

Carl Dean Holmes

MINUTES OF THE HOUSE COMMITTEE ON UTILITIES.

The meeting was called to order by Chairman Carl D. Holmes at 9:07 a.m. on February 10, 2004 in Room 231-N of the Capitol.

All members were present except: Representative Eric Carter
Representative William Kassebaum
Representative Judy Morrison

Committee staff present: Mary Galligan, Legislative Research
Dennis Hodgins, Legislative Research
Mary Torrence, Revisor of Statutes
Jo Cook, Administrative Assistant

Conferees appearing before the committee: Rex Buchanan, State Energy Resources Coordination Council
John McCannon, Kansas Corporation Commission
Don Schnacke, Kansas Independent Oil & Gas Association

Others attending: See Attached List

HB 2652 - Unitization of more than one oil or gas reservoir if constitutes a single pressure system

Chairman Holmes opened the hearing on **HB 2652**.

Rex Buchanan, appearing on behalf of the State Energy Resources Coordination Council (SERCC), appeared in support of **HB 2652** (Attachment 1). Mr. Buchanan explained that this bill was a result of needs identified by the SERCC and that they had requested the bill be introduced. He stated that improving the efficiency of energy production in Kansas benefits all of the citizens of the state.

John McCannon, Assistant General Counsel for the Kansas Corporation Commission, testified in support of **HB 2652** (Attachment 2). Mr. McCannon stated that not allowing unitization would cause premature abandonment of some wells and the waste of natural resources.

Don Schnacke, representing the Kansas Independent Oil and Gas Association, provided testimony as a proponent of **HB 2652** (Attachment 3). Mr. Schnacke told the committee that by not changing the definition of 'pool,' there are some reservoirs which may not be unitized and would not be subject to secondary recovery techniques, and therefore, would not be cost effective and lose revenue.

Dick Brewster, BP Corporation, submitted written testimony in support of **HB 2652** (Attachment 4).

Mr. Buchanan, Mr. McCannon, and Mr. Schnacke responded to questions from the committee.

Chairman Holmes announced that the bill would be worked on Thursday and closed the hearing.

The meeting adjourned at 9:47 a.m.

The next meeting will be Wednesday, February 11, 2004.



Lee Allison, Chair
KS Geological Survey

Brian Moline, Vice Chair
KS Corp. Commission

David Dayvault
Grant Thornton LLP

Spencer Depew
Depew & Gillen

Lee Gerhard
Gerhard and Assoc.

Colin Hansen
KS Municipal Utilities

Barry Hart
KS Electric Coop., Inc.

Galen Menard
National Coop.
Refinery Assn.

David Phelps
Westar Energy

J. Alex Silver
Black & Veatch

David Springe
Citizens' Utility
Ratepayer Board

Michael Volker
Midwest Energy, Inc.

Stan Zaremba
Zaroco Inc.

Liz Brosius, Chief of Staff
KS Geological Survey

Correspondence to
Kansas Geological Survey
The University of Kansas
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TESTIMONY
PRESENTED TO THE
HOUSE COMMITTEE ON UTILITIES

Hearing on House Bill 2652

17 February 2004

Mr. Chairman and Members of the Committee:

My name is Rex Buchanan. I am the Associate Director for Public Outreach for the Kansas Geological Survey, based at the University of Kansas. I am here today representing the State Energy Resources Coordination Council, which is chaired by Dr. Lee Allison, director of the Kansas Geological Survey. The Council supports House Bill 2652. The Council has recognized the need for this bill and believes that it will be beneficial to improved oil recovery in the state. Improving the efficiency of energy production in Kansas benefits all the citizens of the state. The Council urges you to pass House Bill 2652.

Thank you.

HOUSE UTILITIES

DATE: 2-10-04

ATTACHMENT 1

KANSAS

CORPORATION COMMISSION

KATHLEEN SEBELIUS, GOVERNOR
BRIAN J. MOLINE, CHAIR
JOHN WINE, COMMISSIONER
ROBERT E. KREHBIEL, COMMISSIONER

Testimony of John McCannon
Assistant General Counsel
State Corporation Commission of Kansas
Conservation Division
before the
House Committee on Utilities
February 10, 2004

Good morning, I am appearing here today in support of House Bill 2652 and the amendments to K.S.A. 55-1302 that the bill makes.

The proposed amendment to K.S.A. 55-1302(b), the definition of "Pool", clarifies an issue that was decided by the Commission in April 2002. The Commission's decision was sustained by the District Court and is currently before the Court of Appeals.

In the case, the Commission has interpreted the current definition of "pool" to allow the unitization of two geologic formations that had been legally commingled in wellbores within the proposed unit area. The commingling caused the two formations to be interconnected and to act as a single pressure system. The amendments proposed in HB 2652 supports the Commission's interpretation of "pool" and would confirm the Commission's authority to unitize two or more formations that have been artificially, but legally interconnected by commingling and now act as a single pressure system.

A large number of wells in the State have two or more formations open in the wellbore. Not allowing unitization, especially for enhanced recovery operations, of these wells would cause premature abandonment of the wells and waste of natural resources.

The amendment of K.S.A. 55-1302(b) as proposed in HB 2652 was a recommendation that came out of the State Energy Resources Coordination Council (SERCC). Commission Staff participates in the SERCC and supported this recommendation.

Commission Staff urges the passage of HB 2652.

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

HOUSE UTILITIES

Conservation Division, Finney State Office Building, 130 S. Market, Room 1

Voice 316.337.6200 Fax 316.337.6211 www.kcc.s

DATE: 2-10-04
ATTACHMENT 2



KANSAS INDEPENDENT OIL & GAS ASSOCIATION

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*EXECUTIVE COMMITTEE

2-10-04

HOUSE BILL 2652

The Kansas Independent Oil and Gas Association (KIOGA) supports the passage of House Bill 2652. This bill simply amends the definition of the term "Pool" in the Kansas unitization statutes to allow the unitization of one or more oil or gas reservoirs which are in communication with each other.

It is a necessary bill. There are indeed some instances in Kansas when two or more oil and gas reservoirs have become in pressure communication with each other through natural or other means. However, the current definition of the term "Pool" in the Kansas unitization statutes could be read so as to eliminate the statutory authority of an operator to unitize these types of reservoirs to obtain secondary recovery from the same.

Importantly, nothing in House Bill 2652 adversely affects the Kansas Corporation Commission' ability to prevent waste and to protect the correlative rights of all persons who would be affected by unitization of multiple reservoirs which are in communication so as to constitute a single pressure system. On the contrary, if the definition of "pool" is not amended, there may be some reservoirs which could not be unitized and subjected to secondary recovery techniques. This would deprive the operator and his or her royalty interest owners of some of the recoverable oil or gas from producing zones under the pertinent leases, and also deprive the State of Kansas the economic benefit of these lost reserves. House Bill 2652 prevents this potential waste.

Donald P. Schwartz
For KIOGA

HOUSE UTILITIES

DATE: 2-10-04

ATTACHMENT 3

bp



E.R. (Dick) Brewster

Director, Government Affairs
Oklahoma City

BP Corporation
4334 NW Expressway
Suite 275
Oklahoma City, OK 73116
United States

February 9, 2004

The Honorable Carl Holmes, Chairman
Kansas House Utilities Committee
State Capitol Building
Topeka, Kansas

Re: House Bill No. 2652

Direct: 405 848 0657
Fax: 405 848 0693
Cell: 405 210 8645
brewster@bp.com

Dear Mr. Chairman;

BP America supports passage of House Bill No. 2652. It appears all the changes to existing law are in the nature of "clean-up" amendments, except the change in the definition of "pool," which begin on line 20.

We support this change in the definition of "pool," because it clarifies that a pool may contain more than one reservoir, as long as they are in communication.

This change will allow pooling, or the unitization of areas the qualifications of which may be questionable under current law. As you well know, pooling will become more and more important as the industry works to recover oil and gas from mature areas in the state, and to slow decline curves in these areas.

I regret I am unable to attend the hearing on this bill, but appreciate the opportunity to offer you and the Committee our thoughts.

Thank you for your attention.

Sincerely,

A handwritten signature in black ink, appearing to read "Dick Brewster", is written over a faint, larger version of the same signature.

HOUSE UTILITIES

DATE: 2-10-04

ATTACHMENT 4