Approved: 3-16-04
Date

MINUTES OF THE SENATE UTILITIES COMMITTEE

The meeting was called to order by Chairman Stan Clark at 9:30 a.m. on March 11, 2004 in Room 526-S of the Capitol.

All members were present.

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

Conferees appearing before the committee:
Erick Nordling, Exec. Secretary, SWKROA
John Crump, Pres. Board of Directors SWKROA
Jim & Claudia Glass, Hutchinson
Joe Larrabee, Liberal
Ken Peterson, Kansas Petroleum Council
Alan DeGood, President, KIOGA
Ed Cross, KIOGA
David Bleakley, Eastern Kansas Oil & Gas Association

Others attending:
See Attached List.

Chairman Clark opened the hearing on
SB 401 - Oil and gas, information required with payment, penalties

Proponents:

Erick Nordling, executive secretary, Southwest Kansas Royalty Owners Association, enumerated various differences in the current legislation that need to be corrected. (Attachment 1)

John Crump, president, Board of Directors, Southwest Kansas Royalty Owners Association, urged passage of SB 401 to insure that royalty owners are correctly paid for gas taken from the Hugoton field. (Attachment 2)

Jim Glass, Hutchinson, presented the problems they had encountered in owning two wells which each have two operators whose reports differ in production. (Attachment 3)

Bob Larrabee, Liberal, reported on the findings when his father, Robert Larrabee, compared his royalty statements with the MCF reported to the county by the gas company. (Attachment 4)

Ken Peterson, Kansas Petroleum Council, reported after meeting with interested parties to seek an agreement, a compromise bill in the form of Substitute to **SB 401** was prepared and he presented the revised language to the Senate Utilities Committee for their consideration. (Attachment 5)

Opponents:

Alan DeGood, president of Kansas Independent Oil and Gas Association (KIOGA), urged the committee to not pass **SB 401** and support the current legislation as agreed upon by all parties in 1997. (Attachment 6)

David Bleakley, legislative chairman, Eastern Kansas Oil and Gas Association (EKOGA) presented several questions the committee should consider in determining the merits of **SB 401** and feels that the current statutes are very adequate to serve all the interest owners need for information provided with the sale of oil or gas and options to appeal. (Attachment 7)

MINUTES OF THE SENATE UTILITIES COMMITTEE at 9:30 a.m. on March 11, 2004 in Room 526-S of the Capitol.

Ed Cross, executive vice president, Kansas Independent Oil and Gas Association (KIOGA), presented several reasons why **SB 401** would cause much hardship for the independent oil and gas industry and urged the committee to not pass this legislation and support the current legislation as agreed upon by all parties in 1997. (Attachment 8)

Chairman questioned when a comparison of the information submitted to Kansas Geological Survey and Kansas Corporation Commission on this issue would be available.

Due to shortness of time, no further discussion was held.

The next meeting of the Senate Utilities Committee is scheduled for March 15.

Adjournment.

Respectfully submitted,

Ann McMorris, Secretary

Attachments - 8

SENATE UTILITIES COMMITTEE GUEST LIST

DATE: **MARCH 11, 2004**

Name	Representing
Greg Stucky	Southwest Kansas Royalty Owners Association
JOHN CRUMP	"
JOE LARRABEE	"
Tom Bruno	EKOGA
David Bleakley	EKOGA
Pat Hubbell	Anadarko
ERICK NORDLING	SWKROA
Steve Johnson	Kansas Gas Service / ONEOK
Ken Peterson	KS Petroleum Council
CLAUDIA J. L. GLASS	SWKROA / Royalty owner
JAMES R. GLASS JR	" " "
STEVE ACFORD	" " "
Alan L DeGood	KIOGA
Ed Cross	KIOGA
Jack Glaves	Duke - P-H + KM
Ron Hein	Pioneer Natural Resources USA + Oxy
TOM DAY	KCC

Southwest Kansas Royalty Owners Association
209 East Sixth Street
Hugoton, Kansas 67951

Testimony before the Senate Utilities Committee
Senate Bill 401
March 11, 2004

Chairman Clark and Members of the Committee:

My name is Erick E. Nordling, of Hugoton, Kansas. I am a lawyer and a member of the Hugoton law firm of Kramer, Nordling, & Nordling, LLC. I have practiced law since 1985 and have spent my entire legal career representing landowners. I am currently serving as Executive Secretary of the Southwest Kansas Royalty Owners Association (SWKROA). That Association's mission is the protection of the rights of royalty owners in the Hugoton Gas Field in southwest Kansas. The voluntary association has over 2,600 members and on behalf of its members and Kansas royalty owners supports the passage of Senate Bill 401.

For some time, royalty owners have been frustrated because they cannot determine the basis upon which their producers calculate royalty payments by reviewing their royalty remittance statements (royalty check stubs) received from their producers.

<u>History of Royalty Owner Check-Stub Legislation in Kansas.</u>

In 1996, Senator Stephen R. Morris, Hugoton, introduced Senate Bill 472 at the request of SWKROA. Many surrounding states had already enacted royalty owner check-stub statutes to address the deregulation of the natural gas industry. The Kansas legislation met with heavy resistance by the industry.

Excerpts from SWKROA Newsletters help to reveal the problems Kansas royalty owners were facing. I will attach these excerpts to my statement. The March, 1996 Newsletter, provided a good background of the issues caused by deregulation.

Another spin-off from deregulation involved the gathering of natural gas. With deregulation at the federal level, the states were forced to develop regulations for gas gathering facilities. As indicated by the attached SWKROA newsletters for June and August in 1996, the Kansas Legislature established a Gas Gathering Task Force consisting of 14 members.

At the SWKROA 1996 Annual Meeting, Senator Morris, as part of a legislative panel, briefly discussed SB472, which he introduced during the 1996 session. He stated that most of the major producers indicated their willingness to go along with such a bill, but that, unfortunately, some of the independents thought it was too much paperwork for them and, consequently, the bill was held up for further study and was one of the issues to be discussed by the Gas Gathering Task Force.

I had the pleasure of serving royalty owner interests on the task force, having been appointed by Governor Graves. Among the sixteen specific gas gathering issues to be studied by the Task Force which greatly affected royalty owners and irrigators in the Hugoton Field were:

1. Implications of gas gathering for royalty owners;
2. Concerns about adequacy of information reported on royalty check stubs, including non-price issues;
3. Implications for irrigators in the region;
4. Implications for county property tax base and associated concerns; and
5. Implications for the Department of Revenue's collections of the severance tax.

The Kansas Legislature came to the royalty owners' aid in 1997, when it passed a bill referred to as "Truth In Royalty bill" and as "the royalty owner check-stub bill" (K.S.A. 55-1620, 55-1621 and 55-1622), requiring producers to provide royalty owners certain information in connection with their royalty payments.

Need for New Legislation: Senate Bill No.401.

The 1997 bill was presented as an industry compromise. For instance, the bill did not contain specific provisions to deal with "split stream sales" and sales to affiliated parties. However, as originally drafted, the bill did contain a provision, which allowed for the state district courts to have discretion to award costs, attorney's fees and expenses incurred by the royalty owner for enforcement of the law in the event that his or her producer would not provide the mandated information. Unfortunately, this critical provision was removed from the bill before passage, creating a law "requiring" producers to provide royalty owners information but leaving royalty owners without any means of enforcing the law.

With the passage of time, it has become apparent that major deficiencies within the current Kansas statutes continue to plague royalty owners. Our quest is simple, royalty owners just want to have adequate information to determine if they have been paid properly for production of their oil, gas and associated products.

In the latest issue of the Newsletter of the Southwest Kansas Royalty Owners Association, our general counsel has an article that discusses some of the shortcomings of the Kansas statutes. That article is attached to this statement. Senate Bill 401 is designed to cure those deficiencies. Among the major deficiencies are the following:

1. The current Kansas law does not require the producer to reveal the amount of production by well. One of the buzzwords producers have used in our meetings to discuss SB401 is "stewardship," which essentially means that a royalty owner should take efforts to be informed about their royalty payments by examining their remittance statements and utilize other sources to verify if they have been properly paid for the production of oil and gas.

Unfortunately, if adequate information is not available on the remittance stub, then it can make the task difficult, if not impossible, which leads to unnecessary expense, frustration, and a lack of trust.

One instance of frustration can be trying to track production and payments to an individual well. A royalty owner often only knows that they have a well, and that it produces gas, and maybe oil, and associated products, such as helium, propane, butane, etc. In order to try to verify production, a royalty owner tries to 'work back' their payments to each well. Some companies report royalties on a well by well basis, and as a couple of the proponents to follow me will testify, some report on a lease or unit basis.

If you try to verify production with 'third' party sources, such as the Kansas Corporation Commission (KCC), the Kansas Geological Survey (KGS), or Kansas Department of Revenue, where the reports are generally made on a well by well basis, the volumes don't necessarily match your sales volumes. Which value do you use to verify production? (This also may raise questions how severance and ad valorem tax volumes are calculated and reported.)

The volumes can be affected by where the gas is measured for royalty purposes, such as at the wellhead, or at the tailgate of a processing plant. The gas volumes can also be affected if they have been adjusted for the heating value of the gas (Btu), which may also be affected by where the Btu value is measured. Which value do you use to verify production?

For a royalty owner, verification means matching production to sales. SB 401 addresses the concerns for produced volumes and sales volumes. Ultimately, without production volumes for each, there is no way to verify if full payment has been received for the sale of such production.

2. The current Kansas law does not require the producer to disclose affiliate transactions. We believe that producers will urge your opposition of Senate Bill 401 because it requires disclosure of the price the producer receives for its production. What the producers do not tell you is that the current law already requires that disclosure. Senate Bill 401 expands that "price" disclosure requirement in one specific area. Under current law, producers have sometimes used as the disclosed "price" the price they receive from an affiliate purchaser. Senate Bill 401 requires that the producer provide the price received from a third-party sale, as opposed to the price received from an affiliate sale.

3. The current Kansas law does not address split-stream sales. As mentioned in the attached SWKROA newsletters, split-stream sales were a concern in 1996 and 1997, but one which the producers were unwilling to address as part of the compromise bill. SB401 addresses split-stream sales.

My simple definition of a split-stream sale, is when there are more than one payor for production from a particular well. Let's say each payor is entitled to a share of the production from the well and they have to pay the royalty owners for such production. Problems arise when one of the payors pays royalty based on 100% of the production from the well, and adjusts the royalty owner's decimal interest in the well based on what it actually sold. On the other hand, the other payor pays the 'full' decimal interest (based on the royalty owner's interest in the minerals), but they pay only for their production from the well. As witnesses to follow me will testify, it is a battle of wills to get adequate information to confirm that the owner has been paid properly.

The royalty owner often has no explanation on their remittance stub, or after inquiry, to reveal a split sale. By requiring each payor to provide the volume of total production from the well, and the sales volumes, the royalty owner can start to piece it together. Likewise, if the payor has to reveal when they would pay on a decimal interest which is less than their legal ownership interest, it will also help to verify the information. There are a few companies that provide this type of detail on their remittance stubs, but payors are not consistent.

The information required by SB401 would also reveal if the payors are 'out of balance' with each other by selling more than their entitlement to production. If unchecked, it might be possible for some of the production to 'fall through the cracks' and the royalty owner might not be paid on some volumes.

4. The current Kansas law has no enforcement provisions. If a producer fails to provide the required information under K.S.A. 55-1620, et seq., there is no enforcement mechanism. The 1996 and 1997 bills, as originally introduced, included provisions for enforcement, which granted the district courts of this state the power to award damages, including attorney fees. These provisions were important because attorney fees are generally not allowed, absent statutory authority. However, these provisions were deleted, leaving royalty owners with no means to enforce the disclosure requirements.

Ideally, the payors would provide the needed information on the remittance stub and there would be no need for enforcement. However, in reality, disputes do arise. As payors generally have control over production, gathering, affiliate transactions, sales, and royalty payments, they should be held to a high standard.

Meetings with Industry on proposed SB401.

We have met with producer representative several times since SB401 was introduced. The last meeting took place exactly three weeks ago, on February 19th, for a good part of a day to see whether we could agree on legislation to address the shortcomings of the current law. At the conclusion of the meeting, the producer representatives said that they would redraft Senate Bill 401 to be acceptable to them. This Monday evening we finally received their proposal. Except for an ineffectual enforcement provision, it completely failed to address any of the major shortcomings of the current law. Because our efforts to work with the producers have failed, we now have to turn to you for your assistance.

By supporting this legislation, we do not want to suggest that the producers are engaged in any Enron-like shenanigans in connection with their royalty payments. We do believe that royalty owners should be entitled to a full explanation from their producers about how they calculate their royalty payments. Senate Bill 401 requires the producers to give royalty owners that information.

We urge your adoption of Senate Bill No. 401.

Respectfully submitted,

/s/ Erick E. Nordling

Erick E. Nordling
Executive Secretary, SWKROA

Attachments

SOUTHWEST KANSAS ROYALTY OWNERS ASSOCIATION
Excerpts from SWKROA Newsletters
(Emphasis added)

MARCH,1996:

Regulatory Changes Influence Gathering Charges.

The natural gas industry has undergone a fundamental restructuring in the past decade. Until the mid-1980s, the normal arrangement under which gas was marketed in the Hugoton and Panoma/Council Grove Fields in Kansas was through a federally-regulated sale occurring at or near the wellhead by the producer to the pipeline company. The pipeline company would then transport the gas and re-sell it to a local distribution company near the point of ultimate consumption.

With the advent of a series of regulations issued by the Federal Energy Regulatory Commission, together with the passage by Congress of an act which decontrolled the federal wellhead pricing, a multitude of different arrangements for the sale of gas have now developed.

In some instances, the producer no longer sells the gas at the wellhead to the pipeline company. Rather, it often makes its first sale of the produced gas near or at the point of consumption, using the same pipeline company (which had previously purchased the gas) to transport the gas. In such arrangement, the producer pays the pipeline company for its services in connection with the transportation of the gas.

In other arrangements, the producer, (or a subsidiary, or sister company) may gather the gas from various wells and then place that gas into the pipeline system, at which point the gas is sold - either to the pipeline company (or a subsidiary, or a sister company), the distribution company, or the ultimate consumer of the gas. Another example would be when the gathering system is owned by a party unaffiliated to the producer, and the producer is charged for gathering costs. There are numerous other possible arrangements for the sale of gas.

How Do These Arrangements Affect the Royalty Owner?

In many instances, unlike the past, there is frequently no specific gas purchase contract under which gas from a particular location is sold. The producer, rather, commits to deliver a certain quantity of gas to a specific location, sometimes far away from producing gas fields, to the buyer of that gas. Unlike in the past, it is often impossible to trace a molecule of gas produced from a particular well to the fulfillment of any particular gas purchase contract.

Formerly, producers generally paid royalty owners one-eighth of the market value or proceeds they received from the sale of gas under a contract to which the royalty owners' lands were committed. Because of the new contractual arrangements, no specific gas purchase contract can easily be identified as the one under which a specific royalty owner's gas was produced and sold.

On What Basis, Then, Does the Producer Calculate Royalty Amounts?

As far as can be ascertained, producers have begun to use a variety of starting points when calculating royalty payments, including reference to various spot gas price indexes or the weighted average price under several gas purchase contracts. A royalty owner will find no indication on his royalty check stub of how the beginning price was determined for purposes of royalty calculation or whether the price being paid is contrary to the terms of the lease.

The situation becomes even more complicated in view of the fact that the price noted on the royalty owner check stub sometimes is not the beginning price upon which royalty was calculated. The price reflected on the royalty check stubs may be the number left after deduction of certain expenses. In some instances, those deductions, without complete explanations, are noted on royalty check stubs, but often, they are not.

The deductions (disclosed or not) sometimes taken by producers are for charges such as compression, gathering, transportation, and marketing. The propriety of these deductions has over the years been the subject of court cases.

LEGISLATION NOW PENDING BEFORE THE KANSAS LEGISLATURE.

Senator Stephen R. Morris, Hugoton, introduced Senate Bill 472 (S.B. 472) at the request of SWKROA. The bill which at times has been referred to as the "Truth In Royalty" bill prescribes information to be included with payments to interest owners, including royalty owners, from production of oil and gas. The Bill has met with opposition, particularly from the Kansas Independent Oil & Gas Association (KIOGA). Below are excerpts of your Secretary's testimony on February 1, 1996 before the honorable members of the Senate Committee on Energy and Natural Resources. Senator Don Sallee, Troy, Kansas, serves as chairman of this committee.

"PROBLEMS WITH ROYALTY REMITTANCE STATEMENTS

> "As Executive Secretary, I receive questions from our members on various issues which effect their royalty interests. Over the years, the Secretary's office has probably received the most complaints from information, or the lack thereof, provided to our royalty owner members from the gas and oil companies. The royalty remittance statement is generally the only regular communication from the gas and oil companies with regard to production of their mineral rights.

"When a royalty owner does not understand information provided to him on his royalty remittance statement he must try to contact the company for an answer. I believe from the feedback of comments by members of our Association that in many instances the royalty owner was either not able to receive a satisfactory answer, or was very frustrated with the run-around by persons who could not answer their questions. Other members contact us first to see if we can answer their question. However, in most instances, we are unable to provide our members with satisfactory answers regarding such remittance statements. We usually must advise them to contact their oil and gas lessee to further clarification. As a result of incomplete answers, confusion in understanding the answers, and in general the frustration of trying to obtain the information, our members often become skeptical and naturally untrusting in their dealings with their lessees and with information, or lack of information, provided to them by the gas and oil companies.

"FURTHER EXAMPLES OF PROBLEMS

"It is impossible to determine whether the price reported on the royalty remittance statement is a net or gross amount. (This also may be a similar problem for the starting point to determine the price for the State to collect for severance taxes, ad valorem taxes, and the KCC assessment fee.) We must take it on blind faith that the price reported on the royalty remittance statement is correct. We support S.B. 472 so that the payors on oil and gas production would be required to provide information on how the price reported on the remittance statement was calculated or determined.

"Likewise, the volumes of gas and oil reported on the remittance statements may cause confusion or may be inaccurate. I have had several instances where a royalty owner has tried to verify the production figures reported on the remittance statement with the production/allowable reports filed with the Kansas Corporation Commission. The information which was obtained from the Commission did not jibe with the remittance statement.

"Now that the Federal Regulatory Energy Commission (FERC) has "unbundled" services and allowed open access to the pipelines, it is more likely that more than one working interest owner in a gas unit will market its own share of the gas produced from the unit. As such the royalty owner could receive more than one royalty check for production from the same well. I know that this does not sound like a bad problem to have, but such a situation makes it impossible, without explanation by the producer, whether the volumes of gas and oil shown on the remittance statement represent the full production volumes, or if the volumes had been adjusted to reflect just that particular working interest owners' production from the well. The royalty owner's decimal interests may be similarly adjusted without explanation, making it impossible to verify whether they had received proper credit for the production from the well. S.B. 472 should help to alleviate these problems.

"Also allegedly due to the recent changes in the Federal and State regulatory environment, the royalty owners have noticed that charges for costs such as gathering, compression, processing, and transportation are now showing up on the royalty remittance statements, with little or no explanation. Some of these charges may not even be proper deductions, but when there is not an explanation on the remittance statement, or if the gas and oil companies do not provide an adequate answer, it is impossible to determine whether the charges are proper.

"... It is difficult or impossible to determine from the statement the location of the well, the name of the well, or the producing formation. Such information would be very helpful in tracking royalty production and payments.

"In summary, we urge your consideration and support of a bill which will require payors of oil and gas production to provide information which will allow the royalty owner to clearly identify the amount of oil or gas produced, and the amount and purpose of each deduction made from the gross amount due to such royalty owner."

Nordling Meets with "Industry" on S.B. 472.

Secretary Nordling met with a dozen representatives of the oil and gas producers, in Wichita, Kansas, on March 8th to discuss the merits of S.B. 472, and the need for legislation in this area. Many of the representatives felt that their companies were either currently providing the requested information, or the royalty owners should be able to calculate or determine all of the information from the stub. Several also admitted that they were providing some of the requested information.

Nordling advised them that often the royalty owners must make numerous computations to decipher the remittance statement, or they become confused at the manner the information is reported to them on the remittance statement, or they can not make proper computations or determinations because of missing information.

One problem which may effect SWKROA members is where more than one working interest owner in a gas unit markets their share of the production from a well. This may be referred to as a **"split stream sale."** In such situation, the royalty owner may receive royalty checks from more than one working interest owner for production from the same well. As you can imagine, it becomes quite confusing to figure out the true production from the well. Often the decimal interest and/or the volumes sold are inflated or deflated to account to the royalty owner. It is impossible for the royalty owner to determine the true volume and decimal for such production.

Kansas Independent Oil and Gas Association (KIOGA) and its representatives who were present, indicated they will continue to oppose the bill and suggested that the industry and the royalty owners further study the problem.

Status of S.B. 472.

It doesn't appear that any action will be taken on S.B. 472 this legislative session, even though the bill is still "alive." SWKROA officials will continue to work toward the passage of a favorable bill. Members are requested to contact their senator or representative on this important legislation.

JUNE, 1996

LEGISLATIVE PANEL DISCUSSES HIGHLIGHTS FROM 1996 KANSAS LEGISLATIVE SESSION

After complimenting Mr. Beren and the BEREXCO Exploration Team on its excellent presentation, President HAYWARD introduced a three member Kansas legislative panel composed of State Senator STEVE MORRIS, R-Hugoton, Senator JERRY MORAN, R-Hays, and Representative EUGENE SHORE, R-Johnson. President Hayward requested the legislative panel to discuss highlights from this year's Kansas legislative session, including the task force on gas gathering, the bill introduced to require more specific information on royalty remittance statements, the minimum royalty bill, and the 35-mill school levy.

Gas Gathering Issue

Senator Morris discussed the gas gathering issue and its importance to the Hugoton Field and southwest Kansas and the oil and gas industry in general.

He explained that about two years ago, the Federal Energy Regulatory Commission (FERC) decided it would no longer regulate gas gathering and would leave it up to the states to start regulating gas gathering facilities. Morris explained that gas gathering includes everything from the wellhead to the interstate system and observed that the southwest Kansas area has more gathering lines than anywhere else in the state.

Because of the complexity of so many issues involved, Morris advised that the legislature decided a comprehensive study was needed on gas gathering, and a bill was passed to establish a Gas Gathering Task Force consisting of 14 members. Two of the members will be *ex officio* and non voting, while the remaining 12 members will have voting powers.

The two *ex officio* members will be the Chairman of the Kansas Corporation Commission and the other an expert in oil and gas law appointed by the governor. The 12 voting members will be four legislators: (1) the Chairperson of the Senate Energy and Natural Resources Committee or designee of the Chairperson; (2) the Chairperson of the House Energy and Natural Resources Committee or the chairperson's designee; and (3) and (4), the ranking minority members of each of those two committees or their respective designees. Governor BILL GRAVES will appoint the eight remaining members, including one person each representing royalty owners, irrigators, independent gas producers, gas gathering companies affiliated with major pipeline companies, major gas producers, intermediate gas gatherers, independent gas gatherers, and a county appraiser.

The governor is required to make his appointments before June 1 and the Task Force is scheduled to meet, starting in July and meeting through December.

The task force is charged with at least 16 separate issues. Senator Morris expressed his concern that, "If they're not careful, gas gathering, transmission charges, compression charges, and other charges will end up being subtracted from the wellhead price which would significantly impact the royalty owners."

Secretary's note: Since the annual meeting, Governor Bill Graves has appointed SWKROA Executive Secretary ERICK E. NORDLING as the royalty owner representative on the Gas Gathering Task Force. The first meeting of the task force is scheduled for July 25, 1996.

Senator Morris briefly discussed a bill he introduced this session which would require all companies to furnish more accurate information to royalty owners on royalty remittance statements. He stated that most of the major producers indicated their willingness to go along with such a bill, but that, unfortunately, some of the independents thought it was too much paperwork for them and consequently, the bill was held up for further study and will be one of the issues to be discussed by the Gas Gathering Task Force.

AUGUST, 1996

IMPORTANT GAS GATHERING TASK FORCE MEETING IN LIBERAL NEXT MONTH

The Gas Gathering Task Force, created by action of the 1996 Kansas Legislature to study issues relating to deregulation of the natural gas gathering systems in Kansas, met for the first time in Topeka last month. One of its next meetings will be held in Liberal on September 18, 1996, and we encourage our members to attend and participate in this important meeting.

Gas Gathering Task Force Members

As mentioned in the June 1996 SWKROA newsletter, the Gas Gathering Task Force consists of 14 members and is chaired by State Senator DON SALLEE, R-Troy. The four legislative representatives are Senator SALLEE; Representative JOANN FREEBORN, R-Concordia, Vice-chairperson; Senator BILL WISDOM, D-Kansas City; and Representative ROBERT KREHBIEL, D-Pretty Prairie. The two non voting ex officio members are TIMOTHY E. McKEE, Chairman of the Kansas Corporation Commission, Topeka, and JON R. VIETS, of Independence, an expert in oil and gas law.

The eight remaining members, appointed by Governor BILL GRAVES, are ERICK E. NORDLING, of Hugoton, Executive Secretary of the Southwest Kansas Royalty Owners Association, representing royalty owners; RANDAL K. LODER, of Garden City, board member of the Southwest Kansas Irrigation Association, representing irrigators; STEVE M. DILLARD, of Wichita, Vice President of Pickrell Drilling Co., Inc., representing independent gas producers; MARI M. RAMSEY, of Tulsa, counsel for Williams Field Services, representing gas gathering companies affiliated with major pipeline companies; EMERY J. BIRO, III, of Houston, Senior Attorney for Anadarko Petroleum Corporation, representing intermediate gas gatherers; CHARLES B. WILSON, of Wichita, Vice President of BEREXCO, INC., representing independent gas gatherers; EDWIN E. HANCE, of Irving, Texas, Manager of Engineering and Development, Mesa Operating Co., representing major gas producers; and ANN PAPAY, of Ulysses, County Appraiser for Grant, Haskell, Stanton and Stevens counties, representing county appraisers.

Among the sixteen specific gas gathering issues to be studied by the Task Force which will greatly affect royalty owners and irrigators in the Hugoton Field are:

1. Implications of gas gathering for royalty owners;
2. Concerns about adequacy of information reported on royalty check stubs, including non-price issues;
3. Implications for irrigators in the region;
4. Implications for county property tax base and associated concerns; and
5. Implications for the Department of Revenue's collections of the severance tax.

The above issues are of vital concern to SWKROA members and citizens living in Southwest Kansas.

JULY, 1997

KANSAS CORPORATION COMMISSION CHAIRMAN IS KEYNOTE SPEAKER

TIMOTHY E. McKEE, of Wichita, Chairman of the Kansas Corporation Commission (KCC), was our keynote speaker. He did a very commendable job covering the new natural gas gathering legislation, infill drilling, and current development activities of the mineral resources in Southwest Kansas.

McKEE was appointed to the Kansas Corporation Commission on June 2, 1995, by Governor Bill Graves for a four year term. He has served as Chair of the three-member Commission since April 5, 1996. Prior to joining the Commission, McKee practiced law in the state and federal courts in Kansas and before the Tenth Circuit Court of Appeals, with primary emphasis on natural resources law.

Gas Gathering

McKEE informed the audience of the grassroots leadership role by SWKROA and irrigation interests in the passage of legislation to create regulations for natural gas gathering activities in Kansas. The issues were many, complex and controversial. Some legislative commentaries noted that this legislation was the most active and lobbied legislation of the session.

Natural gas gathering is the process of getting natural gas from the wellhead through a series of gathering pipelines, compressors, and treatment facilities until the gas has been gathered, compressed and placed into a quality acceptable to the main transmission pipeline companies. Prior to legislation of gas gathering in Kansas, gathering pipelines were either subject to federal jurisdiction (Federal Energy Regulatory Commission - FERC) or were not regulated.

FERC recently had ruled that the states should be responsible for regulating gathering lines. The gas gathering legislation passed by the Kansas Legislature this past session establishes such regulations.

According to McKEE, "At the ends of these pipelines are fingers or tentacles for the gathering systems that take the gas from the wellhead to the transportation system."

McKEE reported that FERC decided about two years ago it was removing itself from the gas gathering regulation business. FERC reasoned that since the pipeline gathering systems are located in the states, the states should regulate such systems. FERC made it clear if the states didn't get busy and do something, it would do something.

McKEE commented, "I want to compliment ... the agri-royalty owner industry... It was generally a fight between the producers and the pipelines. They were standing over here arguing. While they were standing on the curb arguing about it, a little parade went down the street behind them in a cloud of dust and it was the irrigators and the ag users, and they took the issue and got a bill."

[**Secretary's Note**: Although the royalty owners are being charged for gathering and other expenses to place the gas into quality for pipeline transmission, Association officials have strongly maintained that the costs incurred in placing the gas in a marketable condition, including gas gathering, are not proper deductions from the royalty interest. Because the natural gas gathering legislation is perceived by many to affect the royalty interests, it was very important for the Association to participate in the legislative process.

The new gas gathering law became effective on July 1, 1997. From the royalty owner and irrigator perspective, the legislation contains provisions for price transparency (information sufficient to determine what charges are being made), and standing for royalty owners who have been impacted by gathering charges to obtain information on such charges and a mechanism to complain to the KCC about gas gathering services which would not be just, reasonable, not unjustly discriminatory and not unduly preferential.]

DOUG SMITH SPEAKS ON LEGISLATIVE ACTIVITIES ON BEHALF OF SWKROA

DOUG SMITH, Pinegar-Smith Company, of Topeka, reported to SWKROA members and guests on the successful legislative struggle which resulted in the passage of a number of bills. For several years, the Pinegar-Smith firm has been providing the Association services to monitor the Kansas legislative sessions and to lobby, if needed, on issues which might impact the Association.

Smith praised the efforts of the Association through its Executive Secretary, ERICK NORDLING, and Assistant Executive Secretary, BERNARD NORDLING, and several SWKROA Directors and SWKROA members who provided timely and powerful testimony to the legislators. "We made a lot of inroads," he confirmed.

The two most significant measures passed included the royalty owner "check-stub bill" (Senate Bill No. 147) requiring producers to provide the royalty owner with information on production figures and the costs taken out. (The key provisions of the bill have been reported in earlier SWKROA Newsletters and, space permitting, a final version of the bill will be reported in a later newsletter.)

This bill was presented as an industry/royalty owner compromise and should have sailed through the legislative process. However, it ran into difficulty by a few key legislators on the provision which allowed for the state district courts to have discretion to award costs, attorney's fees and expenses of a royalty owner for enforcement of the law in the event a producer would not provide the mandated information. This critical provision was removed from the bill which gave us a victory, but no teeth for enforcement. The bill was signed by Governor Graves and will become effective as of January 1, 1998.

The second major issue was the gas gathering bill, which ultimately became a part of a conglomeration with other bills, and was passed by the legislature as Senate Bill No. 333. Smith reported that the gas gathering bill provides for a complaint-based process of oversight of gas gathering throughout Kansas. The bill also includes price transparency provisions which require producers and gas gatherers to list their prices and service fees so customers can determine if the rate they are paying fees which are "just, reasonable, not unduly discriminatory, and not unduly preferential."

"We made a lot of progress," Smith concluded. "People say it's heavy-handed legislation but it's only heavy-handed if you abuse the system."

SWKROA

SOUTHWEST KANSAS ROYALTY OWNERS ASSOCIATION

SWKROA IS A PUBLICATION OF THE SOUTHWEST KANSAS ROYALTY OWNERS ASSOCIATION

 December, 2003

UNDERSTANDING ROYALTY REMITTANCE STATEMENT: COMMON PROBLEM FOR ROYALTY OWNERS

One of the most frustrating things experienced by royalty owners in dealing with their respective oil and gas companies is the inability to determine the basis upon which royalty payments are calculated as reflected by the royalty remittance statements (royalty check stubs) received with their monthly royalty statements. Deductions often appear on the statement for gathering, compression, or "other deductions," without explanation as to the authority or nature of the deduction. There also may be instances where the price used for payment of royalty is based on a net figure, after deduction of charges. Unfortunately, it is next to impossible to verify the pricing or deduction information.

From time to time, your Association attempted to alleviate the problem by securing legislation of a uniform royalty accounting bill but our efforts were challenged by the oil and gas industry as burdensome and unnecessary. **Finally, in 1997, the Kansas Legislature passed a bill referred to as "the royalty owner check-stub bill" (K.S.A. 55-1620, 55-1621, and 55-1622), requiring producers to provide royalty owners with information on production figures and to list deductions.**

The bill was presented as an industry/royalty owner compromise and, as originally drafted, contained a provision which allowed for the state district courts to have discretion to award costs, attorney's fees and expenses of a royalty owner for enforcement of the law in the event a producer would not provide the mandated information. However, this critical provision was removed from the bill before passage, leaving the royalty owners no means for enforcement. The legislation has helped to some extent but our members continue to have problems in understanding how royalties are calculated and why royalty prices vary so much from one producer to another.

We felt it would be most helpful for our members to discuss the differences between royalty remittance statements received from the various producers and the difficulty in comparing royalty "prices." We have asked **Gregory J. Stucky**, Association General Counsel and member of the Wichita law firm of Fleeson, Gooing, Coulson and Kitch, L.L.C., to prepare an article for this newsletter discussing these differences. His article, **"Reading Check Stubs,"** appears as follows:

READING CHECK STUBS

I (**Gregory J. Stucky**) have been representing royalty owners for over twenty-five years, and, during that time, the most frequent questions royalty owners posed to me relate to the monthly royalty check stubs they receive from their producers. They simply do not understand them, and, more basically, they do not understand how producers calculate and pay royalty. This lack of understanding is almost universal among royalty owners. In fact, some of the most sophisticated and knowledgeable royalty owners I know cannot completely comprehend their monthly check stubs.

In recent years, as a result of the deregulation of natural gas in the 1980s and 1990s, the task of deciphering the information on check stubs has become even more daunting. **Before deregulation, the sale of gas, upon which royalty was calculated, generally took place at or near the well.** (The fact the producer calculated royalty by reference to this sale, of course, does not mean that the producer correctly calculated royalty by employing that method, as evidenced by the Kansas "market value" cases, which were concluded by royalty owner victories in the mid-1980s.)

The use of an "at-the-well" sale made the computation of royalty relatively straight-forward and the check stub more comprehensible than today. **The royalty owner would usually receive, as royalty, his decimal fraction of the volume of gas produced from the well (sometimes adjusted for the BTU content of that gas), multiplied by the wellhead sales price of that gas, and then reduced by the applicable production taxes, such as the severance tax.**

Today, however, in a deregulated environment, the producer may sell its gas far downstream from the well – at the interconnection with an interstate pipeline, farther downstream at the city-gate, such as Detroit, or some location other than the wellhead. It is a common practice of producers, in calculating royalty in such instances, to deduct from sales proceeds they receive certain expenses they claim they have incurred to deliver the gas from the wellhead to those sales points. (The fact the producer calculates royalty by deducting such claimed expenses again does not mean that the producer has correctly calculated royalty. **The propriety of some of those deductions is the centerpiece of the presently pending "deduction" cases.**)

The first obstacle confronting a royalty owner is that each producer uses a different format on its check stubs. In other words, even if a royalty owner is somehow able to decipher the information on a check stub from one producer, his knowledge about that check stub is not transferrable to a check stub from another producer. The accountants working for the oil and gas companies – or more precisely the computer programs used by the oil companies – dictate the format and content of the information appearing on the check stubs.

Those check stubs are not designed to provide easily accessible and understandable information to the royalty owners. If the producers actually wanted to achieve the goal of providing understandable information, they would agree among themselves

P.O. Box 250, Hugoton, Kansas 67951 Phone (620) 544-4333 Fax (620) 544-2230
E-Mail: swkroa@swkroa.com Website: www.swkroa.com

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on a universal format and content of a check stub. If they do not do that voluntarily, the Kansas legislature might be inclined to require them to do so by prescribing a format that must be followed.

Although the formats of producers' check stubs differ, they usually contain much of the same information, which is discussed below:

1. **Identification of the Property.** The producer normally identifies the property from which production is being measured, either by well name, unit name or by merely the producer's own internal numbering code. **Depending on the producer, the property identified may actually refer to multiple wells.** For example, BP America's (formerly Amoco Production Company) check stub identifies properties by production units, and, in most instances with respect to production from the Hugoton formation, BP America's identification includes both the original Hugoton wells as well as the newer infill well.

2. **Date of Production.** The next column to the right after the column which identifies the property generally provides the period of time during which the natural gas production was measured. **The production period is almost always one month and that period is generally for the month that was two months earlier than the month in which the royalty owner receives payment. (In other words, the check stub received in March generally is payment for January production.)** A Kansas statute, K.S.A. 55-1615, provides that, except when small amounts are involved, the producer essentially has 60 days to make royalty disbursements to its royalty owners before interest accrues.

3. **Type of Production.** The next column to the right after the column containing the date of production typically identifies the type of production for which royalty payments are being made. **These types could include gas production, oil production, helium production, casinghead gas production, and production of liquids extracted from the gas stream.** These types of production are usually identified by numbers in that column, and **on the bottom or reverse side of the check stub, there is a legend identifying the type of production by reference to that number.**

4. **Volume of Production.** The next column typically identifies the amount of product for which royalty is being calculated. **With respect to gas production, it is important to first determine whether the measurement is on a volumetric basis (MCFs) or on an energy basis (BTUs).** The check stub normally indicates the basis of the measurement. **With respect to helium, the measurement is normally by MCFs of helium. With respect to liquids extracted from the gas stream, producers use various types of measurements; typically, however, the volume is shown on a volumetric or BTU basis.**

   When there is liquid extraction – which is almost always done with respect to gas produced in the Hugoton Field – the producer will sometimes make calculations to determine the amount of the gaseous stream, on a volumetric or energy basis, converted into liquids and that part which is sold as residue gas after the liquids are extracted.

   The results of those calculations will then appear in that column. Royalty owners often try to compare the amount of gas production appearing on the proration reports published by the Kansas Corporation Commission (KCC) to the amount appearing on the check stub. **Those amounts often do not correspond because (1) the check stub may determine the amount by energy content (BTUs), while the KCC proration reports identify volumes by MCFs; (2) the check stub may include more than one well in its property identification, while the KCC proration reports list production by well; and (3) the check stub may allocate production between residue gas and liquids extracted from the gas stream, while the KCC proration reports do not make that allocation, but merely note the volume flowing from the wellhead before extraction of liquids.** In many instances, it is almost impossible to verify that the producer is properly crediting to your interest the correct amount of production.

5. **Price.** The next column on the check stub normally shows the "price" applied against the volume of production. With respect to gas, oil and casinghead gas production, that "price" is usually shown in terms "MMBTU's," while for helium, the "price" is shown in terms of "MCF's." With respect to gas, the original of that "price" is sometimes deceptive. **Royalty owners assume that the "price" represents the price the producer receives from an unaffiliated third-party purchaser. In fact, K.S.A. 55-1620 requires that the producer must show the price the producer receives from its purchaser on its check stubs. Some producers, however, either do not follow that law or avoid compliance with it.** For example, BP America shows a "price," which is not its sales price, but rather a calculated price after it has deducted from its sales price gathering and compression expenses it has incurred before making its sale. Anadarko Petroleum Company shows a "price," which is actually the amount it receives for its gas from a sale to its affiliate, which then sells the gas to a third party. **There is simply no way for the royalty owner to know the origin of the "price" by looking at the check stub.**

6. **Taxes.** The check stubs typically shows the amount of production taxes paid on the volume of gas produced. **Under the Kansas tax structure, there would be two types of taxes which could potentially be calculated and then deducted from payment: The Kansas severance tax, which is usually 8% percent of the value of the production, and the KCC conservation fee, which is very modest.** (The ad valorem tax is not deducted by the producer. Royalty owners pay that tax separately.)

7. **Deductions.** On the check stubs, there is normally a column for "deductions." This is a catch-all column, and the producer usually "describes" the "deduction," as, for example, "gathering," "compression," and "transportation." It is many of these deductions which are the subject of the pending class-action lawsuits against PB America, Pioneer, Anadarko, OXY and Exxon-Mobil. As explained above, **a royalty owner cannot assume that because the "deduction" column shows no deductions that no deductions have been taken from the sales price to a non-affiliated third party because the "price" shown on the check stub may already be reduced by those deductions.** Perhaps due to the pendency of the above lawsuits, producers sometimes appear to mask the true activities related to deductions by assigning a label to them, such as "transportation," when, in fact, that activity is more properly described as "gathering." As in the case of "price," the "deductions" information may be misleading to royalty owners.

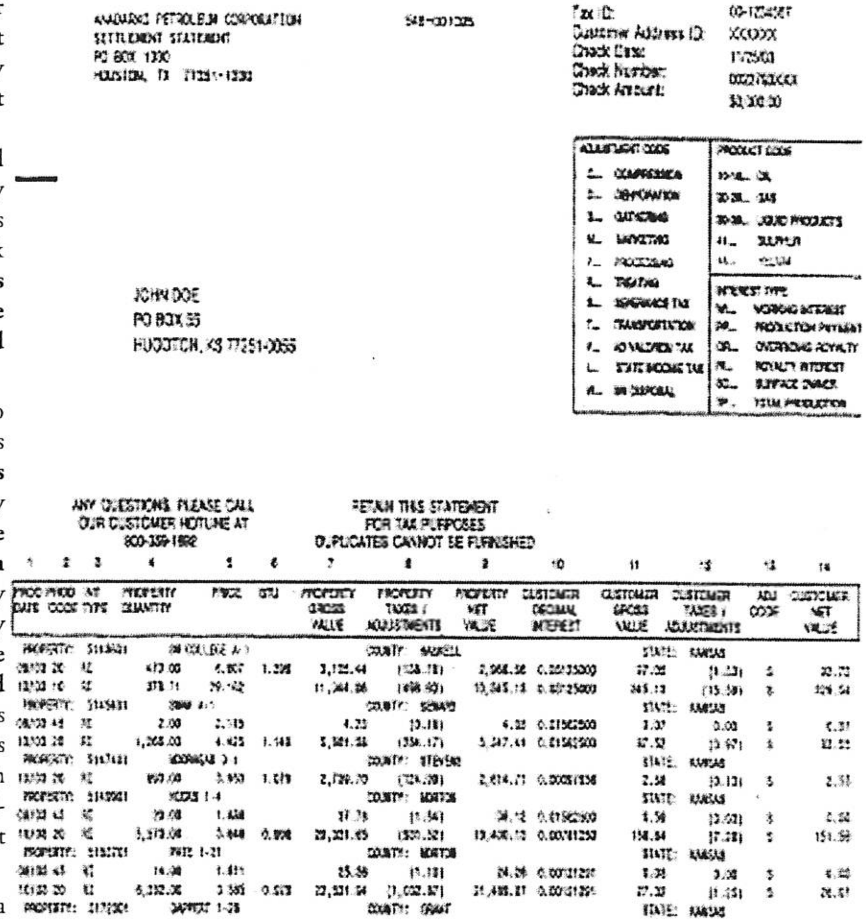
The above data appear on the check stub for the full "8/8ths" of the measured production. At some location on the check stub, the royalty owner's decimal percentage is applied to that data and displayed on check stub.

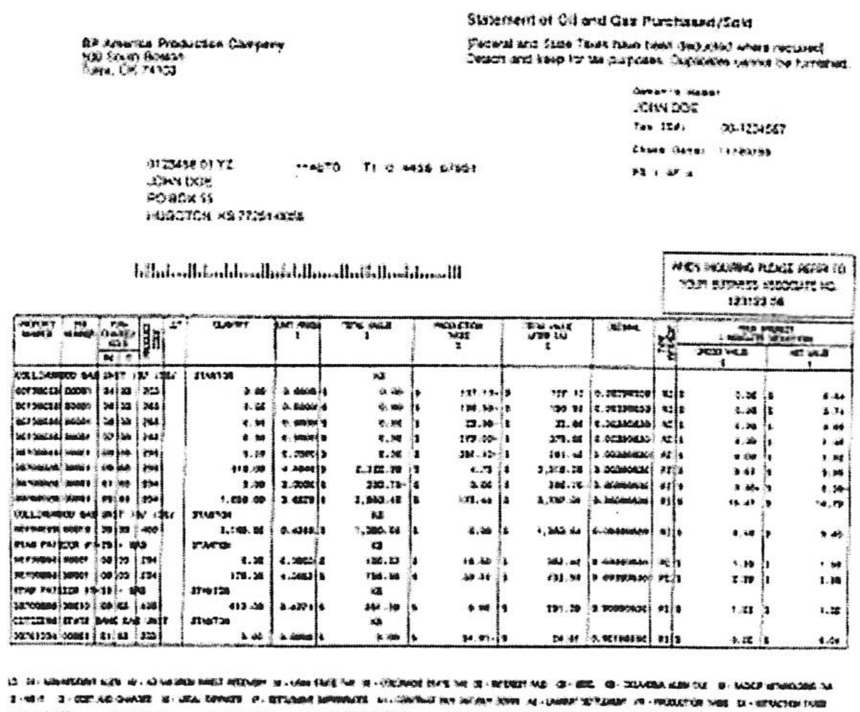
As explained above, even the most sophisticated royalty owners cannot assure themselves that they are receiving the correct amount of royalty payments by scrutinizing the information on their check stubs. **At the right are examples of check stubs from Anadarko and BP America, which are provided to illustrate the explanations described above.**

Although the information on the above Anadarko check stub appears rather straight-forward, as explained above, **the "Price" with respect to gas (which carries a product code of "20") is actually deceptive because that "Price" represents the sales price between Anadarko Petroleum Corporation and its affiliate – not a third-party sales price. That "Price" actually is computed by deducting from the third-party sale by the affiliate certain expenses, such as gathering and compression.** Because the amount of deductions from the third-party sales price is not shown, it is impossible to compare that "Price" to prices on check stubs of producers which show the third-party sales price and then the deductions from that price.

The BP America check stub (at the right) has a deficiency similar to the Anadarko check stub. **The BP America check stub "Unit Price" is actually not the sales price but represents an amount after deductions for expenses, such as gathering and compression.** The BP America check stub also contains examples of accounting entries, which I do not understand. Those are the second-to-last entry under "Collingwood Gas Unit /G/" and the first entry under "Ryan Patrick #1-25 - Gas. If a royalty owner would want some explanation for those entries, he or she would have to try to get answers by contacting BP America. After examining the first five entries under "Collingwood Gas Unit /G/" for several minutes, I finally determined that those entries appear to be correcting entries for overpayments of "Production Taxes" by BP America, but I cannot explain why those overpayments were made in the first place. Again, if a royalty owner would want an explanation, he or she would have to contact BP America.

I have presented these sample check stubs to demonstrate that the royalty owner cannot know how his or her royalty payment is determined in many instances through examining the check stubs. The royalty owners is basically at the mercy of his or her producer to correctly calculate royalty payments without the royalty owner having any meaningful way of checking the calculations.





1-17

The Kansas legislature has attempted to partially address that inability by enacting K.S.A. 55-1620 et seq., which attempts to prescribe the information contained on check stubs sent to royalty owners. However, that legislation contains "loopholes," and its enforcement provisions are almost non-existent. The Kansas legislature should strengthen the statute so that Kansas royalty owners are able to understand how their producers pay them their royalties.

Secretary's Note: We appreciate this excellent explanation by Greg Stucky of information contained on royalty check stubs and hope our members better understand, among other things, the differences between royalty remittance statements and the problem in comparing "prices." Hopefully, the Association will be able to convince the Kansas Legislature in the upcoming legislative session to adopt a uniform accounting bill or at least strengthen the current statute, as Greg suggests, so that Kansas royalty owners are able to understand how their producers calculate royalties.

Southwest Kansas Royalty Owners Association
209 East Sixth Street
Hugoton, KS 67951

Testimony before the Senate Utilities Committee
Senate Bill 401
March 11, 2004

Senator Clark and members of the Senate Utilities Committee:

My name is John Crump and I reside in Lakin, Kansas. I am the President of the Board of Directors of the Southwest Kansas Royalty Owners Association and I appreciate the opportunity to express to you my views in support of SB 401. The royalty owners in the Hugoton field need this legislation to help them ensure they are correctly paid for gas taken from that field. This is an area of concern not only for southwest Kansas but for all the state -- people who receive royalties live throughout Kansas and indeed all over the United States and the problems encountered are not confined to the area of the Hugoton field.

Our Association, and our support for this legislation, should not be perceived as opposition to the oil and gas industry. On the contrary, we wish the industry well; it is self-evident that if the industry does not do well, we as royalty owners also do not do well. We are well aware of the tremendous economic advantages which the industry has brought to the southwest Kansas area over the past six decades through development of the field, employment of residents of the area, and payment of taxes to local governments and to the state of Kansas. Our purpose in supporting this legislation is to seek ways to be sure we are treated fairly and in accordance with the contractual arrangements we have with the producing companies under the terms of our leases to them.

Our seeking your support for this legislation does not mean that we expect the Legislature to do our work for us. Neither do we expect through the passage of this legislation to require the companies to do our work for us. We are aware that royalty owners, just as recipients of payments in any business arrangements, must show due diligence in ascertaining that our payments are correct. We examine carefully the information provided to us with our payments and we ask questions regarding items which are incomplete or incorrect; we will continue to do so. However, that due diligence is often not enough and we find ourselves short of the information we desire. This legislation will help us obtain the information we need.

It should be noted that the reporting of gas taken from the Hugoton field is hopelessly chaotic. The producing companies report to the royalty owners the volume of gas taken and the prices for which that gas is sold; they report to the Kansas Corporation Commission the volume of gas; they report to the Kansas Department of Revenue the volume and the price, to the Kansas Geologic Survey the volume, and annually a report is made to county assessors of volume and price in each of the producing counties. None of these reports agree with each other. This legislation would not correct that situation but that unevenness of reporting adds to the need for this legislation because we are unable to tap into any source to confirm information provided to us by the companies.

Our Association believes that the reporting requirements imposed by this legislation would not be an onerous burden to the producing companies. Some companies already report most of this information and the reporting we seek with this bill would not be a new requirement but only a codification of what those companies are already doing. Other companies are not furnishing all the desired information and those companies would need to revise their procedures for collecting and reporting production information. However, that revision would be a one-time operation and, once established, each succeeding month the required information would quickly and easily entered into the revised format. Our Association has made an effort to ascertain whether the reporting requirements in SB 401 are out of line with the requirements of other states since many of the producing companies operate in surrounding states; our finding is that other states already require this kind of information.

We are also aware that the producing companies are uncomfortable with some provisions of the legislation because it would require them to report information on prices paid and they feel that is privileged and proprietary information. However, that requirement already exists, Mr. Chairman. I refer to the provisions of K.S.A. 1620; the proposed legislation does not, therefore, impose a new requirement to report prices received for gas sold. Our leases state that we are to be paid a proportion of the income from the gas which is taken and sold; we cannot be sure that it is being done correctly without information regarding the price received for the gas. With this legislation, we would be able to see what the price was, and to see what deductions were made from that price, so that we can calculate that the payment to us was the correct one.

As part of this statement, I am including several payment invoices to illustrate some of the problems we encounter as royalty owners. I have altered those statements to eliminate references to the identity of the royalty owner and I have added questions to the invoices to indicate for your perusal where I believe the producing companies have been incorrect or incomplete in their reporting.

I appreciate your courtesy in extending to me the opportunity to present my views and I urge your favorable consideration of SB 401.

Respectfully submitted,

/s/ John E. Crump

John E. Crump
President, SWKROA

Attachments

This package of statements illustrates the same discrepancies as those in the other package, except they cover a different time period---July of 2002. Those discrepancies are the difference in price of irrigation gas reported to the royalty owner and charged to the irrigator, the use of the royalty interest to report the irrigation gas sold and the non-reporting of that royalty interest in the winter months, and the difference in reports between two companies sharing the production.

Form 5143 Mar-93

BP America Production Company

P O Box 591, Tulsa, OK 74102

(918) 925-6005

3022

002762

Check Date: 09-20-02

Statement of Oil and Gas Purchased/Sold

(Federal

Detach

Owner's Nam

Tax ID#:

Property Number	DOI Number	Purchased/Sold Mo	Yr	Product Code	LC*	Quantity	Unit Price	Total Value	Production Taxes	Total Value After Tax	Decimal	Type Interest	Your Interest (- Indicates Deduction) Gross	Net
ATZLAFF	D UNIT	'A'					KEARNY	KS						
7855700	00001	07	02	201		968	24416	236343	11117	225226	009375000	OR	22157	21115
7855700	00001	07	02	201		968	24416	236343	11117	225226	002343740	RI	5539	5278
ATZLAFF	D UNIT	'A'					KEARNY	KS						
7855701	00002	07	02	201		2693	24390	656822	30899	625923	004687569	OR	30789	29341
7855701	00002	07	02	201		2693	24390	656822	30899	625923	001171888	RI	7697	7335
ATZLAFF	D UNIT	'B'					KEARNY	KS						
7855800	00001	07	02	201		5432	24110	1309632	52410	1257222	009375000	OR	122779	117865
7855800	00001	07	02	201		905	23618	213744	826	212918	002343750	RI	5010	4991
		CONTROL NO.				04115808					TOTAL		193971	185925

LC 1 Non-Resident Alien 2 - Ad Valorem Direct Recovery 4 - Utah State Tax 5 - Colorado State Tax 6 - Interest Paid 8 - OK - NRIT 9 - Oklahoma Alien Tax 10 - Backup Withholding Tax

13 Cost and Charges 16 - Legal Expense 17 - Settlement Differences A1 - Contract Buy Out/Buy Down A2 - Lawsuit Settlement PR - Production Taxes EX - Extraction Taxes

PRODUCT CODES: 1XX - Oil (Bbls) 2XX - GAS (MCF) 3XX - Condensate (Bbls) 4XX - Plant Products (Bbls/Gals) 400 - Sulfur (Tons) 9XX - Injectants (Bbls)

2-4

BP America Production Company
Ulysses Operations Center

2225 West Oklahoma Avenue
Ulysses, Kansas 67880
620-356-1237

IRRIGATION GAS STATEMENT

[redacted]

Accounting for 1 well

Account 000900

BP America Production Company
P. O. Box 848113
Dallas, Tx 75284-8113

Statement Date: August 21, 2002

Billing from 06/25/2002 to 07/25/2002 at a gas price of $2.44. Payment is due by 9/20/2002.

Previous Statement Balance	$772.72
Payment received -- Thank You	$772.72
Balance after payments and adjustments	$0.00

Meter	Invoice	Wellname	Auto WHP	PF	BTU	Volume	Misc	Amount
2000	02072000	RATZLAFF B 1	---	1.481	0.968	905		2,137.54
Current Month Total								$2,137.54

Grand Total — Please pay this amount => $2,137.54

PLEASE NOTE: OUR NEW CHANGE OF ADDRESS FOR REMITTING ALL PAYMENTS
BP America Production Company
P.O. Box 848113
Dallas, Tx 75284-8113

2-5

5143B

Form 5143B Mar-93

BP America Production Company
P.O. Box 591 Tulsa Oklahoma 74102
(918) 925-6005

3691

Check Date: 01-20-03

Statement of Oil and Gas Purchased/Sold

(Fedral and
Detach and

Owner's Name
Tax ID#:

Property Number	DOI Number	Purchased/Sold Mo	Purchased/Sold Yr	Product Code	LC*	Quantity	Unit Price	Total Value	Production Taxes	Total Value After Tax	Decimal	Type Interest	Your Interest (- Indicates Deduction) Gross	Net
ZLAFF	D UNIT 'A'						KEARNY	KS						
55700	00001	11	02	201		893	33286	297243	13686	283557	009375000	OR	27867	26584
55700	00001	11	02	201		893	33286	297243	13686	283557	002343740	RI	6967	6646
ZLAFF	D UNIT 'A'						KEARNY	KS						
55701	00002	11	02	201		2635	33347	878681	40453	838228	004687569	OR	41189	39293
55701	00002	11	02	201		2635	33347	878681	40453	838228	001171888	RI	10297	9823
ZLAFF	D UNIT 'B'						KEARNY	KS						
55800	00001	11	02	201		4666	33064	1542775	71062	1471713	009375000	OR	144636	137975
		CONTROL NO.				04255536					TOTAL		250956	220321

*: 1 - Non-Resident Alien 2 - Ad Valorem Direct Recovery 4 - Utah State Tax 5 - Colorado State Tax 6 - Interest Paid 8 - OK - NR IT 9 - Oklahoma Alien Tax 10 - Backup Withholding Tax
13 - Cost and Charges 16 - Legal Expense 17 - Settlement Differences A1 - Contract Buy Out/Buy Down A2 - Lawsuit Settlement PR - Production Taxes EX - Extraction Taxes
PRODUCT CODES 1XX - Oil (Bbls) 2XX - GAS (MCF) 3XX - Condensate (Bbls) 4XX - Plant Products (Bbls/Gals) 400 - Sulfur (Tons) 9XX - Injectants (Bbls)

2.6

LA JOLLA PROPERTIES ROYALTY DISTRIBUTION CALCULATIONS

LEASE NAME: D. RATZLAFF "B" #1
OWNER NAME: [illegible]
OWNER SHARE: 0.1406250

	MMBTU	PRICE/MMBTU	GROSS VALUE	PRODUCTION TAXES	NET AMOUNT DUE	YOUR SHARE
JULY, 2002	455	$2.7600	$1,096.23	$58.57	$1,037.65	$145.92
AUGUST, 2002	425	$2.4840	$913.06	$49.63	$863.43	$121.42
SEPTEMBER, 2002	635	$2.7324	$1,513.33	$80.98	$1,432.35	$201.42
	1515		$3,522.62	$189.18	$3,333.44	$468.76

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ROPERTIES ROYALTY DISTRIBUTION CALCULATIONS

E: D. RATZLAFF "B" #2
ME: [illegible]
ARE. 0.1406250

	MMBTU	PRICE/MMBTU	GROSS VALUE	PRODUCTION TAXES	NET AMOUNT DUE	YOUR SHARE
	1252	$2.7600	$3,016.45	$161.19	$2,855.26	$401.52
02	284	$2.4840	$610.14	$33.18	$576.96	$81.14
R, 2002	569	$2.7324	$1,356.05	$72.57	$1,283.48	$180.49
	2105		$4,982.64	$266.94	$4,715.70	$663.15

2-8

LA JOLLA PROPERTIES ROYALTY DISTRIBUTION CALCULATIONS

LEASE NAME: D. RATZLAFF "B" #3
OWNER NAME: [redacted]
OWNER SHARE: 0.1406250

	MMBTU	PRICE/MMBTU	GROSS VALUE	PRODUCTION TAXES	NET AMOUNT DUE	YOUR SHARE
JULY, 2002	2597	$2.7600	$6,256.96	$334.63	$5,922.33	$832.83
AUGUST, 2002	2239	$2.4840	$4,810.21	$261.75	$4,548.46	$639.63
SEPTEMBER, 2002	2005	$2.7324	$4,778.34	$255.95	$4,522.39	$635.96
	6841		$15,845.51	$852.33	$14,093.18	$2,108.42

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This package of statements illustrates some of the problems faced by royalty owners in attempts to verify the accuracy of information reported by producing companies.

Page 1 is a statement from BP America dates September 22, 2003. It reports, under Ratzlaff, D Unit B, that in July of 2003, 166 mcf of gas was sold to the irrigator who farms the land where Ratzlaff B is located and that the price received for that gas was $5.0143 per mcf. However, page 2 of this package is an invoice from BP America to that irrigator showing that he was charged $5.17 per mcf, a difference of 16 cents. What is the explanation for that difference; the gas is taken at the well head, it is not processed in any way, and is transported to the irrigation engines through lines installed by the landowner at no expense to the producer.

The royalty owner owns a royalty interest and an overriding royalty interest in the gas produced from this lease. Both interests are calculated from the total production for Ratzlaff A, as shown on page 1, but for Ratzlaff B the total production is calculated only for the overriding interest, while the irrigation gas volume only is used for the calculation of the royalty interest. What happened to the rest of the gas produced by Ratzlaff B (the difference between 3959 mcf and the 166 mcf sold to the irrigator)??

It is also to be noted that in the winter when no gas is sold to the irrigator, the royalty interest disappears altogether (see page 3, which reports gas taken in December 2002). This royalty owner contacted BP America and asked why royalty interest was not being paid on this portion of the lease. The royalty owner is still waiting for a response.

In the conversation with BP America, the royalty owner was told that property number on the statement covers three wells--Ratzlaff B-1, B-2, and B-3. When the royalty owner asked to have those properties reported separately, the reply was that it would not be possible. However, this is a split-stream property--that is, the gas taken is divided between two companies: BP America and LJP, Inc. The latter company reports its share of the production to the royalty owner on the three wells separately (see pages 4, 5, and 6). However, it is not possible to compare the production of the three wells, even by totaling the three together, because BP America reports mcf and LJP, Inc. reports by using mmbtu. It will also be noted that the decimals used to calculate the royalty owner's share are not the same.

Statement of Oil and Gas Purchased/Sold

(Federal and State Taxes have been deducted where required)
Detach and keep for tax purposes. Duplicates cannot be furnished.

·· America Production Company
509 South Boston
Tulsa, OK 74103

Check Date: 09/22/03

PG 1 OF 1

4383 67860

PROPERTY NUMBER	DOI NUMBER	PUR-CHASED/SOLD Mo	Yr	PRODUCT CODE	LC*	QUANTITY	UNIT PRICE $	TOTAL VALUE $	PRODUCTION TAXES $	TOTAL VALUE AFTER TAX $	DECIMAL	TYPE INTEREST	YOUR INTEREST (- INDICATES DEDUCTION) GROSS VALUE $	NET VALUE $
RATZLAFF	D UNIT 'A'					KEARNY		KS						
00104694	00001	07	03	203		799.00	4.2908	$ 3,428.36	$ 156.74	$ 3,272.62	0.09375000	OR	$ 321.41	$ 306.81
00104694	00001	07	03	203		799.00	4.2908	$ 3,428.36	$ 155.74	$ 3,272.62	0.02343740	RI	$ 80.35	$ 76.70
RATZLAFF	D UNIT 'A' #B/APO					KEARNY		KS						
00104594	00003	07	03	203		2,501.00	4.2441	$ 10,614.43	$ 482.43	$ 10,132.00	0.04687569	OR	$ 497.56	$ 474.96
00104594	00003	07	03	203		2,501.00	4.2441	$ 10,614.43	$ 482.43	$ 10,132.00	0.01171888	RI	$ 124.39	$ 118.73
RATZLAFF	D UNIT 'B'					KEARNY		KS						
00104695	00001	07	03	203		3,959.00	4.5988	$ 18,206.49	$ 824.48	$ 17,382.01	0.09375000	OR	$ 1,706.36	$ 1,629.67
00104695	00001	07	03	203		166.00	5.0143	$ 832.37	$ 37.56	$ 794.81	0.02343760	RI	$ 19.51	$ 18.63
											TOTALS		$2,750.07	$2,626.39

·: 01 - NON-RESIDENT ALIEN 02 - AD VALOREM DIRECT RECOVERY 04 - UTAH STATE TAX 05 - COLORADO STATE TAX 06 - INTEREST PAID 08 - MISC. 09 - OKLAHOMA ALIEN TAX 10 - BACKUP WITHHOLDING TAX
· - OK-NR IT 13 - COST AND CHARGES 16 - LEGAL EXPENSES 17 - SETTLEMENT DIFFERENCES A1 - CONTRACT BUY OUT/BUY DOWN A2 - LAWSUIT SETTLEMENT PR - PRODUCTION TAXES EX - EXTRACTION TAXES
·RODUCT CODES. ·XX - OIL (BBLS) 2XX - GAS (MCF) 3XX - CONDENSATE (BBLS) 4XX - PLANT PRODUCTS (BBLS/GALS) 400 - SULFUR (TONS) ·XX - INJECTANTS (BBLS)

DETACH AND RETAIN THIS STUB FOR YOUR RECORDS

CHECK # 0006539737 ATTACHED BELOW

2-11

BP America Production Company
Ulysses Operations Center

2225 West Oklahoma Avenue
Ulysses, Kansas 67880
620-356-1237

IRRIGATION GAS STATEMENT

Accounting for 1 well.

Account 000900

BP America Production Company
P. O. Box 848113
Dallas, Tx 75284-8113

Statement Date: August 21, 2003

Billing from 06/25/2003 to 07/25/2003 at a gas price of $5.17. Payment is due by 9/20/2003.

Previous Statement Balance $0.00

Balance after payments and adjustments $0.00

Meter	Invoice	Wellname	Auto WHP	PF	BTU	Volume	Misc	Amount
2000	03072000	RATZLAFF B 1	—	1.104	0.968	166		830.76

Current Month Total $830.76

Grand Total Please pay this amount => $830.76

GAS PRICE HOTLINE PHONE NUMBER 620-356-7000

2-12

BP America Production Company
509 South Boston
Tulsa, OK 74103

Statement of Oil and Gas Purchased/Sold

[redacted]ired)
[redacted] furnished.

Check Date: 02/20/03 PG 1 OF 1

[redacted]

[redacted]

PROPERTY NUMBER	DOI NUMBER	PURCHASED/SOLD Mo	PURCHASED/SOLD Yr	PRODUCT CODE	LC*	QUANTITY	UNIT PRICE $	TOTAL VALUE $	PRODUCTION TAXES $	TOTAL VALUE AFTER TAX $	DECIMAL	TYPE INTEREST	YOUR INTEREST (- INDICATES DEDUCTION) GROSS VALUE $	NET VALUE $
RATZLAFF	D UNIT 'A'					KEARNY		KS						
00104694	00001	12	02	203		896.00	3.2663	$ 2,926.81	$ 134.90	$ 2,791.71	0.09375000	OR	$ 274.37	$ 261.72
00104694	00001	12	02	203		896.00	3.2663	$ 2,926.81	$ 134.90	$ 2,791.71	0.02343740	RI	$ 68.59	$ 65.43
RATZLAFF	D UNIT 'A' #B/APO					KEARNY		KS						
00104694	00003	12	02	203		2,787.00	3.2646	$ 9,098.43	$ 419.41	$ 8,679.02	0.04687569	OR	$ 426.50	$ 406.84
00104694	00003	12	02	203		2,787.00	3.2646	$ 9,098.43	$ 419.41	$ 8,679.02	0.01171888	RI	$ 106.62	$ 101.70
RATZLAFF	D UNIT 'B'					KEARNY		KS						
00104695	00001	12	02	203		4,310.00	3.2307	$ 13,924.41	$ 642.27	$ 13,282.14	0.09375000	OR	$ 1,305.41	$ 1,246.20
											TOTALS		$2,181.49	$2,080.89

LC: 01 - NON-RESIDENT ALIEN 02 - AD VALOREM DIRECT RECOVERY 04 - UTAH STATE TAX 05 - COLORADO STATE TAX 06 - INTEREST PAID 08 - MISC. 09 - OKLAHOMA ALIEN TAX 10 - BACKUP WITHHOLDING TAX 12 - OK-NR IT 13 - COST AND CHARGES 16 - LEGAL EXPENSES 17 - SETTLEMENT DIFFERENCES A1 - CONTRACT BUY OUT/BUY DOWN A2 - LAWSUIT SETTLEMENT PR - PRODUCTION TAXES EX - EXTRACTION TAXES

PRODUCT CODES 1XX - OIL (BBLS) 2XX - GAS (MCF) 3XX - CONDENSATE (BBLS) 4XX - PLANT PRODUCTS (BBLS/GALS) 400 - SULFUR (TONS) 9XX - INJECTANTS (BBLS)

DETACH AND RETAIN THIS STUB FOR YOUR RECORDS

CHECK # 0006308488 ATTACHED BELOW

2-13

LJP, INC. ROYALTY DISTRIBUTION CALCULATIONS

LEASE NAME: D. RATZLAFF "B" #1
OWNER NAME: [illegible]
OWNER SHARE. 0.1406250

	MMBTU	PRICE/MMBTU	GROSS VALUE	PRODUCTION TAXES	NET AMOUNT DUE	YOUR SHARE
JULY, 2003	530	$4.7656	$2,281.86	$103.50	$2,178.36	$306.33
AUGUST, 2003	707	$4.1860	$2,654.64	$121.23	$2,533.41	$356.26
SEPTEMBER, 2003	746	$4.4436	$3,155.08	$143.62	$3,011.46	$423.49
	1983		$8,091.58	$368.35	$7,723.23	$1,086.08

2-14

LJP, INC. ROYALTY DISTRIBUTION CALCULATIONS

LEASE NAME [illegible]
OWNER NAME [illegible]
OWNER SHARE: 0.1406250

	MMBTU	PRICE/MMBTU	GROSS VALUE	PRODUCTION TAXES	NET AMOUNT DUE	YOUR SHARE
JULY, 2003	668	$4.7656	$2,876.01	$130.87	$2,745.14	$386.04
AUGUST, 2003	843	$4.1860	$3,165.65	$145.06	$3,020.59	$424.77
SEPTEMBER, 2003	920	$4.4436	$3,894.99	$177.91	$3,717.08	$522.71
	2431		$9,936.65	$453.84	$9,482.81	$1,333.52

2-15

LJP, INC. ROYALTY DISTRIBUTION CALCULATIONS

LEASE NAME: D. RATZLAFF "B" #3
OWNER NAME: [illegible]
OWNER SHARE: 0.1406250

	MMBTU	PRICE/MMBTU	GROSS VALUE	PRODUCTION TAXES	NET AMOUNT DUE	YOUR SHARE
JULY, 2003	2475	$4.7656	$10,655.86	$483.39	$10,172.47	$1,430.50
AUGUST, 2003	2324	$4.1860	$8,730.42	$398.68	$8,331.74	$1,171.65
SEPTEMBER, 2003	2493	$4.4436	$10,550.23	$480.33	$10,069.90	$1,416.08
	7292		$29,936.51	$1,362.40	$28,574.11	$4,018.23

2-16

Testimony before the Senate Utilities Committee
Senate Bill 401
March 11, 2004

Senator Clark and members of the Senate Utilities Committee:

Statement of: Jim & Claudia Glass, d.b.a. Laird Properties, L.L.C.
1805 West Illinois Avenue, Hutchinson, KS
glasss2001@hotmail.com

We have concluded that, in addition to the other items of concern, the information on the Senate Bill No. 401 needs to be further addressed as to the valuation of Personal Property Tax. Considering that the equation of value is obtained by the total yearly production of natural gas multiplied by the average price obtained there from, it seems strange that the renditions produced and sent out by Oxy USA, Inc. and Pioneer Natural Resources, Inc. each month are completely different for the same gas wells, that being the Laird B-1 and the Laird B-2 gas wells that we have an interest in on Section 30-28-33 in Haskell County, Kansas. That section of land is unitized as a 640 acre parcel that has only two gas wells, one of which is on the north half (Laird B-1) and the other on the south half (Laird B-2). Both Oxy and Pioneer are operators, and this is apparently a split-stream operation. However, as shown on the Haskell County Appraiser's rendition, Oxy USA, Inc. is the operator. According to our phone conversations with Julie Montgomery, the Royalty Owner's Representative from Pioneer, she does not have the authority to offer any assistance with our questions with regard to Pioneer's monthly payment renditions to Laird Properties, L.L.C. Ms. Montgomery insists that Oxy USA, Inc. is responsible for any errors or omissions since they (Oxy) are the operators.

When we discuss this issue with Ramona Myers of Oxy USA, Inc., the company's land technician, Ms. Myers has been somewhat helpful, but will not indicate any so-called "rules" of how we are treated by Pioneer Natural Resources, Inc. Ms. Myers has indicated to us several times that we need to speak to Pioneer representatives in regards to how they arrive at a total MCF volume from these gas wells which apparently do not match the MCF volume of Oxy USA, Inc. Even though all of the products taken from the two gas wells run through one meter that is electronically operated for each well that will indicate how many MCF are taken, and at what pounds of gauge pressure that gas is producing at the well head. The only way we could find out how many MCF of gas crosses the meter was by operating 'out of context,' that is, by going through non-traditional sources, and speaking to field supervisory personnel (people who read the meter on a daily or monthly basis) by phone conversations. That person was Bill Boone at phone number 620-356-3032. He indicated that the Laird B-1 shows 250 MCF per day, and the Laird B-2 shows 100 MCF per day, both of which had 8 to 9 pounds of gauge pressure on January 2, 2004. If these electronic meter readings are then correct, we should expect somewhere around 10,500 MCF per 30-day period, since he indicated that these were average production readings for a 24 hour period.

Then, as a result of our efforts over the past 3 years, and according to the Oxy USA, Inc. renditions sent to us each month, and the Pioneer Natural Resources, Inc. renditions, these anticipated volumes should be reflected on our royalty owner's check stub payment records. Sounds good, right? It has taken 3 years of off-and-on phone conversations with Oxy USA, Inc. for them to finally admit that they indicate twice as much MCF as what they actually receive and sell on our monthly renditions, but they only pay us 50% of the normal royalty in the declaration of the decimal interest.

Through these unofficial 'out-of-context' channels, we finally got hold of someone at the Pioneer Natural Resources, Inc. plant who indicated that he will have someone help him gather information about our gas wells, Laird B-1 and Laird B-2 in Section 30-28-33 in Haskell County, Kansas. Four days later, he called back and told us that it has been a long drawn-out experience obtaining information, even though he had help with this endeavor. Apparently Pioneer Natural Resources, Inc. obtains the gas from these wells through a pipeline system connected to a number of wells and then processes the wet gas to obtain liquid natural gas and helium, and then the dry gas and other products that remain is sold after that process of gathering and compression. The companies then double up the dry gas MCF, the liquid natural gas, and the helium that is extracted through this process, and then they only pay the royalty owner half of the value of the royalty interest in the decimal equation. Does this mean that a "one plus one" addition equation no longer results in two?

Now that we finally got all that figured out, we have finally come to the conclusion that "no wonder the land technicians and the royalty owner's representatives keep pointing fingers at each other" on how to answer our questions. After following through with the field representatives, then an Oxy USA supervisor contacted us from Houston to visit with us about this problem, and he finally admitted to us that he doesn't know why they do their accounting this way, either. When this is all over with and we finally run out of the Hugoton gas field production, the operators will pull up stakes and we will get the shafts. We believe that if the laws were changed so that the operators themselves also become educated, this will become a great provision in our law books for a long time, and then the operators of a split-stream gas production effort will have both oars in the water.

We urge your favorable consideration of SB 401.

Respectfully submitted,

/s/ Jim Glass

Jim Glass

Jim & Claudia Glass
1803 West Illinois Avenue
Hutchinson, KS 67501-7827
1-877-669-5006; 1-800-613-3178

Robert Larrabee
Box 1009
Liberal, Kansas 67901

Testimony before the Senate Utilities Committee
Senate Bill 401
March 11, 2004

Chairman Clark and Members of the Committee:

Occasionally I compare the MCF on my royalty statements with the MCF reported to the county (Stevens) by the gas company.

This year I have made this comparison on 2 wells, (one Hugoton, one infill) reported to the county. The MCF on these 2 wells is combined on the royalty statement as one. This comparison shows the gas company MCF for the years to be less than the MCF on my royalty statement.

I am unable to determine the reason for this difference.

/s/ Robert Larrabee

Robert Larrabee

Attachment

ROBERT LARRABEE
Box 1009
LIBERAL, KANSAS 67901

Occasionally I compare the MCF on my Royalty statements with the MCF reported to the County (Stevens) by the Gas Company.
This year I have made this comparison on 2 Wells, (one Hugoton, one Infill) reported to the County. The MCF on these 2 wells is combined on the Royalty Statement as one.
This comparison shows the Gas Company MCF for the year to be less than the MCF on my Royalty statement.
I am unable to determine the reason for this difference.

Robert Larrabee

4-2

BP AMERICA

PRODUCTION 2 WELLS

SEELY "C" AND SEELY "C" 3H1

00701487

DATE 2003	IKRIC GAS MCF	$/MCF	OTHER GAS MCF	$/MCF	IKRIC GAS $ OVER OTHER GAS
APRIL	268	46991	10734	3.6166	1.0[illegible]25
MAY	374	4.9076	11199	3.7346	1.1730
JUNE	[illegible]	5.4218	10625	4.3416	[illegible]
JULY	346	52597	10596	4.1231	1.1366
AUG	176	46403	10653	3.6029	1.0374
SEPT	1161	4.8481	10205	3.8238	1.0343
OCT	136	42531	10198	3.4020	0.8511
NOV	38	42906	9996	33485	[illegible]

4-3

Anadarko Petroleum Corporation

1511-003022

Customer Address ID:
Check Date: 09/25/03
Check Number:
Check Amount:

1 PROD DATE	2 PROD CODE	3 INT TYPE	4 PROPERTY QUANTITY	5 PRICE	6 BTU	7 PROPERTY GROSS VALUE	8 PROPERTY TAXES / ADJUSTMENTS	9 PROPERTY NET VALUE	10 CUSTOMER DECIMAL INTEREST	11 CUSTOMER GROSS VALUE	12 CUSTOMER TAXES / ADJUSTMENTS	13 ADJ CODE	14 CUSTOMER NET VALUE
PROPERTY: 6283601			SWALAR B-1				COUNTY: STEVENS			STATE: KANSAS			
06/03	20	RI	0.00		1.086	0.00		0.00	0.01526448	0.01			0.01
06/03	45	RI	108.00	4.212		454.86	(19.70)	435.16	0.03202408	14.57	(0.63)	S	13.94
06/03	45	RI	108.00	4.212		454.66	(19.70)	435.16	0.01526448	6.94	(0.30)	S	6.64
07/03	20	RI	50,874.00	5.555	1.084	282,587.04	(12,703.04)	269,884.0	0.03202408	9,049.59	(406.81)	S	8,642.78
07/03	20	RI	50,874.00	5.555	1.084	282,587.04	(12,703.04)	269,884.0	0.01526448	4,313.54	(193.91)	S	4,119.63
						TOTALS				14,496.29			13,844.60

4-4

ANADARKO PETROLEUM CORPORATION
SETTLEMENT STATEMENT
PO BOX 1330
HOUSTON, TX 77251-1330

2191-C04381

Tax ID:
Customer Address ID:
Check Date: 11/25/03
Check Number:
Check Amount:

ADJUSTMENT CODE		PRODUCT CODE	
C...	COMPRESSION	10-19...	OIL
D...	DEHYDRATION	20-29...	GAS
G...	GATHERING	30-39...	LIQUID PRODUCTS
M...	MARKETING	41...	SULPHUR
P...	PROCESSING	45...	HELIUM
R...	TREATING	INTEREST TYPE	
S...	SEVERANCE TAX	WI...	WORKING INTEREST
T...	TRANSPORTATION	PP...	PRODUCTION PAYMENT
V...	AD VALOREM TAX	OR...	OVERRIDING ROYALTY
I...	STATE INCOME TAX	RI...	ROYALTY INTEREST
W...	SW DISPOSAL	SO...	SURFACE OWNER
		TP...	TOTAL PRODUCTION

ANY QUESTIONS, PLEASE CALL
OUR CUSTOMER HOTLINE AT
800-359-1692

RETAIN THIS STATEMENT
FOR TAX PURPOSES
DUPLICATES CANNOT BE FURNISHED

1	2	3	4	5	6	7	8	9	10	11	12	13	14
PROD DATE	PROD CODE	INT TYPE	PROPERTY QUANTITY	PRICE	BTU	PROPERTY GROSS VALUE	PROPERTY TAXES / ADJUSTMENTS	PROPERTY NET VALUE	CUSTOMER DECIMAL INTEREST	CUSTOMER GROSS VALUE	CUSTOMER TAXES / ADJUSTMENTS	ADJ CODE	CUSTOMER NET VALUE
PROPERTY:	6255002		SWALAR A-1			COUNTY:	STEVENS			STATE:	KANSAS		
08/03	20	RI	2,020.00	4.757	1.052	9,609.68	(434.64)	9,175.04	0.03219575	309.39	(14.00)	S	295.39
08/03	20	RI	2,020.00	4.757	1.052	9,609.68	(434.64)	9,175.04	0.01511993	145.30	(6.57)	S	138.73
08/03	20	RI	2,020.00	4.757	1.052	9,609.68	(434.64)	9,175.04	0.01518432	145.92	(6.60)	S	139.32
08/03	45	RI	17.00	4.289		72.91	(3.16)	69.75	0.03219575	2.35	(0.10)	S	2.25
08/03	45	RI	17.00	4.289		72.91	(3.16)	69.75	0.01511993	1.10	(0.05)	S	1.05
08/03	45	RI	17.00	4.289		72.91	(3.16)	69.75	0.01518432	1.11	(0.05)	S	1.06
09/03	20	RI	1,289.00	5.005	1.060	6,451.07	(291.16)	6,159.91	0.03219575	207.70	(9.37)	S	198.33
09/03	20	RI	1,289.00	5.005	1.060	6,451.07	(291.16)	6,159.91	0.01511993	97.54	(4.40)	S	93.14
09/03	20	RI	1,289.00	5.005	1.060	6,451.07	(291.16)	6,159.91	0.01518432	97.96	(4.42)	S	[illegible]
PROPERTY:	6283601		SWALAR B-1			COUNTY:	STEVENS			STATE:	KANSAS		
07/03	20	RI	(25,437.00)	5.555	1.084	(141,293.52)	6,351.52	(134,942.00)	0.03202408	(4,524.79)	203.40	S	[illegible]
07/03	20	RI	(25,437.00)	5.555	1.084	(141,293.52)	6,351.52	(134,942.00)	0.01526448	(2,156.77)	96.95	S	[illegible]
08/03	20	RI	23,292.00	4.906	1.085	114,275.18	(5,161.94)	109,113.24	0.03202408	3,659.56	(165.31)	S	[illegible]
08/03	20	RI	23,292.00	4.906	1.085	114,275.18	(5,161.94)	109,113.24	0.01526448	1,744.35	(78.79)	S	[illegible]

↓ PLEASE FOLD ON PERFORATION AND DETACH HERE ↓

4-5

ANADARKO PETROLEUM CORPORATION
TEL 832 636 10..
P.O. BOX 1330 • HOUSTON TEXAS 77251-1330

Anadarko

January 8, 2004

Swalar Co.
Joe Larrabee
P.O. Box 1009
Liberal, KS 67901

Dear Mr. Larrabee

Please find below a short paragraph detailing the booking and reversals for July 2003 sales. I hope it will be of benefit to you.

From to booking accountant:

Due to an Excalibur system problem involving a lock-up in the revenue transfer process, the gross sales amounts for the 7/03 sales month were double-booked. The final (and negative) entry recorded for this sales month was to reverse the excess amount recorded. This last entry was recorded in the 10/03 accounting month, as opposed to the original entries, which were recorded in the 8/03 accounting month. Therefore, instead of offsetting the excess portion of the original entry on the same check, the negative entry was the only entry for this sales month on a subsequent check. If the owner will look at the check stub that contains the original entry for the 7/03 sales month, they will see a volume of 50,874 MCF, which is the doubled entry. The negative entry for 25,437 MCF is to reverse the excess portion of this doubled entry.

Revenue Accounting

Martha Boesch

Martha Boesch

4-6

Operator: BPAMERO
BP AMERICA PRODUCTION COMPANY
ATTN: PROPERTY TAX DEPARTMENT
PO BOX 3092
HOUSTON TX 77253

Lease: 01226 D/O: 2111410 Code: 617959 Prod Yr:2002
SECURITY ELEV C (CG) City/Twp: HA
HARMONY Tax Unit: 20
HARMONY TOW
Sec 13 Twp 31 Rng 39 USD 210

Wells: Pumping 1 Flowing SI SWD BBLS Water: Field: PANOMA COUNCIL GROVE
Purchaser WILLIAMS PIP Prod Depth: 2840 NonProd Depth:
Market Price MCF: 2.4301000 Compress CRG: Trans CRG: Net Price: 2.4301000
MCF Royalty Own : 2.4301000 BTU Content: Spud Dt: 3/1972 Prod Dt:

SECTION III - Itemized Equipment Supplement

Description	Schedule	Owner	Appraiser
1. 640 ACRE UNIT, ALL SEC 13-31-39, SECURITY ELEV			
2. C, SECURITY ELEV C (CG) (PANOMA) & SECURITY			
3. ELEV C 3HI (INFILL)			
TOTAL:			

COPY

SECTION IV - Production Data

Production Yr	Condensate	Gas-MCF
1998		50,984
1999		56,068
2000		48,939
2001		45,865
2002		36,419
Total Production:		238,275
Average Annual Prod:		35,605
Condensate to MCF:		
Total Avg Prod MCF:		35,605

NGPA Category: 104
Expiration Dt: 08/01/1989

Condensate Prod Data: X = DIV 2.4301000

SECTION V - Valuation of the Total 8/8ths Interest	Schedule	Owner	Appraiser
Average Production:	35,605		35,605
Net Price:	2.4301000	2.4301000	2.4301000
Est Gross Income:	86,524		86,524
Present Worth Factor:	3.630	3.630	3.630
Est Gross Resv Value:	314,082		314,082

SECTION VI - Gross Reserve Value X Decimal Interest			Schedule	Owner	Appraiser
Royalty Interest Value:	314,082	.12500000	39,260		39,260
Working Interest Value:	314,082	.87500000	274,822		274,822
Deduct Operating Cost:	66,529 x	1	66,529		66,529
Wellhead Comp Expense:					
Water Expense Allow:					
Sub Total:			208,293		208,293
Minimum Lease Value	274,822 x	.10	27,482		27,482
Net Lease Value:			208,293		208,293
Add Equip Value Prod:	x	1			
Non-Producing:	x				
Working Int Appraised Value:			208,293		208,293
Itemized Equipment (Sec III)					

SECTION VII - Abstract Value	Appraised		Assessed	Penalty	Total
Working Interest:	208,293	30%	62,488		
Itemized Equipment:		30%			
Total Working Int:	208,293		62,488		62,488
Royalty Interest:	39,260	30%	11,778		11,778
Total Working & Royalty:	247,553		74,266		74,266

4-7

GAS ASSESSMENT RENDITION STEVENS COUNTY 200 E 6TH HUGOTON, KS 67951 620-544-2993 FEBRUARY 25, 2

Operator: BPAMERO
BP AMERICA PRODUCTION COMPANY
ATTN: PROPERTY TAX DEPARTMENT
PO BOX 3092
HOUSTON TX 77253

Lease: 01226 D/O: 2111410 Code: 617959 Prod Yr:2002
SECURITY ELEV C (CG)
HARMONY
City/Twp: HA
Tax Unit: 20
HARMONY TOW
Sec 13 Twp 31 Rng 39 USD 210 Levy: 69.085

ROYALTY OWNERS		GRO RESV	DEC INT	SCHEDULE	ASSESSED	TAX
KANPRO0 KANCO PROPERTIES % HASTINGS, LOTTIE LEE PO BOX 507 LAVETA CO 81055-0507	09/24/2003	314082	.06250000	19630	5889	$406.84
SWACOM0 SWALAR COMPANY % LARRABEE, ROBERT PO BOX 1009 LIBERAL KS 67901-1009	09/30/2003	314082	.06250000	19630	5889	$406.84
LEASE TOTAL			.12500000	39260	11778	$813.68
WORKING INTEREST		314082	.87500000	208293	62488	

4-8

GAS [illegible]SSMENT RENDITION STEVENS COUNTY 200 E 6TH HUGOTON, KS 67951 620-544-2993 FEBRUARY 25,

Operator: BPAMERO
BP AMERICA PRODUCTION COMPANY
ATTN: PROPERTY TAX DEPARTMENT
PO BOX 3092
HOUSTON TX 77253

Lease: 01225 D/O: 2108090
SECURITY ELEV C
HARMONY
Sec 13 Twp 31 Rng 39

Code: 76152 Prod Yr:2002
City/Twp: HA
Tax Unit: 20
HARMONY TOW
USD 210

Wells: Pumping 1 Flowing SI SWD BBLS Water: Field: HUGOTON CHASE/ABOVE 3000'
Purchaser WILLIAMS PIP Prod Depth: 2553 NonProd Depth:
Market Price MCF: 2.4825000 Compress CRG: Trans CRG: Net Price: 2.4825000
MCF Royalty Own : 2.4825000 BTU Content: Spud Dt: 7/1946 Prod Dt:

SECTION III - Itemized Equipment Supplement

Description	Schedule	Owner	Appraiser
1. 640 ACRE UNIT, ALL SEC 13-31-39, SECURITY ELEV			
2. C, SECURITY ELEC C (CG) (PANOMA) & SECURITY			
3. ELEV C 3HI (INFILL)			
TOTAL:			

SECTION IV - Production Data

Production Yr	Condensate	Gas-MCF
1998		39,359
1999		38,546
2000		33,755
2001		31,629
2002		29,408
Total Production:		172,697
Average Annual Prod:		36,422
Condensate to MCF:		
Total Avg Prod MCF:		36,422

COPY

NGPA Category: 104
Expiration Dt: 08/01/1989

Condensate Prod Data: X = DIV 2.4825000

SECTION V - Valuation of the Total 8/8ths Interest	Schedule	Owner	Appraiser
Average Production:	36,422		36,422
Net Price:	2.4825000	2.4825000	2.4825000
Est Gross Income:	90,418		90,418
Present Worth Factor:	3.630	3.630	3.630
Est Gross Resv Value:	328,217		328,217

SECTION VI - Gross Reserve Value X Decimal Interest			Schedule	Owner	Appraiser
Royalty Interest Value:	328,217	.12500000	41,027		41,027
Working Interest Value:	328,217	.87500000	287,190		287,190
Deduct Operating Cost:	63,000 x	1	63,000		63,000
Wellhead Comp Expense:					
Water Expense Allow:					
Sub Total:			224,190		224,190
Minimum Lease Value	287,190 x	.10	28,719		28,719
Net Lease Value:			224,190		224,190
Add Equip Value Prod:	x	1			
Non-Producing:	x				
Working Int Appraised Value:			224,190		224,190
Itemized Equipment (Sec III)					

SECTION VII - Abstract Value	Appraised		Assessed	Penalty	Total
Working Interest:	224,190	30%	67,257		
Itemized Eequipment:		30%			
Total Working Int:	224,190		67,257		67,257
Royalty Interest:	41,027	30%	12,308		12,308
Total Working & Royalty:	265,217		79,565		79,565

4-9

GAS . ESSMENT RENDITION STEVENS COUNTY 200 E 6TH HUGOTON, KS 67951 620-544-2993 FEBRUARY 25,

Operator: BPAMER0 Lease: 01225 D/O: 2108090 Code: 76152 Prod Yr:2002
BP AMERICA PRODUCTION COMPANY SECURITY ELEV C City/Twp: HA
ATTN: PROPERTY TAX DEPARTMENT HARMONY Tax Unit: 26
PO BOX 3092 HARMONY TOW
HOUSTON TX 77253 Sec 13 Twp 31 Rng 39 USD 210 Levy: 69.085

ROYALTY OWNERS		GRO RESV	DEC INT	SCHEDULE	ASSESSED	TAX
KANPRO0 KANCO PROPERTIES % HASTINGS, LOTTIE LEE PO BOX 507 LAVETA CO 81055-0507	09/24/2003	328217	.06250000	20514	6154	$425.15
SWACOM0 SWALAR COMPANY % LARRABEE, ROBERT PO BOX 1009 LIBERAL KS 67901-1009	09/30/2003	328217	.06250000	20514	6154	$425.15
LEASE TOTAL			.12500000	41028	12308	$850.30
WORKING INTEREST		328217	.87500000	224190	67257	

4-10

GAS [illegible]SMENT RENDITION STEVENS COUNTY 200 E 6TH HUGOTON, KS 67951 620-544-2593 FEBRUARY 25, [illegible]

Operator: BPAMER0
BP AMERICA PRODUCTION COMPANY
ATTN: PROPERTY TAX DEPARTMENT
PO BOX 3092
HOUSTON TX 77253

Lease: 01721 D/O: 21 08103
SECURITY ELEV D 3HI
HARMONY
1250' FSL, 1250' FWL
Sec 27 Twp 31 Rng 39

Code:
City/Twp: HA
Tax Unit: 20
HARMONY TOW
USD 210

Prod Yr:2003

Wells: Pumping 1 Flowing SI SWD BBLS Water: Field: HUGOTON CHASE/ABOVE 3000'
Purchaser WILLIAMS PIP Prod Depth: 2538 NonProd Depth:
Market Price MCF: 2.4485000 Compress CRG: Trans CRG: Net Price: 2.4485000
MCF Royalty Own : 2.4485000 BTU Content: Spud Dt: 4/1988 Prod Dt:

SECTION III - Itemized Equipment Supplement

Description	Schedule	Owner	Appraiser
1. 640 ACRE UNIT, ALL SEC 27-31-39, SECURITY ELEV			
2. D, SECURITY ELEV D (PANOMA) & SECURITY ELEV			
3. D 3HI (INFILL)			
TOTAL:			

SECTION IV - Production Data

Production Yr	Condensate	Gas-MCF
1998		35,046
1999		38,323
2000		33,513
2001		31,340
2002		29,115
Total Production:		167,337
Average Annual Prod:		40,788
Condensate to MCF:		
Total Avg Prod MCF:		40,788

IN FILL

NGPA Category: 104
Expiration Dt: 08/01/1989

Condensate Prod Data: X = DIV 2.4485000

SECTION V - Valuation of the Total 8/8ths Interest	Schedule	Owner	Appraiser
Average Production:	40,788		40,788
Net Price:	2.4485000	2.4485000	2.4485000
Est Gross Income:	99,869		99,869
Present Worth Factor:	3.630	3.630	3.630
Est Gross Resv Value:	362,524		362,524

SECTION VI - Gross Reserve Value X Decimal Interest			Schedule	Owner	Appraiser
Royalty Interest Value:	362,524	.12500000	45,316	45,316	45,316
Working Interest Value:	362,524	.87500000	317,209		317,209
Deduct Operating Cost:	63,000 x	1	63,000		63,000
Wellhead Comp Expense:					
Water Expense Allow:					
Sub Total:			254,209		254,209
Minimum Lease Value	317,209 x	.10	31,721		31,721
Net Lease Value:			254,209		254,209
Add Equip Value Prod:	x	1			
Non-Producing:	x				
Working Int Appraised Value:			254,209		254,209
Itemized Equipment (Sec III)					

SECTION VII - Abstract Value	Appraised		Assessed	Penalty	Total
Working Interest:	254,209	30%	76,263		
Itemized Eequipment:		30%			
Total Working Int:	254,209		76,263		76,263
Royalty Interest:	45,316	30%	13,595		13,595
Total Working & Royalty:	299,525		89,858		89,858

4-11

GAS [illegible]SSMENT RENDITION STEVENS COUNTY 200 E 6TH HUGOTON, KS 67951 620-544-2993 FEBRUARY 25,

Operator: BPAMERO
BP AMERICA PRODUCTION COMPANY
ATTN: PROPERTY TAX DEPARTMENT
PO BOX 3092
HOUSTON TX 77253

Lease: 01721 D/O: 21 08103 Code: Prod Yr:2002
SECURITY ELEV D 3HI City/Twp: HA
HARMONY Tax Unit: 20
1250' FSL, 1250' FWL HARMONY TOW
Sec 27 Twp 31 Rng 39 USD 210 Levy: 69.085

ROYALTY OWNERS		GRO RESV	DEC INT	SCHEDULE	ASSESSED	TAX
KANPROC KANCO PROPERTIES % HASTINGS, LOTTIE LEE PO BOX 507 LAVETA CO 81055-0507	09/24/2003	362524	.06250000	22658	6797	$469.57
SWACOMO SWALAR COMPANY % LARRABEE, ROBERT PO BOX 1009 LIBERAL KS 67901-1009	09/30/2003	362524	.06250000	22658	6797	$469.57
LEASE TOTAL			.12500000	45316	13594	$939.14
WORKING INTEREST		362524	.87500000	254209	76263	

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GAS ASSESSMENT RENDITION STEVENS COUNTY 200 E 6TH HUGOTON, KS 67951 620-544-2993 FEBRUARY 25,

Operator: TRAPACO
TRANS PACIFIC OIL CORP
100 S MAIN, SUITE 200
WICHITA KS 67202

Lease: 02373 D/O:
SWALAR 2-27
HARMONY
Sec 27 Twp 31 Rng 39

Code:
City/Twp: HA
Tax Unit: 20
HARMONY TOW
USD 210

Prod Yr:2002

Wells: Pumping Flowing 1 SI SWD BBLS Water: 3.00 Field: AOK
Purchaser WESTAR GAS M Prod Depth: 6175 NonProd Depth:
Market Price MCF: 2.9600000 Compress CRG: Trans CRG: Net Price: 2.9600000
MCF Royalty Own : 2.9600000 BTU Content: Spud Dt: 8/1996 Prod Dt:

SECTION III - Itemized Equipment Supplement

Description	Schedule	Owner	Appraiser

SECTION IV - Production Data

Production Yr	Condensate	Gas-MCF
1998		387,579
1999		243,444
2000		153,488
2001		65,812
2002		29,754
Total Production:		880,077
Average Annual Prod:		29,754
Condensate to MCF:		
Total Avg Prod MCF:		29,754

IN FILL

NGPA Category:
Expiration Dt:

Condensate Prod Data: X = DIV 2.9600000

SECTION V - Valuation of the Total 8/8ths Interest	Schedule	Owner	Appraiser
Average Production:	29,754		29,754
Net Price:	2.9600000	2.9600000	2.9600000
Est Gross Income:	88,072		88,072
Present Worth Factor:	.674	.674	.674
Est Gross Resv Value:	59,361		59,361

SECTION VI - Gross Reserve Value X Decimal Interest			Schedule	Owner	Appraiser
Royalty Interest Value:	59,361	.23000000	13,653		13,653
Working Interest Value:	59,361	.77000000	45,708		45,708
Deduct Operating Cost:	27,170 x	1	27,170		27,170
Wellhead Comp Expense:					
Water Expense Allow:					
Sub Total:			18,538		18,538
Minimum Lease Value	45,708 x	.10	4,571		4,571
Net Lease Value:			18,538		18,538
Add Equip Value Prod:	5,249 x	1	5,249		5,249
Non-Producing:	x				
Working Int Appraised Value:			23,787		23,787
Itemized Equipment (Sec III)					

SECTION VII - Abstract Value	Appraised		Assessed	Penalty	Total
Working Interest:	23,787	25%	5,947		
Itemized Eequipment:		30%			
Total Working Int:	23,787		5,947		5,947
Royalty Interest:	13,653	30%	4,096		4,096
Total Working & Royalty:	37,440		10,043		10,043

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GAS .ESSMENT RENDITION STEVENS COUNTY 200 E 6TH HUGOTON, KS 67951 620-544-2993 FEBRUARY 25,

Operator: TRAPACO TRANS PACIFIC OIL CORP 100 S MAIN, SUITE 200 WICHITA KS 67202	Lease: 02373 SWALAR 2-27 HARMONY Sec 27 Twp 31 Rng 39	D/O:	Code: City/Twp: HA Tax Unit: 20 HARMONY TOW USD 210 Levy: 69.085

Prod Yr:2002

ROYALTY OWNERS			GRO RESV	DEC INT	SCHEDULE	ASSESSED	TAX
BANALA5 BANTA, ALAN D 124 N LONGFORD CT WICHITA KS 67206	ORRI	02/02/1999	59361	.00875000	519	156	$10.78
BANAMY5 BANTA, AMY J 124 N LONGFORD CT WICHITA KS 67206	ORRI	02/02/1999	59361	.00250000	148	44	$3.04
BPAMER5 BP AMERICA PRODUCTION CO ATTN: PROPERTY TAX DEPT PO BOX 3092 HOUSTON TX 77253	ORRI	11/04/2003	59361	.07500000	4452	1336	$92.30
CHRJON5 CHRISTENSEN, JON 312 LONG LANE RD WICHITA KS 67204	ORRI	01/06/1997	59361	.00250000	148	44	$3.04
EASEXP5 EASTLAND EXPLORATION INC PO BOX 5279 AUSTIN TX 78763-5279	ORRI	11/04/2003	59361	.00500000	297	89	$6.15
KANPRO0 KANCO PROPERTIES % HASTINGS, LOTTIE LEE PO BOX 507 LAVETA CO 81055-0507		09/24/2003	59361	.06250000	3710	1113	$76.89
PARCON5 PARMELY, CONNIE SUE 1472 PERRY WICHITA KS 67203		01/30/2003	59361	.00375000	223	67	$4.63
SIGCON5 3/00 SIGMA CONSULTANTS INC % TRANS PACIFIC OIL CORP 100 S MAIN #200 WICHITA KS 67202	ORRI	11/04/2003	59361	.00750000	445	134	$9.26
SWACOM0 SWALAR COMPANY % LARRABEE, ROBERT PO BOX 1009 LIBERAL KS 67901-1009		09/30/2003	59361	.06250000	3710	1113	$76.89
LEASE TOTAL				.12875000	7643	2293	$282.98
	ORRI			.10125000	6009	1603	
WORKING INTEREST			59361	.77000000	23787	5947	

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GAS ASSESSMENT RENDITION STEVENS COUNTY 200 E 6TH HUGOTON, KS 67951 620-544-3993 FEBRUARY 25, 2004

Operator: TRAPACO
TRANS PACIFIC OIL CORP
100 S MAIN, SUITE 200
WICHITA KS 67202

Lease: 02373
SWALAR 2-27
HARMONY
Sec 27 Twp 31 Rng 39

D/O:

Code:
City/Twp: HA
Tax Unit: 20
HARMONY TOW
USD 210

Prod Yr: 2002

Wells: Pumping Flowing 1 SI SWD BBLS Water: 3.00 Field: AOX
Purchaser WESTAR GAS M Prod Depth: 6175 NonProd Depth:
Market Price MCF: 2.9600000 Compress CRG: Trans CRG: Net Price: 2.9600000
MCF Royalty Own : 2.9600000 BTU Content: Spud Dt: 8/1996 Prod Dt:

SECTION III - Itemized Equipment Supplement

Description	Schedule	Owner	Appraiser

SECTION IV - Production Data

Production Yr	Condensate	Gas-MCF
1998		387,579
1999		243,444
2000		153,488
2001		65,812
2002		29,754
Total Production:		880,077
Average Annual Prod:		29,754
Condensate to MCF:		
Total Avg Prod MCF:		29,754

IN FILL

NGPA Category:
Expiration Dt:

Condensate Prod Data: X = DIV 2.9600000

SECTION V - Valuation of the Total 8/8ths Interest	Schedule	Owner	Appraiser
Average Production:	29,754		29,754
Net Price:	2.9600000	2.9600000	2.9600000
Est Gross Income:	88,072		88,072
Present Worth Factor:	.674	.674	.674
Est Gross Resv Value:	59,361		59,361

SECTION VI - Gross Reserve Value X Decimal Interest			Schedule	Owner	Appraiser
Royalty Interest Value:	59,361	.23000000	13,653		13,653
Working Interest Value:	59,361	.77000000	45,708		45,708
Deduct Operating Cost:	27,170 x	1	27,170		27,170
Wellhead Comp Expense:					
Water Expense Allow:					
Sub Total:			18,538		18,538
Minimum Lease Value	45,708 x	.10	4,571		4,571
Net Lease Value:			18,538		18,538
Add Equip Value Prod:	5,249 x	1	5,249		5,249
Non-Producing:	x				
Working Int Appraised Value:			23,787		23,787
Itemized Equipment (Sec III)					

SECTION VII - Abstract Value	Appraised		Assessed	Penalty	Total
Working Interest:	23,787	25%	5,947		
Itemized Eequipment:		30%			
Total Working Int:	23,787		5,947		5,947
Royalty Interest:	13,653	30%	4,096		4,096
Total Working & Royalty:	37,440		10,043		10,043

4-15

GAS ASSESSMENT RENDITION STEVENS COUNTY 200 E 6TH HUGOTON, KS 67951 620-544-2993 FEBRUARY 25, 2004

Operator: TRAPACO
TRANS PACIFIC OIL CORP
100 S MAIN, SUITE 200
WICHITA KS 67202

Lease: 02373 D/O:
SWALAR 2-27
HARMONY
Sec 27 Twp 31 Rng 39

Code:
City/Twp: HA
Tax Unit: 20
HARMONY TOW
USD 210 Levy: 69.085

Prod Yr:2002

ROYALTY OWNERS			GRO RESV	DEC INT	SCHEDULE	ASSESSED	TAX
BANALA5 BANTA, ALAN D 124 N LONGFORD CT WICHITA KS 67206	ORRI	02/02/1999	59361	.00875000	519	156	$10.78
BANAMY5 BANTA, AMY J 124 N LONGFORD CT WICHITA KS 67206	ORRI	02/02/1999	59361	.00250000	148	44	$3.04
BPAMER5 BP AMERICA PRODUCTION CO ATTN: PROPERTY TAX DEPT PO BOX 3092 HOUSTON TX 77253	ORRI	11/04/2003	59361	.07500000	4452	1336	$92.30
CHRJON5 CHRISTENSEN, JON 312 LONG LANE RD WICHITA KS 67204	ORRI	01/06/1997	59361	.00250000	148	44	$3.04
EASEXP5 EASTLAND EXPLORATION INC PO BOX 5279 AUSTIN TX 78763-5279	ORRI	11/04/2003	59361	.00500000	297	89	$6.15
KANPRO0 KANCO PROPERTIES % HASTINGS, LOTTIE LEE PO BOX 507 LAVETA CO 81055-0507		09/24/2003	59361	.06250000	3710	1113	$76.89
PARCON5 PARMELY, CONNIE SUE 1472 PERRY WICHITA KS 67203		01/30/2003	59361	.00375000	223	67	$4.63
SIGCON5 3/00 SIGMA CONSULTANTS INC % TRANS PACIFIC OIL CORP 100 S MAIN #200 WICHITA KS 67202	ORRI	11/04/2003	59361	.00750000	445	134	$9.26
SWACOM0 SWALAR COMPANY % LARRABEE, ROBERT PO BOX 1009 LIBERAL KS 67901-1009		09/30/2003	59361	.06250000	3710	1113	$76.89
LEASE TOTAL				.12875000	7643	2293	$282.98
	ORRI			.10125000	6009	1803	
WORKING INTEREST			59361	.77000000	23787	5947	

4-16

Comments Submitted in Support of a Substitute for SB 401
Offered by Ken Peterson, Director
Kansas Petroleum Council

To the Senate Utilities Committee
March 11, 2004

Mr. Chairman and members of the Committee, thank you for allowing me to offer comments proposing a substitute for Senate Bill 401. I am the director of the Kansas Petroleum Council, a trade association representing several gas production companies in the Hugoton Field. They are ExxonMobil, BP, Oxy, and Anadarko.

Our member companies work hard to maintain excellent rapport with royalty owners. Seven years ago, the Legislature approved a royalty check stub law as a result of extended negotiations between oil and gas producers and royalty owners.

This year the Southwest Kansas Royalty Owners' Association requested the drafting of Senate Bill 401. The legislation was introduced on January 30. Producers said they had not been advised that the royalty owners had concerns with the current law.

In an effort to reach an understanding of their concerns, we arranged a meeting to discuss the bill with royalty interests and industry groups. Members of the Council, KIOGA, EKOGA and the Southwest Kansas Royalty Owners' Association meet on February 19 to discuss SB 401. The goal was to learn more of their concerns and to reach a possible agreement on draft language.

Our company representatives asked for examples of royalty owner difficulties with current law. They were given a royalty owner newsletter that listed those concerns. Our companies asked for actual examples and, to date, none has been provided.

To seek an agreement with the royalty owners, our company experts went to work preparing an alternative proposal to Senate Bill 401.

The compromise is before you today. It is uniform with Texas law, which, by the way, was the result of protracted negotiations between production interests and royalty owners. One does not craft legislation in a couple of months that affects tens of thousands of royalty checks and hundreds of thousands of dollars in payments.

One of our critical concerns on this issue is uniformity. Our companies issue royalty checks in many states so a key goal is consistency in the form of check stub information. That is why the substitute proposal follows Texas law.

We reached an agreement on the proposed alternative among our member companies, then submitted the substitute on Monday to the Southwest Kansas Royalty Owners' Association, to KIOGA and to EKOGA.

The substitute provides that additional information will be listed on the check stub. It requires that producers each year send out a reminder to royalty owners that they can request additional information, and it provides for court action if information is requested and is not forthcoming within a 60-day period.

Current Kansas law, with significant input from the Southwest Kansas Royalty Owners' Association, was designed to provide all necessary information. Royalty owners already can request information from companies, who must respond within 60 days. Many of our companies provide websites to assist royalty owners with their questions.

We have serious problems with SB 401 as introduced. The penalty provisions are outlandish, to coin a phrase from one of our member company representatives.

Many requests that oil and gas producers do receive are for information already provided on the check stub or by other orders. A survey of our member companies reveals that only 2 percent of all royalty payments ever even generate a request.

Original SB 401 is a case of overkill. We regard current Kansas law as sufficient, but we also are willing to work further with the royalty interests to discuss positive improvements that will work for all concerned. We invite the royalty owners to look at the substitute, to participate in more discussions and to talk about real life examples of their concerns.

Above all, we urge the Committee not to overburden the oil and gas industry with the extraordinary requests put forth in SB 401.

Thank you.

SENATE SUBSTITUTE FOR SENATE BILL No. 401

By Committee on Utilities

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

New Section 1. (a) "Payee" means any person or persons legally entitled to payment from the proceeds derived from the sale of oil or gas from an oil or gas well located in this state.

(b) "Payor" means the party who undertakes to distribute oil and gas proceeds to the payee, whether as the purchaser of the production of oil or gas generating such proceeds or as operator of the well from which such production was obtained or as lessee under the lease on which royalty is due. The payor is the first purchaser of such production of oil or gas from an oil or gas well, unless the owner of the right to produce under an oil or gas lease, unit declaration, or pooling ~~order~~ agreement and the first purchaser have entered into arrangements providing that the proceeds derived from the sale of oil or gas are to be paid by the first purchaser to the owner of the right to produce who is thereby deemed to be the payor having the responsibility of paying those proceeds received from the first purchaser to the payee.

(c) Division order" means an agreement signed by the payee directing the distribution of proceeds from the sale of oil, gas, casinghead gas, or other related hydrocarbons. The order directs and authorizes the payor to make payment for the products taken in accordance with the division order. When used herein "division order" shall also include "transfer order.

(d) "Transfer order" means an agreement signed by a payee and his transferee (new payee) directing the payor under the division order to pay another person a share in the oil or gas produced.

New Sec 2. If a division order is not provided to a payee that includes the description of the property from which the oil or gas is being produced and the type of production, the payor must, at a minimum, provide prior to or with that payor's first payment to the payee a description of the property from which the oil or gas is being produced and the type of production.

New Sec 3. (a) If the payor does not explain on the check stub, attachment to the payment form, or other remittance advice, or by a separate mailing, deductions from or adjustments to payments, or the heating value of the gas, the payor must provide an explanation by certified mail not later than the 60th day after the date the payor receives a request from the royalty interest owner. The royalty interest owner must send the request by certified mail.

(b) A royalty interest owner who received a payment from a payor during the preceding calendar year may request in writing by certified mail that the payor provide a report listing the following information for the preceding year:

(1) each lease, property, or well identification number;

(2) each lease, property, or well name;

(3) the field name;

(4) the county and state in which the property is located; and

(5) the commission lease identification number or commingling permit number or any other identification number under which the production for the lease, property, or well is being reported to the state.

(c) A payor who receives a request for information under Subsection (~~c~~b) that has not otherwise provided such information shall provide ~~the~~such information by certified mail not later than the 60th day after the date the payor receives the request.

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(d) At least once every 12 months, a payor shall provide the following statement to each royalty interest owner to whom the payor makes a payment:

"Section _____, Kansas ______________, gives an owner of a royalty interest in oil or gas produced in Kansas the right to request from a payor information about itemized deductions, the heating value of the gas, and the Corporation Commission of Kansas identification number for the lease, property, or well that ~~may not have~~ has not been previously provided to the royalty interest owner. The request must be in writing and must be made by certified mail. A payor must respond to a request regarding itemized deductions, the heating value of the gas, or the ~~Railroad Corporation~~ Commission of ~~Texas~~ Kansas identification number by certified mail not later than the 60th day after the date the request is received. Additional information regarding production and related information may be obtained by contacting the Corporation Commission of Kansas or accessing the commission's website."

New Sec 4. If a royalty interest owner requests information or answers to questions concerning a payment made pursuant to this subchapter, other than information requested under Section _________(above), and the request is made by certified mail, the payor must respond to the request by certified mail not later than 60 days after the request is received. Nothing in this section shall give the royalty interest owner a right to the requested information, but shall require payor to respond in accordance with this section. If such requested information is not provided, then payor must provide an explanation as to why such information has not been provided.

New Sec 5. (a) A royalty interest owner who does not receive the information required to be provided under Section ___ [check stub law or property description] in a timely manner may send a written request for the information to the payor by certified mail.

(b) Not later than the 60th day after the date the payor receives the written request for information under this section, the payor shall provide the requested information by certified mail.

(c) If a payor fails to provide the requested information within the period specified by Subsection (b), either party may request mediation.

(d) If the royalty interest owner makes a written request for information under Section [deductions or heating value section] or this section and the payor does not provide the information within the 60-day period, the royalty interest owner may bring a civil action against the payor to enforce the provisions of Section [deductions or heating value section] or this section, as applicable. The prevailing party is entitled to recover reasonable court costs and attorney's fees."

Sec 6. K.S.A. 2003 Supp. 55-1620 is hereby amended to read as follows: 55-1620. When a payment is made for proceeds attributable to oil or gas production, the payment shall be accompanied by the following information, or the following information shall be calculable from the information provided with the payment:

(a) The lease, property, or well name or any lease, property, or well identification number used to identify the lease, or well *and a county and state in which the lease, property, or well is located*;

(b) the month and year during which the sale occurred for which payment is being made;

(c) the total volume of oil, attributable to such payment, measured in barrels and the total volume of either wet or dry gas, attributable to such payment, measured in thousand cubic feet;

(d) the price per barrel of oil or thousand cubic feet of gas sold;

(e) total amount of state severance and production taxes;

(f) payee's interest in the sale expressed as a decimal;

(g) payee's share of the sale before any deductions or adjustments;

(h) payee's share of the sale after deductions or adjustments;

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(i) an address and telephone number from which additional information may be obtained and any questions answered.

Sec 7. K.S.A. 2003 Supp. 55-1620 is hereby repealed.

Sec 8. This act shall take effect and be in force from and after its publication in the statute book.

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Kansas Independent Oil and Gas Association
American Energies Corporation
155 North Market, Suite 710
Wichita, KS 67202
adegood@ionexmail.net

Testimony to the Senate Committee on Utilities
Senate Bill 401
March 11, 2004

- Good morning Chairman Clark and Members of the Committee.
- My name is Alan DeGood, I am the current president of Kansas Independent Oil and Gas Association (KIOGA) KIOGA represents oil and gas producers in Kansas, a vast majority of which are small business entities. I am also the President of American Energies Corporation. American Energies operates over 400 oil and gas wells in the state. American Energies also has two LLC's, American Energies Pipeline, which has over 150 miles of gas gathering lines in Kansas, and American Energies Gas Service, which is a small gas utility with 50 miles of pipeline and serves 250 customers around McPherson.
- The original royalty payment law was approved in 1997, as a compromise bill between producers, purchasers and royalty interest owners. Senate Bill 401, we are discussing today, greatly concerns KIOGA members.

- There is presently legislation in place to protect any interest owner, whether it be royalty interest or working interest owners with interest in oil and/or gas well sales in Kansas.
- I am referring to K.A.R. 82-3-802 "Gas Gathering Services and Access, Complaint, Hearing" adopted by the Kansas Corporation Commission. Under this regulation, any interest owner can receive information about price and sales volume by requesting it from the operator or purchaser. If there are issues between the interest owner, operator, or purchaser, the Kansas Corporation Commission conducts an informal hearing to settle the issue. Should no agreement be reached, a formal hearing is scheduled to be heard by the KCC to reach a settlement. This system does work and is currently being utilized to determine gas prices.
- Senate Bill 401 would completely change the way interest owners will be paid.
- To begin, two major crude oil purchasers in Kansas would no longer distribute revenue, because they lack information regarding production by well on the lease.
- This means, the operator of the lease would become the revenue distributor. For American Energies, as operator of approximately 400 wells, with an average of 15 royalty, overriding royalty and working interest partners, this would mean an additional 6,000 pieces of mail per month at a cost of $.37 cents per piece. American Energies additional postage expense would be $2,200 per month. Gathering the production and sales data needed for

distribution to interest partners would require an additional employee with benefits, at a cost of $42,000 per year. A conservative estimate for the combined cost of additional postage, paper, ink, and man power is $50,000 per year.

- There are currently approximately 60,000 oil and gas wells producing in Kansas. Extrapolating American Energies' costs per well, would mean an additional $7,500,000 per year to the oil and gas producers of Kansas.
- The Amended Senate Bill 401 would break the confidentiality agreement that KIOGA members have with their oil and gas purchasers. These private contracts would no longer be private with the information as required in the proposed Senate Bill 401. I wonder if this doesn't violate the existing law K.S.A. 55-1621 (1997) which states "Nothing contained in this Act shall be construed to amend or otherwise affect any contractual obligations or rights which may otherwise exist."
- Oil and gas leases **are also contracts** between the lessee and the producer and these contract states that the price paid, is the market value of the product at the wellhead which they are receiving.
- Dr. Carr from the Kansas Geological Survey estimate that 98% of the Kansas oil wells are stripper wells and that 63% of the Kansas gas wells are classified as stripper wells meaning on the average they generate revenues of less than $100.00 per day. (Taken from the "Kansas Energy Plan 2003) The penalty phrase of the Senate Bill 401 is $1000 dollars per violation per day, with 15

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interest owners in a well this would equal $15,000 per day. The average stripper oil well produce 2.7 barrels of oil per day or $86.00 a day.

- **In summary, the old adage applies, "If it isn't broken, don't fix it."**
- **The 1997 law, K.S.A. 55-1614 et seq., proposed to be amended by SB 401 is working** and K.A.R. 82-3-802 gives any interest owner the right to obtain information on any gas lease. The major gas producers have spent many hours, without the benefit of the independents, trying to work out a compromise on Senate Bill 401. The independent oil and gas industry throughout Kansas believes that the interest owners are being paid the best price possible and additional regulations would only cut into the economic life of the wells. **We urge you to not pass this legislation and support the current legislation as agreed upon by all parties in 1997.**

SENATE UTILITIES COMMITTEE
March 11, 2004
RE: SB 401 - An Act relating to oil and gas; concerning information to be included with payment to interest owners from sales of oil and gas; amending K.S.A. 2003 Supp. 55-1620 and 55-1622 and repealing the existing sections.

Testimony of David Bleakley - Legislative Chairman
Eastern Kansas Oil and Gas Association
&
Director of Acquisitions & Land Management
Colt Energy, Inc.

The Eastern Kansas Oil and Gas Association (EKOGA) strongly opposes SB 401.

Our association represents and supports eastern Kansas oil and gas producers, service companies, royalty owners and associated businesses along with the overall welfare of the Kansas oil and gas industry in this state.

In testimony opposing SB 401, EKOGA feels the following questions are important in determining the merits of this Bill.

1. Is this bill that amends K.S.A. 55-1620 and 55-1622 solving a real problem? **NO.** In our opinion, it's not, because in 1997 SB 147 was passed which resulted in K.S.A. 55-1620 and 55-1622 that addressed the interest owners concerns on what they wanted in the way of information that accompanied a payment made for the sale of oil or gas.

2. How many complaints have there been because of a lack of information not accompanying a payment made for the sale of oil or gas? Are we talking about 5 or 10 or 100?

3. If there have been complaints, are such complains against one gas or oil purchaser in particular or against several?

4. Are such complaints violations under the current statutes?

5. What would the ramifications to the oil and gas industry be if this Bill passed?

    A. Every oil and gas purchaser, large and small, would have to change the information that they currently provide the interest owner that accompanies the payments for the sale of oil or gas with the greatest hardship falling on the smaller oil and gas purchasers and producers who do not have extra office staff to perform additional clerical tasks.

B. Some of the information would be difficult for the oil and gas purchasers (especially the smaller ones) to obtain, in particular with gas.

C. The price paid to all interest owners would go down because of the increased overhead expense to gather and distribute additional information.

D. Many of the smaller oil and gas purchasers and producers that pay gas royalty checks and have never had a problem or even a request for additional information will look at this bill as additional paperwork and just one more requirement from a growing list of state and federal laws pushing them out of business.

In conclusion, EKOGA feels that the current statues 55-1620 and 55-1622 are very adequate to serve all the interest owners needs for information provided with the sale of oil or gas and that the current statues provide for the interest owners to request additional information from the oil and gas purchasers if they don't feel they have been provided enough. EKOGA does have royalty owners as members in it's organization along with hundreds of other royalty owners that our oil and gas producing members see on a daily basis and the issue of not having enough information with their payments of oil or gas has never been an issue to date. We hope that the legislature does not allow itself to be used by small segments of the population to pass bills that basically use the state as their attorney at the tax payers' expense. If this "information" issue is a real problem then it should be addressed; but, if this is a more isolated issue then, we would like to see the problem resolved between the interest owner and the oil and gas purchaser and not thru the passage of a new bill or amendment.

Therefore, Mr. Chairman and members or this Committee, we urge you to vote against SB 401.

Thank you for your time.

David P. Bleakley

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

Testimony to the Senate Utilities Committee

Senate Bill 401 – An Act relating to oil and gas concerning information to be included with payment to interest owners from the sales of oil and gas

Edward P. Cross, Executive Vice President
Kansas Independent Oil & Gas Association

March 11, 2004

Good morning Chairman Clark and members of the committee. I am Edward Cross, Executive Vice President of the Kansas Independent Oil & Gas Association and I am here today to express our strong opposition to SB 401.

Senate Bill 401 is an Act relating to oil and gas concerning information to be included with payment to interest owners from sales of oil and gas (royalty owners). The underlying concerns that initiated this bill, while important, are very isolated and small. SB 401 would cause much hardship for the independent oil and gas industry. SB 401 is a bad bill for the following reasons:

- The bill addresses a symptom of a very small and isolated problem. Royalty owners need a better understanding of royalty payments. A better understanding of royalty payments is the main problem facing royalty owners. Legislative action will not solve that problem, but simply address a symptom. More information on a check stub will not educate royalty owners, but most likely create more concerns. The royalty owners of Kansas would be better served by their association if they would engage in education initiatives to better educate royalty owners about royalty payment processes. Legislative action is not the answer to a grass-roots problem. Proactive leadership from the royalty owners association would solve this small and isolated problem.

- As required under K.S.A. 2003 Supp. 55-1620 and 55-1622, the tools and institutions for addressing the concerns of royalty owners are in place and have been so since 1997.

- The problem initiating SB 401 is small and isolated. Kansas has several hundred thousand royalty interest owners. To date five (5) lawsuits have been filed concerning royalty payments. No complaints have been filed with the Kansas Corporation Commission (KCC), the Securities Commission, or the Attorney General. In addition, Exxon/Mobil conducted a survey in Texas to see if royalty interest owners wanted more information with their royalty payments. Of the 20,000 responses, only 200 requested more information. Royalty owners in Kansas are not so different than royalty owners in Texas or any other state. I am confident that 1% or less of the royalty owners in Kansas wants more information. And if they do, all they have to do is ask and it will be provided.

- SB 401 is poorly conceived. The bill asks for information that in many cases is impossible for independent oil and gas producers to provide and is of no real value. The bill then invokes unreasonable enforcement actions for violation of provisions that are impossible for many oil and gas operators to meet.

- SB 401 is very costly to the industry. The bill would require significant changes in the way production information is gathered and organized. Preparing systems to provide the required information would cost the oil and gas industry over $7 million annually.

- Finally, the oil and gas industry is split on this bill. The Kansas Petroleum Council representing many of the larger oil and gas companies in Kansas may support a version of the current bill, while KIOGA and EKOGA strongly oppose.

For these reasons and more, we urge you to not pass this legislation and support the current legislation as agreed upon by all parties in 1997. Thank you for your time and consideration. I would be happy to answer any questions.