

MINUTES OF THE SENATE UTILITIES COMMITTEE

The meeting was called to order by Chairman Stan Clark at 9:30 a.m. on March 10, 2004 in Room 526-S of the Capitol.

All members were present except:

Senator Mark Taddiken- excused

Committee staff present:

Bruce Kinzie, Revisor of Statutes
Raney Gilliland, Legislative Research
Emalene Correll, Legislative Research
Ann McMorris, Secretary

Conferees appearing before the committee:

Ed Cross, KIOGA
Lee Allision, Kansas Geological Survey
W. C. Long, Jr., Wellwin Drilling Corporation, Wellington, KS

Others attending:

See Attached List.

Chair opened hearing on

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

Proponents-

Lee Allison, Kansas Geological Survey, reported this bill originated at the recommendation of the State Energy Council and amends the statute on unitization of oil and gas fields to allow multiple reservoirs that are in communication with each other to constitute a single reservoir system for unitization purposes. **HB 2652** would allow more efficient and effective production of the state's oil and gas reservoirs. (Attachment 1)

Ed Cross, Executive Vice President, Kansas Independent Oil and Gas Association, urged the passage of **HB 2652**. (Attachment 2)

W. C. Long, Jr., WellWin Drilling Corporation, Wellington, KS,, urged amendment of **HB 2652** by adding **HB 2907**- providing for unit operations of oil and gas pools upon written agreement of 90% of working interest owners and royalty owners. (Attachment 3)

Written testimony supporting **SB 2652** was sent by John McCannon, Asst. General Counsel, KCC. (Attachment 4)

Considerable discussion by the committee and conferees on the proposed amendment, costs for filing application with KCC to unitize, and language required to cover any new procedure.

The next meeting of the Senate Utilities Committee is scheduled for March 11, 2004.

Adjournment.

Respectfully submitted,

Ann McMorris, Secretary
Attachments - 4

TESTIMONY

In support of HB 2652

Presented to the
SENATE COMMITTEE ON UTILITIES

March 10, 2004

M. Lee Allison, PhD

State Geologist and Director
Kansas Geological Survey
University of Kansas
Lawrence, Kansas

Chair, State Energy Resources Coordination Council

Mr. Chairman, members of the Committee, my name is Lee Allison. I am the State Geologist of Kansas and Director of the Kansas Geological Survey which is based at the University of Kansas. I also serve as Chair of the State Energy Resources Coordination Council (SERCC). Thank you for allowing me to speak in support of House Bill 2652.

The SERCC is charged by Executive Order to prepare a comprehensive state energy plan and update it annually. I previously reported on this year's plan to you and HB2652 is the outcome of one of the legislative recommendations we made.

HB2652 amends the statute on unitization of oil and gas fields to allow multiple reservoirs that are in communication with each other to constitute a single reservoir system for unitization purposes. The existing law allows only single and separate reservoirs to be unitized. Unitization, as you may recall, is defined as joint operations to maximize recovery among separate operators within a common reservoir.

SERCC endorses this legislation and I urge you to pass it out favorably. The bill will allow more efficient and effective production of the state's oil and gas reservoirs. There is no fiscal cost to the state from this bill. In fact, by allowing industry operators greater flexibility to produce from natural systems, we expect oil and gas production to be improved, which will benefit all Kansans and the economy.

Thank you for your attention. I would be pleased to take any questions.

Senate Utilities Committee
March 10, 2004
Attachment 1-1

**Kansas Independent Oil & Gas Association
800 S.W. Jackson Street, Suite 1400
Topeka, Kansas 66612
www.kioga.org**

Testimony to the Senate Utilities Committee
House Bill 2652 – An Act concerning oil and gas; concerning unitization
Edward P. Cross, Executive Vice President
Kansas Independent Oil & Gas Association
March 10, 2004

Good morning Chairman Clark and members of the committee. I am Edward Cross, Executive Vice President of the Kansas Independent Oil & Gas Association (KIOGA) and I am here today to express our support for the passage of HB 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 HB 2652 adversely affects the Kansas Corporation Commission's 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 and gas from producing zones under the pertinent leases, and also deprive the State of Kansas the economic benefit of those lost reserves. HB 2652 prevents this potential waste.

Thank you for your time and consideration. I would be happy to answer any questions.

Senate Utilities Committee
March 10, 2004
Attachment 2-1



WellWin Drilling Corporation

P.O. Box 529
Wellington, KS 67152
620-326-7471

Senate Utilities Committee
Testimony of
W. C. Long, Jr.
March 10, 2004

Mr. Chairman and Members of the Committee:

My name is W. C. Long and I am a manager and producer of oil leases in Barber County, KS. I am supporting HB 2652 but would like to add HB 2907, currently in the House Utilities Committee, as an amendment to this bill.

House Bill 2907, as introduced by the House Appropriations Committee, would alleviate a situation where one person, one share or even a 1/32nd interest in an oil lease can hold the vast majority of interest owners and royalty owners hostage. HB 2907 would allow, with 90 percent of the royalty owners and working interest owners agreeing, a project to move forward without a potentially costly application, hearing and determination by the KCC.

For the past year, I have been trying to unitize three leases in Barber County, KS. The total amount acreage is 400 acres. The number of royalty ownership positions amounts to three owners. The number of working interest owners in these three leases amounts to twenty-eight. I have affirmation and agreements signed from all but one of the working interest owners and all of the royalty interest owners to unitize these three leases.

To unitize oil and gas leases in Kansas you have to have by statute / regulation 63% of the owners agreeing to the unitization project. This allows you to make application to KCC to unitize the project for pooling. However, if 100% of the working interest owners and royalty interest owners agree to the contract of unitization, an application does not have to go before the KCC.

When we talk about percentages of ownership we talk in barrels of total production and how much each ownership has of the total produced primary oil in the acreage to be unitized.

Since you have different owners with different levels of ownership, one 1/32nd owner of one of the leases would have approximately 1 ½ % of ownership to vote. When one owner with 1/32nd interest in 1/3 of the project is in disagreement about the unitization contract, this 1 ½ % ownership of the total barrels produced in primary production can prevent 98 ½ % of the ownership in not having to go to the KCC for licensing permits.

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Attachment 3-1

In understanding the formula, if you had 1,000 barrels of oil produced from the three leases in primary production, and had ten owners each would have 10% of the eligible votes. When you take 840,000 barrels of oil as the primary production and you have a owner with only 1 ½% of that total amount, you have an owner who can block basically 832,000 barrels of votes to require an application to the KCC. This seems unreal that 98 ½ % of ownership can be controlled by 1 ½ % of ownership.

Mr. Chairman, thank you for the opportunity to testify on HB 2652.

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
Senate Utilities Committee
March 10, 2004

The Staff of the Kansas Corporation Commission wishes to express its support of House Bill 2652 as amended, 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 as amended, 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 as amended, was a recommendation that came out of the State Energy Resources Coordination Council (SERCC). Commission Staff participates in the SERCC and supported this recommendation.

The amendment to HB 2652 made by the House Committee on Utilities addressed its concern that the bill not affect the pending appeal of the Commission's April 2002 interpretation of "pool" as used in K.S.A. 55-1302(b). Commission Staff acknowledges the need for such an amendment.

Commission Staff urges the passage of HB 2652 as amended.