additional exemptions from severance taxation for production from oil and gas from horizontally drilled wells, and from gas or oil produced from a coal bed.

*Senate Assessment & Taxation
2-13-01
Attachment 7*

STATE OF KANSAS



TOPEKA

SENATE CHAMBER

MARK W. TADDIKEN
SENATOR, 21ST DISTRICT
CLAY, CLOUD, MARSHALL
NEMAHA, WASHINGTON, RILEY
AND A PORTION OF
POTTAWATOMIE COUNTY
2614 HACKBERRY RD.
CLIFTON, KS 66937
(785) 926-3325

STATEHOUSE—ROOM 143-N
TOPEKA, KS 66612
(785) 296-7371
taddiken@senate.state.ks.us

COMMITTEE ASSIGNMENTS
VICE-CHAIRMAN: ENERGY & NATURAL
RESOURCES
MEMBER: AGRICULTURE
ASSESSMENT & TAXATION
UTILITIES

DATE: February 12, 2001
TO: Members of the Senate Assessment and Taxation Committee
FROM: Senator Mark W. Taddiken, 21st District
RE: SB 84 Income tax credit for investment in agricultural cooperatives

Thank you Mr. Chairman and members of the committee for allowing me some remarks this morning.

SB 84 would establish a tax credit program for agricultural producers investing in certain agricultural cooperatives.

The purpose is to assist agricultural producers in retaining control of their products further into the processing chain, thus increasing their potential for profit.

Generally speaking, the profit potential in processing agricultural commodities is two to three times higher than in actually producing the commodities. More and more producers are attempting to move into the arena of adding value to their products.

Many producers are choosing to join forces with other producers in a cooperative effort in these endeavors. The major hurdle in implementing this process is the lack of capital.

SB 84 provides for tax credit incentives to assist in raising the needed capital. The basic concept is to allow a credit of 25% of the amount invested up to a maximum credit of \$2,500.

Furthermore, an investor would be able to sell or transfer the credit if they so desired. The bill limits the State's fiscal exposure to \$2 million per year.

When this bill is worked, I intend to offer two amendments. The first would restrict any single project from receiving more than 25% of the total yearly tax credits.

*Senate Assessment & Taxation
2-13-01
Attachment 8*

The second amendment would reserve 10% of the total yearly tax credits for projects costing less than \$1 million.

The economy of rural Kansas needs a shot in the arm. The reason we are experiencing school finance problems in rural areas is because of declining enrollments. Declining enrollments come from the declining population base which comes from the decline in economic opportunities. Will the implementation of **SB 84** solve the economic woes of rural Kansas? Certainly not by itself, but it could be an important piece of the puzzle.

The states of Nebraska and Iowa have made substantial financial commitments to promoting value-added agriculture in the form of loans and grants. Missouri and Oklahoma already have tax credit programs similar to **SB 84** in place.

I believe this program would not only assist rural Kansans, but in the long run have a positive impact on the state treasury.

I would ask that the committee favorably consider **SB 84**.

Thank you for this opportunity and I will try to answer any questions.

Testimony on SB 84
Senate Assessment and Taxation Committee
February 13, 2001
Prepared by Joe Lieber, Kansas Cooperative Council

Mr. Chairman and members of the Committee, I'm Joe Lieber, President of the Kansas Cooperative Council. The Council has a membership of nearly 200 cooperative businesses who have a combined membership of nearly 200,000 Kansans. The majority of our members are farmer owned cooperatives.

Over the last three or four years there has been several bills introduced similar to SB 84 and HB 2122 which has been introduced in the House. In 1997 HB 2481 was introduced, HB 2131 was introduced in 1999 and HB 2617 was introduced in 2000. Today, as in the past, the Kansas Cooperative Council supports the concept of the bills because it gives Kansas farmers and ranchers an opportunity to help themselves by creating added value cooperatives. This added value should enhance the prices they get from what they produce.

Why do we say, "Support the concept of the bill"?

Of all the bills that have been introduced on the subject, SB 84 is the best written but like the others, we still feel it has some technical problems with the language.

For example, on line 21, what does "economic value" mean? If a producer comes up with a great idea on how to add value and is the instigator in starting an added value cooperative, would he or she be eligible for a tax credit? We don't know the answer.

SB 84 does a better job explaining what an "eligible person" means in Section 1 (3), but we're not sure if our current, traditional farm cooperatives are eligible.

Could a traditional farm cooperative that needed a new feed mill sell stock to its current members to build it? Feed mills add value!

Can a traditional farm cooperative sell stock to a producer that promises to deliver a specified quantity of product consistent with a marketing agreement? (Lines 16-19) If 50 producers invested \$2,000 the cooperative would have \$100,000. It could use the interest off that amount to pay the

*Senate Assessment + Taxation
2-13-01
Attachment 9*

in giving producers a premium plus the producers would get a tax credit. Does SB 84 allow or prevent this?

We think traditional farm cooperatives are very important to the added value concept and in many cases, because they are already owned by the producer, they can be the organizations that can bring farmers together to invest in this new concept. But, we're not sure what role they can play with the language in SB 84.

To ensure that traditional farm cooperatives can be involved we have offered an amendment to SB 84. Please see the attached balloon. In line 26 after the numbers 17-5903, add "or any farmer owned cooperative which is organized pursuant to the provisions of KSA 17-1601." We feel that would make traditional cooperatives an "eligible person" and would allow them to be involved in the added value concept.

Another concern we have with SB 84 is how the \$2,000,000 tax credit will be divided up. It is possible that 800 "eligible persons" could invest \$2,500 in an added value cooperative and use the entire \$2,000,000 up on that one project. What about the people who invest in other added value cooperatives that year? You may think that 800 investors is a lot, but when you consider some of these expensive added value ventures such as an ethanol plant you can see why the tax credit needs to be divided up. We are not sure how you may want to do this, but I have brought examples of the Missouri and Oklahoma laws that do address these concerns.

The last major concern we have is that we believe the committee should be aware that not all added value cooperatives are successful. For the last two years we have helped sponsor two added value conferences, one at Pittsburg State and the other at Fort Hays. The main sponsors are the USDA, the Kansas Department of Commerce and Housing and the Arthur Capper Cooperative Center at Kansas State University. The speakers at these conferences included producers and managers that have started added value cooperatives. We have always made sure that at least one of the speakers tells the attendees that not all added value ventures are successful.

Will the passage of SB 84 encourage Kansas producers and ranchers to invest in "high-risk" ventures or will it provide these same people an opportunity to increase their income by adding value to the products they produce? We hope it is the latter.

Member of the committee, as we stated earlier, we support the concept of SB 84 and if some of these concerns can be resolved, we feel it will be a welcome tool to help the producers and ranchers of Kansas.

Thank you. I will be happy to try to answer any questions.

SENATE BILL No. 84

By Committee on Assessment and Taxation

1-22

AN ACT relating to income taxation; providing a credit therefrom for investments in certain agricultural cooperatives.

Be it enacted by the Legislature of the State of Kansas:

Section 1. (a) As used in this section:

(1) "Agricultural cooperative" means any corporation which is organized pursuant to the provisions of K.S.A. 17-1601 et seq., and amendments thereto, the owners of which are required to purchase shares of equity stock as specified in the stock subscription agreement which conveys the obligation to deliver a specified quantity of product consistent with a marketing agreement;

(2) "direct investment" means the payment of money or the transfer of any form of economic value, whether tangible or intangible in exchange for stock; and

(3) "eligible person" means an individual or family farm corporation, limited agricultural partnership, authorized farm corporation, family trust, authorized trusts or resident limited liability agricultural company, as such phrases are defined by K.S.A. 17-5903, and amendments thereto, who, as a result of a direct investment, becomes a member of an agricultural cooperative.

(b) For all taxable years commencing after December 31, 2000, there shall be allowed a credit against the tax liability of an eligible person imposed under the Kansas income tax act in an amount equal to a direct investment in an agricultural cooperative. The total credit allowed by this subsection shall not exceed \$2,500 or 25% of the amount of such investment, whichever amount is less, but for any taxable year shall not exceed the amount of tax imposed under the Kansas income tax act reduced by the sum of any other credits allowable pursuant to law. If the amount of such tax credit exceeds the eligible person's income tax liability for any such taxable year, such excess amount may be carried over for deduction from the taxpayer's income tax liability in the next succeeding taxable year or years until the total amount of the tax credit has been deducted from tax liability. If an eligible person is a corporation having an election in effect under subchapter S of the federal internal revenue code, a partnership or a limited liability company, the credit provided by this section

Definition of "economic value"

or any farmer owned cooperative organized pursuant to the Provisions of K.S.A. 17-1601,

1 shall be claimed by the shareholders of such corporation, the partners of
2 such partnership or the members of such limited liability company in the
3 same manner as such shareholders, partners or members account for their
4 proportionate shares of the income or loss of the corporation, partnership
5 or limited liability company.

6 (c) Any eligible person, hereinafter designated the assignor, may sell,
7 assign, convey or otherwise transfer tax credits allowed and earned pur-
8 suant to this section, and amendments thereto. The person acquiring
9 earned credits, hereinafter designated the assignee, may use the amount
10 of the acquired credits to offset up to 100% of its income tax liability for
11 the taxable year in which such acquisition was made. Only the full credit
12 amount for any one contribution may be transferred and such credit may
13 be transferred one time. Unused credit amounts claimed by the assignee
14 may be carried over for deduction from the assignee's income tax liability
15 in the next succeeding taxable year or years until the total amount of the
16 tax credit has been deducted from tax liability. The amount received by
17 the assignor of such tax credit shall be taxable as income of the assignor,
18 and the excess of the value of such credit over the amount paid by the
19 assignee for such credit shall be taxable as income of the assignee.

20 (d) In no event shall the total amount of credits allowed under this
21 section exceed \$2,000,000 for any one fiscal year. _____

How will it be divided up?

22 Sec. 2. This act shall take effect and be in force from and after its
23 publication in the statute book.

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FIRST REGULAR SESSION
[TRULY AGREED TO AND FINALLY PASSED]
SENATE SUBSTITUTE FOR
SENATE COMMITTEE SUBSTITUTE FOR
HOUSE COMMITTEE SUBSTITUTE FOR

HOUSE BILL NO. 888

90TH GENERAL ASSEMBLY

S1916.13T 1999

Handwritten notes and signatures, including "Sen. A. ..."

AN ACT

To repeal sections 348.020 and 348.060, RSMo 1994, and sections 348.406, 348.407, 348.408 and 348.410, RSMo Supp. 1998, relating to the Missouri agricultural and small business development authority, and to enact in lieu thereof thirteen new sections relating to rural agricultural businesses, with an emergency clause and an expiration date for certain sections.

Be it enacted by the General Assembly of the state of Missouri, as follows:

Section A. Sections 348.020 and 348.060, RSMo 1994, and sections 348.406, 348.407, 348.408 and 348.410, RSMo Supp. 1998, are repealed and thirteen new sections enacted in lieu thereof, to be known as sections 348.020, 348.060, 348.406, 348.407, 348.408, 348.410, 348.414, 1, 2, 3, 4, 5 and 6, to read as follows:

348.020. There is hereby created, with such duties and powers as are set forth in sections 348.005 to [348.180] **348.415** to carry out the provisions hereof, a body politic and corporate, [not a state agency, but] an independent instrumentality exercising essential public functions, to be known as the "Missouri Agricultural and Small Business Development Authority". The powers of the authority shall be vested in seven commissioners, who shall be residents of this state, to be appointed by the governor, by and with the advice and consent of the senate, except that the director of the department of agriculture shall serve as a member of the authority as an ex officio member. Not more than four of the commissioners shall be of the same political party.

348.060. The commissioners shall employ an executive director. The executive director shall be the secretary of the authority and shall administer, manage, and direct the affairs and business of the authority, subject to the policies, control, and direction of the commissioners. The commissioners may employ technical experts and such other officers, agents, and employees as they deem necessary, and may fix their qualifications, duties, and compensation. **The executive director and all other employees of the authority shall be state employees and eligible for all corresponding benefits.** The commissioners may delegate to the executive director, or to one or more of its agents or employees, such powers and duties as it may deem proper.

348.406. 1. The authority, upon application, may issue certificates of guaranty covering a first loss

guarantee up to but not more than twenty-five percent of the loan on a declining principal basis for eligible borrowers, executing a note or other evidence of a loan made for the purpose of an agricultural business development loan, but not to exceed the amount of two hundred fifty thousand dollars for any eligible borrower and to pay from the fund to an eligible lender up to twenty-five percent of the amount on a declining principal basis of any loss on any guaranteed loan made pursuant to the provisions of sections 348.400 to 348.415, in the event of default on the loan. Upon payment on the guarantee, the authority shall be subrogated to all the rights of the eligible lender.

2. The authority shall charge for each guaranteed loan a one-time participation fee of one percent which shall be collected by the eligible lender at the time of closing and paid to the authority. In addition, the authority may charge a special loan guarantee fee of up to one percent per annum of the outstanding principal which shall be collected from the eligible borrower by the eligible lender and paid to the authority. [Amounts so collected shall be deposited in the program fund and used, upon appropriation, to pay the costs of administering the program.]

3. All moneys paid to satisfy a defaulted guaranteed loan shall only be paid out of the fund.

4. The total outstanding guaranteed loans shall at no time exceed an amount which, according to sound actuarial judgment, would allow immediate redemption of forty percent of the outstanding loans guaranteed by the fund at any one time.

348.407. 1. The authority shall develop and implement agricultural products utilization grants as provided in this section.

2. The authority may reject any application for grants pursuant to this section.

3. The authority shall make grants, and may make loans or guaranteed loans from the grant fund to persons [or entities] for the creation, development and operation, for up to three years from the time of application approval, of rural agricultural businesses whose projects add value to agricultural products and aid the economy of a rural community.

4. The authority may, upon the provision of a fee by the requesting person in an amount to be determined by the authority, provide for a feasibility study of the person's rural agricultural business concept.

5. Upon a determination by the authority that such concept is feasible and upon the provision of a fee by the requesting person, in an amount to be determined by the authority, the authority may then provide for a marketing study. Such marketing study shall be designed to determine whether such concept may be operated profitably.

6. Upon a determination by the authority that the concept may be operated profitably, the authority may provide for legal assistance to set up the business. Such legal assistance shall include, but not be limited to, providing advice and assistance on the form of business entity, the availability of tax credits and other assistance for which the business may qualify as well as helping the person apply for such assistance.

7. The authority may provide or facilitate loans or guaranteed loans for the business including, but not limited to, loans from the United States Department of Agriculture Rural Development Program, subject to availability. Such financial assistance may only be provided to feasible projects, and for an amount that is the least amount necessary to cause the project to occur, as determined by the authority. The authority may structure the financial assistance in a way that facilitates the project, but also provides for a compensatory return on investment or loan payment to the authority, based on the risk of the project.

8. The authority may provide for consulting services in the building of the physical facilities of the business.

The authority may provide for consulting services in the operation of the business.

10. The authority may provide for such services through employees of the state or by contracting with private entities.

11. The authority may consider the following in making the decision:

- (1) The applicant's commitment to the project through the applicant's risk;
- (2) Community involvement and support;
- (3) The phase the project is in on an annual basis;
- (4) The leaders and consultants chosen to direct the project;
- (5) The amount needed for the project to achieve the bankable stage; and
- (6) The projects planning for long-term success through feasibility studies, marketing plans and business plans.

[5. The authority may charge for each grant application a one-time fee not to exceed two hundred dollars to be paid to the authority at the time of application. Such moneys shall be deposited to the program fund.]

12. The department of agriculture, the department of natural resources, the department of economic development and the University of Missouri may provide such assistance as is necessary for the implementation and operation of this section. The authority may consult with other state and federal agencies as is necessary.

13. The authority may charge fees for the provision of any service pursuant to this section.

14. The authority may adopt rules to implement the provisions of this section.

15. Any rule or portion of a rule, as that term is defined in section 536.010, RSMo, that is created under the authority delegated in sections 348.005 to 348.180 shall become effective only if it complies with and is subject to all of the provisions of chapter 536, RSMo, and, if applicable, section 536.028, RSMo. All rulemaking authority delegated prior to August 28, 1999, is of no force and effect and repealed. Nothing in this section shall be interpreted to repeal or affect the validity of any rule filed or adopted prior to August 28, 1999, if it fully complied with all applicable provisions of law. This section and chapter 536, RSMo, are nonseverable and if any of the powers vested with the general assembly pursuant to chapter 536, RSMo, to review, to delay the effective date or to disapprove and annul a rule are subsequently held unconstitutional, then the grant of rulemaking authority and any rule proposed or adopted after August 28, 1999, shall be invalid and void.

348.408. 1. There is hereby established in the state treasury the "Agricultural Product Utilization Grant Fund". The fund shall consist of money appropriated to it by the general assembly[, charges, gifts, grants, bequests from federal, private or other sources,] and investment income on the fund. Notwithstanding the provisions of section 33.080, RSMo, no portion of the fund shall be transferred to the general revenue fund.

2. The fund shall be administered by the authority.

3. [Beginning with fiscal year 1997-98,] The general assembly may appropriate moneys not to exceed [one and one-half] **three** million dollars [for the establishment and initial funding of the fund] **annually**. In any given year, at least [one-third] **ten percent** of the appropriation shall be awarded to grant requests of twenty-five thousand dollars or less. No single [grant award shall exceed one] **rural agricultural**

Business concept shall receive more than two hundred [fifty] thousand dollars in grant awards from authority.

4. Moneys in the fund may be invested by the state treasurer, and any income therefrom shall be deposited to the credit of the fund.

348.410. 1. There is hereby created in the state treasury the "Agricultural Product Utilization Business Development Loan Program Fund". The fund shall consist of money [collected by the authority and transmitted to the department of revenue and deposited pursuant to subsection 2 of section 348.406 and subsection 5 of section 348.407] **appropriated to it by the general assembly and investment income on the fund**. Notwithstanding the provisions of section 33.080, RSMo, no portion of the fund shall be transferred to the general revenue fund. The money in the program fund shall be used, upon appropriation, for [administration of the program] **purposes** established pursuant to sections 348.400 to 348.415 and for no other purpose. Moneys necessary for [the start-up of] this program may be transferred to this program fund from the fund established pursuant to [sections] **section 348.408 [and 348.409]**.

2. For purposes of this section, the department of agriculture shall, as part of the program administration, establish market promotion activities that assist grant recipients and loan applicants in the planning and marketing of value-added products. The department of agriculture is specifically authorized to employ qualified individuals to fulfill such duties.

3. The department of agriculture shall promote products derived from development facilities and renewable fuel production facilities as defined in section 1 of this act.

348.414. 1. The executive director of the authority shall act for the authority except that the appeal of the executive director's decisions shall be to the authority.

2. The executive director of the authority shall be paid on a level to be determined by the authority but not to exceed that of a division director of the department of agriculture.

3. The authority shall not provide services or funds for any project not located in this state.

Section 1. 1. The tax credit created in this section shall be known as the "Agricultural Product Utilization Contributor Tax Credit".

2. As used in this section, the following terms mean:

(1) "Authority", the agriculture and small business development authority as provided in this chapter;

(2) "Contributor", an individual, partnership, corporation, trust, limited liability company, entity or person that contributes cash funds to the authority;

(3) "Development facility", a facility producing either a good derived from an agricultural commodity or using a process to produce a good derived from an agricultural product;

(4) "Eligible new generation cooperative", a nonprofit cooperative association formed pursuant to chapter 274, RSMo, or incorporated pursuant to chapter 357, RSMo, for the purpose of operating a development facility or a renewable fuel production facility;

(5) "Renewable fuel production facility", a facility producing an energy source which is derived from a renewable, domestically grown, organic compound capable of powering machinery, including an engine or power plant, and any by-product derived from such energy source.

3. For tax year 1999, a contributor who contributes funds to the authority may receive a credit against the tax otherwise due pursuant to chapter 143, other than taxes withheld pursuant to

ions 143.191 to 143.265, RSMo, chapter 148, RSMo, chapter 147, RSMo, in an amount of up to one hundred percent of such contribution. The awarding of such credit shall be at the approval of the authority, based on the least amount of credits necessary to provide incentive for the contributions. A contributor that receives tax credits for a contribution to the authority shall receive no other consideration or compensation for such contribution, other than a federal tax deduction, if applicable, and goodwill. A contributor that receives tax credits for a contribution provided in this section may not be a member, owner, investor or lender of an eligible new generation cooperative that receives financial assistance from the authority either at the time the contribution is made or for a period of two years thereafter.

4. A contributor shall submit to the authority an application for the tax credit authorized by this section on a form provided by the authority. If the contributor meets all criteria prescribed by this section and the authority, the authority shall issue a tax credit certificate in the appropriate amount. Tax credits issued pursuant to this section shall initially be claimed for the taxable year in which the contributor contributes funds to the authority. Any amount of credit that exceeds the tax due for a contributor's taxable year may be carried forward to any of the contributor's five subsequent taxable years. Tax credits issued pursuant to this section may be assigned, transferred or sold whenever a certificate of tax credit is assigned, transferred, sold or otherwise conveyed, a notarized endorsement shall be filed with the authority specifying the name and address of the new owner of the tax credit or the value of the credit.

5. The funds derived from contributions in this section shall be used for financial assistance or technical assistance for the purposes provided in section 348.407, to rural agricultural business concepts as approved by the authority. The authority may provide or facilitate loans, equity investments, or guaranteed loans for rural agricultural business concepts, but limited to two million dollars per project or the net state economic impact, whichever is less. Loans, equity investments or guaranteed loans may only be provided to feasible projects, and for an amount that is the least amount necessary to cause the project to occur, as determined by the authority. The authority may structure the loans, equity investments or guaranteed loans in a way that facilitates the project, but also provides for a compensatory return on investment or loan payment to the authority, based on the risk of the project.

6. In any given year, at least ten percent of the funds granted to rural agricultural business concepts shall be awarded to grant requests of twenty-five thousand dollars or less. No single rural agricultural business concept shall receive more than two hundred thousand dollars in grant awards from the authority. Agricultural businesses owned by minority members or women shall be given consideration in the allocation of funds.

Section 2. 1. The tax credit created in this section shall be known as the "New Generation Cooperative Incentive Tax Credit".

2. As used in this section, the following terms mean:

(1) "Authority", the agriculture and small business development authority as provided in chapter 348, RSMo;

(2) "Development facility", a facility producing either a good derived from an agricultural commodity or using a process to produce a good derived from an agricultural product;

(3) "Eligible new generation cooperative", a nonprofit cooperative association formed pursuant to chapter 274, RSMo, or incorporated pursuant to chapter 357, RSMo, for the purpose of operating a development facility or a renewable fuel production facility and approved by the authority;

(4) "Member", a person, partnership, corporation, trust or limited liability company that invests cash funds to an eligible new generation cooperative;

(5) "Renewable fuel production facility", a facility producing an energy source which is derived

a renewable, domestically grown, organic compound capable of powering machinery, driving an engine or power plant, and any by-product derived from such energy source.

3. Beginning tax year 1999, and subsequent tax years, any member who invests cash funds in an eligible new generation cooperative may receive a credit against the tax otherwise due pursuant to chapter 143, other than taxes withheld pursuant to sections 143.191 to 143.265, RSMo, or chapter 148, RSMo, chapter 147, RSMo, in an amount equal to the lesser of fifty percent of such member's investment or fifteen thousand dollars.

4. A member shall submit to the authority an application for the tax credit authorized by this section on a form provided by the authority. If the member meets all criteria prescribed by this section and is approved by the authority, the authority shall issue a tax credit certificate in the appropriate amount. Tax credits issued pursuant to this section shall initially be claimed for the taxable year in which the member contributes capital to an eligible new generation cooperative. Any amount of credit that exceeds the tax due for a member's taxable year may be carried back to any of the member's three prior taxable years and carried forward to any of the member's five subsequent taxable years. Tax credits issued pursuant to this section may be assigned, transferred or sold whenever a certificate of tax credit is assigned, transferred, sold or otherwise conveyed, a notarized endorsement shall be filed with the authority specifying the name and address of the new owner of the tax credit or the value of the credit.

5. At least ten percent of the tax credits authorized pursuant to this section shall be offered in any fiscal year to projects with capital costs of no more than one million dollars. If the amount of tax credits allowed pursuant to this section exceeds the amount needed for such smaller projects, the remaining tax credits may be offered for projects with capital costs in excess of one million dollars.

6. If members of a project would be eligible for tax credits in excess of one million five hundred thousand dollars, tax credits authorized pursuant to this section shall be prorated between the members on a percent of investment basis, not to exceed the maximum allowed per member.

Section 3. 1. The aggregate of tax credits issued per fiscal year pursuant to sections 1 and 2 of this act shall not exceed six million dollars.

2. Upon the effective date of this section and ending June 30, 2000, tax credits shall be issued pursuant to section 1 of this act, except that, the authority shall allocate no more than three million dollars to fund section 2 of this act in fiscal year 2000. Beginning in fiscal year 2001 and each subsequent year, tax credits shall be issued pursuant to section 2 of this act.

3. Beginning the first day of May of each fiscal year following implementation of section 2 of this act, the authority may determine the extent of tax credits, pursuant to section 2 of this act, that will be utilized in each fiscal year. If the authority determines that:

(1) Less than six million dollars for a fiscal year is to be utilized in tax credits pursuant to section 2 of this act; and

(2) The assets available to the authority, pursuant to section 1 of this act, do not exceed twelve million dollars; then, the authority may offer the remaining authorized tax credits be issued pursuant to section 1 of this act.

Section 4. The provisions of sections 1 to 4 of this act shall expire December 31, 2010.

Section 5. The department of natural resources, the department of economic development and the department of agriculture may provide to an eligible new generation cooperative any technical support necessary to assist in the operation of the facility or the marketing of its products.

Section 6. The tax credits issued in sections 1 to 6 of this act by the Missouri agricultural and small business development authority shall be subject to oversight provisions. Effective January 1, 2000,

Notwithstanding the provisions of section 32.057, RSMo, the authority shall annually report to the governor, the governor's cabinet, the governor's office of administration, president pro tem of the senate, the speaker of the house of representatives, and the joint committee on economic development regarding the tax credits authorized pursuant to sections 1 to 6 of this act, which were issued in the previous fiscal year. The report shall contain, but not be limited to, the aggregate number and dollar amount of tax credits issued by the authority, the number and dollar amount of tax credits claimed by taxpayers, and the number and dollar amount of tax credits unclaimed by taxpayers as well as the number of years allowed for claims to be made. This report shall be delivered no later than November of each year.

Section B. Because immediate action is necessary to promote the welfare and continuing existence of the state's farms, this act is deemed necessary for the immediate preservation of the public health, welfare, peace and safety, and is hereby declared to be an emergency act within the meaning of the constitution, and this act shall be in full force and effect upon its passage and approval.



Missouri House of Representatives

An Act

ENROLLED HOUSE
BILL NO. 2959

By: Pope (Clay), Bonny,
Begley, Beutler,
Deutschendorf, Ervin,
Hefner, Hiett, Leist,
Maddux, Reese, Taylor,
Voskuhl, Widener,
Langmacher, Case,
Claunch, Dank, O'Neal,
Pettigrew, Ramsey, Seikel
and Smaligo of the House

and

Price, Kerr, Martin,
Stipe, Campbell,
Gustafson, Bell, Williams
(Don), Long (Ed) and
Muegge of the Senate

An Act relating to revenue and taxation; amending 68 O.S. 1991, Section 2358, as last amended by Section 15 of Enrolled House Bill No. 2428 of the 2nd Session of the 45th Oklahoma Legislature, which relates to taxable and adjusted gross income; providing income tax exemption for certain investment income of an owner of a new or expanded agricultural commodity processing facility; providing amount of exemption; establishing maximum amount available for exemption; providing for adjustment of investment percentage; authorizing Oklahoma Tax Commission to promulgate rules; permitting certain excess and providing procedure therefor; providing for carryforward of certain unused exemption; defining terms; providing for deduction from income for certain depreciation; providing exception; prohibiting certain duplication of depreciation; authorizing credit against income tax; providing credit for certain investments in certain agricultural processing cooperatives, ventures, or marketing associations; providing amount of credit; imposing maximum amount of direct investment for which credit may be claimed; prohibiting use of credit to reduce income tax liability below certain amount; providing for adjustment of credit percentage; providing certain formula; permitting certain excess and providing procedure therefor; authorizing carryover of income tax credits for certain period; prescribing procedures for claiming of income tax credit; authorizing Oklahoma Tax Commission to prescribe forms; authorizing investigations required for verification of eligibility; providing for adjustments to cost of ownership interests based upon receipt of credit; authorizing reduction of credit amount based upon prior sale or other disposition of ownership interests; requiring report by Oklahoma Tax Commission to Legislature; prohibiting credit under certain circumstances; defining terms; providing for codification; and providing an effective date.

System, the Teachers' Retirement System of Oklahoma, the Oklahoma Law Enforcement Retirement System, the Oklahoma Firefighters Pension and Retirement System, the Oklahoma Police Pension and Retirement System, the employee retirement systems created by counties pursuant to Sections 951 et seq. of Title 19 of the Oklahoma Statutes, the Uniform Retirement System for Justices and Judges, the Oklahoma Wildlife Conservation Department Retirement Fund, the Oklahoma Employment Security Commission Retirement Plan, or the employee retirement systems created by municipalities pursuant to Sections 48-101 et seq. of Title 11 of the Oklahoma Statutes shall be exempt from taxable income.

10. In taxable years beginning after December 31, 1984, Social Security benefits received by an individual shall be exempt from taxable income, to the extent such benefits are included in the federal adjusted gross income pursuant to the provisions of Section 86 of the Internal Revenue Code, 26 U.S.C., Section 86.

11. For taxable years beginning after December 31, 1994, lump-sum distributions from employer plans of deferred compensation, which are not qualified plans within the meaning of Section 401(a) of the Internal Revenue Code, 26 U.S.C., Section 401(a), and which are deposited in and accounted for within a separate bank account or brokerage account in a financial institution within this state, shall be excluded from taxable income in the same manner as a qualifying rollover contribution to an individual retirement account within the meaning of Section 408 of the Internal Revenue Code, 26 U.S.C., Section 408. Amounts withdrawn from such bank or brokerage account, including any earnings thereon, shall be included in taxable income when withdrawn in the same manner as withdrawals from individual retirement accounts within the meaning of Section 408 of the Internal Revenue Code.

12. In taxable years beginning after December 31, 1995, contributions made to and interest received from a medical savings account established pursuant to Sections 2621 through 2623 of Title 63 of the Oklahoma Statutes shall be exempt from taxable income.

13. For taxable years beginning after December 31, 1996, the Oklahoma adjusted gross income of any individual taxpayer who is a swine or poultry producer may be further adjusted for the deduction for depreciation allowed for new construction or expansion costs which may be computed using the same depreciation method elected for federal income tax purposes except that the useful life shall be seven (7) years for purposes of this paragraph. If depreciation is allowed as a deduction in determining the adjusted gross income of an individual, any depreciation calculated and claimed pursuant to this section shall in no event be a duplication of any depreciation allowed or permitted on the federal income tax return of the individual.

SECTION 2. NEW LAW A new section of law to be codified in the Oklahoma Statutes as Section 2357.25 of Title 68, unless there is created a duplication in numbering, reads as follows:

A. There shall be allowed a credit against the tax imposed by Section 2355 of Title 68 of the Oklahoma Statutes for direct investments by Oklahoma agricultural producers in Oklahoma producer-owned agricultural processing cooperatives, Oklahoma producer-owned agricultural processing ventures, or Oklahoma producer-owned agricultural processing marketing associations created and designed to develop and advance the production, processing, handling and marketing of agricultural commodities grown, made or manufactured in Oklahoma. For calendar years 1997 and 1998, the amount of the credit shall be thirty percent (30%) of the amount of the investment by the Oklahoma agricultural producer in Oklahoma producer-owned agricultural processing cooperatives, ventures, or marketing associations.

307.

For calendar year 1999, and all subsequent years, the credit percentage, not to exceed thirty percent (30%), shall be adjusted annually so that the total estimate of credits does not exceed One Million Dollars (\$1,000,000.00) annually. The formula to be used for the percentage adjustment shall be thirty percent (30%) times One Million Dollars (\$1,000,000.00) divided by the credits claimed in the preceding year. In no event shall the credit be claimed more than once by a taxpayer each taxable year.

In the event the total tax credits authorized by this section exceed One Million Dollars (\$1,000,000.00) in any calendar year, the Oklahoma Tax Commission shall permit any excess over One Million Dollars (\$1,000,000.00) but shall factor such excess into the percentage adjustment formula for subsequent years.

B. If the credit allowed pursuant to this section exceeds the amount of state income taxes due or if there are no state income taxes due on the income of the taxpayer, the amount of credit allowed but not used in any taxable year may be carried forward as a credit against subsequent income tax liability for a period not exceeding six (6) years following the year in which the investment was originally made.

C. The Oklahoma Tax Commission shall have the authority to prescribe forms for purposes of claiming the credit authorized by this section. The Oklahoma Tax Commission shall be authorized to conduct an investigation of the relevant facts as may be required in order to verify the eligibility of a claimant to receive a credit for any applicable income tax year.

D. 1. For any taxable year during which a taxpayer sells or otherwise disposes of the ownership interest for which a tax credit has previously been allowed to the taxpayer or for which a tax credit will be allowed to the taxpayer for the year in which the sale or other disposition of the ownership interest is made, the taxpayer shall be required to reduce the cost of the ownership interest in the Oklahoma producer-owned agricultural processing cooperative, venture, or marketing association, as reported upon the applicable income tax return, by the amount of the tax credit which has previously been granted or for which the taxpayer is claiming credit if the credit is allowable for the year during which the sale or other disposition is made.

2. If a taxpayer sells or otherwise disposes of an ownership interest in the Oklahoma producer-owned agricultural processing cooperative, venture, or marketing association for which the tax credit authorized by this section may be taken in a taxable year following the year in which the ownership interest in the Oklahoma producer-owned agricultural processing cooperative, venture, or marketing association is sold or otherwise disposed of, the credit authorized by this section shall be reduced to account for the prior sale or other disposition.

E. The Oklahoma Tax Commission, on or before January 31 of each year, shall submit a report regarding the tax credit authorized by this section to the Speaker of the House of Representatives and the President Pro Tempore of the Senate of the Oklahoma Legislature. The report shall summarize the total amount of tax credits claimed and likely to be claimed and allowed pursuant to this section.

F. The tax credit authorized by this section shall not be available or taken for any calendar year during which the claimant of the credit received any incentive payments pursuant to the Oklahoma Quality Jobs Program Act or the Saving Quality Jobs Act.

G. As used in this section:

1. "Direct investment" means the payment of money in an Oklahoma producer-owned agricultural processing cooperative, venture, or

marketing association or the transfer of any form of economic value, whether tangible or intangible, other than money;

2. "Oklahoma producer-owned agricultural processing cooperative" means a legal entity in the nature of a partnership or business undertaking agricultural transactions or agricultural commercial enterprises for mutual profit which are owned and controlled by Oklahoma agricultural producers. An Oklahoma producer-owned agricultural processing cooperative requires a community of interest in the performance of the undertaking, transaction or enterprise, a right to direct and govern the policy in connection therewith and the duty, which may be altered by agreement, to share both in profit and losses. The term does not include a cooperative that provides only, and nothing more than, storage, cleaning, drying, or transportation of agricultural commodities;

3. "Oklahoma producer-owned agricultural processing venture" means a legal entity in the nature of a corporation or company organized to invest in or operate an agricultural commodity processing facility operated primarily for the processing or production of marketable products from agricultural commodities. The term does not include a venture that provides only, and nothing more than, storage, cleaning, drying, or transportation of agricultural commodities;

4. "Oklahoma producer-owned agricultural processing marketing association" means a legal entity owned by Oklahoma producers of agricultural commodities and organized to jointly market agricultural commodities, facilitate the marketing process and to promote and stimulate the processing, sales, and marketing of agricultural commodities. The term does not include a marketing association that provides only, and nothing more than, storage, cleaning, drying, or transportation of agricultural commodities;

5. "Oklahoma agricultural producer" means an individual who produces agricultural commodities in this state; and

6. "Agricultural commodities" means a farm or ranch product, including but not limited to, wheat, corn, soybeans, cotton, timber, cattle, hogs, sheep, horses, poultry, animals of the families bovidae, cervidae and antilocapridae or birds of the ratite group produced in farming or ranching operations or a product of such crop or livestock in its unmanufactured state such as ginned cotton, wool-dip, maple syrup, milk and eggs, or any other commodity listed under any Industry Group Number under Major Group 20 of Division D of the Standard Industrial Classification (SIC) Manual.

H. For purposes of this section, an agricultural commodity shall be deemed to be produced within this state if it is substantially produced, by any person, partnership, company, association or corporation:

1. Authorized to do and doing business under the laws of this state;

2. Paying all taxes duly assessed; and

3. Domiciled within this state by having a location of production within this state.

SECTION 3. This act shall become effective January 1, 1997.

ARON SCHWARTZ
REPRESENTATIVE, 106TH DISTRICT
GEARY, MARSHALL, REPUBLIC,
RILEY, AND WASHINGTON COUNTIES
2051 20TH ROAD
WASHINGTON, KANSAS 66968
(785) 325-2568

STATE OF KANSAS



TOPEKA

HOUSE OF
REPRESENTATIVES

STATE CAPITOL
ROOM 110-S
TOPEKA, KANSAS 66612-1504
(785) 296-7632
1-800-432-3924

COMMITTEE ASSIGNMENTS
VICE-CHAIR: HOUSE AGRICULTURE
MEMBER: HOUSE APPROPRIATIONS
HOUSE AGRICULTURE &
NATURAL RESOURCES BUDGET
HOUSE ENVIRONMENT

Chairman Corbin and Committee Members

Thank you for the opportunity to appear in support of SB 84. This bill will provide Kansas Agriculture producers incentives to invest in technology and increase the scales of economics through closed co-operatives or new generation cooperatives. These systems assume that producers can share in further-processing profits. They have become fashionable as commodity producers look for ways to counter integration. New generation co-ops sell stock to provide the up-front capital investment for further processing of agricultural products. Along with a stock purchase comes the right and obligation to deliver crops or livestock to supply the raw ingredients for the value-added venture. The grain or product is usually identity preserved and priced by a contract.

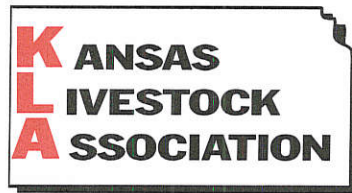
It typically takes two to three years before most new ventures return a profit. If you factor in the interest on the money invested, it may take some exceptionally good returns in later years to make up for the years you had your money tied up with out any earnings.

Farmers today realize that because of narrow margins, the choices are to continue to expand their business to generate enough income to thrive as a commodity producer or find alternative methods to add value to their products. Several examples of existing systems would be 21st Century Alliance, a Manhattan, Kansas, diversified closed co-op involving 750 farmers in eight states that include two dairies, a New Mexico flour mill and a Kansas pinto bean processing plant. Another popular example is U.S. Premium Beef, which is associated with Farmland National Beef, a major beef processor with plants in Liberal and Dodge City. The afore mentioned co-ops tie commodities to processing.

The proposed tax credits will provide incentives for Agriculture producers to invest in cooperative systems and share in further processing profits. In other words, this would give Kansas producers a chance to compete with their peers in other states.

Thank you for allowing me the opportunity to testify in favor of SB 84.

*Senate Assessment + Taxation
2-13-01
Attachment 10*



Since 1894
Testimony

Presented by

Mike Beam
Kansas Livestock Association

Regarding

Senate Bill No. 84

Before the

SENATE COMMITTEE ON ASSESSMENT AND TAXATION

Senator David Corbin, Chairman

February 13, 2001

Good morning Mr. Chairman and Committee members. I'm here this morning on behalf of the Kansas Livestock Association in support of SB 84. As I understand the proposal, this bill would allow individuals or certain agricultural oriented corporations, partnerships, trusts, and limited liability companies to claim a state income tax credit equal to the amount they invest in an agricultural marketing cooperative. The total credit shall not exceed \$2,500 or 25% of the amount of the investment, whichever amount is less.

Unused credits may be carried to the next succeeding years until the full credit has been claimed. Furthermore, subsection (c) authorizes these tax credits to be transferred to others with a state income tax liability. The fiscal note is limited to \$2,000,000 by subsection (d).

This bill is obviously meant to encourage producers to participate in marketing cooperatives. Other conferees will likely outline past and future agricultural cooperative marketing plans that are intended to give producers greater bargaining power and/or capture a higher proportion of the consumer's expenditure on food items. Most marketing cooperatives I'm aware of view themselves as meal providers instead of commodity producers.

Agricultural marketing cooperatives are not a new concept.

Senate Assessment & Taxation

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2-13-01 Attachment II

Sunkist Growers started in 1893 as a group of about 100 orange growers that united into one cooperative. These growers were frustrated with the commodity type business that forced them to sell their annual production to local buyers who took advantage of the supply/demand situation at harvest time. Today it is a non-stock membership cooperative marketing association of California and Arizona citrus growers with annual sales that often exceed \$1 billion. (According to their annual report approximately 80% of their revenue is distributed to grower members.)

Blue Diamond Growers is another California based agricultural cooperative. In 1910, 230 almond growers, dissatisfied with price-cutting of independent buyers, formed their own cooperative. Today, approximately 4,000 Blue Diamond Growers process nearly 1/3 of the world's crop of almonds annually, making almonds California's largest food export.

When **Ocean Spray** first started as a cooperative, the sales of cranberries were basically limited to whole and jellied cranberry sauces. A seasonal market limited cranberry growers. This cooperative expanded their sales by developing a line of fruit juices and diversified when they added 100 citrus growers in 1976. Today, according to Ocean Spray's web page, these growers represent the "best-selling brand name in the canned and bottled juice category" since 1981.

One of the most recent and local cooperative marketing successes is **US Premium Beef** (USPB), headquartered in Kansas City, Missouri. This project started in 1995 with twenty-one cow-calf producers, mostly Kansans, who wanted to form a marketing cooperative that would enable them to own their product all the way through value-added processing. In 1977, USPB purchased a portion of Farmland National Beef Packing Company. To date, 1,400 producers from 33 states have marketed their cattle through USPB and shareholders have realized more than \$55/head in dividends from the earnings of their processing company, Farmland National Beef.

These four examples are all examples of successful cooperative marketing ventures. I'm sure there are many cooperatives that have not experienced such success. It appears to us, however, that the biggest opportunity for many Kansas agricultural producers is to pursue similar marketing arrangements.

This bill, SB 84, is one approach that Kansas's lawmakers can empower our farmers and ranchers who choose to chart their own destiny, carve a future for their sons and daughters in agriculture, and revitalize our rural communities.

We urge this Committee and the 2001 Kansas Legislature to give favorable consideration to this bill.

Thank you.



**Testimony Regarding Senate Bill No. 84
Before the Senate Assessment and Taxation Committee
February 13, 2001**

Good morning Chairman Corbin and members of the Senate Assessment and Taxation Committee, my name is Greg Krissek. I am Director of Operations for the Kansas Corn Growers Association. I appreciate the opportunity to make comments in support of SB 84. My comments also reflect the position of the Kansas Grain Sorghum Producers Association.

The provisions of SB 84 would create an income tax credit for Kansas farmers who invest in certain agricultural cooperatives.

Low farm gate prices the past few years have certainly signaled to Kansas farmers that business as usual won't work. The flexibility of the so-called "Freedom to Farm" 1996 Federal Farm Bill also brought forth the need for production agriculture to identify new opportunities. These new opportunities included diversifying the income on many farms and ranches as the direction in future agricultural policy indicated less safety net to go along with the "freedom".

One of the best opportunities that may exist for Kansas' producers lies with taking themselves beyond merely producing a generic unprocessed commodity. In short, getting closer to the consumer by adding value to their commodity. The return on investment to farming, even in good years, pales when compared to the returns common to the food and agricultural commodity processing industries.

Farmers elsewhere have done this in many different ways. It is hard to think of cranberries without thinking about Ocean Spray. Ocean Spray is a closed farmer cooperative that constantly develops new products. Their farmer members have added value and positioned themselves close to the consumer...and close to the profits.

If this is so simple, then why are we here today asking for tax credits as an incentive? Quite frankly, any new business venture carries with it tremendous risk. Some will succeed and many will fail. Most people, including farmers and ranchers, will tend to do what they do best. In this case...farm. And while we have partnered with others in the state to look for value-added business opportunities, we know that the number of farmers actually stepping up to invest is relatively small. The tendency among producers in a financial squeeze is to try to produce more, more volume and more efficiency...kind of a Sam Walton approach. Unfortunately in rural Kansas, that tends to pit neighbor against neighbor. Someone might win, but most assuredly others will lose.

By supporting this bill, we can recognize that there is value in looking at these issues in a different light. A cap of \$2,500 or 25%, whichever is less, means that the incentive will be there for small investors. If these credits are taken then there will be new businesses on our tax roles and hopefully new income as well. It will at least give farmers a new incentive to prompt them to think and explore different options when facing tomorrows' financial challenges. Actually, we believe that SB 84 should be looked at as an investment by the state in facing its' future financial challenges as well.

Quite candidly, as impetus for this legislative effort, groups of Kansas producers are looking just a little eastward to two new Missouri ethanol plants that have formed with cooperatives as part of their legal structure in order that their members utilize a similar income tax credit available under Missouri law. The availability of that credit was critical to the success of the capital drives for those two entities. Other potential Kansas ventures such as new dairies or corn masa flour processing opportunities would increase in number with the availability of the income tax credit suggested in this legislation.

For these reasons, we request your support of SB 84. Thank you for the opportunity to make these comments and I will try to answer any questions concerning this testimony.



PUBLIC POLICY STATEMENT

SENATE ASSESSMENT AND TAXATION COMMITTEE

RE: SB 84 – Provides an income tax credit for investments in certain agricultural cooperatives.

**February 13, 2001
Topeka, Kansas**

**Presented by:
Bill R. Fuller, Associate Director
Public Policy Division
Kansas Farm Bureau**

Chairman Corbin and members of the Senate Committee on Assessment and Taxation, Kansas Farm Bureau certainly appreciates this opportunity to express support for SB 84.

My name is Bill Fuller. I serve the members of Farm Bureau as an Associate Director of the Public Policy Division.

SB 84 provides an income tax credit for investments in certain agricultural cooperatives. This legislation will provide a financial incentive for many farmers and ranchers to invest in producer owned businesses that will add value to the crops they grow and livestock they raise. Marketing these value added products is a key to improving net farm income and increasing revenues to the State of Kansas.

Farm Bureau support for SB 84 is based upon new policy adopted by the farm and ranch members representing the 105 county Farm Bureaus at the 82nd Annual Meeting of Kansas Farm Bureau in Wichita November 17-18, 2000:

“The state should authorize incentives that would encourage farmers and ranchers to invest in producer-owned cooperatives and value-added businesses.”

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Unlike a number of bills considered in prior sessions of the Kansas Legislature, SB 84 places a limit on the size of the tax credit and requires the taxpayer to invest a significant sum that is not covered by the credit. The bill in Section I, lines 32 to 36 limits the tax credit to not more than \$2,500 or 25% of the amount invested, whichever amount is less. This means a taxpayer would be eligible for a \$250 tax credit on a \$1000 investment. A \$10,000 investment would be required for a taxpayer to receive the maximum \$2,500 tax credit.

A provision in SB 84 limits the fiscal exposure to the state budget. Subsection (d) on page 2 of the proposal states: *"In no event shall the total amount of credits allowed under this section exceed \$2,000,000 for any one fiscal year."* This limit may be even more necessary today when the legislature is dealing with a tight budget as a result of reduced revenue collections.

We respectfully request the committee recommend SB 84 favorable for passage and advance the measure to the full Senate.

Thank you!