Approved: 2/13/03
Date

MINUTES OF THE SENATE UTILITIES COMMITTEE.

The meeting was called to order by Chairperson Senator Stan Clark at 9:30 a.m. on January 27, 2003 in Room 231-N of the Capitol.

All members were present except: Senator Barone, excused

Committee staff present: Raney Gilliland, Legislative Research
Bruce Kinzie, Revisor of Statutes
Ann McMorris, Secreetary

Conferees appearing before the committee:
Ken Peterson, American Petroleum Institute
Dick Brewster, BP-Amoco
Bob Krehbiel, KIOGA - Kansas Independent Oil & Gas Assn.
Ceci Leonard, Devon Energy
Steve Johnson, ONEOK
Jim Bartling, ATMOS Energy
Ron Hein, Pioneer Resources

Others attending: See attached list

Presentations of local natural gas companies, large and small drillers and producers

Ken Peterson, American Petroleum Institute (Attachment 1)
Dick Brewster, BP-Amoco

As background, BP-Amoco is the largest producer of natural gas in North America. In Kansas there are over 300 employees, 225 natural gas wells, production of 150 million cubic foot of gas daily, $700 million in assets and have a natural gas processing plant near Ulysses, KS.

Factors pushing gas prices up are - rising oil prices, disruption of delivery of oil from Venezula, court cases, moratoriums and restrictions. Environmentalists in Oklahoma have placed the burrowing beetle (1 ½ to 2" long black bug with red strip on its back) on the endangered list and this is creating an obstacle to the laying of natural gas lines. BP-Amoco is presently active in cleaning up groundwater in Southeast Kansas.-

Bob Krehbiel, KIOGA - Kansas Independent Oil & Gas Assn. (Attachment 2)
Ceci Leonard, Devon Energy (Attachment 3)
Steve Johnson, ONEOK (Attachment 4)
Jim Bartling, ATMOS Energy (Attachment 5)
Ron Hein, Pioneer Resources (Attachment 6)

Approval of Minutes

Moved by Senator Emler, seconded by Senator Brownlee, minutes of the meetings of the Senate Utilities Committee held on January 14, 2003; January 15, 2003; January 16, 2003; January 21, 2003; and January 22, 2003 be approved.

The next meeting of the Senate Utilities Committee will be on January 28.

Adjournment.

Respectfully submitted,

Ann McMorris, Secretary

Attachments - 6

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: **JANUARY 27, 2003**

Name	Representing
Jim Bartling	Atmos Energy
Joe Christian	Atmos Energy
Steve Johnson	Kansas Gas Service/ONEOK
[illegible]	KCC
Ceci Leonard	Devon Energy Corporation
Bob Krohbiel	KIOGA
J.P. Small	Exxon Mobil
Mark Schreiber	Westar Energy
Janet McPherson	Ks Farm Bureau
Dick Brewster	BP
Jack Glaves	Duke PH + Vi M
Carol Cropper	KTNS
Tom Day	KCC
Whitney Damron	KS Gas Service/ONEOK
Ken Bruce	Hein Law Firm
Bob Alderson	Atmos

Kansas
Petroleum
Council

Comments Submitted to the Senate Utilities Committee
By Ken Peterson, Kansas Petroleum Council
January 27, 2003

Mr. Chairman and members of the Committee, thank you for the invitation to offer these comments to you this morning. The oil and gas industry continues to be a vital part of the Kansas economy, and we appreciate the opportunity to explain a little about our operations.

This committee has been very helpful to the industry and for that we are grateful. You recommended passage last year of an enhanced recovery measure that would extend the life of mature oil and gas wells in the state. The bill was not acted upon because of the state's weak fiscal condition. Since the situation has not improved this year, we do not believe the time is appropriate to push for any similar proposal.

You also recommended passage of a resolution to support exploration on the coastal plain of Alaska, an important issue that will improve domestic production. The Senate passed the resolution, but it died in the House where the leadership was reluctant to bring it to the floor. The issue remains alive in Washington.

The Kansas Petroleum Council is a field office of the American Petroleum Institute, a trade association that includes companies with production interests in the state. These include BP, ExxonMobil, Occidental, and Anadarko.

Mr. Dick Brewster of BP will follow my comments with a look at his company presence in the state, and an overview of natural gas markets.

In preparing these comments, I re-read portions of a 1987 book, ***Discovery!***, by Craig Miner, a professor of history at Wichita State University. It's a fascinating look at the history of the oil and gas industry in the state. I found one particular part especially noteworthy – that the oil and gas industry in Kansas took off as a commercial business with the construction of the Standard Oil Refinery at Neodesha in the 1890's. But 30 years earlier, some entrepreneurs tried to start an oil business around oil seeps and springs. The Civil War interrupted their efforts. Several investors went into the Army, and some were killed or financially ruined during Quantrill's raid on Lawrence in 1863. Attempts were made to restart drilling in May of 1861 in the Paola area, but the presence of Missouri bushwhackers made outdoor work very dangerous so the effort was abandoned.

My point is that our member companies, under the guise of different names in different eras, have been corporate citizens of this state for a long, long time. Cities Service, later to become part of Occidental, developed the El Dorado field that helped fuel our

SUITE 1005 800 SW JACKSON STREET TOPEKA, KANSAS
PHONE: 785.234.0589 FAX 785.235.6179 E-MAIL: kansas

Expeditionary Forces in World War I and made a substantial contribution to World War II as well.

Nearly all of our production companies have sold off their oil wells and fields to independent producers. Our companies have significant operations in the Hugoton Field of southwestern Kansas, where the first well was drilled in 1888 but production began in earnest in 1930.

The Hugoton is one of the largest natural gas fields in North America and the world. Over the years, our companies have employed hundreds of people, invested heavily in equipment and improved recovery methods, and paid billions of dollars in severance and property taxes.

Kansas, however, is like most production areas in the nation where drilling is allowed. It is a mature oil and gas state and production is declining. Since 1996, the Hugoton field has been declining at an annual rate of 8 percent.

All is not dire, however.

The industry started in the east and migrated to the west. Now, recovery techniques have worked to reverse the direction back to the east with a CO2 project near Russell and coal bed methane operations in the east.

The oil and gas industry in the state remains a major economic factor in the state's health and will stay that way for years to come.

Thank you for your courtesy and attention.

American Petroleum Institute
Policy Analysis & Statistics

Kansas

Population:	2,691,750
Gross State Product:	$85.1 billion
Civilian Employment:	1,359,000

A Statistical Profile of the Energy Industry in Kansas

Oil and Gas Facilities

Producing Oil Wells:	43,472
Producing Gas Wells:	15,732
Operable Refineries (2002):	3
Retail Gasoline Stations:	2,683
Nuclear Power Plants (2001):	
Wolf Creek	

Employment

Oil and Gas Production:	5,719
Petroleum Refining:	1,295
Transportation:	3,060
Wholesale Products:	3,197
Retail Gasoline Stations:	7,077
Total Petroleum:	20,348
Nuclear Utilities (1999):	945

Proved Reserves

Oil:	237 mil. bbl.
Gas:	5,299 bil. c.f.

Production/Generation

Oil:	34,698 th. bbl.
Gas:	525,729 mil. c.f.
Share of Electricity Generation (1999) from:	
Coal:	70%
Oil:	1%
Gas:	7%
Nuclear:	22%

Consumption

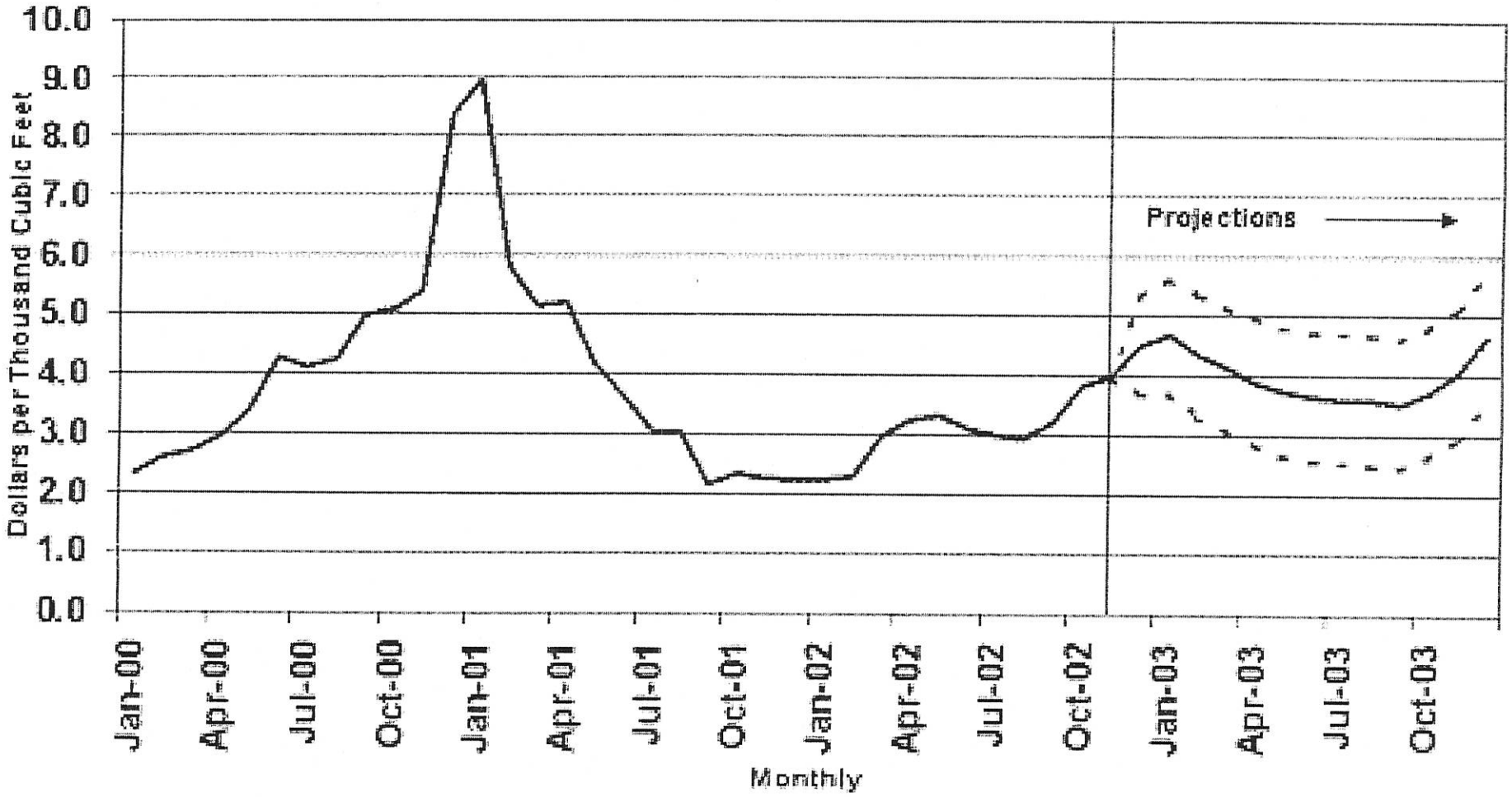
Total Energy Use (1999):	1,050 tr. BTU
State Rank:	32
Per-Capita Rank:	16
Total Oil Products:	79.6 mil. bbl.
Gasoline:	1,378 mil. gal.
Natural Gas:	321 bil. c.f.

Employment in Major Industries (1999)

Health Care	152,261
Construction	66,338
Trans. equip. mfg.	53,264
Food mfg.	31,567
Insurance	22,503

All data is for 2000 unless otherwise indicated.
nd: Data not disclosed due to confidentiality rules.

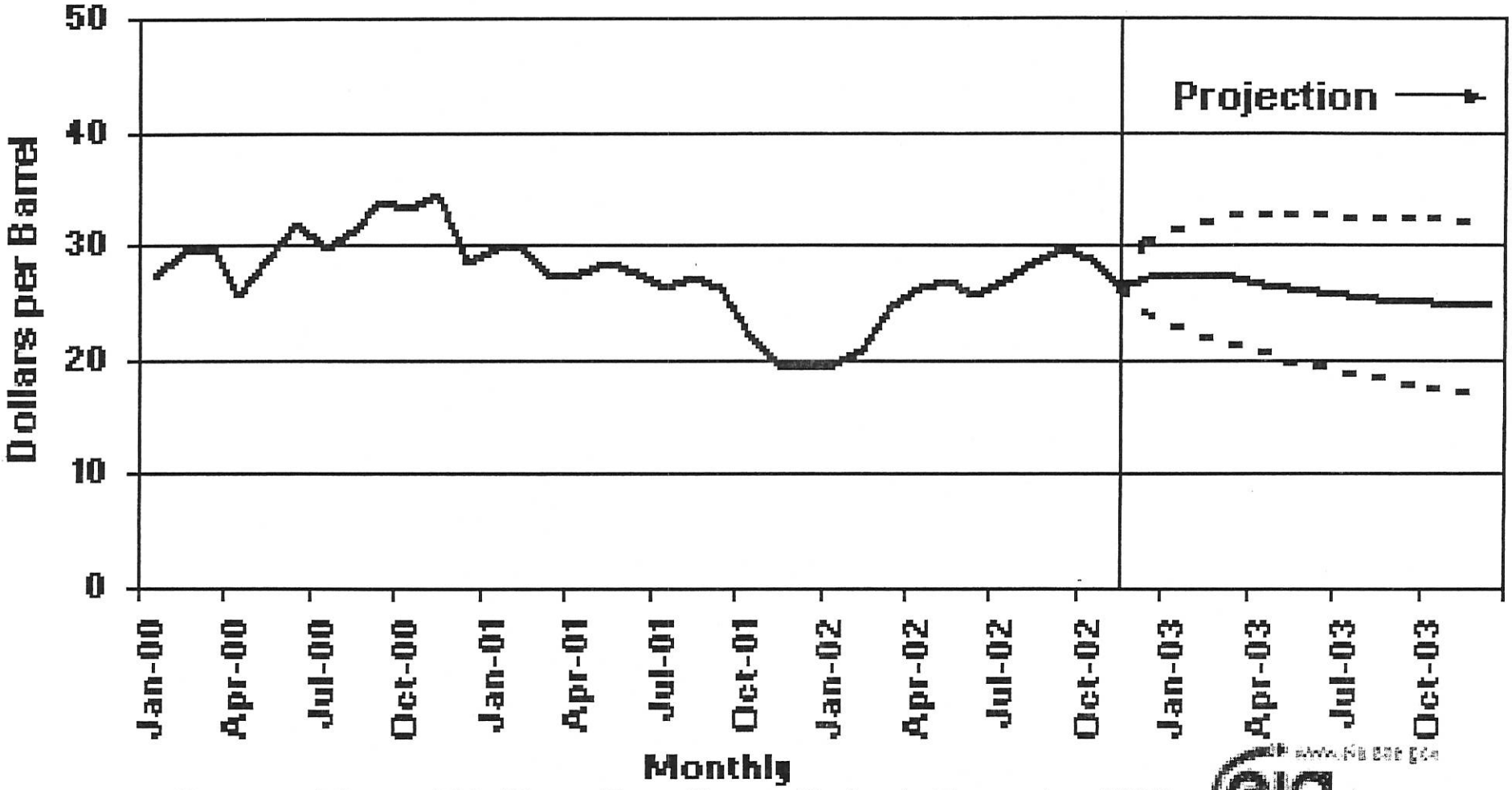
Figure 9. Natural Gas Spot Prices
(Base Case and 95% Confidence Interval)



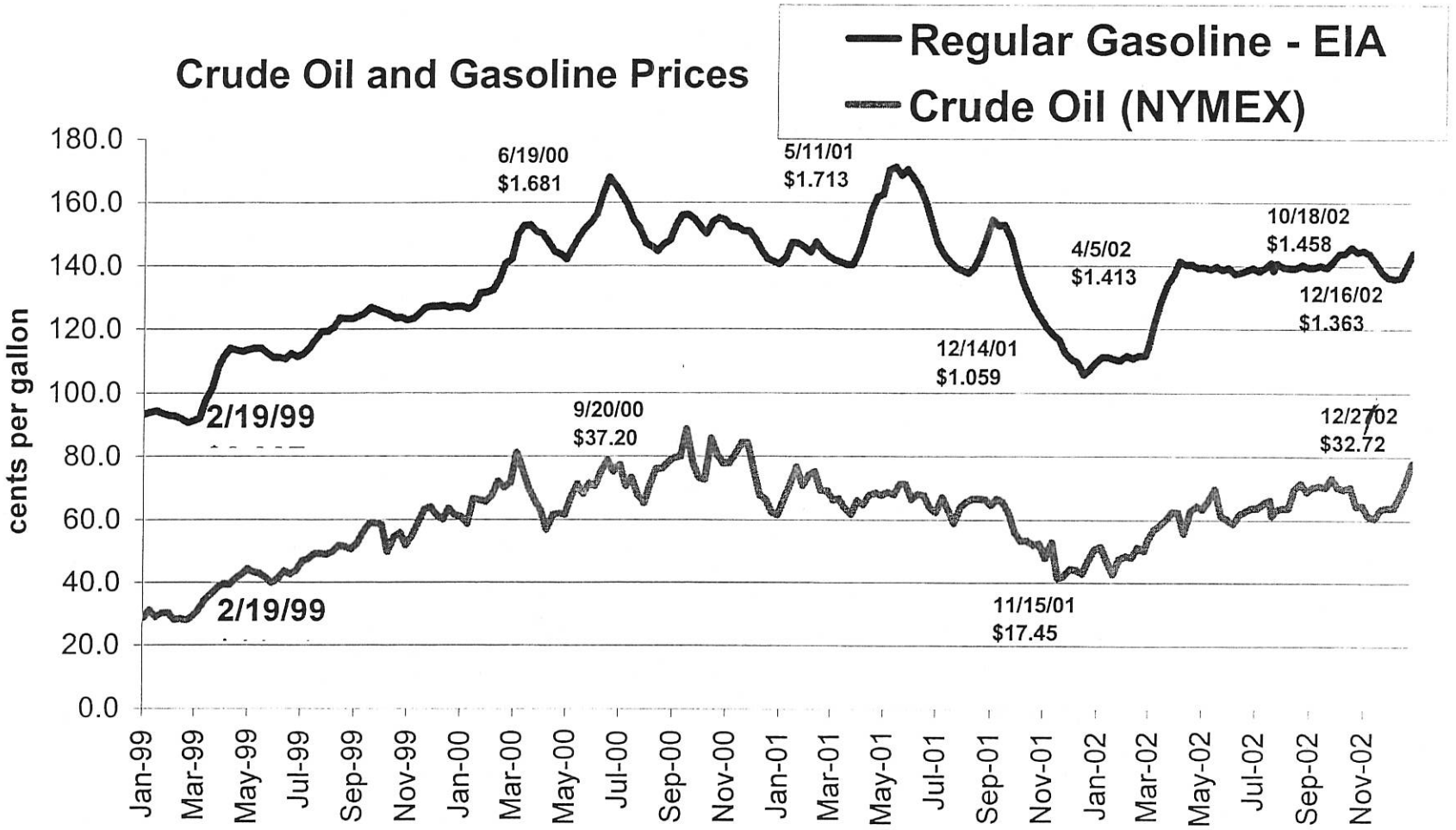
Sources: History: Natural Gas Week; Projections: Short-Term Energy Outlook, December 2002.

www.eia.doe.gov

Figure 1. WTI Crude Oil Price
(Base Case and 95% Confidence Interval)



Sources :History EIA; Short Term Energy Outlook, December 2002


Crude Oil and Gasoline Prices
Regular Gasoline - EIA
Crude Oil (NYMEX)
cents per gallon
180.0
160.0
140.0
120.0
100.0
80.0
60.0
40.0
20.0
0.0
6/19/00
$1.681
5/11/01
$1.713
4/5/02
$1.413
10/18/02
$1.458
12/16/02
$1.363
12/14/01
$1.059
2/19/99
9/20/00
$37.20
12/27/02
$32.72
2/19/99
11/15/01
$17.45
Jan-99
Mar-99
May-99
Jul-99
Sep-99
Nov-99
Jan-00
Mar-00
May-00
Jul-00
Sep-00
Nov-00
Jan-01
Mar-01
May-01
Jul-01
Sep-01
Nov-01
Jan-02
Mar-02
May-02
Jul-02
Sep-02
Nov-02

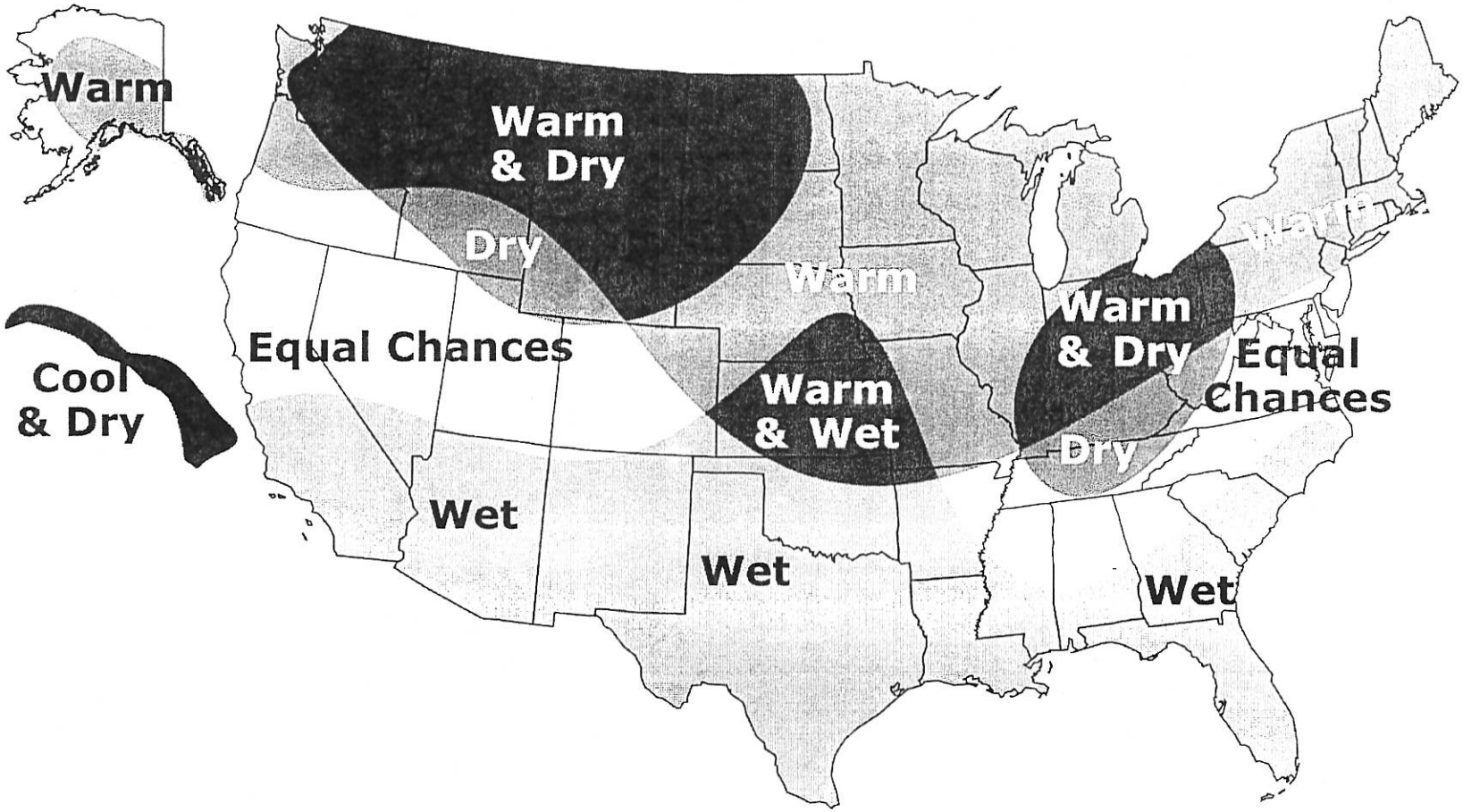
Estimated Crude and Products Imports to the U.S. from Leading Supplier Countries

	October 2002 Imports (Thousand Barrels per Day)	% of Total Imports	% of Domestic Product Supplied
1 Canada	2,073	17.7%	10.6%
2 Saudi Arabia	1,690	14.4%	8.6%
3 Venezuela	1,616	13.8%	8.2%
4 Mexico	1,577	13.4%	8.0%
5 United Kingdom	591	5.0%	3.0%
6 Nigeria	574	4.9%	2.9%
7 Norway	318	2.7%	1.6%
8 Russia	287	2.4%	1.5%
9 Angola	258	2.2%	1.3%
10 Algeria	239	2.0%	1.2%
Other	2,522	21.5%	12.9%
Total	11,745	100.0%	59.9%
OPEC Countries	4,644	39.5%	23.7%
Persian Gulf Countries	2,143	18.2%	10.9%

	January-October 2002		
1 Canada	1,911	16.9%	9.7%
2 Saudi Arabia	1,527	13.5%	7.8%
3 Mexico	1,504	13.3%	7.7%
4 Venezuela	1,423	12.6%	7.3%
5 Nigeria	591	5.2%	3.0%
6 United Kingdom	464	4.1%	2.4%
7 Iraq	456	4.0%	2.3%
8 Norway	391	3.5%	2.0%
9 Angola	320	2.8%	1.6%
10 Algeria	275	2.4%	1.4%
Other	2,456	21.7%	12.5%
Total	11,318	100.0%	57.7%
OPEC Countries	4,598	40.6%	23.4%
Persian Gulf Countries	2,245	19.8%	11.4%

Source: DOE, Petroleum Supply Monthly, December 2002

Winter Outlook
December 2002 - February 2003



STATE OF KANSAS
SENATE UTILITIES COMMITTEE

JANUARY 27, 2003

STATEMENT OF
ROBERT E. KREHBIEL, EXECUTIVE VICE PRESIDENT
KANSAS INDEPENDENT OIL & GAS ASSOCIATION

Senate Utilities
January 27, 2003
Attachment 2-1

STATE OF KANSAS
SENATE UTILITIES COMMITTEE
JANUARY 27, 2003

STATEMENT OF ROBERT E. KREHBIEL, EXECUTIVE VICE PRESIDENT
KANSAS INDEPENDENT OIL AND GAS ASSOCIATION
ON BEHALF OF INDEPENDENT PRODUCERS

INTRODUCTION

Chairman Clark and Members of the Committee, my name is Robert E. Krehbiel and I am appearing on behalf of the Kansas Independent Oil & Gas Association. Thank you very much for the opportunity to make a few comments concerning the state of the industry on behalf of Kansas' independent producers.

The Kansas Independent Oil & Gas Association (KIOGA) was organized in 1938 to address issues of common concern to independent oil and gas producers and to promote the development of oil and gas production in the State of Kansas. 65 years later, with over 780 members, this Association remains strong and active.

I will just make a few points which we believe to be important in considering public policy:

1. **Today, Kansas' largest oil producers are small producers.**

It is important to recognize that the domestic oil and natural gas industry has changed significantly over the last fifteen years. Independent producers of both oil and natural gas have grown in their importance, and that trend will continue. Independent producers account for 85 percent of the wells drilled in the United States, produce 40 percent of the oil-60 percent in the lower 48 states-and produce 65 percent of the natural gas. At the same time the large integrated oil companies are focusing their efforts overseas, in Alaska and offshore, because they are aiming their investments seeking new and very large fields.

The twenty largest producers of crude oil in Kansas are independent producers. The two largest producers of Kansas crude oil are headquartered in Wichita, Kansas, and thirteen of the top twenty are headquartered either in Wichita, Garden City, or Russell, Kansas, and all of the top twenty maintain field offices somewhere in Kansas, Great Bend, Liberal, Hill City, Spivey, Ness City, Plainville, Kingman or elsewhere.

2. **In FY 2002, a total of 2,288 operators reported oil production in the State of Kansas.**

Total crude oil production reported in fy 2002 was 33,585,682 barrels, which is down slightly from the 34,273,233 barrels reported in fy 2001. This calculates to 14,679 barrels of oil per operator, for all operators. The 20 largest operators averaged 108,760 barrels of oil per operator. These are all small producers by any measure. Using the DOE reported U.S. per capita consumption of 25.5 barrels annually, one could borrow a slogan from the agricultural industry and suggest that **THE AVERAGE KANSAS CRUDE OIL PRODUCER FUELS 575 AMERICANS AND YOU!**

2. **In FY 2001, Kansas' 37,462 oil wells averaged only 2.5 barrels per day.**

With such low volumes of production it is little wonder that the major companies have focused their investment offshore and overseas. Nevertheless, America's stripper wells and the independent producers who operate them are an enormous national resource. Nationwide, stripper wells, including those in Kansas, provide America with as much crude oil as we import from Saudi Arabia. Using refining statistics commonly applied to Kansas crude you can calculate that **THE AVERAGE 2.5 BOPD KANSAS OIL WELL PROVIDES 17,794 GALLONS OF GASOLINE, 8,395 GALLONS OF DIESEL FUEL AND 3,741 GALLONS OF JET FUEL,** along with various other asundry products.

3. **FY 2002 gas production, reported by 989 operators, totaled 472 bcf.**

Unlike crude oil, spread throughout most of Kansas, gas production focuses mainly in the giant Hugoton Gas Field of Southwestern Kansas. And, also unlike crude oil, gas production is dominated by

a few major integrated oil companies. BP, headquartered in London, England, and Exxon-Mobil, headquartered in Houston, Texas, are the two largest producers of Hugoton gas. Together these two companies produce approximately one-third of all the natural gas produced in Kansas. The twenty largest operators accounted for 81.4% of total gas production.

Although Kansas has become a net importer of energy, the major producers continue to export gas produced from the Hugoton Field. Kansas, in turn, imports coal from Wyoming to utilize, in place of natural gas, for the generation of electricity.

Pressures in this old giant field have declined to nothing and the experts speculate on its life expectancy. At last measure, Kansas gas wells averaged less than 90 mcfd, small wells by any measure. The best hope of replacing Hugoton gas production appears to be in the unproven coal bed methane play in Southeast Kansas.

At some point it is most likely that gas production will ultimately follow the path of crude oil production, from major operators to small independents who will attempt to prolong the life of the gas fields of Kansas.

5. **Protecting Kansas' independent producers and the marginal wells they operate should be an important policy goal of any administration.**

Today America produces 44% of the crude oil it consumes while importing 56%. All projections indicate that America's reliance on foreign oil will continue to grow. And now Kansas, as a State, after nearly a century of being one of the nation's leading energy exporters, is a net energy importer as well. The energy balance for both the Nation and the State continues to worsen as consumption increases while production declines. Protecting, maximizing, and sustaining the production of American oil is integral to maintaining energy independence and security for our Nation.

6. **The Kansas oil and gas industry is a vital partner with the State and the Nation.**

The industry creates from $1.5 to $3.0 billion annually in well head value, roughly equivalent to the value of all of the crops grown in Kansas. The ripple effect through the Kansas economy is significant. In Kansas each of the wells, though small in volume, is a business unto itself, providing jobs in rural communities across the state. The average Kansas operator employs 3 people for a combined total of approximately 6,800 in the production end alone. Downstream, transporters, refiners, marketers and retailers generate approximately 16,600 jobs for Kansas people.

7. **Kansas low volume wells are cost and price sensitive.**

Kansas is a mature producing province with low per well production rates for both oil and gas wells. When the operational costs of a well exceed the value of production, the well will be plugged and abandoned. This happened in 1998 and 1999 for many Kansas wells as crude oil prices dropped below $10 per barrel.

When a low volume well goes down, in need of repair, workover or other treatment involving a substantial investment, the cost of such action must be recoverable from future production or the well will be plugged and abandoned. The cost, the potential future production stream, and the price of crude oil are the primary determinants.

Unfortunately, oil producers, like Kansas farmers, are price takers, not price makers. This is what prompted Warren Buffet to warn investors, "don't be a producer, whatever you do, don't be a producer". The price of both oil and natural gas is extremely volatile, driven by a world market and world events. The Kansas producer has no control over that market. In just the past five years the price of crude has gone from $7 to $32 to $16 to $29. Today the Kansas posted price is $29 per barrel, a price spike driven by a strike in Venezuela and the threat of war in the Middle East.

The Kansas industry is in a crisis when the price of crude oil falls below $16 per barrel. Too many wells in Kansas cannot pay operational costs at that price level. Prices necessary to attract risk capital

for exploration are much higher and Kansas has seen little exploration since the crash of the mid 1980s. In the early 1980's nearly 200 rigs were actively drilling in Kansas. Today there are 9 rigs drilling in Kansas.

8. **Primary concerns of Independent Producers:**

a) Obtaining capital for exploration. Attracting outside risk capital for exploration has been nearly impossible at current prices. Until prices stabilize at the $25 level for a significant period of time in Kansas it will be difficult to attract risk capital from outside sources . Today's futures market suggests that the price of crude oil will average about $20 per barrel over the next five years.

Therefore, most capital for exploration and drilling has to be generated, and will continue to be generated, internally, by revenues from existing production. Meanwhile, Kansas' current tax structure, generated in the early 1980's when oil and gas price projections were incredibly optimistic and incredibly wrong, continues to drain exploration dollars from producers. The price of crude oil, projected to reach $100 per barrel actually reached $10 per barrel in the years following passage of the Kansas severance tax. In the meantime, the Kansas severance tax has extracted in excess of $1.5 billion dollars from Kansas producers in addition to $2.1 billion extracted by property taxes. In order to restore and maintain this industry in Kansas this double taxation must be eliminated. At a minimum the removal of the severance tax on crude oil should be enacted immediately.

Likewise, sales tax on workovers and recompletions of old wells is a significant deterrent in these kinds of investment decisions. Removal of these taxes would ultimately generate more revenue for the state than they provide today.

b) Expenses continue to escalate. Electricity as a percentage of total costs, continues to escalate as water drive reservoirs mature and as water intensive secondary and tertiary projects in

Kansas develop. Service costs escalate as companies exited the state in difficult times and did not return. Costs of labor increase as industry tries to attract and retain an experienced labor force.

c) Environmental regulations are expanding in unnecessary and wasteful ways to create the enormous waste of environmental dollars. Much of federal environmental law is unreadable and incomprehensible. The threat of penalties, fines and litigation has had a chilling effect on many independent producers. This industry, as most other industries, has learned to operate in an environmentally sound manner. But the costs and the uncertainty attached to environmental law is probably the most often cited reason for exiting this industry.

d) Downstream consolidation of infrastructure is posing serious threats to continued exploration and production of natural gas. Gas gathering lines, deregulated in the 90's have been consolidated in some areas of Kansas to create a monopolistic environment with gathering fees doubling. If this is allowed to persist it will result in the premature abandonment of existing wells, declining exploration, loss of revenue to landowners, declining state tax and local tax revenue, and the waste of Kansas' natural resources.

e) The corporate shenanigans of the traders and marketers who entered this business have created significant problems for Kansas producers. The bankruptcy of one Kansas refinery and one major crude oil purchaser left many Kansas producers holding the bag. We will be seeking protection from bankruptcy in this legislative session.

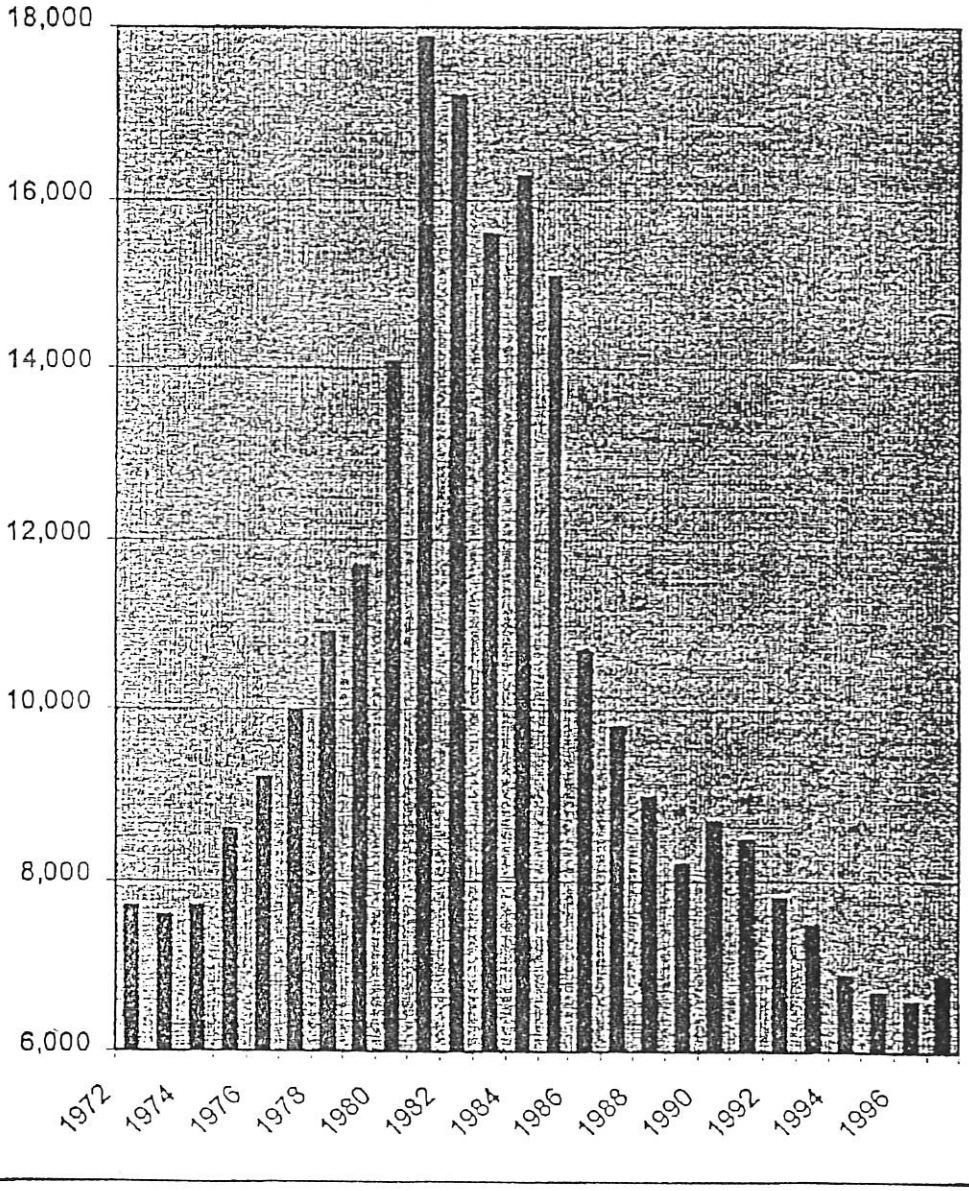
f) Technology is the key to sustaining Kansas oil production. Hundreds of millions of barrels of crude oil are known to remain in existing reservoirs in Kansas following primary and secondary production methods. But the technical ability to get that remaining crude oil to the surface is in the experimental stage. Kansas producers rely heavily on the Kansas Geological Survey at the University of Kansas to help us develop that knowledge and information. You have heard of the CO2

experimental project which is beginning in the Hall-Gurney Field near Russell, Kansas. Projects such as this have the potential to add a half billion barrels of crude oil to Kansas' reserve base and 6,000 new jobs for Kansas workforce. Continued support for these efforts is critical.

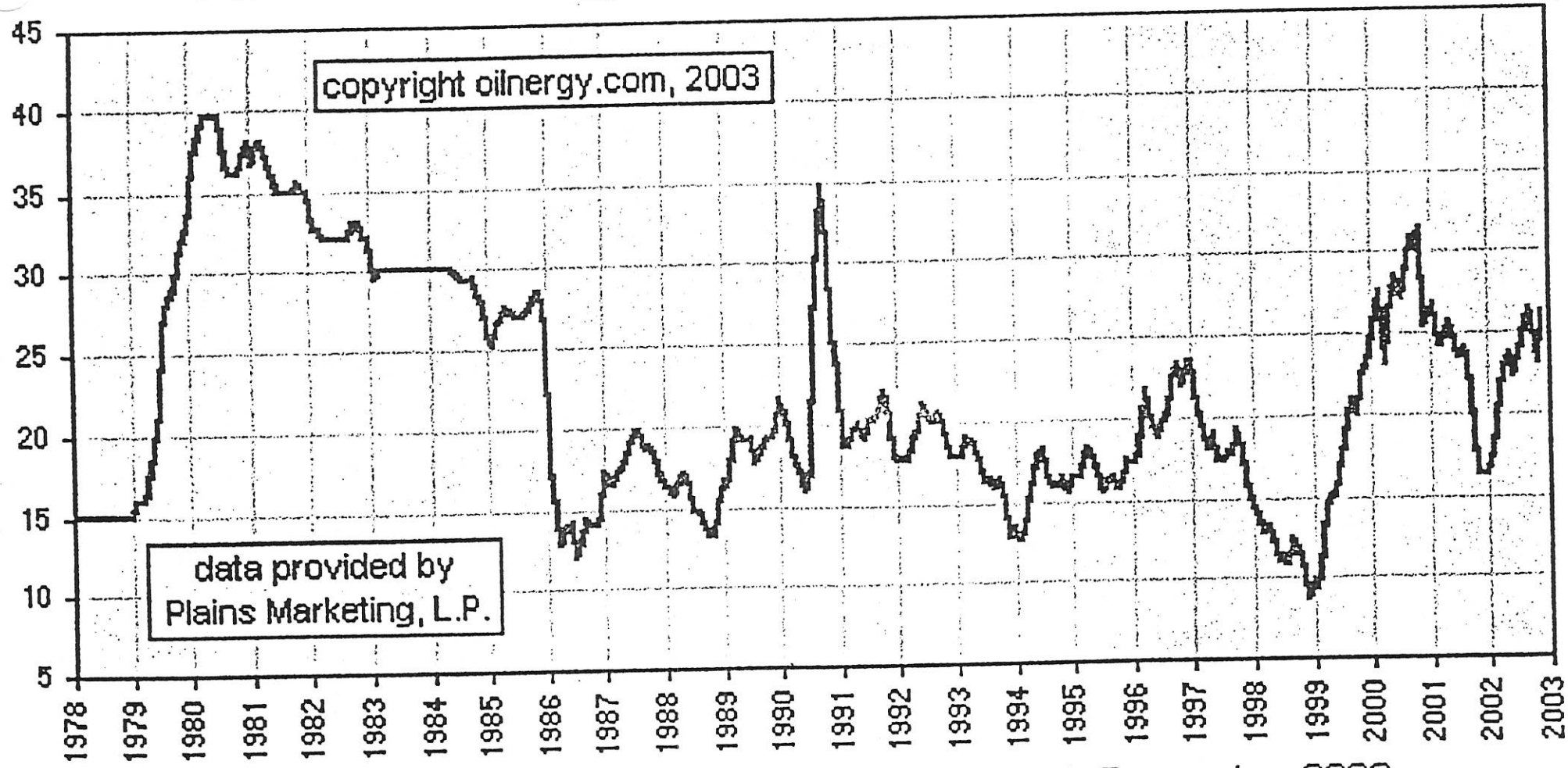
Thank you very much for the opportunity to speak here today.

Kansas Oil & Gas Industry Employment

Source: Kansas Department of Human Resources, Labor Market Information Services, July 1998



Plains Marketing, L.P.'s WTI Crude - Posted Price



Average monthly data from January 1978 through December 2002

Monthly average price for 2002 and Annual Average Price per NCRA postings

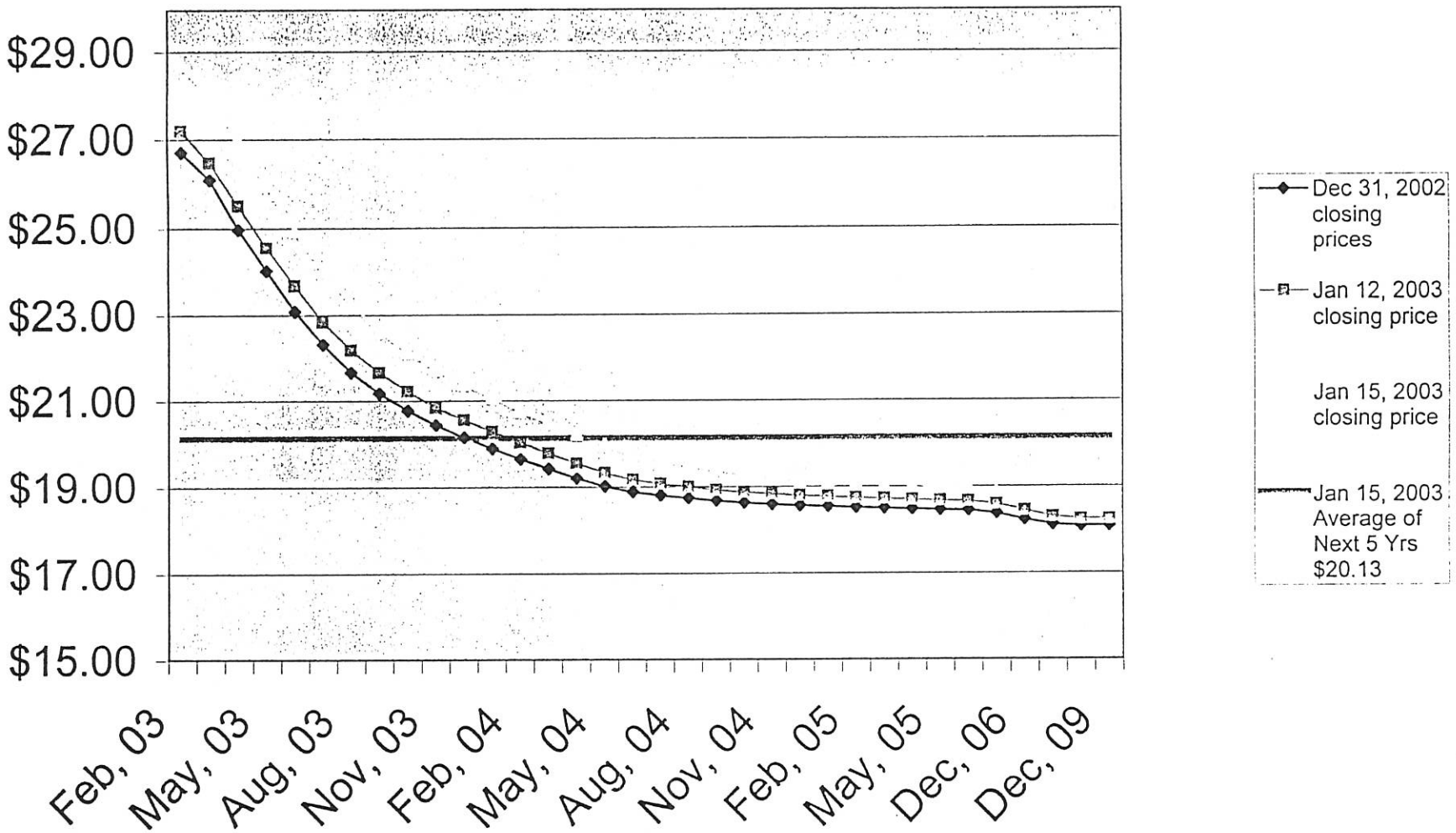
Jan-02	15.226
Feb-02	16.313
Mar-02	20.008
Apr-02	21.650
May-02	22.524
Jun-02	21.092
Jul-02	22.435
Aug-02	23.589
Sep-02	25.142
Oct-02	24.323
Nov-02	21.733
Dec-02	24.944

- 2002 Average Kansas Posting (NCRA) is **$ 21.58**
- Average of monthly price per NCRA for the past nine years **$18.48**
- Average of monthly price per NCRA for the past five years **$19.47**
- Average of the NYMEX futures (on December 31, 2002) adjusted to a Kansas Equivalent posting for the next 5 years **$19.32**
- Average of the NYMEX futures (on January 15, 2003) adjusted to a Kansas Equivalent posting for the next 5 years **$20.13**

Current factors affecting the short-term price volatility:

The threat of war in IRAQ
The oil strike in Venezuela

NYMEX adjusted to Kansas Posting - Jan 15, 2003



Region's workover rig count in 2002 declined 17% from 2001

THE WORKOVER rig count in the Mid- Continent region in 2002 was down 17.4 percent from year-earlier levels, according to figures supplied by Baker Oil Tools.

For the year, the region's workover rig count averaged 157, versus the 2001 average of 190. In 2000, Baker Oil Tools reported an average of 154 workover units employed in the Mid-Continent on a month-to-month basis.

In December 2002, the region's workover rig tally dropped by 12 from the previous month, to 172. A year ago, there were 139 workover units in use in the Mid-Continent.

The U.S. workover rig count in December dropped by 25 from the month before, to 1,029. Month-to-month declines were seen in the Texas Gulf Coast, Mid-Continent, Rocky Mountain and Western regions. Slight increases from November 2002 levels were reported in the Southeastern, Northeastern and West Texas regions.

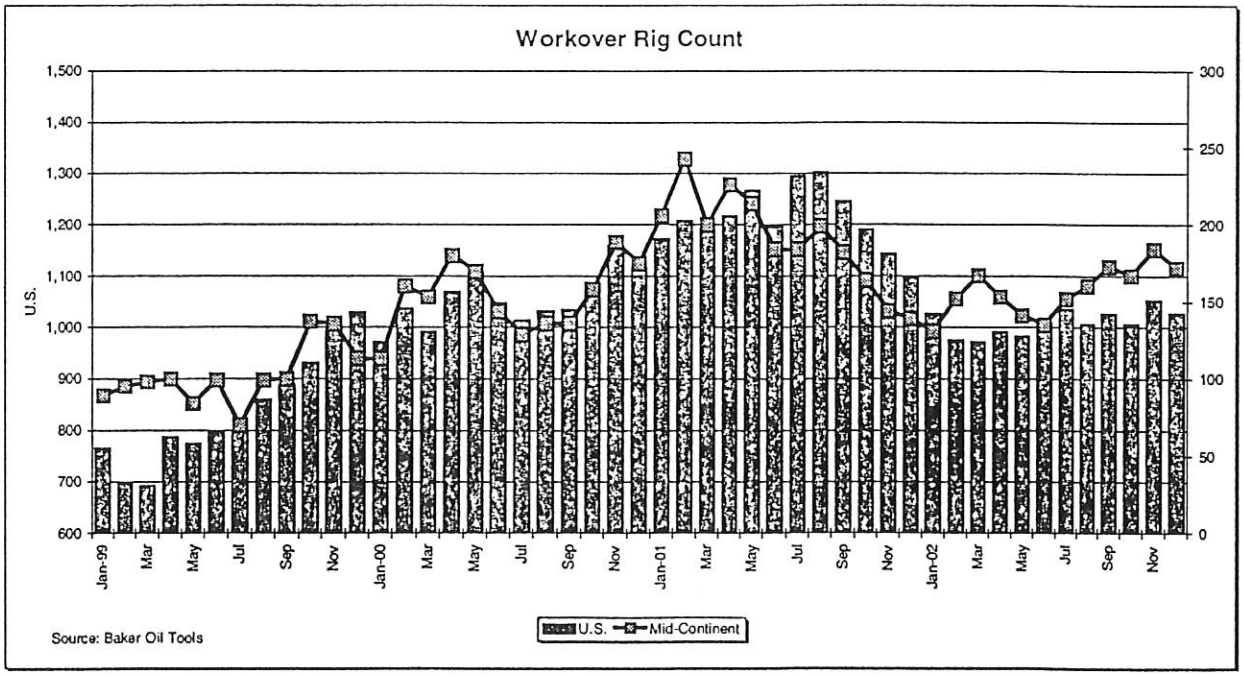
For the year, the U.S. workover rig count averaged nearly 1,010, a drop of almost 17 percent from the 2001 average of 1,211, and about four percent below the 1,056-unit average recorded in 2000.

The Baker Oil Tools workover rig count includes only those rigs where tubing is out of the wellbore and does not include rigs on rod jobs or rigs on wells less than 1500 ft in depth.

WORKOVER RIG COUNT

Region	Dec-02	Nov-02	Dec-01
Texas Gulf Coast	185	197	195
Southeastern	148	147	136
Mid-Continent	172	184	139
Northeastern	74	72	77
Rocky Mountains	159	162	190
West Texas	211	210	274
Western	80	82	88
Total U.S.	1,029	1,054	1,099
Canada	337	287	318
Total N. America	1,366	1,341	1,417

Source: Baker Oil Tools



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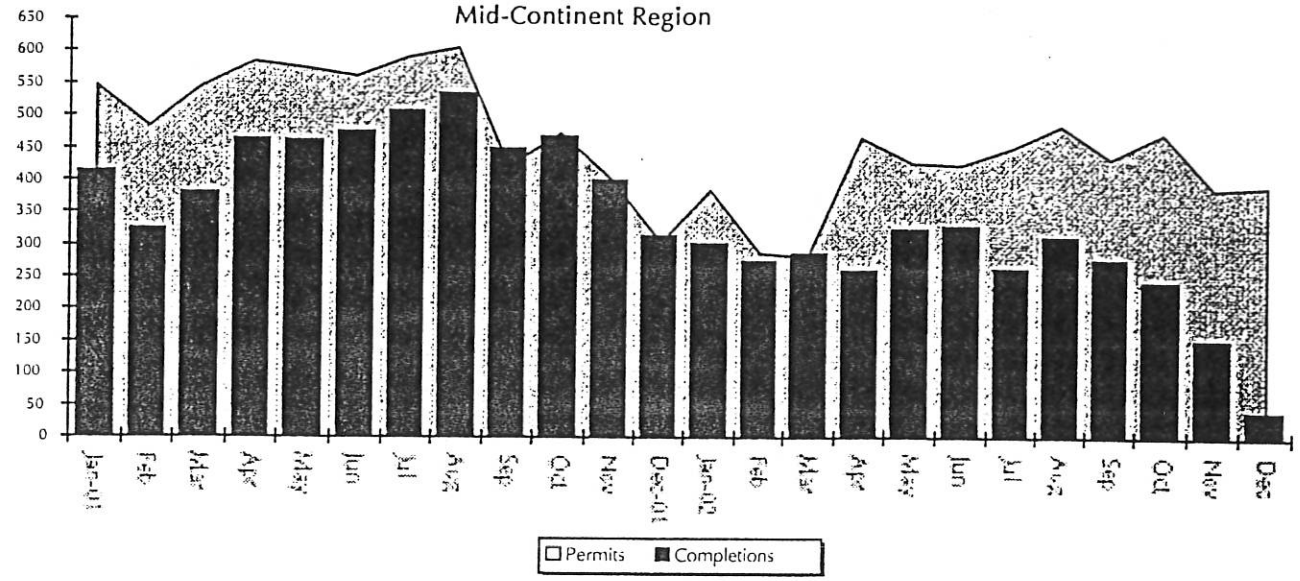
Permits/Completions

Mid-Continent Region



Mid-Continent Well Permits January-December 2002

State	NFW	OEX	DEV	Subtotal	Other	YTD 2002 Total	YTD 2001 Total	% chg
Northern Arkansas	6	1	142	149	20	169	244	-30.7%
Kansas	200	140	1,208	1,548	195	1,743	2,365	-26.3%
Missouri	0	0	0	0	0	0	26	-100.0%
Eastern Nebraska	1	0	0	1	0	1	0	___
Oklahoma	80	55	2,618	2,753	781	3,534	4,197	-15.8%
Texas Panhandle (RRC 10)	12	16	418	446	76	522	701	-25.5%
Region	**299**	**212**	**4,386**	**4,897**	**1,072**	**5,969**	**7,533**	**-20.8%**

Mid-Continent Well Starts January-December 2002

State	NFW	OEX	DEV	Subtotal	Other	YTD 2002 Total	YTD 2001 Total	% chg
Northern Arkansas	3	1	123	127	14	141	216	-34.7%
Kansas	174	135	827	1,136	111	1,247	1,523	-18.1%
Missouri	1	0	0	1	0	1	4	-75.0%
Eastern Nebraska	0	0	0	0	0	0	0	—
Oklahoma	72	48	2,186	2,306	379	2,685	3,452	-22.2%
Texas Panhandle (RRC 10)	12	15	355	382	41	423	561	-24.6%
Region	**262**	**199**	**3,491**	**3,952**	**545**	**4,497**	**5,756**	**-21.9%**

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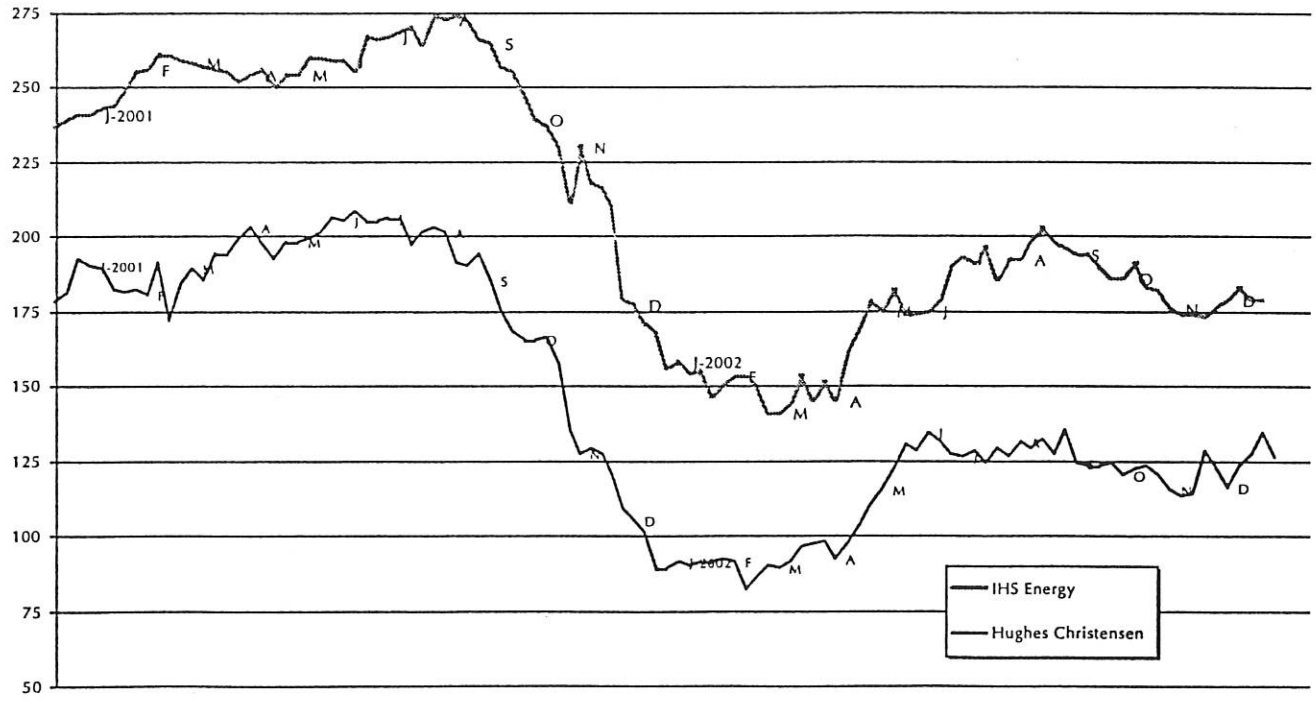
Active Rig Table

State	This Week	Last Week	Month Ago	Year Ago
Oklahoma	128	128	119	111
Kansas	23	24	27	32
Texas Panhandle (RRC 10)	24	24	25	21
Arkansas	4	3	3	7
Eastern Nebraska	0	0	0	0
Iowa	0	0	0	0
Missouri	0	0	0	0
Region Total	**179**	**179**	**174**	**171**

Source: IHS Energy Group

Mid-Continent Region
Rotary Employment 2000-YTD 2002



IHS Energy Group's rig counts are derived from drilling contractors and operators and may vary from other industry sources.
IHS counts include all rigs, regardless of well depth.

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Active Rig Count—Mid-Continent Region

State/District	Latest Data Jan 3, 2003	Week Ago Dec 27, 2002	Month Ago Dec 6, 2002	Year Ago Jan 4, 2002
Arkansas	2	1	0	1
Kansas	9	9	5	8
Missouri	0	0	0	0
Nebraska	0	0	0	1
Oklahoma	100	102	94	71
Tex Pan RRC 10	15	22	17	10
Mid-Continent Total	**126**	**134**	**116**	**91**
U.S. Total	837	862	852	883

Source: Hughes Christensen

Mid-Continent Well Completions 2001/2002 Comparison January-December

	New Field Wildcats				Other Exploratory				All Wells Drilled				
State	Oil	Gas	Dry	Total	Oil	Gas	Dry	Total	Oil	Gas	Dry	Total	Footage
N. Arkansas													
2002	0	1	1	2	0	0	0	0	0	89	24	113	613,731
2001	0	3	11	14	0	2	0	2	0	119	37	156	854,049
% chg	—	-66.7%	-90.9%	-85.7%	—	-100.0%	—	-100.0%	—	-25.2%	-35.1%	-27.6%	-28.1%
Kansas													
2002	33	20	92	145	29	27	47	103	241	324	296	861	2,811,377
2001	32	34	121	187	35	48	74	157	280	409	398	1087	3,792,930
% chg	3.1%	-41.2%	-24.0%	-22.5%	-17.1%	-43.8%	-36.5%	-34.4%	-13.9%	-20.8%	-25.6%	-20.8%	-25.9%
Missouri													
2002	0	1	0	1	0	0	0	0	0	1	0	1	425
2001	0	0	1	1	0	0	0	0	0	0	0	1	542
% chg	—	—	-100.0%	0.0%	—	—	—	—	—	—	—	0.0%	-21.6%
Oklahoma													
2002	6	14	23	43	2	20	8	30	381	1,095	307	1,783	11,410,195
2001	9	35	41	85	8	42	17	67	491	1,437	370	2,348	15,312,120
% chg	-33.3%	-60.0%	-43.9%	-49.4%	-75.0%	-52.4%	-52.9%	-55.2%	-22.4%	-26.4%	-17.0%	-24.1%	-25.5%
Texas RRC 10													
2002	1	1	4	6	1	6	3	10	26	242	34	302	1,963,108
2001	1	4	8	13	0	11	4	15	69	397	48	514	3,271,643
% chg	0.0%	-75.0%	-50.0%	-53.8%	—	-45.5%	-25.0%	-33.3%	-62.3%	-39.0%	-29.2%	-41.2%	-40.0%
Region Total													
2002	40	37	120	197	32	53	58	143	648	1,751	661	3,060	16,798,836
2001	42	76	182	300	43	103	95	241	840	2,412	853	4,106	23,231,284
% chg	-4.8%	-51.3%	-34.1%	-34.3%	-25.6%	-48.5%	-38.9%	-40.7%	-22.9%	-27.4%	-22.5%	-25.5%	-27.7%

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State Crew Counts

Data courtesy of IHS Energy's World Geophysical News

State	Seismic December 15, 2002 Working	Available	Total	Working Month Ago	Year Ago
Alabama	1	1	2	2	0
Alaska	0	2	2	2	0
Alaskan Waters	0	0	0	0	0
California	0	0	0	0	0
Colorado	0	0	0	0	0
East Coast	0	0	0	0	1
Gulf of Mexico	11	1	12	12	14
Illinois	1	0	1	1	1
Kansas	3	0	3	2	3
Louisiana-North	0	0	0	0	0
Louisiana-South	0	1	1	0	2
Michigan	0	0	0	0	0
Mississippi	0	0	0	0	1
Montana	0	1	1	0	0
Nebraska	0	0	0	0	0
Nevada	0	0	0	0	1
New Mexico-Southeast	1	0	1	0	0
New York	0	0	0	0	0
North Dakota	2	0	2	1	0
Ohio	1	0	1	1	0
Oklahoma	5	0	5	6	2
Pennsylvania	0	0	0	0	1
Tennessee - West	0	0	0	0	0
Texas-East	0	0	0	0	0
Texas-West	8	1	9	6	6
Texas Gulf Coast	3	3	6	4	10
Texas Panhandle	0	0	0	1	2
Utah	1	0	1	1	0
West Virginia	1	0	1	1	1
Wyoming	1	1	2	2	9
U.S. Total	**39**	**11**	**50**	**42**	**54**

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devon

Kansas Legislature
Senate Utilities Committee
Testimony of Ceci Leonard
January 27, 2003

My name is Ceci Leonard. I am the Operations Manager for Devon Energy Corporation's Central Division. I have a Bachelor of Science degree from Texas A&M University and have worked in the oil and gas industry for 25 years. My experience spans producing areas in the Gulf of Mexico, the Permian Basin and the Rocky Mountains with Amoco, Apache and Santa Fe Snyder. I joined Devon two years ago as the country manager of their operation in Brazil and was recently moved to OKC. Devon is one of the top five US-based independent oil and gas producers and is the leader in coalbed methane production.

Devon has leased over 300,000 acres in southeastern Kansas with plans to develop a large coalbed methane gas project. Devon opened a production office in Chanute and is committed to fully evaluating this leasehold. To date, Devon has drilled 190 wells and hopes to drill another 100 before the end of the year. We have built over 100 miles of pipeline already and anticipate building more. In addition to those people Devon employs directly, we employ hundreds of contractors.

To give you an idea of the impact that CBM gas development can have on the State of Kansas, let me quote some statistics from New Mexico. Devon alone invested $43MM in capital in 2002 and paid $45MM in taxes in 2001. In Wyoming, Devon's tax payments for 2001 were $24MM.

Coalbed methane gas is produced during the conversion of plant material to coal. Until recently, it was not economic to produce coalbed methane gas. Methane gas was considered a useless by-product and was vented to the atmosphere by coal companies during the mining process. Now, however, natural gas producers such as Devon are economically developing this resource.

Coalbed methane reservoirs are different from traditional gas reservoirs. The methane gas in coalbeds is held inside the coal by water pressure. It is necessary to release the water pressure in order to produce the gas. This means that at the beginning stage of development (the "dewatering" stage) the well produces water and a small amount of methane gas. Over time the amount of water decreases and, hopefully, the amount of gas increases.

I say hopefully, because we do not know, initially, how much gas the coalbed wells will produce. In order to assess how much gas can be expected, representative wells must be produced and evaluated. Devon is currently in this "evaluation" phase on our Kansas project, and we are encouraged by the results to date.

The water that is produced from the coals is disposed by re-injection into the Arbuckle formation at approximately 1500'. This injection is governed by rules promulgated by the KCC. Devon has an exemplary track record in the area of environmental responsibility. The company's respect for the environment was recently recognized by the Wyoming Game and Fish Department when this agency awarded Devon the first Coalbed Methane Natural Resource Stewardship Award.

Devon has worked with Kansas state agencies on a number of regulatory matters, including permits to drill, commingle multiple coal intervals, dispose of produced water, and install and operate facilities. However, there is one issue that Devon and many industry peers find detrimental to aggressive investment in the State of Kansas – the abandoned well problem.

There are a significant number of abandoned or "orphaned" wells in Kansas. These are wells drilled by prior operators and not properly plugged and abandoned. In some cases the wells are simply abandoned by the prior operator with equipment and surface facilities left intact. Quite often, the original operator of the "orphaned" well is unknown or has gone out of business. The current practice by the KCC is to hold the present owner of an oil and gas lease responsible for the proper abandonment of the "orphaned" wells. Although Devon believes in being a good corporate citizen, we feel that it is unfair for current operators to "shoulder" all of the responsibility for solving a problem we did not create. Devon and other operators are working with the KCC to develop a more equitable and progressive policy to address this problem. We respectfully request that the legislature support those efforts to find a reasonable alternative that will not be a disincentive to attracting new business to this state.

KANSAS GAS SERVICE
A DIVISION OF ONEOK

Before the Senate Utilities Committee
Testimony of Steve Johnson
Manager, Governmental Affairs
Kansas Gas Service
January 27, 2003

Chairman Clark and Members of the Committee,

Thank you for the opportunity to address your committee this morning about the State of the Natural Gas Industry in Kansas from the Kansas Gas Service and ONEOK point of view.

As you are aware, Kansas Gas Service (KGS) is the largest natural gas distribution company in the state, with our division headquarters in Overland Park. We are a division of ONEOK, Inc. a diversified energy company based in Tulsa, Oklahoma. ONEOK has business segments in production (20% of operating income), gathering and processing (15%), transportation and storage (20%), marketing and trading (24%), and distribution of natural gas (18%) throughout the Midwest. A sister company to KGS is Oklahoma Natural Gas serving almost 800,000 customers in Oklahoma, and the newest addition to our family is Texas Gas Service which serves over 535,000 customers in Texas and was formerly owned by Southern Union. ONEOK also generates electricity at a 300 MW plant near Edmond, Oklahoma, using gas as a fuel, located over a large porosity storage field north of Oklahoma City. ONEOK had revenues over $6.8 Billion and operating income of $295 Million in 2001 and is traded on the New York Stock Exchange under the symbol, OKE.

Kansas Gas Service serves over 635,000 customers at retail and has 6,000 transportation customers situated in the eastern two-thirds of Kansas. Wichita, Kansas City, Overland Park, Topeka, Pittsburg, Salina, Hutchinson, Manhattan and Emporia are some of the largest cities served of the 341 communities served in the state. We have 1,157 employees working for KGS in Kansas with gross wages of almost $65,000,000. KGS purchases most of its gas supply from several companies in Kansas, such as Amoco, Anadarko, Oxy, Pioneer and many smaller producers in south-central and southwest Kansas. We also purchase system supply through such marketers such as Tenaska, Williams Marketing and Trading and ONEOK Marketing and Trading. The majority of the gas (67%) is purchased on long term contract, another block is purchased on short term (16%) and the balance is purchased "seasonally" (about 17%). In 2001, we purchased 94.5 Bcf of gas for our customers and transported 42.4 Bcf with most of the gas transported by Williams. Additionally, we pay property taxes in the state of $9.6 Million, local taxes of $15.5 Million, income taxes of $4.8 Million and local franchise

taxes of $23.4 Million. During the past year we have invested $63,500,000 in new or upgraded facilities for Kansas Gas operations which includes capital expenditures on pipeline and facilities related to our intrastate pipeline which used to be called the Mid Continent Market Center.

The Kansas Corporation Commission (KCC) regulates Kansas Gas Service with much of our business under the scrutiny of this agency. At this time we do not have many cases before the Commission but we have filed a letter of intent to file for an increase in rates before the end of January, 2003. We recently got approval to continue our hedge program to reduce the volatility of gas price swings, we renewed the Weatherproof Bill option for our customers and completed the distribution of Ad Valorem refunds to the most needy of our customer base in December 2002. Additionally, we were approved to move the majority of the Mid Continent Market Center assets onto the books of KGS and the remaining assets folded into ONEOK. Essentially, the pipeline, measurement and regulation equipment and several compressor stations became a part of KGS and the Yaggy and Brehm storage facilities remained with one of the ONEOK subsidiaries.

Throughout 2002 Kansas Gas Service continued to serve our customers with distinction. We work very closely with Westar Energy in answering customer calls, billing, meter reading and service calls through shared service agreements. Our phone centers in Topeka and Wichita continue to experience high levels of calls, almost 3.7 million last year, continuing to serve our customer with higher levels of technology, answering 80% of all calls within 20 seconds in Topeka. Our laptop PC's installed in all service trucks allow us to work more efficiently and we are able to more responsive to the customers schedule. We have installed over 150,000 automated meter reading devices in our Wyandotte and Johnson County service territories for more accurate and on time meter reads and we continually train our employees with their safety in mind and within prescribed operator standards as established by the KCC and DOT. We have also been heavily involved with the many cities and counties we serve to standardize our maps using the GPS system to make our mapping very accurate and accessible.

On a very positive and upbeat note we are now experiencing a very mild winter with gas costs across the nation reaching higher levels we are able to protect our customers with our hedge program to keep our cost of gas at $3.25 per Mcf versus the spot price of gas over $6.40 this week. December 2002 was the third warmest December on record and January seems to be very close to normal. This and lower gas costs have allowed our customers the opportunity to "catch up" on their gas bills if needed and or spend their income in other ways. Our customers are paying $1.63 per Mcf less than last January, which is a 28% reduction in the cost of gas at the burner tip. The margin we charge of $1.45 per Mcf and the customer charge of $6.20 per month has not changed since 1996.

Please refer to the two handouts for more detailed information. Thank you again for this opportunity and I will be available for questions at your convenience.

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Recent Events:

KGS' Hedge program to save customers at least $50 Million this winter,

ONEOK's agreement with Westar Energy to purchase $250 Million of its shares from Westar and offers concurrent securities offerings to finance this transaction.

ONEOK announces an increase in its dividend to 17 cents from 15.5 cents per share with a current share price of $17.05.

Ad Valorem refund credits of $495 per eligible KGS customer provided on December 2002 bills. Over the last 2 years 56,000 customers have received more than $30 Million.

ONEOK announced divestitures of $300 Million in production assets and $92 Million of gathering and processing assets.

ONEOK purchases gas properties in Texas from Southern Union for $420 Million which includes 535,000 distribution customers, 125 miles of transmission lines and interests in other companies, for instance 4,200 propane customers.

ONEOK is listed as a Fortune 500 Energy company instead of a Utility and is ranked 12th among Energy companies.

ONEOK is now the 5th largest gas distribution company in the nation with 1.96 million customers, ranked by number of customers, behind Southern California Gas (5 million), Pacific Gas & Electric (3.8 million), Nicor (2.007 million) and Keyspan Energy (2.0 million).

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TESTIMONY OF
JAMES W. BARTLING, MANAGER PUBLIC AFFAIRS
ATMOS ENERGY
BEFORE THE
SENATE COMMITTEE ON UTILITIES
JANUARY 27, 2003

Chairman Clark and Members of the Senate Committee on Utilities:

I appreciate the opportunity to speak before the Senate Committee on Utilities to provide the Committee with information about Atmos Energy.

My name is Jim Bartling and I am Manager of Public Affairs for the Kansas portion of the Colorado-Kansas division of Atmos Energy Corporation. Prior to October 1, 2002, we were known in Kansas as Greeley Gas Company. Greeley was one of five business units of Atmos Energy Corporation that jointly served approximately 1.4 million customers. With the acquisition of Mississippi Valley Gas at the end of 2002 Atmos Energy now serves approximately 1.7 million customers in 12 states.

I have provided copies of the 2002 Summary Annual Report for Atmos Energy Corporation for you to review at your leisure. You may be interested in turning to page 8 to see a picture taken of a Hazelton family farm in Chase County, Kansas.

Atmos Energy serves approximately 120,000 customers in Kansas, spread out in 107 communities within 39 counties. Our Kansas customers include almost 110,000 residential customers, a little over 9,000 commercial customers, and over 400 irrigation customers. We are a local distribution company with operations regulated by the Kansas Corporation Commission (KCC).

In 2002 Atmos Energy received its final ad valorem tax refund from Williams Pipeline and subsequently completed its refund program to its low income customers that made too much money to qualify for the Low Income Energy Assistance Program (LIEAP). In 2001 we refunded the entire $2.1 million that we had received to approximately 6,100 customers that the Red Cross had approved as meeting the income guidelines. During the approval period in 2001 approximately 2,500 more customers

were originally approved than there was money available. With the receipt of approximately $3.0 million in 2002 from Williams Pipeline we were able to complete the refund program to all those customers that the Red Cross had qualified, and set up the remaining $2.0 million to be refunded to our firm customers through our purchased gas adjustment. In total, we refunded approximately $3.0 million to 8,600 customers at the rate of $350.00 per customer.

Also, since I last spoke to this committee, Atmos has constructed over 80 miles of distribution main to serve agricultural and field compressors in the Grant County area. We connected 30 field compressors, 68 irrigation customers, and 39 domestic customers that were formerly served off of gathering systems. We are currently in discussion with Pioneer to expand the project and move an area of Stevens County citizens (25 field compressors, 36 irrigation customers, and 11 domestic customers) from field gathering systems to distribution mains with "dry," processed gas, rather than have them to rely on field pressure gas from the gathering systems to maintain service, assuming that a source of processed gas can be made available for this area.

Following the winter of 2000 – 2001, Atmos Energy filed with the KCC to initiate a Gas Hedge Program to effectively hedge the price of gas on 65% of the non-storage flowing volumes for December 2001 and January 2002. You probably recall that natural gas prices remained low during that winter and we were able to purchase all of our gas below the strike prices of those hedge contracts.

Atmos Energy filed a similar Gas Hedge Program for the winter of 2002 – 2003. The KCC approved Atmos' plan to again hedge up to 65% of the non-storage flowing volumes for December, January, and February, as well as some coverage for November 2002 and March 2003. For this winter we have roughly 46% of our volume hedged at an average price of $4.00 per thousand cubic feet (Mcf).

Atmos Energy worked with the Commission staff, CURB, other electric and gas companies, and other interested parties to arrive at a new Cold Weather Rule (CWR) that went into effect on November 1, 2002. While there was very little substantive change over the prior CWR there were sufficient clarifications that made the modification task worthwhile.

Atmos Energy recently filed a request with the KCC to initiate a Weather Normalization Adjustment (WNA) to our existing tariffs. The purpose of the WNA is to remove some of the volatility in the customer's bill and Company's earnings created by weather that is warmer or colder than historical normal. Atmos Energy currently has WNA's in place in the states of Georgia, Kentucky, Mississippi, and Tennessee. We will be working with the KCC Staff and hope to have approval of the WNA n time to implement it prior to next winter's heating season.

In 2003 Atmos Energy expects to file at the KCC for a general rate increase. Of the two prior gas companies that make up the Kansas portion of Atmos Energy, neither Greeley Gas Company nor United Cities Gas has filed for a rate increase since 1996.

This concludes my prepared testimony, and I will be happy to answer questions at the appropriate time.

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Ronald R. Hein
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Senate Utilities Committee
Testimony re: Natural Gas Industry
Presented by Ronald R. Hein
on behalf of
Pioneer Natural Resources U.S.A., Inc.
January 27, 2003

Mr. Chairman, Members of the Committee:

I am Ron Hein, legislative counsel for Pioneer Natural Resources USA, Inc., 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 Natural Resources USA, Inc. resulted from the merger of MESA and Parker and Parsley in 1997. Pioneer's core properties stand out as some of the best in the industry. Pioneer's long-lived assets provide a stable production base. It has an extensive inventory of development drilling locations and boasts an active rig program in the U.S., Argentina and Canada

Pioneer's production is among the industry's most stable. Contributing to this stability are Pioneer's three domestic core properties - the Hugoton and West Panhandle gas fields and the Spraberry oil and natural gas field.

Pioneer production in Kansas is based in the Hugoton & Panoma Gas Fields located in southwest Kansas. The Hugoton is one of the largest producing gas fields in the continental United States. Pioneer's Hugoton properties represent approximately 13% of the proved reserves in the field and are located on approximately 257,000 gross acres covering approximately 400 square miles.

Pioneer has working interests in approximately 1200 wells in the Hugoton field, 985 of which it operates. Pioneer also has royalty interests in approximately 500 wells. Pioneer owns substantially all of the gathering and processing facilities, including the Satanta plant which services the company's production from the Hugoton.

Kansas remains one of the highest taxing states in the country on oil and gas production with the combination of its severance tax and its *ad valorem* (property) tax. This is especially true given the declining nature and relative size of the production in Kansas.

Although I did not have an opportunity to verify these figures based upon the most recent data, the last information I had indicated that Pioneer's production in Kansas was taxed at an overall rate of approximately 10-12% when including the 4.3% severance tax (which is a gross receipts tax) and the *ad valorem* taxes, both state and local.

To give you an indication of how this affects capital expenditures and exploration in Kansas, Oklahoma imposes a 7% severance tax, but exempts production from *ad valorem* tax. As the Hugoton field continues to decline, this high rate of tax will continue to cause the premature closing and ultimate plugging of productive wells at a time when our society will need additional fossil fuels production. This is especially unfortunate given the fact that the United States continues to be reliant on foreign oil and gas.

It is important for our state policy makers to recognize the tremendous contribution that the Kansas oil and gas industry has made to our state. It is a simple economic development fact that states should always preserve and promote the industries they have before trying to attract new industries into the state.

Without getting into details, new technology and exploration and production techniques offer hope that additional production can be achieved from Kansas reserves. At least the state should make the effort to stop the rate of decline in the Hugoton and other fields. Unfortunately, given the state of Kansas fiscal picture, now is not the time to discuss long range solutions to the natural gas industry in Kansas that involve tax incentives.

However, I do think it is the time for the legislature to begin reviewing the future of southwest Kansas. As natural gas production declines and as gas pressures decline, southwest Kansas will see potential decrease in farming production as irrigation is impacted. The area will be impacted heavily by the loss of natural gas and the loss of irrigation, possibly to the point that the economy will suffer irretrievably, unless steps are taken to plan ahead for that eventuality.

This committee has introduced and approved legislation in the past which indicates an understanding of the need to help promote the Kansas oil and gas industry, and an understanding that such promotion can also create economic development and, commensurately, additional tax revenues for the state and local government. This committee reviewing the state of the natural gas industry in these hearings today is another indication of your willingness to take action to insure the long-range success of our state in general and of southwest Kansas specifically.

Thank you very much for permitting me to testify, and I will be happy to yield to questions.