Approved:
Date March 15, 2001

MINUTES OF THE SENATE UTILITIES COMMITTEE.

The meeting was called to order by Chairman Senator Stan Clark at 9:30 a.m. on March 14, 2001 in Room 231-N of the Capitol.

All members were present except:

Committee staff present: Raney Gilliland, Legislative Research
Emalene Correll, Legislative Research
Tom Severn, Legislative Research
Bruce Kinzie, Revisor of Statutes
Lisa Montgomery, Revisor of Statutes
Ann McMorris, Secretary

Conferees appearing before the committee:
Tom Day, KCC

Others attending: See attached list.

Chair called attention to the various handouts before the committee:

1. Meeting with Industry Leaders held in McPherson on March 9, 2001 which listed those attending and stated that the purpose of this meeting was to relay information and issues that had been researched and examined over the past six weeks and to assist the industry, general public and environment regarding underground storage caverns in Kansas. (Attachment 1)

2. Draft of Governor's proposed **Senate Substitute for Substitute for House Bill No. 2244** - lrsll24 - an act establishing an energy policy division of the KCC and position of director. (Attachment 2)

3. Bill draft of amendment to **SB 299** on net metering k1166-1,184#2 (Attachment 3)

Chair opened hearing on
HB 2200 - Payment for plugging of abandoned oil and gas wells

Proponent Tom Day of the Kansas Corporation Commission appeared in support of HB 2200 which sets up an assurance fund for wells drilled after July 1, 1996. Prior legislation in 1996 set up an assurance fund for plugging of abandoned wells drilled prior to that date. He stated that there are about 400 priority abandoned wells that should be all plugged by July 1, 2002. The number of other levels of abandoned wells that are not plugged is around 11,000 to 12,000. (Attachment 4)

Discussion held on reason for two assurance funds and the legislative intent of the fund established by the 1996 legislature.

Closed hearing on **HB 2200**.

Revisor staff distributed draft 'bkpsecs' - gas storage proposal. (Attachment 5)
Bruce Kinzie reviewed the new section which incorporated the suggestions from the Senate Utilities Committee discussion held on March 13, 2001. After considerable discussion, additional language was added to (6) safety requirements "*and public notification*". And on page 11, where new language was inserted in (g) the committee added language at the end of the paragraph ...gas " *& oil formations*" and struck the word "fields". "

Moved by Senator Emler, seconded by Senator Taddiken, to adopt the draft on net metering "bkpsecs" (Attachment 5) with the following changes & additions - (1) adding "and public notification" to (6) safety requirements on page 1 in the new section; and (2) after the new language on page 11 to insert the words "& oil formations" and strike the word "fields". Motion carried.

Unless specifically noted, the individual remarks recorded herein have not been transcribed verbatim. Individual remarks as reported herein have not been submitted to the individuals appearing before the committee for editing or corrections.

MINUTES OF THE SENATE UTILITIES COMMITTEE at 9:30 a.m. on March 14, 2001 in Room 231-N of the Capitol.

Chair opened discussion on **HB 299 - k1166-1,184#2** - prepared by the revisor's staff. (Attachment 3) The utility industry was in agreement with the definition of "utility", and the language on renewable generator residential and commercial owners and on the compensation for energy supplied to the utility by such customer, of not less than 150% of the utility's monthly system average cost of energy per kilowatt hour. Much discussion from both committee and utility representatives.

Opened hearing on:
SB 112 - Corporation Commission, energy cost adjustment clauses.

Moved by Senator Lee, seconded by Senator Brownlee, to delete all current sections of **SB 112** and amend by inserting **k1166-1,184#2**. (Attachment 3) Motion carried.

Moved by Senator Brownlee, seconded by Senator Lee, to pass out **SB 112** favorably as amended. Motion carried.

Approval of Minutes

Moved by Senator Emler, seconded by Senator Lyon, the minutes of the Senate Utilities Committee meeting held on March 13, 2001 be approved. Motion carried.

The next meeting of the Senate Utilities Committee will be held on March 15, 2001.

Adjournment.

Respectfully submitted

Ann McMorris, Secretary

Attachments - 5

Unless specifically noted, the individual remarks recorded herein have not been transcribed verbatim. Individual remarks as reported herein have not been submitted to the individuals appearing before the committee for editing or corrections.

SENATE UTILITIES COMMITTEE GUEST LIST

DATE: **MARCH 14, 2001**

Name	Representing
Joe Dick	KCKBPU
Whitney Damron	KS Gas Service
BRUCE GRAHAM	KEPCO
TOM DAY	KCC
Ron Gaches	GBBA
Shirley Allen	Battenberg & Assoc
Kevin Ellers	The Salvation Army
WALKER HENDRIX	CURB
[illegible]	KCC
Debbie Cole	Sen Apon Office Staff
Dean Gilstrap	AARP - SLC
Stacy Kramer	WR, Inc.
Paul Johnson	PACK

MEETING WITH INDUSTRY LEADERS
RED COACH INN
McPHERSON, KANSAS
MARCH 9, 2001
10:00 A.M. TO 3:30 P.M.

The following are notes and minutes taken from the above referenced meeting. **Important Note:** These notes were taken at the above referenced meeting held in McPherson, KS March 9, 2001 by T & C MFG & Operating, Inc. There may be items mistaken or left out due to the large amount of information presented at the meeting. In no event shall T & C MFG & Operating, Inc. be held liable for any loss or damage resulting from the use of or reliance upon this documentation.

Those in attendance at said meeting were:

Name	Company
Carl Johnson	Williams Energy Services
Jim Nichols	Williams Energy Services
Leland DeWild	Williams Energy Services
Ronnie Williams	Williams Energy Services
Jim Thomas	Williams Energy Services
Kevin Gates	Pratt Well Service
Darren Dick	Ferrell North America
Scott Case	Ferrell North America
Corey Lawless	Ferrell North America
Ron Mitchell	NCRA
Curt Blew	NCRA
Darrell Ensminger	NCRA
Ken Kellogg	NCRA
Sam Ashby	NCRA
Charles Pauls	NCRA
Fred Barber	ELI Wireline Services
Jon Sauer	Kinder Morgan
Alan Raupe	KOCH Hydrocarbon Company
Pat Baker	KOCH Hydrocarbon Company
Dan Stephenson	Texaco
Mike McElwain	Texaco
A. Brent Schumacher	Texaco
Tom Wilkinson	Oneok
Kevin K. Willt	Oneok
Charles Yager	C.J.Y. Services
Ron Hicks	Sonic Surveys
Bruce Yahne	T & C MFG & Operating, Inc.
Dan Murta	T & C MFG & Operating, Inc.
Craig A. Pangburn	T & C MFG & Operating, Inc.
Tom McGlinn	T & C MFG & Operating, Inc.
Patty Pike	T & C MFG & Operating, Inc.

The meeting was brought to order by Craig A. Pangburn, president of T & C MFG & Operating, Inc. Craig stated that the purpose of this meeting was to relay information and issues that we have researched and examined over the past six weeks and to assist the industry, general public, and environment regarding underground storage caverns in Kansas.

Everyone in attendance was invited to stand and introduce themselves and their company.

Craig then informed the group that this meeting is in reference to LPG storage guidelines and procedures of product stored in bedded salt in Kansas. Ron Hicks with Sonic Surveys was introduced. Craig outlined the people he has talked to and the information T & C has reviewed such as: a book from Solution Mining Institute, Rod Thiel with Phillips Petroleum Company, attended the legislative meeting with the Utilities Committee from the Kansas State Senate in Topeka, KS February 27, 2001 and a telephone visit with Senator Stan Clark, chairman of the Senate Utilities Committee. Craig indicated to the group that Senator Clark would be getting a copy of the minutes from this meeting. Craig also stressed the importance of the industry in central Kansas through jobs, revenue and hub of LPG storage for the nation. Regulations will need to be revised and Senator Clark indicated that he thought there was only one MIT test used for all MIT's given. Senator Clark is very open to having an open testimonial meeting with the industry. The KDHE will also be given copies of these minutes. Craig told the group that the KDHE does not want to over regulate the industry. They are working on a 35 page revision outline of LPG storage regulations in Kansas. However, these revisions may or may not be submitted to the legislature before they go on recess. The KDHE is looking very hard at the underground regulations for Texas and Canada as a standard guideline.

We need to encourage the legislature to have the industry comply with the regulations already in force--and work to protect the environment, people and property in Kansas.

Craig told the group that for current UIC regulations in North America and the U.S. to refer to EPA 40 CFR 146; all UIC wells in Kansas and any other state - Class I wells, also Class III. All LPG and natural gas storage wells in Kansas are classified as Class V.

Class I - industrial waste water disposal wells (non-hazardous) regulated by KDHE
Class II - oil and gas related salt water disposal wells regulated by KCC
Class III - salt solution mined wells regulated by KDHE
Class IV - no wells under this category, (banned) inject hazardous or radioactive wastes into or above a USDW
Class V - in Kansas, this pertains to underground LPG and natural gas storage wells in the bedded salt regulated by KDHE

Charlie Yager, CJY Services, was introduced to the group. Charlie has worked for 35 years in the industry for NNG, Enron, Kinder Morgan, etc. He is presently doing consulting work and was part of the original task force until he left Bushton, KS. Mr. Yager addressed the group briefly. He said that one plan will not fit everyone. We need to know what the changes are going to be however, it is difficult to know at this time. We need to prevent a knee jerk reaction.

A comment was made about an article in the Hutchinson News regarding a part of the Kansas Legislative body that would not like to wait for new regulation revisions, but just use the regulations from Texas.

Senator Clark has told Craig that they (legislature) are on a deadline. He feels that they might form a committee comprised of "outside" technical professional people and that this looks like the only thing that they can get done before recess. This "outside" committee will be formulating recommendations on the current underground storage regulations.

After the break, Craig introduced Dan Murta, Special Projects Manager with T & C MFG & Operating, Inc. Dan handed out copies of his speech to the group and told them that he was no expert on cavern MIT but has put on several miles including a trip to Texas to learn about the different MIT tests used.

Please see the attached copy of Dan's speech.

There are 3 types of MIT cavern tests:

1. In situ balance method
2. In situ compensation method
3. Above ground balance method

Comments from Dan: When working with a broad roof cavern, the interface test, 5-10 feet below the casing seat with nitrogen may be very costly.

Enclosed please see a copy of the overhead transparency that Dan used to point out the weephole. You can see a pressure change and know where your interface is without a logging tool.

All three test methods achieve the same goal: protect the econo system, safety of your personnel and no loss of storage.

There are variations with test procedures.

When you do a brine interface test, you do what is known as a short test. This is done by injecting nitrogen to about 25 feet above the casing seat. The interface is watched for about 30 minutes. This tests the tubulars and surface connections. Once this test is complete, the nitrogen interface is then taken down to about 4-10 feet below the casing seat. The test will now test the casing seat and cavern. Product can be used, replacing nitrogen. However, KDHE is worried about this test since a casing leak would pollute shallow formations, and product is more dangerous. One way to get past the high cost of nitrogen on broad roof caverns is to test the short test with nitrogen. Then release the nitrogen and test the casing seat and cavern with product.

There was discussion regarding ways to reduce the cost of using nitrogen.

A sonar log will be very important as it will tell if you have a bottleneck type or broad roof cavern. A gamma density test will not give you this information. A borehole or bottleneck type of cavern versus a broad roof cavern will determine the volume of the product or nitrogen you need to get an interface.

The Texas Railroad Commission will not accept anything but a nitrogen interface tests with the exception of Phillips Petroleum (pressure observation test).

A gamma density tool is used to measure the interface.

Using the brine interface test--normally, the majority are 24 hour tests or 3-day (inject one day wait one day, finish the third day). The operator needs to determine what test media to use. This can be determined by hole size or diameter.

With a nitrogen test, you meter nitrogen into the borehole to get an idea of actual size; not width but volume--that tells the length of the test time.

The operator can decide how sensitive of a test he wants. There are no written guidelines as to what test he needs. Some holes below the cavern seat may be too large for nitrogen test.

There are 620 storage caverns in Kansas.

We do not have any way of determining costs. Could range from $10,000-$25,000.

At this time, Dan introduced Mr. Ron Hicks with Sonic Surveys. Ron was worked extensively with the Texas Railroad Commission. As the Kansas state legislature is looking hard at the Texas regulations, Ron is a good resource for what is required in Texas. Ron owns a wireline operation in Texas and performs MIT tests frequently. He did not come to sell his services and does not want to get in business in Kansas. He came strictly to share his experience. He wanted to share his thoughts on testing experiences. He was in on the beginning of nitrogen interface tests in Texas and saw the problems they encountered. He has no right to tell us what Kansas needs and he does not know much about wells in Kansas. He has worked extensively in Texas, Mississippi, Arizona and Michigan. Maybe the group could draw from that experience and apply it to Kansas.

The MIT test is basically a volume comparison test: you take a volume test at the start and volume test at the finish to determine an apparent leak. No test is sensitive enough to say this leak is a positive number.

The most acceptable, quickest, cheapest and most preferred test is the nitrogen brine interface test. Ron thinks it is the best overall test. Even with large borehole diameters, if you have the time, it is still the best test.

Nitrogen gas is lighter and it will find a leak path faster.

2 variations of test: nitrogen brine interface test or hydro test. This can be varied to use nitrogen or strictly brine. The brine hydro is not a very good test. Can't leave on long enough to determine a leak; the density of brine is so much greater than any product stored.

Using a hydro test, the pressure observation test (POT) is the best. I recommend a nitrogen blanket up against the roof or casing seat instead of brine. Nitrogen will find the leak path much better than brine.

All operators in Texas or Louisiana must submit casing inspection logs every 5 years and an entire series of tests every 5 years.

Michigan tests similar to cavern in Kansas. Use a combination nitrogen interface test and brine hydrostatic test--inject brine against the casing seat. This test will not detect a small leak but will detect a large leak.

Question: Would nitrogen be able to pick up a leak quicker?
Ron: Yes, due to the differences in nitrogen and brine density.

Ron's opinion is we all need to test our wells. It is a different world in Texas. Two out of 100 wells will have serious leaks and have to be shut down

Question: Where is a well most likely to fail?
Ron: A well will most likely fail in the first 300 feet. On an impermeable cavern you will very seldom find leaks in the cavern itself or the casing seat. Most leaks are aquifer corrosion induced. At some point the casing in every well is going to fail. Every well has a life. The casing will fail at some point in its life.

Every well should be tested. It is better to go ahead and test at intervals and find leaks before you have a catastrophic failure.

Another annulus monitoring system is to run two tubing strings similar to the Class I type well primary and secondary annulus--primary annulus--used today for product to come in and out of cavern; secondary tubing has a packer that is set; filled with corrosion inhibitor; monitored seal pot assembly; issue brought by KDHE; how far it will go? Ron stated that this has been tried but was not too successful.

There was discussion regarding continuous type monitoring.

Dan told the group that he believes all new wells in Texas has to have two casing strings cemented through the salt.

It was commented that Kansas will probably make the industry run casing inspection logs. Baker Atlas--Verti-Log; Halliburton--Ultra Sonic Imaging Tool, and Schlumberger J Log.

The group was encouraged by Ron to not sit back and wait on the state to make new regulations; but to be proactive and be a part of making new regulations. He told the group that the state will not want to regulate themselves out of business. He asked them if they wanted to lead the state in the right direction. If you sit back and wait there is a good change that Kansas will adopt Texas regulations which may or may not apply to Kansas caverns.

Dan stated that Texas has good regulations but you want to be sure to compare apples to apples not apples to oranges. Texas has domal salt and bedded salt that is deeper than here in Kansas. Tests on bedded salt wells in Texas have higher test pressures at the surface.

Ron encouraged the group to not test wells for the state, but to test the wells for themselves and their company; be responsible corporate citizens. Financially, tests are nothing compared to lawsuits.

In some Texas locations, your corrosion comes from outside. The majority of failures is a corrosion hole in the pipe.

Question: How long is a cavern out of operation after testing?
Ron: If there is no problem, the cavern is put back into operation immediately. If there is a problem, the operator is notified immediately and the cavern is pulled out of service.

Workover procedures do have to get approval by the Texas Railroad Commission.

Ron advised the group to be "up front" with the state.

Craig stated that in Kansas a Class I well workover must have an approved plan and procedure in place. It could be proposed that Class V plans must be submitted to the state and approved.

In Louisiana, when you get ready to do a workover, you notify the state and they require you to send a postcard. The state furnishes these postcards. You do not have to submit a plan at that time. The state returns the postcard to you with an authorized signature. A form is filled out after the work is done and even can be done over the phone in some instances.

Question: On the brine interface test, how do you get the nitrogen down?
Ron: You use a pump truck with a meter.

Question: On a 200,000 barrel cavern, how many cubic feet of nitrogen is used?
Ron: It depends on tubing, casing size and the volume of the borehole. You follow with the meter and pressure monitor and record: flow rate, temp., depth, pressure and brine pressure

Question: How long do you get thermal stability?
Ron: Almost immediately. Temperature has very little effect. It is in theory only. Ron does not put temperatures in his equations.

Ron stated that you don't over pressure the well/casing seat. Salt will fracture at 1.0 psi per foot at the casing seat.

Ron stated that it is better to have nitrogen in the casing and casing string rather than propane when it fails integrity.

Dan commented that the first test will be hard to interpret, but as you test every 5 years, you will see a pattern develop for correlation purposes.

Ron said that in the beginning the industry did not have the knowledge of what they were doing and they saw results they did not understand. They may have classified some wells as leakers that were not. They did not know how to interpret the results.

Craig indicated to the group that the wells they were talking about in Texas are Class II, UIC wells. In Kansas they are classified as Class V wells. We should have 5 years to test. Dan wondered if maybe we could go in and do a type of test procedure on troubled wells and tackle those wells first. Then those wells that are in good shape can be tested later and get this stretched out over a 6-8 year period. The state was concerned that we do a nitrogen type test on the casing instead of a product. They want to protect the environment.

A comment from Craig: don't run amuck doing different tests as you don't know which test will be approved. If you do a test, you should document the test and possibly have someone witness the test. Also you might give the KDHE a procedure and ask for their approval before you do it.

Question: On old wells would you recommend a casing inspection log prior to an MIT test?
Ron: Yes, every well needs a casing inspection log. The only you MIT prior to a workover is if the operator has an idea that there is a problem. Let's do the MIT first.

The cost varies depending on the size and depth of the casing.

After lunch, there was discussion regarding casing inspection logs, how often to conduct them, etc.
Also dialog finger caliper log. The closest service company is in Tulsa or Woodward, Oklahoma. Vertilog--Baker Atlas, casing OD and ID of casing. Cost - $8,000-$12,000 depending on the size of the casing.

Craig has talked with the state regarding reentry of cavern (well plugged and abandoned) interested in reopening well and back into operation. There could be a whole set of regulations that will come into effect prior to reopening any cavern well.

Items that will be looked at:
Casing inspection log
Cement bond logs on casing
Look into requiring a bond log to detect cement behind long string casing
Depth of longstring casing into salt
Roof thickness
Webb thickness of cavern - how far apart from one cavern to the next (radius to radius) not (wellhead to wellhead)

The industry standard in Texas is 200 feet for domal salt cavern for Webb thickness.
In the legislative meeting, the KDHE jumped on the issue of Webb thickness. Dr. Rattigan is an expert in this area.

Currently, each facility has to turn in a maximum radii map on their caverns.

It is not measured from center hole to center hole. It is from outer radius to outer radius.

Question: If you want to put a star by some issues of importance, what would they be?
Answer:

1. MIT's
2. Casing Inspection Logs
3. Webb Thickness - maximum radii

A comment was made that these issues are not in a point blank discussion with the KDHE. They are issues that need to be clarified; not necessarily a regulation made.

Some facilities already have emergency shut down valves or switches in place. The safety and operation of the facility, safety of the general public and the environment is what the KDHE is looking at.

"If the industry can get together and educate the people who are going to regulate Texas Rule 95, you as an industry need to express to the legislature and discuss what is best" was a comment that was made.

Question: What triggers an emergency shut down?
Answer: The group consensus was high pressure on brine and product and low pressure on product. Your hydrocarbon gas monitor would close down. Duplicate transmitters give you a lot of information; you can see quite a bit and detect filling up a cavern earlier than using switches and transmitters.

Question: What do you have to do to your well to install these transmitters?
Answer: $25,000-$30,000 per well.

The discussion came back to well workover plans and the submission of the same. The comment was made that no matter how good a job you do with your proposed job plan, something will change. The questions was put before the group if they liked the plan that Louisiana now has in place with the postcards. There was no response.

Is anyone using cathodic protection? All companies replied affirmative.

All these facilities have pipelines coming in and out and all have cathodic protection and wells are basically protected as well.

Is there a correlation between age and well casing? Dan indicated that in his experience in the oilfield that certain places in Kansas, if you don't have cathodic protection, you can drill a new well without cement from top to bottom and with no cathodic protection you can have a hole in 30 days. But he thinks the LPG cavern area is not as corrosive as other areas of the state.

The next discussion centered around 2 casing strings cement in salt on new wells. Craig indicated that he felt this will be true in Kansas. He also stated that if you have the capacity to run another string it might be beneficial. The comment was made the on new wells, a second string of casing will not be much more cost but will benefit in the long run. Texas and Canada require two casing string in salt on new wells. Texas requires two strings on new wells, not ones prior to Texas regulations.

Comment: If the casing string is a single, we will have to do a more expensive casing inspection. If it is a dual string with cement, the annual ID caliper test would be a significantly lower cost.

The current guidelines state that gamma density logs needs to be run every 5 years.

Craig indicated that the KDHE mentioned to him the possibility of doing gammas every year. Industry speaking: 5 years is easy to get gamma done rather than one year and what information gained for the additional expense.

The comment was made that sonars will be more important than gamma density logs. Dan interjected that using gammas to determine how much roof top or how much salt is left, basically I found out that the criteria I was looking was not necessarily true. The cavern top was actually a borehole and the cavern top was 30 feet below that.

Ron stated that in west Texas they sonar every 5 years during a MIT and they run a gamma ray lithology log, configuration; they run the whole sweep, MIT gamma ray and lithology.

A question was asked of the group if they noticed any significant change on gamma logs on wells and the group jointly indicated that a significant change was seldom noticed. On the gamma logs done for T & C MFG & Operating, Inc., we review and do a spreadsheet comparison for the years that were previously ran.

MIT tests give you information that a gamma/density won't give you.

Question: Can you run a sonar through your tubing?
Answer: Yes, if the tubing is big enough. In Texas, a sonar is run during the MIT; it saves a day of rig time. A through tubing sonar prevents the removal of the brine string every 5 year.

Craig reviewed with the group that there may be permitting of all underground storage wells, both new and old. All new Class V wells will have to go through the permit process. He has talked to the KDHE and they are going to look at getting permit applications for all Class V wells. On old wells, they are looking at grouping in one permit with separations in the permit on each individual well. This is a possibility.

The next discussion was on core studies and rock mechanic survey at a storage facility. Craig indicated that the KDHE added these two items to our agenda.

There have been core studies done at Conway, KOCH (Williams property now), Lyons. Craig indicated he would get the core information for Leland DeWild with Williams Energy Services.

It is believed that the legislature and/or KDHE is going to look at separate regulations for LPG and dry gas storage and have them regulated independently from one another.

The Federal UIC program does not require any MIT on Class V until now; that will change. Will there be funding through the UIC program?

Under Class V, MIT's are a very important investment for your company safety (your personnel, the environment and the general public)
Casing inspection logs need to be put on the top of the item list.
Emergency shut down valves need to be looked at.
Two casing strings on new wells
Permitting of older wells
Core studies will be looked at

There needs to be some clarification as to what they are looking at regarding coring.

Class III salt solution mine wells still fall under federal UIC wells. Class III regulated by KDHE and Class II regulated by the KCC. A comment was made that maybe storing hydrocarbons in bedded salt should have its own classification.

The comment was made that input is critical to the legislature and KDHE. They need to make a decision that will be best for them and the industry.

Regulation U.S. EPA 40 CFR 146 Regulation UIC
Texas adopted Rule 95; part of U.S. EPA 40 CFR

It was decided to review the brine interface test and combination test process again.

Brine nitrogen interface test: prepare well; inject nitrogen down to point; take short test; test all the casing up and all surface connections will take 30 minutes. At that point put more nitrogen in interface down below. Pressure equal to maximum operating pressure at the casing seat due to the measurement taken. Follow with the logging tool. You know where it is at all times as it is going down the hole. Get interface below casing seat. You also log that at that time and then shut in. Pull logging tool out of hole. 24 hours later go back in with logging tool and see if interface has moved in. Pressure based not time based; more than 10 psi interpolated. Less than 10 psi per day pressure decay rate.

Combination test: go down and establish brine nitrogen interface and apply pressure on the brine side and monitor the interface at that point. If the interface goes down to the casing seat, there is a leak. Worried more about interface going up. There are too many factors in the interface going down as to ascertain a leak.

This is adequate for gross leaks, not small leaks.

Once the short test is finished, the logging test is over. Nitrogen will find a leak faster than brine.

If you do have an instance where the borehole is below the casing seat and sonar indicates that you will be able to run a regular brine nitrogen interface test, this test is more sensitive, faster and cheaper.

The sonar will tell you if you have a borehole situation.

Question: If there is a void above the casing, how does that affect the MIT?
Ron: Pump nitrogen into the washout. The original casing seat is no longer the casing seat. The casing seat is now the top of the washout.

We hope that we have given you some new insight on issues being looked at. If there is anything we can do to help you in any way, please let us know. We appreciate everyone who came out. Craig stated that copies of the meeting notes and handouts will be sent to KDHE and Senator Clark as well as to everyone in attendance here today.

SENATE Substitute for Substitute for HOUSE BILL NO. 2244

By Committee on Utilities

AN ACT concerning energy resources; establishing an energy policy division of the state corporation commission and the position of director thereof; prescribing the duties thereof; creating an energy advisory council; amending K.S.A. 2000 Supp. 74-616 and repealing the existing section; also repealing K.S.A. 55-153.

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

Section 1. K.S.A. 2000 Supp. 74-616 is hereby amended to read as follows: 74-616. (a) There is hereby established the energy policy division of the state corporation commission. The director of the division shall be appointed by the governor and shall be in the unclassified service under the Kansas civil service act. The director shall receive, within the limitations of appropriations therefor, compensation fixed by the governor. Within the limitations of appropriations therefor, the director may employ such staff as necessary to carry out the duties of the director and the division and shall have supervision of the program manager for federal energy conservation programs in the state and all other employees of the division.

(b) In addition to other powers and duties provided by law, ~~in-administering-the-provisions-of-this-act-the-state-corporation commission~~ the director of the energy policy division shall:

~~(a)--Adopt---rules---and---regulations---necessary---for--the administration-of-this-act;~~

~~(b)--develop-a-comprehensive-state-energy--conservation--plan and-the-procedures-for-implementing-the-plan-according-to-federal requirements;~~

~~(c)--make--requests-for-and-accept-funds-and-other-assistance from--federal--agencies--for--energy---conservation---and---other energy-related--activities--in--this--state,--including,--but-not limited-to,-the-state-energy--conservation--program,--the--energy extension---service---program---and--the--institutional--building conservation-program;~~

~~(d)--administer-federal-energy-conservation-programs-in--this state;~~

Senate Utilities Committee
March 14, 2001
Attachment 2-1

~~(e)--collect--and--compile-necessary-data-on-energy-resources and-monitor-energy-resources-supplies-in-this-state;~~

~~(f)--prepare-an-energy-resources--emergency--management--plan for--adoption-during-any-energy-resources-emergency-proclaimed-to exist--by--the--governor--under--K.S.A.--74-6119,--and--amendments thereto,-which-plan-shall-include-the-system--of--priorities--for energy--resources--allocation-and-curtailment-of-energy-resources consumption--established--under--K.S.A.--74-620,--and--amendments thereto;~~

~~(g)~~ (1) Identify interested parties with whom the director shall consult on a regular basis regarding: (A) Development and updating of the plan and policies provided for by subsection (b)(3); and (B) other energy policy and coordination issues;

(2) collect and compile necessary data and other information relating to current and projected availability of energy resources and supplies and current and projected energy consumption and use such information in development and updating of the plan and policies provided for by subsection (b)(3);

(3) with the input of the energy policy advisory council and in consultation with interested parties identified pursuant to subsection (b)(1), develop and submit to the governor, for the governor's approval, a comprehensive state energy plan and policies regarding energy resource development initiatives and energy conservation and management and periodic updates of such plan and policies;

(4) with the input of the energy policy advisory council, develop and submit to the governor, for the governor's approval, strategies for implementation of the plan and policies, and updates thereof, provided for by subsection (b)(3);

(5) upon approval by the legislature as provided by subsection (c), implement the plan and policies, and updates thereof, provided for by subsection (b)(3) in accordance with the strategies provided for by subsection (b)(4);

(6) with the input of the energy policy advisory council, develop and submit to the governor, for the governor's approval,

guidelines, and periodic updates thereof, for: (A) Determination of when an energy resources emergency exists within the state; (B) issuance of an energy resources emergency proclamation pursuant to K.S.A. 74-619, and amendments thereto; and (C) managing an energy resources emergency;

(7) request and accept funds and other assistance from agencies of the federal government, or from any other source, for purposes of energy resource development, energy conservation or other energy related activities in the state, including, but not limited to, the state energy conservation program and institutional building conservation program;

(8) administer federal energy conservation programs in the state;

(9) cooperate in the implementation of any emergency energy rationing program which may be imposed by the federal government or any agency thereof;

~~(h)--prepare--and--have--available--for--public-inspection-an annual-report-which--describes--the--energy--resources--emergency management-program;--and~~

~~(i)~~ (10) adopt rules and regulations necessary for the administration of this act; and

(11) with the approval of the governor and the chairperson of the state corporation commission, make and enter into ~~all~~ contracts and agreements ~~and--do--all--other--acts--and--things necessary--or--incidental--to--the--performance--of-functions-and duties-and-the-execution-of-powers-under-this-act~~ related to the required functions of the energy policy division.

(c) Upon the governor's approval of the plan and policies, or updates thereof, provided for by subsection (b)(3) and the strategies for implementation provided for by subsection (b)(4), the governor shall submit to the legislature, on or before the first day of the next regular legislative session, such plan, policies and strategies, or updates thereof. No such plan, policy, strategy or update shall take effect until approved by the legislature by concurrent resolution.

New Sec. 2. (a) There is hereby created within the energy policy division of the state corporation commission the state energy policy advisory council.

(b) The energy policy advisory council shall be composed of:

(1) The following voting members appointed by the governor: (A) An energy economist on the faculty of a state educational institution under the supervision of the state board of regents or on the faculty of a municipal university in this state; (B) a representative of oil producers in the state; (C) a representative of natural gas producers in the state; (D) a representative of investor-owned generators of electricity in the state; (E) a representative of rural electric cooperatives in the state; (F) a representative of municipally-owned or operated electric utilities in the state; (G) a representative of generators in the state which generate electricity from renewable energy resources; (H) one representative of large individual or commercial energy consumers; (I) one representative of small industrial or commercial energy consumers; and (J) one representative of residential energy consumers;

(2) the following nonvoting members ex officio, or their designees: (A) The secretary of commerce and housing; (B) the secretary of administration; (C) the secretary of transportation; (D) the secretary of health and environment; (E) the state geologist; (F) the chairperson of the state corporation commission; and (G) the consumer counsel of the citizens' utility ratepayer board; and

(3) the following nonvoting members ex officio: The chairperson, vice-chairperson and ranking minority member of each the house and senate standing committees on utilities.

(c) Of the members of the council first appointed by the governor, the governor shall designate three to serve terms of two years, three to serve terms of three years, and four to serve terms of four years. Thereafter, each such member shall serve a term of four years and until a successor is appointed and qualifies. Following expiration of the terms of appointment of

original members of the board, no member appointed by the governor shall serve more than two terms on the council.

(d) The council shall assist the director of the energy policy division in:

(1) Developing and proposing the plan and policies, and updates thereof, provided for by subsection (b)(3) of K.S.A. 66-616, and amendments thereto;

(2) developing recommendations for implementation of such plan, policies and updates; and

(3) developing and proposing the guidelines, and updates thereof, provided for by subsection (b)(5) of K.S.A. 66-616, and amendments thereto.

(e) The council shall meet quarterly, or upon call of the chairperson or governor or on written request of voting members of the council equal in number to not less than a quorum. At the initial meeting and annually in the third calendar quarter of the calendar year the council shall elect from among its members a chairperson, vice-chairperson and such other officers as the council deems necessary. Six voting members shall constitute a quorum of the council.

(f) Both voting and nonvoting members of the council shall receive compensation, subsistence allowances, mileage and other expenses as provided in K.S.A. 75-3223, and amendments thereto.

(g) The staff of the office of revisor of statutes, the legislative research department and the division of legislative administrative services shall provide such assistance as may be requested by the legislator members of the council in carrying out their duties as members of the council.

(h) The council may appoint citizens' advisory committees to study and advise on any subjects upon which the council is required or authorized by this act to make recommendations.

New Sec. 3. The state geological survey, department of commerce and housing, department of administration, the department of transportation, the department of health and environment and all other state and local governmental agencies

shall cooperate with the director of the energy policy division and the energy policy advisory council in carrying out their duties under this act and shall make available to the director and the council all nonproprietary, nonconfidential facts, records, information and data requested by the director or the council.

Sec. 4. K.S.A. 55-153 and K.S.A. 2000 Supp. 74-616 are hereby repealed.

Sec. 5. This act shall take effect and be in force from and after its publication in the statute book.

Section 1. K.S.A. 66-1,184 is hereby amended to read as follows: 66-1,184. (a) Except as provided in subsection (b), every public utility which provides retail electric services in this state shall enter into a contract for parallel generation service with any person who is a customer of such utility, upon request of such customer, whereby such customer may attach or connect to the utility's delivery and metering system an apparatus or device for the purpose of feeding excess electrical power which is generated by such customer's energy producing system into the utility's system. No such apparatus or device shall either cause damage to the public utility's system or equipment or present an undue hazard to utility personnel. Every such contract shall include, but need not be limited to, provisions relating to fair and equitable compensation on such customer's monthly bill for energy supplied to the utility by such customer~~, and~~.

(b) (1) For purposes of this subsection, "utility" means an electric public utility, as defined by K.S.A. 66-101a, and amendments thereto, any cooperative, as defined by K.S.A. 17-4603, and amendments thereto, or a nonstock member-owned electric cooperative corporation incorporated in this state, or a municipally owned or operated electric utility.

(2) Every utility which provides retail electric services in this state shall enter into a contract for parallel generation service with any person who is a customer of such utility, if such customer is a residential customer of the utility and owns a renewable generator with a capacity of 10 kilowatts or less, or is a commercial customer of the utility and owns a renewable generator with a capacity of 100 kilowatts or less. Such customer may attach or connect to the utility's delivery and metering system an apparatus or device for the purpose of feeding excess electrical power which is generated by such customer's energy producing system into the utility's system. No such apparatus or device shall either cause damage to the utility's system or

equipment or present an undue hazard to utility personnel. Every such contract shall include, but need not be limited to, provisions relating to fair and equitable compensation for energy supplied to the utility by such customer. Such compensation shall be not less than 150% of the utility's monthly system average cost of energy per kilowatt hour. A utility may credit such compensation to the customer's account or pay such compensation to the customer at least annually or when the total compensation due equals $25 or more.

(c) The following terms and conditions shall apply to contracts entered into under subsection (a) or (b): ~~(a)~~

(1) The utility will supply, own, and maintain all necessary meters and associated equipment utilized for billing. In addition, and for the purposes of monitoring customer generation and load, the utility may install at its expense, load research metering. The customer shall supply, at no expense to the utility, a suitable location for meters and associated equipment used for billing and for load research; ~~(b)~~

(2) for the purposes of insuring the safety and quality of utility system power, the utility shall have the right to require the customer, at certain times and as electrical operating conditions warrant, to limit the production of electrical energy from the generating facility to an amount no greater than the load at the customer's facility of which the generating facility is a part; ~~(c)~~

(3) the customer shall furnish, install, operate, and maintain in good order and repair and without cost to the utility, such relays, locks and seals, breakers, automatic synchronizer, and other control and protective apparatus as shall be designated by the utility as being required as suitable for the operation of the generator in parallel with the utility's system. In any case where the customer and the utility cannot agree to terms and conditions of any such contract, the state corporation commission shall establish the terms and conditions for such contract. In addition, the utility may install, own, and

maintain a disconnecting device located near the electric meter or meters. Interconnection facilities between the customer's and the utility's equipment shall be accessible at all reasonable times to utility personnel. The customer may be required to reimburse the utility for any equipment or facilities required as a result of the installation by the customer of generation in parallel with the utility's service. The customer shall notify the utility prior to the initial energizing and start-up testing of the customer-owned generator, and the utility shall have the right to have a representative present at such test; and ~~(d)~~

(4) the utility may require a special agreement for conditions related to technical and safety aspects of parallel generation.

(d) Service under any ~~such~~ contract entered into under subsection (a) or (b) shall be subject to the utility's rules and regulations on file with the state corporation commission.

Testimony of Tom Day
State Corporation Commission
Before the Senate Utilities Committee
House Bill 2200
March 14, 2001

Good morning, Chairman Clark and members of the committee. I am Tom Day, legislative liaison with the State Corporation Commission. I appear today testifying in support of HB 2200.

During the 1996 legislative session K.S.A. 55-155 was amended to provide additional requirements for all operators who operate oil and gas wells in Kansas. Specifically those operators were required, beginning in January of 1998, to demonstrate to the Commission some kind of financial assurance. The statute was very specific as to the amount and kinds of financial assurances that would be required for oil and gas operators when they applied for a KCC license to operate. Those types of assurances included:

A. Operators with an acceptable level of compliance over the proceeding 36 months with Commission rules and regulations would provide assurance through the payment of a $50 non refundable fee.
B. Operators that have not been licensed for at least the 36 preceding months or have not met the acceptable record of compliance requirement must furnish one of the following as financial assurance on an annual basis:
    1. A performance bond or letter of credit in the amount equal to $.75 X the aggregate depth of all wells under their control
    2. A blanket bond or letter of credit between $5,000 and $30,000 based on the depth and number of all wells operated.
    3. A fee equal to 3% of the blanket bond required under 1 or 2 above.
    4. A first lien on equipment equal to the bond requirement.
    5. Other financial assurances as approved by the Commission.

The 1996 amendment to K.S.A. 55-155 further directed the Commission to deposit all revenues generated pursuant to these requirements into the conservation fee fund. As such those funds could be used to plug abandoned wells and remediation sites or could be used to pay general operating expenses of the Conservation Division.

During the 1997-1998 audit of the Conservation Division the audit team from Legislative Post Audit suggested that the Division seek clarification of legislative intent with respect to these funds. The question being: "Did the legislature intend these funds to be used for future well pluggings not covered by the Abandoned Well

/ Site Remediation Fund or should the monies be used to fund normal operations of the Conservation Division?" During the past three calender years since the implementation of financial assurance requirements the Conservation Division has tracked the amount of financial assurance monies generated through the licensing process as set out in the 1996 amendment to K.S.A. 55-155 and set those monies aside. During this time period the Division has provided this information during our annual status report to this and other legislative committees. In calendar year 1998 those fees generated in excess of $160,000 and in calendar year 1999 in excess of $150,000. This last year the assurance fees generated in excess of $255,000.

The Commission believes the monies raised through financial assurance fees should be set aside to pay for potential future plugging liabilities (wells drilled after July 1, 1996) of orphaned wells that may not be met through the current Abandoned Well/ Site Remediation Fund (orphaned wells drilled before July 1, 1996) or those plugging liabilities which are incurred by the Division by acting as a bonding agent for certain operators who are unable to secure bonding (section (d)(4) of the statute). The statutory changes embodied in HB 2200 through amendments to K.S.A . 55-155, K.S.A . 55-161, K.S.A .55-179, and K.S.A . 55-180, specifically earmark those fees generated from the financial assurance process into such a dedicated well plugging assurance fund and is again supported by the Commission.

Should the members of the Committee have any questions I would be glad to address them.

New Sec. . (a) For the purposes of protecting the health, safety and property of the people of the state, and the soil and waters of the state from pollution, the secretary of health and environment shall adopt separate and specific rules and regulations establishing requirements, procedures and standards for the following:

(1) Solution mining;

(2) the safe and secure underground storage of liquid petroleum gas and hydrocarbons other than those provided for in paragraph (3);

(3) the safe and secure underground storage of natural gas in bedded salt; and

(4) the safe and secure underground storage of hydrocarbons in aquifers.

(b) Such rules and regulations shall include, but not be limited to:

(1) Site selection criteria;

(2) design and development criteria;

(3) operation criteria;

(4) casing requirements;

(5) monitoring and measurement requirements; and

(6) safety requirements and public notifications

(c) The secretary of health and environment shall enter into contracts for services from consultants and other experts for the purposes of assisting in the drafting of such rules and regulations.

(d) For a period of two years from July 1, 2001, or until the rules and regulations provided for in paragraph (3) of subsection (a) are adopted, the injection of natural gas into underground storage in bedded salt is prohibited, except that natural gas currently stored in such underground storage may be extracted.

Sec. . K.S.A. 2000 Supp. 65-171d is hereby amended to read as follows: 65-171d. (a) For the purpose of preventing surface

and subsurface water pollution and soil pollution detrimental to public health or to the plant, animal and aquatic life of the state, and to protect beneficial uses of the waters of the state and to require the treatment of sewage predicated upon technologically based effluent limitations, the secretary of health and environment shall make such rules and regulations, including registration of potential sources of pollution, as may in the secretary's judgment be necessary to: (1) ~~Protect the soil and waters of the state from pollution resulting from underground storage reservoirs of hydrocarbons and liquid petroleum gas; (2)~~ Control the disposal, discharge or escape of sewage as defined in K.S.A. 65-164 and amendments thereto, by or from municipalities, corporations, companies, institutions, state agencies, federal agencies or individuals and any plants, works or facilities owned or operated, or both, by them; and ~~(3)~~ (2) establish water quality standards for the waters of the state to protect their beneficial uses.

(b) The secretary of health and environment may adopt by reference any regulation relating to water quality and effluent standards promulgated by the federal government pursuant to the provisions of the federal clean water act and amendments thereto, as in effect on January 1, 1989, which the secretary is otherwise authorized by law to adopt.

(c) For the purposes of this act, including K.S.A. 65-161 through 65-171h and K.S.A. 2000 Supp. 65-1,178 through 65-1,198, and amendments thereto, and rules and regulations adopted pursuant thereto:

(1) "Pollution" means: (A) Such contamination or other alteration of the physical, chemical or biological properties of any waters of the state as will or is likely to create a nuisance or render such waters harmful, detrimental or injurious to public health, safety or welfare, or to the plant, animal or aquatic life of the state or to other designated beneficial uses; or (B) such discharge as will or is likely to exceed state effluent standards predicated upon technologically based effluent

limitations.

(2) "Confined feeding facility" means any lot, pen, pool or pond: (A) Which is used for the confined feeding of animals or fowl for food, fur or pleasure purposes; (B) which is not normally used for raising crops; and (C) in which no vegetation intended for animal food is growing.

(3) "Animal unit" means a unit of measurement calculated by adding the following numbers: The number of beef cattle weighing more than 700 pounds multiplied by 1.0; plus the number of cattle weighing less than 700 pounds multiplied by 0.5; plus the number of mature dairy cattle multiplied by 1.4; plus the number of swine weighing more than 55 pounds multiplied by 0.4; plus the number of swine weighing 55 pounds or less multiplied by 0.1; plus the number of sheep or lambs multiplied by 0.1; plus the number of horses multiplied by 2.0; plus the number of turkeys multiplied by 0.018; plus the number of laying hens or broilers, if the facility has continuous overflow watering, multiplied by 0.01; plus the number of laying hens or broilers, if the facility has a liquid manure system, multiplied by 0.033; plus the number of ducks multiplied by 0.2. However, each head of cattle will be counted as one full animal unit for the purpose of determining the need for a federal permit. "Animal unit" also includes the number of swine weighing 55 pounds or less multiplied by 0.1 for the purpose of determining applicable requirements for new construction of a confined feeding facility for which a permit or registration has not been issued before January 1, 1998, and for which an application for a permit or registration and plans have not been filed with the secretary of health and environment before January 1, 1998, or for the purpose of determining applicable requirements for expansion of such facility. However, each head of swine weighing 55 pounds or less shall be counted as 0.0 animal unit for the purpose of determining the need for a federal permit.

(4) "Animal unit capacity" means the maximum number of animal units which a confined feeding facility is designed to

accommodate at any one time.

(5) "Habitable structure" means any of the following structures which is occupied or maintained in a condition which may be occupied and which, in the case of a confined feeding facility for swine, is owned by a person other than the operator of such facility: A dwelling, church, school, adult care home, medical care facility, child care facility, library, community center, public building, office building or licensed food service or lodging establishment.

(6) "Wildlife refuge" means Cheyenne Bottoms wildlife management area, Cheyenne Bottoms preserve and Flint Hills, Quivera, Marais des Cygnes and Kirwin national wildlife refuges.

(d) In adopting rules and regulations, the secretary of health and environment, taking into account the varying conditions that are probable for each source of sewage and its possible place of disposal, discharge or escape, may provide for varying the control measures required in each case to those the secretary finds to be necessary to prevent pollution. If a freshwater reservoir or farm pond is privately owned and where complete ownership of land bordering the reservoir or pond is under common private ownership, such freshwater reservoir or farm pond shall be exempt from water quality standards except as it relates to water discharge or seepage from the reservoir or pond to waters of the state, either surface or groundwater, or as it relates to the public health of persons using the reservoir or pond or waters therefrom.

(e) (1) Whenever the secretary of health and environment or the secretary's duly authorized agents find that the soil or waters of the state are not being protected from pollution resulting from underground storage reservoirs of hydrocarbons and liquid petroleum gas or that storage or disposal of salt water not regulated by the state corporation commission or refuse in any surface pond is causing or is likely to cause pollution of soil or waters of the state, the secretary or the secretary's duly authorized agents shall issue an order prohibiting such

underground storage reservoir or surface pond. Any person aggrieved by such order may within 15 days of service of the order request in writing a hearing on the order.

(2) Upon receipt of a timely request, a hearing shall be conducted in accordance with the provisions of the Kansas administrative procedure act.

(3) Any action of the secretary pursuant to this subsection is subject to review in accordance with the act for judicial review and civil enforcement of agency actions.

(f) The secretary may adopt rules and regulations establishing fees for the following services:

(1) Plan approval, monitoring and inspecting underground or buried petroleum products storage tanks, for which the annual fee shall not exceed $5 for each tank in place;

(2) permitting, monitoring and inspecting salt solution mining operators, for which the annual fee shall not exceed $1,950 per company; and

(3) permitting, monitoring and inspecting hydrocarbon storage wells and well systems, for which the annual fee shall not exceed $1,875 per company.

(g) Prior to any new construction of a confined feeding facility with an animal unit capacity of 300 to 999, such facility shall register with the secretary of health and environment. Facilities with a capacity of less than 300 animal units may register with the secretary. Any such registration shall be accompanied by a $25 fee. Within 30 days of receipt of such registration, the department of health and environment shall identify any significant water pollution potential or separation distance violations pursuant to subsection (h). If there is identified a significant water pollution potential, such facility shall be required to obtain a permit from the secretary. If there is no water pollution potential posed by a facility with an animal unit capacity of less than 300, the secretary may certify that no permit is required. If there is no water pollution potential nor any violation of separation distances posed by a

facility with an animal unit capacity of 300 to 999, the secretary shall certify that no permit is required and that there are no certification conditions pertaining to separation distances. If a separation distance violation is identified, the secretary may reduce the separation distance in accordance with subsection (i) and shall certify any such reduction of separation distances.

(h) (1) Any new construction or new expansion of a confined feeding facility, other than a confined feeding facility for swine, shall meet or exceed the following requirements in separation distances from any habitable structure in existence when the application for a permit is submitted:

(A) 1,320 feet for facilities with an animal unit capacity of 300 to 999; and

(B) 4,000 feet for facilities with an animal unit capacity of 1,000 or more.

(2) A confined feeding facility for swine shall meet or exceed the following requirements in separation distances from any habitable structure or city, county, state or federal park in existence when the application for a permit is submitted:

(A) 1,320 feet for facilities with an animal unit capacity of 300 to 999;

(B) 4,000 feet for facilities with an animal unit capacity of 1,000 to 3,724;

(C) 4,000 feet for expansion of existing facilities to an animal unit capacity of 3,725 or more if such expansion is within the perimeter from which separation distances are determined pursuant to subsection (k) for the existing facility; and

(D) 5,000 feet for: (i) Construction of new facilities with an animal unit capacity of 3,725 or more; or (ii) expansion of existing facilities to an animal unit capacity of 3,725 or more if such expansion extends outside the perimeter from which separation distances are determined pursuant to subsection (k) for the existing facility.

(3) Any construction of new confined feeding facilities for

swine shall meet or exceed the following requirements in separation distances from any wildlife refuge:

(A) 10,000 feet for facilities with an animal unit capacity of 1,000 to 3,724; and

(B) 16,000 feet for facilities with an animal unit capacity of 3,725 or more.

(i) (1) The separation distance requirements of subsections (h)(1) and (2) shall not apply if the applicant for a permit obtains a written agreement from all owners of habitable structures which are within the separation distance stating such owners are aware of the construction or expansion and have no objections to such construction or expansion. The written agreement shall be filed in the register of deeds office of the county in which the habitable structure is located.

(2) (A) The secretary may reduce the separation distance requirements of subsection (h)(1) if: (i) No substantial objection from owners of habitable structures within the separation distance is received in response to public notice; or (ii) the board of county commissioners of the county where the confined feeding facility is located submits a written request seeking a reduction of separation distances.

(B) The secretary may reduce the separation distance requirements of subsection (h)(2)(A) or (B) if: (i) No substantial objection from owners of habitable structures within the separation distance is received in response to notice given in accordance with subsection (1); (ii) the board of county commissioners of the county where the confined feeding facility is located submits a written request seeking a reduction of separation distances; or (iii) the secretary determines that technology exists that meets or exceeds the effect of the required separation distance and the facility will be using such technology.

(C) The secretary may reduce the separation distance requirements of subsection (h)(2)(C) or (D) if: (i) No substantial objection from owners of habitable structures within

the separation distance is received in response to notice given in accordance with subsection (l); or (ii) the secretary determines that technology exists that meets or exceeds the effect of the required separation distance and the facility will be using such technology.

(j) (l) The separation distances required pursuant to subsection (h)(1) shall not apply to:

(A) Confined feeding facilities which were permitted or certified by the secretary on July 1, 1994;

(B) confined feeding facilities which existed on July 1, 1994, and registered with the secretary before July 1, 1996; or

(C) expansion of a confined feeding facility, including any expansion for which an application was pending on July 1, 1994, if: (i) In the case of a facility with an animal unit capacity of 1,000 or more prior to July 1, 1994, the expansion is located at a distance not less than the distance between the facility and the nearest habitable structure prior to the expansion; or (ii) in the case of a facility with an animal unit capacity of less than 1,000 prior to July 1, 1994, the expansion is located at a distance not less than the distance between the facility and the nearest habitable structure prior to the expansion and the animal unit capacity of the facility after expansion does not exceed 2,000.

(2) The separation distances required pursuant to subsections (h)(2)(A) and (B) shall not apply to:

(A) Confined feeding facilities for swine which were permitted or certified by the secretary on July 1, 1994;

(B) confined feeding facilities for swine which existed on July 1, 1994, and registered with the secretary before July 1, 1996; or

(C) expansion of a confined feeding facility which existed on July 1, 1994, if: (i) In the case of a facility with an animal unit capacity of 1,000 or more prior to July 1, 1994, the expansion is located at a distance not less than the distance between the facility and the nearest habitable structure prior to

the expansion; or (ii) in the case of a facility with an animal unit capacity of less than 1,000 prior to July 1, 1994, the expansion is located at a distance not less than the distance between the facility and the nearest habitable structure prior to the expansion and the animal unit capacity of the facility after expansion does not exceed 2,000.

(3) The separation distances required pursuant to subsections (h)(2)(C) and (D) and (h)(3) shall not apply to the following, as determined in accordance with subsections (a), (e) and (f) of K.S.A. 2000 Supp. 65-1,178 and amendments thereto:

(A) Expansion of an existing confined feeding facility for swine if an application for such expansion has been received by the department before March 1, 1998; and

(B) construction of a new confined feeding facility for swine if an application for such facility has been received by the department before March 1, 1998.

(k) The separation distances required by this section for confined feeding facilities for swine shall be determined from the exterior perimeter of any buildings utilized for housing swine, any lots containing swine, any swine waste retention lagoons or ponds or other manure or wastewater storage structures and any additional areas designated by the applicant for future expansion. Such separation distances shall not apply to offices, dwellings and feed production facilities of a confined feeding facility for swine.

(l) The applicant shall give the notice required by subsections (i)(2)(B) and (C) by certified mail, return receipt requested, to all owners of habitable structures within the separation distance. The applicant shall submit to the department evidence, satisfactory to the department, that such notice has been given.

(m) All plans and specifications submitted to the department for new construction or new expansion of confined feeding facilities may be, but are not required to be, prepared by a professional engineer or a consultant, as approved by the

department. Before approval by the department, any consultant preparing such plans and specifications shall submit to the department evidence, satisfactory to the department, of adequate general commercial liability insurance coverage.

Sec. . K.S.A. 2000 Supp. 74-623 is hereby amended to read as follows: 74-623. (a) The state corporation commission shall have the exclusive jurisdiction and authority to regulate oil and gas activities. The state corporation commission's jurisdiction shall include: (1) All practices involved in the exploration for and gathering of oil and gas and the drilling, production, lease storage, treatment, abandonment and postabandonment of oil and gas wells, except refining, treating or storing of oil or gas after transportation of the same; and (2) prevention and cleanup of pollution of the soils and waters of the state from oil and gas activities described in (1).

(b) All jurisdiction and authority of the Kansas department of health and environment relating to the cleanup of pollution of the soils and waters of the state from oil and gas activities described in subsection (a)(1) is hereby transferred to the state corporation commission.

(c) The state corporation commission shall be the successor in every way to the powers, duties and functions of the Kansas department of health and environment relating to the cleanup of pollution of the soils and waters of the state from oil and gas activities described in subsection (a)(1). Every act performed in the exercise of such powers, duties and functions by or under authority of the state corporation commission shall be deemed to have the same force and effect as if performed by the department of health and environment.

(d) Whenever the Kansas department of health and environment, or words of like effect, is referred to or designated by a statute, contract or other document relating to the cleanup of pollution of the soils and waters of the state from oil and gas activities described in subsection (a)(1), such reference shall be deemed to apply to the state corporation

commission.

(e) All rules and regulations of the secretary of health and environment which are in existence on July 1, 1995, and relate to the cleanup of pollution of the soils and waters of the state from oil and gas activities described in subsection (a)(1) shall continue to be effective and shall be deemed to be the duly adopted rules and regulations of the state corporation commission until revised, amended, revoked or nullified pursuant to law.

(f) All orders and directives of the Kansas department of health and environment which are in existence on July 1, 1995, and relate to the cleanup of pollution of the soils and waters of the state from oil and gas activities described in subsection (a)(1) shall continue to be effective and shall be deemed to be orders and directives of the state corporation commission until revised, amended, revoked or nullified pursuant to law.

(g) The state corporation commission shall adopt rules and regulations governing the underground storage of natural gas in depleted oil & gas FORMATIONS ~~fields~~.

Sec. . K.S.A. 2000 Supp. 55-155, as amended by section 190 of 2001 Senate Bill No. 15, is hereby amended to read as follows: 55-155. (a) Operators and contractors shall be licensed by the commission pursuant to this section.

(b) Every operator and contractor shall file an application or a renewal application with the commission. Application and renewal application forms shall be prescribed, prepared and furnished by the commission.

(c) No application or renewal application shall be approved until the applicant has:

(1) Provided sufficient information, as required by the commission, for purposes of identification;

(2) submitted evidence that all current and prior years' taxes for property associated with the drilling or servicing of wells have been paid;

(3) demonstrated to the commission's satisfaction that the applicant complies with all requirements of chapter 55 of the

Kansas Statutes Annotated, all rules and regulations adopted thereunder and all commission orders and enforcement agreements, if the applicant is registered with the federal securities and exchange commission;

(4) demonstrated to the commission's satisfaction that the following comply with all requirements of chapter 55 of the Kansas Statutes Annotated, all rules and regulations adopted thereunder and all commission orders and enforcement agreements, if the applicant is not registered with the federal securities and exchange commission: (A) The applicant; (B) any officer, director, partner or member of the applicant; (C) any stockholder owning in the aggregate more than 5% of the stock of the applicant; and (D) any spouse, parent, brother, sister, child, parent-in-law, brother-in-law or sister-in-law of the foregoing;

(5) paid an annual license fee of $100, except that an applicant for a license who is operating one gas well used strictly for the purpose of heating a residential dwelling shall pay an annual license fee of $25;

(6) complied with subsection (d); and

(7) paid an annual license fee of $25 for each rig operated by the applicant. The commission shall issue an identification tag for each such rig which shall be displayed on such rig at all times.

(d) In order to assure financial responsibility, each operator shall demonstrate annually compliance with one of the following provisions:

(1) The operator has obtained an individual performance bond or letter of credit, in an amount equal to $.75 times the total aggregate depth of all wells (including active, inactive, injection or disposal) of the operator.

(2) The operator has obtained a blanket performance bond or letter of credit in an amount equal to the following, according to the number of wells (including active, inactive, injection or disposal) of the operator:

(A) Wells less than 2,000 feet in depth: 1 through 5 wells,

$5,000; 6 through 25 wells, $10,000; and over 25 wells, $20,000.

(B) Wells 2,000 or more feet in depth: 1 through 5 wells, $10,000; 6 through 25 wells, $20,000; and over 25 wells, $30,000.

(3) The operator: (A) Has an acceptable record of compliance, as demonstrated during the preceding 36 months, with commission rules and regulations regarding safety and pollution or with commission orders issued pursuant to such rules and regulations; (B) has no outstanding undisputed orders issued by the commission or unpaid fines, penalties or costs assessed by the commission and has no officer or director that has been or is associated substantially with another operator that has any such outstanding orders or unpaid fines, penalties or costs; and (C) pays a nonrefundable fee of $50 per year.

(4) The operator pays a nonrefundable fee equal to 3% of the amount of the bond or letter of credit that would be required by subsection (d)(1) or by subsection (d)(2).

(5) The state has a first lien on tangible personal property associated with oil and gas production of the operator that has a salvage value equal to not less than the amount of the bond or letter of credit that would be required by subsection (d)(1) or by subsection (d)(2).

(6) The operator has provided other financial assurance approved by the commission.

(e) Upon the approval of the application or renewal application, the commission shall issue to such applicant a license which shall be in full force and effect until one year from the date of issuance or until surrendered, suspended or revoked as provided in K.S.A. 55-162, and amendments thereto. No new license shall be issued to any applicant who has had a license revoked until the expiration of one year from the date of such revocation.

(f) If an operator transfers responsibility for the operation of a well, gas gathering system or underground natural gas storage facility to another person, the transfer shall be reported to the commission in accordance with rules and

regulations of the commission.

(g) The commission shall remit all moneys received from fees assessed pursuant to subsection (c)(7) of this section to the state treasurer in accordance with the provisions of K.S.A. 75-4215, and amendments thereto. Upon receipt of each such remittance, the state treasurer shall deposit the entire amount in the state treasury. Twenty percent of each such deposit shall be credited to the state general fund and the balance shall be credited to the conservation fee fund created by K.S.A. 55-143, and amendments thereto.

(h) The commission shall remit all moneys received pursuant to subsections (d)(3) and (d)(4) to the state treasurer in accordance with the provisions of K.S.A. 75-4215, and amendments thereto. Upon receipt of each such remittance, the state treasurer shall deposit the entire amount in the state treasury to the credit of the ~~conservation fee~~ well plugging assurance fund.

Sec. . K.S.A. 2000 Supp. 55-180, as amended by section 194 of 2001 Senate Bill No. 15, is hereby amended to read as follows: 55-180. (a) The fact that any person has initiated or supported a proceeding before the commission, or has remedied or attempted to remedy the condition of any well under the authority of this act, shall not be construed as an admission of liability or received in evidence against such person in any action or proceeding wherein responsibility for or damages from surface or subsurface pollution, or injury to any usable water or oil-bearing or gas-bearing formation, is or may become an issue; nor shall such fact be construed as releasing or discharging any action, cause of action or claim against such person existing in favor of any third person for damages to property resulting from surface or subsurface pollution, or injury to any usable water or oil-bearing or gas-bearing formation.

(b) The commission, on its own motion, may initiate an investigation into any pollution problem related to oil and gas activity. In taking such action the commission may require or

perform the testing, sampling, monitoring or disposal of any source of groundwater pollution related to oil and gas activities.

(c) The commission or any other person authorized by the commission who has no obligation to plug, replug or repair any abandoned well, but who does so in accordance with the provisions of this act, shall have a cause of action for the reasonable cost and expense incurred in plugging, replugging or repairing the well against any person who is legally responsible for the proper care and control of such well pursuant to the provisions of K.S.A. 55-179, and amendments thereto, and the commission or other person shall have a lien upon the interest of such obligated person in and to the oil and gas rights in the land and equipment located thereon.

(d) Any moneys recovered by the commission in an action pursuant to subsection (c) shall be remitted to the state treasurer in accordance with the provisions of K.S.A. 75-4215, and amendments thereto. Upon receipt of each such remittance, the state treasurer shall deposit the entire amount in the state treasury to the credit of the ~~conservation fee~~ well plugging assurance fund or the abandoned oil and gas well fund, as appropriate based on the fund from which the costs incurred by the commission were paid.