

MINUTES OF THE HOUSE ENVIRONMENT COMMITTEE

The meeting was called to order by Chairman Joann Freeborn at 3:30 P.M. on February 1, 2005 in Room 231-N of the Capitol.

All members were present.

Committee staff present:

Raney Gilliland, Legislative Research Department
Liza Montgomery, Revisor of Statutes Office
Pam Shaffer, Committee Secretary

Conferees appearing before the committee:

Maurice Korphage, Director of Kansas Corporation Commission (KCC) Conservation Division
Bob Jenkins, KCC Coordinator of Abandoned Well/Site Remediation Fund

Others attending:

See attached list.

Chairperson Freeborn called the meeting order.

Chairperson Freeborn announced the agenda for Thursday, February 3's meeting would be an overview from KSU by Fred Cholick, Dean of Agriculture and Director of Agricultural Experiment Station and Jana Beckman, Coordinator of Kansas Center for Sustainable Agriculture and Alternative Crops (KCSAAC). After the presentation, there will be a hearing on **HB2014** - Powers of members ex officio of the Kansas Water Authority.

Chairperson Freeborn asked if there were any bill requests.

Tom Day of the KCC, respectively requested the introduction of a bill to change the financial assurance responsibilities of oil and gas operations. The motion to introduce this bill was made by Representative Johnson and seconded by Representative Svaty. The motion carried and will be introduced. (Attachment 1)

Representative George made a motion to recommend **HB2052** - Changes definition of uncontaminated soil in the solid waste statutes for passage and that it be placed on the Consent Calendar due to its non-controversial nature, seconded by Representative Johnson. After discussion concerning whether the bill should be placed on the Consent Calendar both the motion maker and the second withdrew their motions. It was then moved by Representative George and seconded by Representative Johnson that **HB2052** be recommended for passage. Representative Knox will carry the bill.

Chairperson Freeborn explained that the Vice Chair is the person who writes up the bill briefs for the Republicans and the Ranking minority member is the one who writes the bill briefs for the democrats, unless he assigns someone else. These are the ones to go to if anyone wants to make comments.

Chairperson Freeborn welcomed Maurice Korphage, Director of Kansas Corporation Commission (KCC) Conservation Division to present an overview on abandon gas and oil well remediation. The Abandoned Well/Site Remediation Fund was created in 1996 with passage of **House substitute for SB755**. The purpose of the fund is to provide additional funding to the KCC Division with which to address the problem of both abandoned oil and gas wells and exploration and production related to contaminated sites. In addition to the creation of the fund the legislation directed the Conservation division to establish financial responsibility requirements for oil and gas operators within the state of Kansas. These requirements were in place by January, 1998. **SB321** passed during the 2001 legislative session extends the original fund sunset date 7 years to June 30, 2009. Funding to this abandoned well plugging and site remediation program is provided through four funding sources: (1) Increased assessment on crude oil and natural gas production through the conservation fee fund, (\$400K-\$700K/yr) (2) General fund monies, (\$400K which has not been put in the last 2 fiscal years) (3) 50% of monies received by the state through the federal mineral leasing program, (\$450K-\$600K/yr) and (4) State water plan monies (\$400K) Total funding package expected to be \$1.6M/yr. Intents to drill are driven by the crude oil price, in 2004 there was a 36% increase in intents to drill over 2003, a 109% over 2002. Mr. Korphage turned the presentation over to Bob Jenkins, Coordinator of Abandoned

CONTINUATION SHEET

MINUTES OF THE House Environment Committee at 3:30 P.M. on February 1, 2005 in Room 231-N of the Capitol.

Well/Site Remediation Fund.

Mr. Jenkins explained that we compete with the oil business for equipment, labor, and materials for plugging remediation operations. The KCC total abandoned well inventory currently contains 14,492 wells documented and verified. This represents an increase in the total inventory of 381 wells over that reported in January, 2005. 13,604 wells are listed as priority I inventory, of which 6,825 still require plugging operations, 307 less than one year ago. Expenditures for FY 2004 will result in the plugging of approximately 650 abandoned wells. Plugging costs for 458 wells have been paid to date totaling \$1.34M, which is \$2,925/well including restoration costs. For the first 6 months of fiscal year 2005, 296 wells have been authorized to be plugged or have been plugged with monies from the fund. Distribution of remaining 6,825 priority I wells requiring plugging operations are by action level: Level A-114 wells(2%) Level B-1,642 wells (24%), Level C-5,609 wells (74%). Intents to drill are driven by the crude oil price, in 2004 there was a 36% increase in intents to drill over 2003, a 109% over 2002. Mr. Jenkins showed several slides of Abandoned well sites before and after remediation. Whittier School, Coffeyville, KS, Crawford County, Fairfax Area, Kansas City, KS, Lindsborg, KS, Lost Springs, KS, Arkansas River, south of Oxford, KS, Kingman county. (See attachment 2)

Committee questions and discussion followed.

Chairperson Freeborn thanked Mr. Korphage and staff for their presentation.

Chairperson Freeborn adjourned the meeting at 4:41PM. The next scheduled meeting is February 3.

HOUSE ENVIRONMENT COMMITTEE GUEST LIST

DATE: 02/01

NAME	REPRESENTING
Bob Jenkins	KCC
M.L. Korphage	KCC
Andy Shaw	Waste Mgmt Inc
Bill Bider	KDHE
Steve Swaffar	KS Farm Bureau
Anter Shaverdi	KMAH
SEAN MILLER	KS Dairy Assn.
Wendy Williams	KAPA
Steve Johnson	Kansas Gas Service
Tom Day	KCC
Susan Duffy	KCC Topeka
Kim Seeber	Ken Law Firm
ERIK WISNER	KOA
Courtney George	Rep. Swartz

KANSAS

CORPORATION COMMISSION

KATHLEEN SEBELIUS, GOVERNOR

BRIAN J. MOLINE, CHAIR

JOHN WINE, COMMISSIONER

ROBERT E. KREHBIEL, COMMISSIONER

February 1, 2005

Honorable Joann Freeborn, Chairman
House Environment Committee
Statehouse, Room 280-W
Topeka, Kansas 66612

Dear Representative Freeborn:

The Kansas Corporation Commission would respectfully request the House Environment Committee to introduce the following legislation. The legislation proposed will allow the Commission to increase the financial assurance responsibilities, which became effective on January 1, 1998, for operators drilling wells after 1996. The purpose of this fund would be to have monies available for future orphaned wells and who's plugging assurance was in part guaranteed through those fees and / or compliance. The increases are for all operators, some who pay a nominal fee and for others that are required to obtain a performance bond based on aggregate depths of all wells of the operator, performance bonds based on the number of wells, or a non refundable fee. All monies collected are deposited in the 'well plugging assurance fund'.

Attached please find the proposed statutory amendments to the oil and gas, financial assurance requirements in KSA 55-155.

The Corporation Commission respectfully seeks introduction of the bills through the House Environment Committee. Should you have questions, please feel free to call me at 271-3190.

Thank You,



Thomas A. Day
Legislative Liaison

House Environment Committee
February 1, 2005
Attachment 1

55-155

Chapter 55.--OIL AND GAS

Article 1.--OIL AND GAS WELLS;REGULATORY PROVISIONS

55-155. Licensure of operators and contractors; requirements. (a) Operators and contractors shall be licensed by the commission pursuant to this section.

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

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

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

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

(3) demonstrated to the commission's satisfaction that the applicant complies with all requirements of chapter 55 of the Kansas Statutes Annotated, all rules and regulations adopted thereunder and all commission orders and enforcement agreements, if the applicant is registered with the federal securities and exchange commission;

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

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

(6) complied with subsection (d); and

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

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

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

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

(A) Wells less than 2,000 feet in depth: 1 through 5 wells, ~~\$5,000~~ 7,500; 6 through 25 wells, ~~\$10,000~~ 15,000; and over 25 wells, ~~\$20,000~~ 30,000.

(B) Wells 2,000 or more feet in depth: 1 through 5 wells, ~~\$10,000~~ 15,000; 6 through 25 wells, ~~\$20,000~~ 30,000; and over 25 wells, ~~\$30,000~~ 45,000.

(3) The operator: (A) Has an acceptable record of compliance, as demonstrated during the preceding 36 months, with commission rules and regulations regarding safety and pollution or with commission orders issued pursuant to such rules and regulations;

(B) has no outstanding undisputed orders issued by the commission or unpaid fines, penalties or costs assessed by the commission and has no officer or director that has been or is associated substantially with another operator that has any such outstanding orders or unpaid fines, penalties or costs; and (C) pays a nonrefundable fee of \$50 100 per year.

(4) The operator pays a nonrefundable fee equal to ~~3~~ 6% of the amount of the bond or letter of credit that would be required by subsection ~~(d)(1) or by subsection (d)(2)~~.

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

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

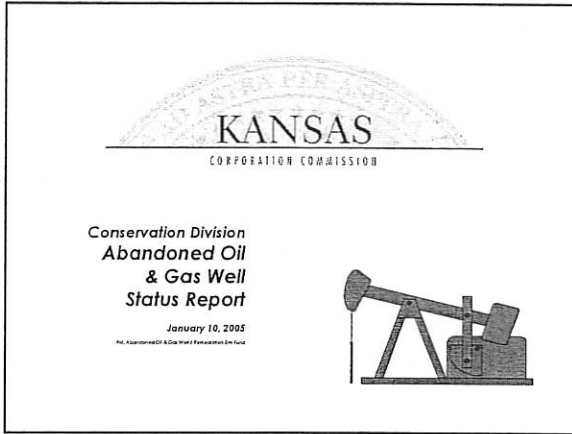
(e) Upon the approval of the application or renewal application, the commission shall issue to such applicant a license which shall be in full force and effect until one year from the date of issuance or until surrendered, suspended or revoked as provided in K.S.A. 55-162, and amendments thereto. No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

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

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

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

History: L. 1982, ch. 228, § 8; L. 1986, ch. 201, § 10; L. 1992, ch. 68, § 3; L. 1995, ch. 139, § 1; L. 1996, ch. 263, § 5; L. 1998, ch. 61, § 2; L. 2001, ch. 5, § 190; L. 2001, ch. 191, § 4; July 1, L.2005.



Abandoned Well / Site Remediation Fund

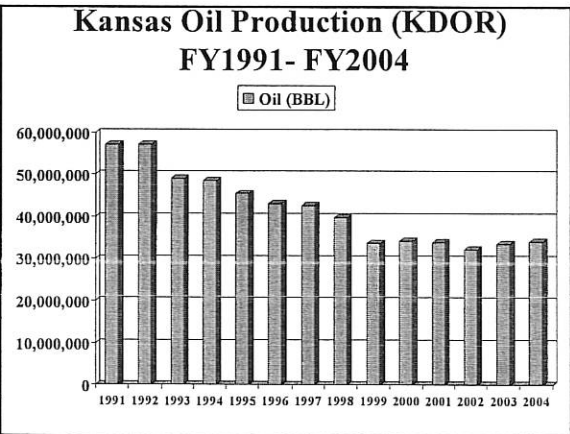
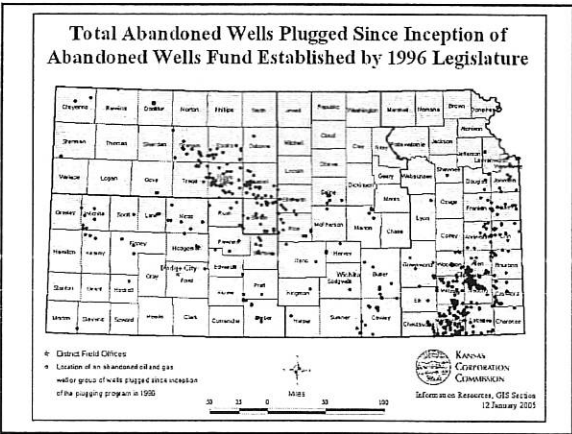
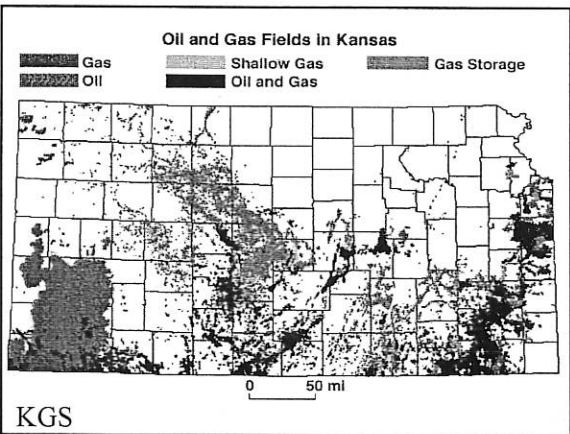
- The fund was created during the 1996 legislative session with the passage of House substitute for S.B. 755.
- The purpose of the fund is to provide additional funding to the Kansas Corporation Commission, Conservation Division with which to address the problem of both abandoned oil and gas wells and exploration and production related contamination sites.
- In addition to the creation of the fund the legislation directed the Conservation Division to establish financial responsibility requirements for oil and gas operators within the state of Kansas. These requirements were in place by January, 1998.
- S. B. 321, passed during the 2001 legislative session, extends the original fund sunset date 7 years to June 30, 2009.

Abandoned Well / Site Remediation Fund Funding Sources

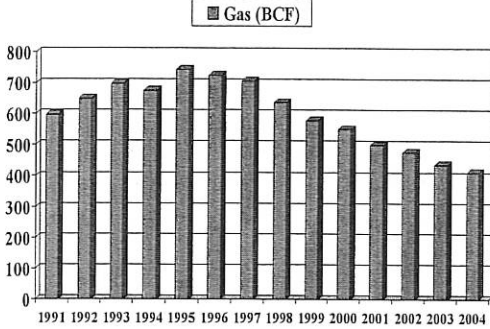
Funding to this abandoned well plugging and site remediation program is provided through four funding sources:

- Increased assessments on crude oil and natural gas production through the conservation fee fund
- General fund monies
- 50% of monies received by the state through the federal mineral leasing program
- State water plan monies

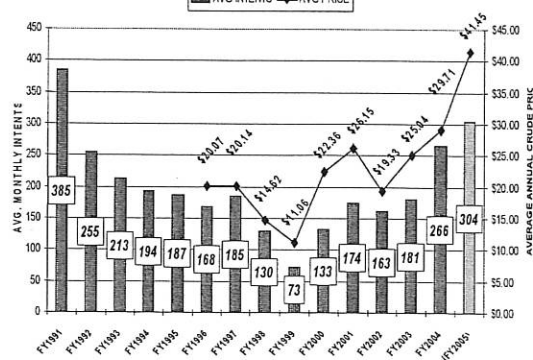
Total funding package was expected to be in the amount of \$1,600,000 per year.



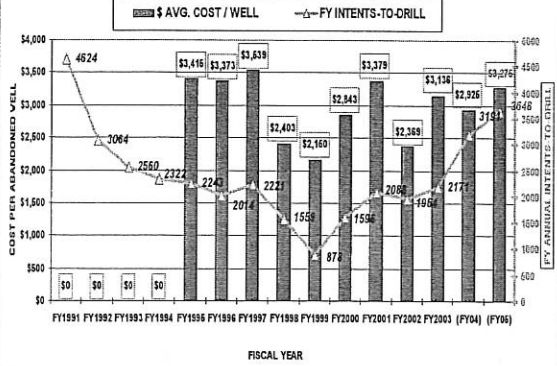
Kansas Gas Production (KDOR) FY1991 - FY2004



AVERAGE MONTHLY INTENTS-TO-DRILL VS. AVERAGE FISCAL YEAR CRUDE OIL PRICE



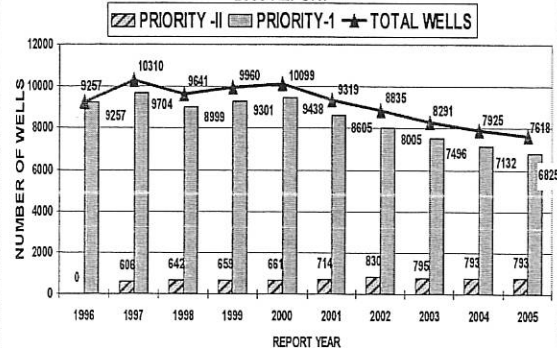
KCC ABANDONED WELL AVG. PLUGGING COST VRS. INDUSTRY COMPETITION AS MEASURED BY FISCAL YEAR INTENTS-TO-DRILL



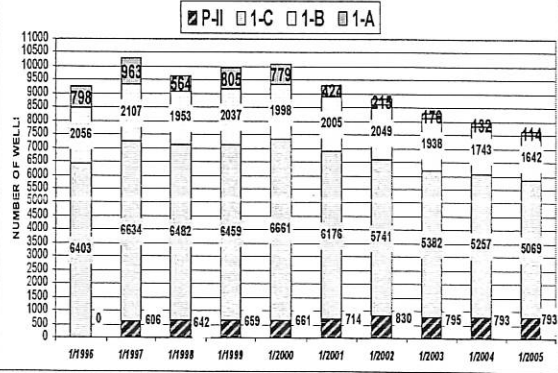
Abandoned Well / Site Remediation Fund Status of the Abandoned Well Inventory

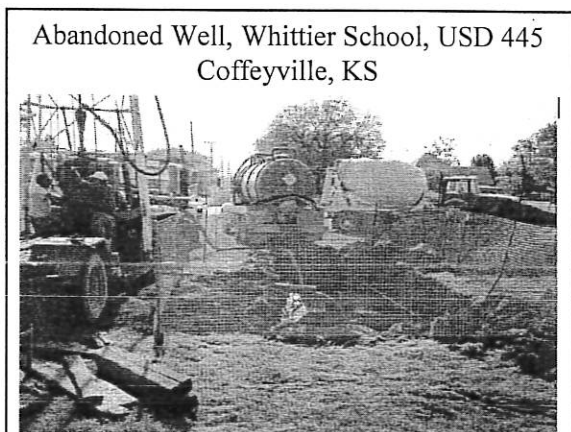
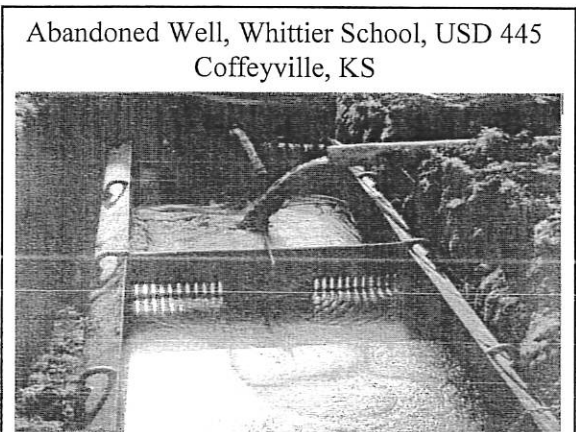
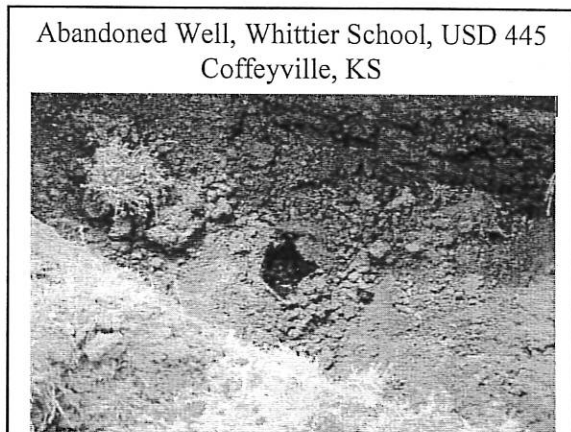
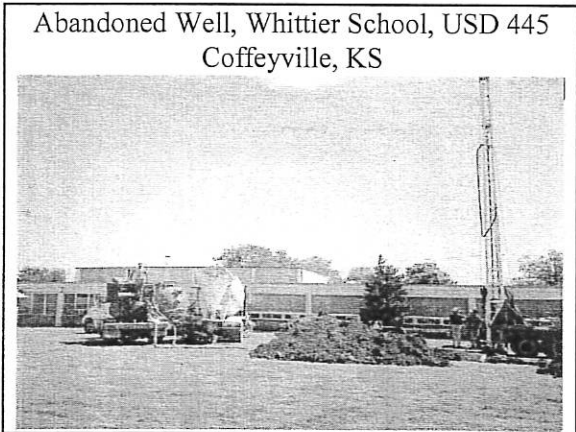
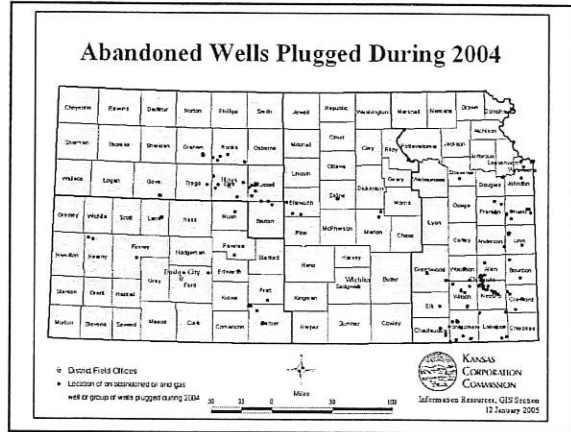
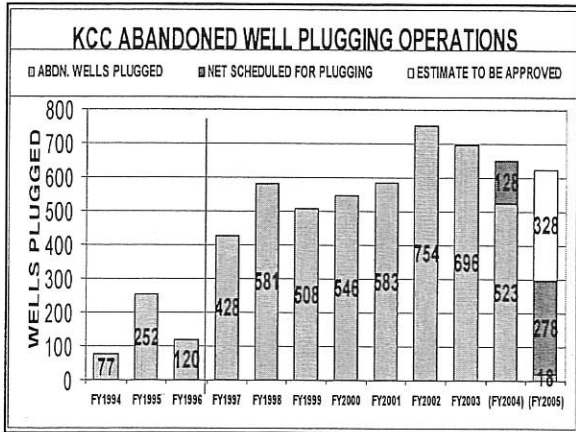
- The Kansas Corporation Commission total abandoned well inventory (priority I and priority II) currently contains 14,492 wells, documented and verified. This represents an increase in the total inventory of 381 wells over that reported in January of 2004. Of this total, 13,604 wells are listed in the priority I inventory. Of these priority I wells, 6,825 still require plugging operations, which is 307 less than one year ago.
- Expenditures for fiscal year 2004 will result in the plugging of approximately 650 abandoned wells. Plugging costs for 458 wells have been paid to date totaling \$1,339,552, which is \$2,925 per well including restoration costs. For the first 6 months of fiscal year 2005, 296 wells have been authorized to be plugged or have been plugged with monies from the fund.
- Distribution of remaining 6,825 priority I wells requiring plugging operations are by action level: level A = 114 wells (2%), level B = 1,642 wells (24%), level C = 5,609 wells (74%).

KCC ABANDONED WELL INVENTORY REQUIRING ACTION 2005 REPORT



KCC ABANDONED WELLS REQUIRING ACTION BY PRIORITY RANKING CALENDAR YEAR BEGINNING INVENTORY

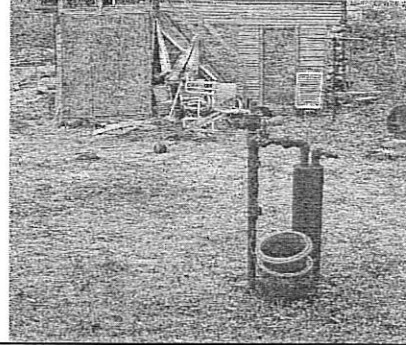




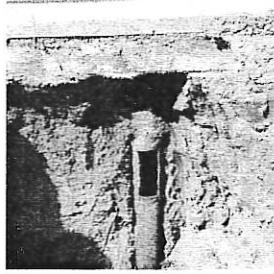
Leaking Oil Well, Crawford Co.
108 Well Plugging Project



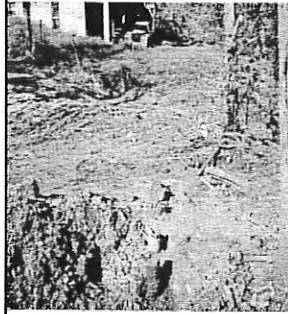
Abandoned Well, Fairfax Area,
Kansas City, KS



Abandoned Gas Well, Under
House Foundation, Neodesha, KS



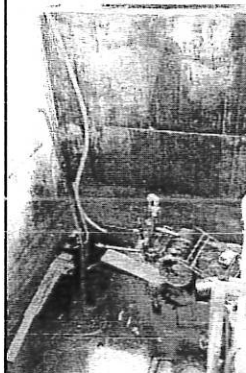
Abandoned Gas Well, Wyandotte Co.
Venting Gas and Saltwater



Abandoned Well, Lindsborg KS



Abandoned Well, Lindsborg, KS



Abandoned Well in Schoolyard
Lost Springs, KS



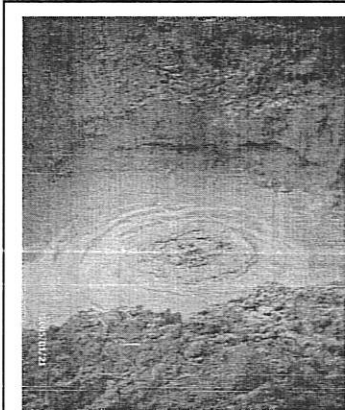
Abandoned Well Next to
Arkansas River, South of Oxford, KS



Abandoned
Well
Drilled in
1926
Venting
Gas
Kingman
Co.



Excavating
Abandoned
Well
Kingman Co.

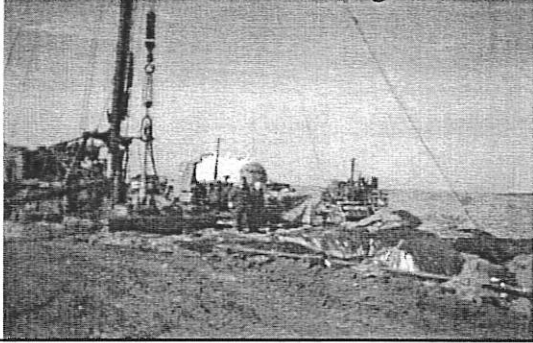


Abandoned
Well
Venting
Gas
Kingman
Co.



Abandoned
Well
Kingman
Co.

Plugging Operations on Abandoned Well, Kingman Co.



Abandoned Well / Site Remediation Fund Operator Financial Responsibility Requirements

- Operators having an acceptable record of compliance with KCC rules and regulations over the proceeding 36 months may pay a \$50 nonrefundable fee.
- Operators that have not been licensed for at least the proceeding 36 months or have not met the acceptable record of compliance requirement must furnish one of the following on an annual basis:
 - A performance bond or letter of credit in the amount equal to \$.75 x the aggregate depth of all wells under his control.
 - A blanket bond or letter of credit between \$5000 and \$30,000 based on the depth and number of wells operated.
 - A fee equal to 3% of the blanket bond required under 1 or 2.
 - A first lien on equipment equal to the bond requirement.
 - Other financial assurance approved by the Commission.

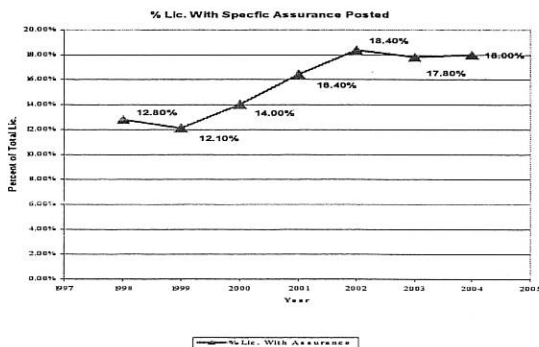
Financial Assurance Posted in 2004

Method of Assurance	Number of Licenses	Revenue	Assurance
\$50 Fee	1,666	\$83,300	\$83,300 (Compliance)
Cash Bond To KCC	275	\$101,743	\$101,743
Surety Bond	29		\$675,000
CD / Letter of Credit	61		\$988,545
Total	2,031	\$185,043	\$1,848,588

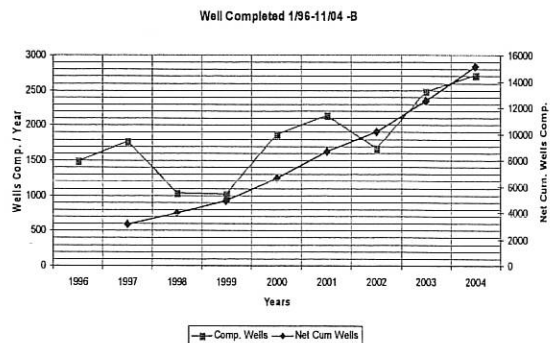
Financial Assurance Trends

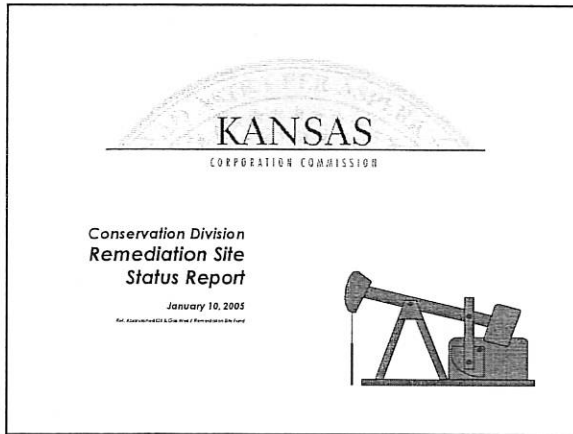


Financial Assurance Trends



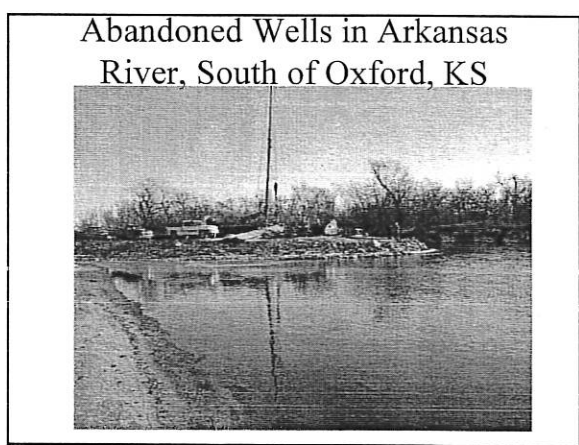
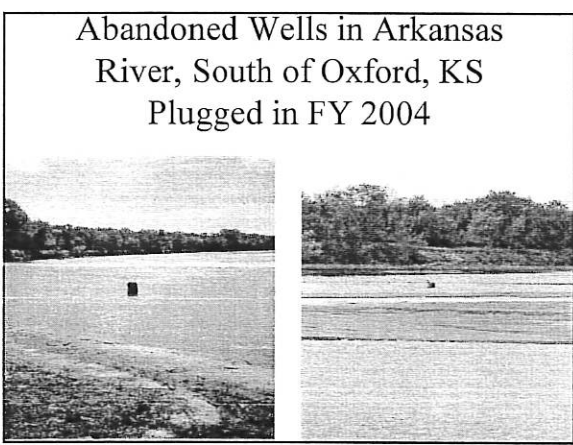
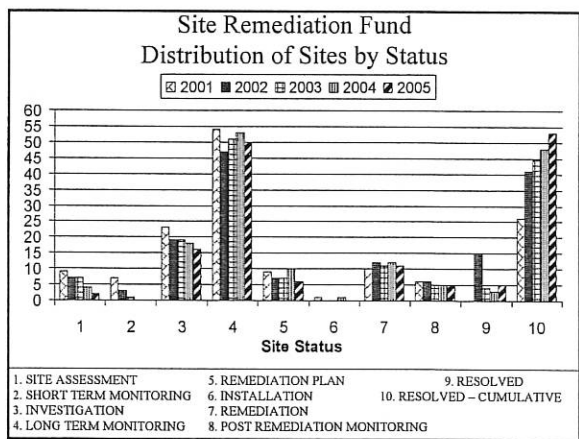
NET WELLS COVERED UNDER WELL PLUGGING ASSURANCE FUND

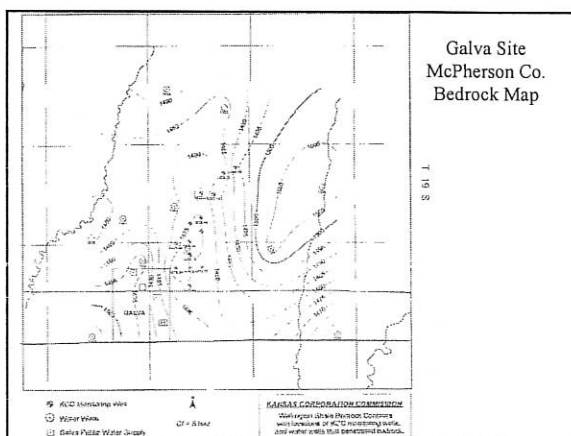
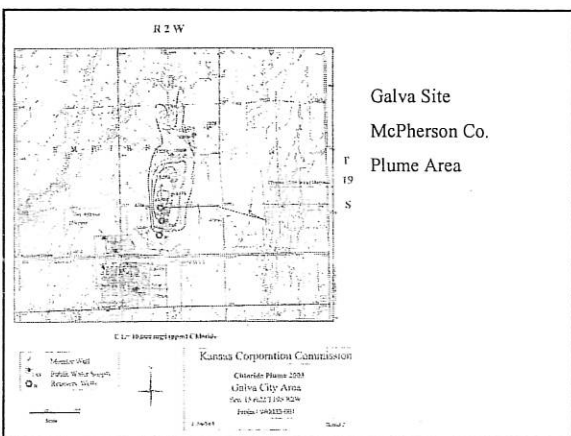
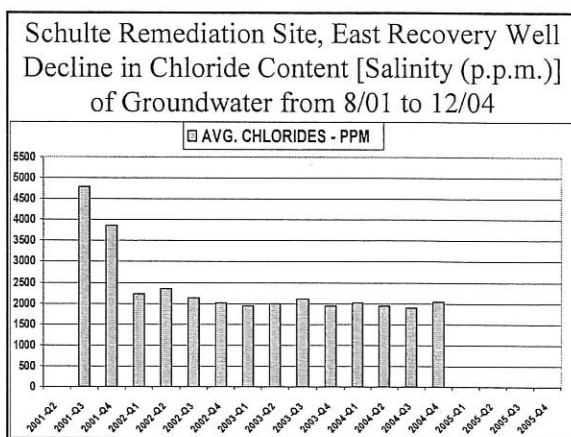
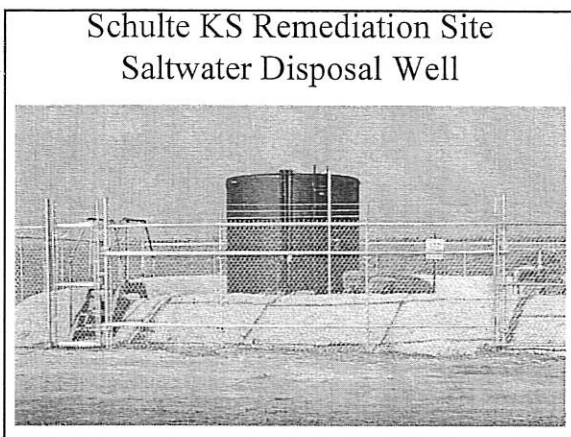
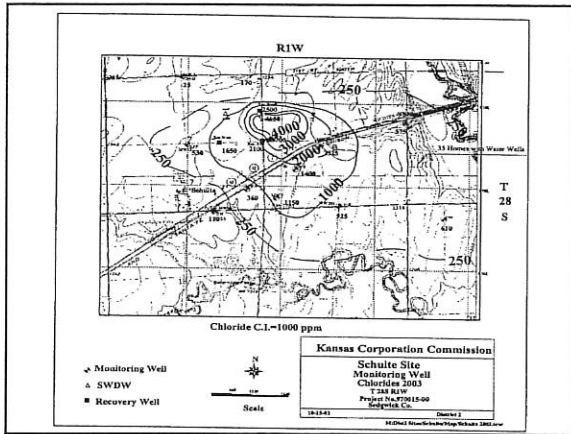


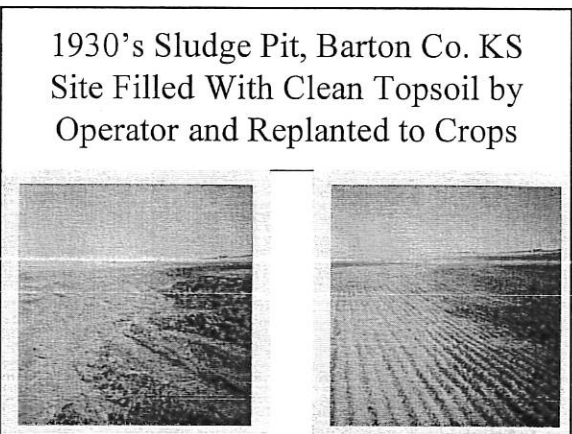
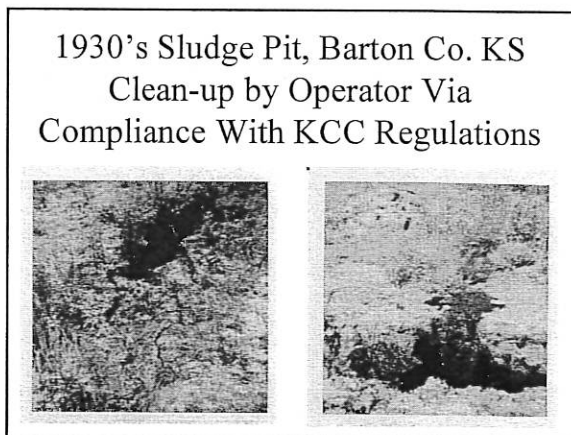
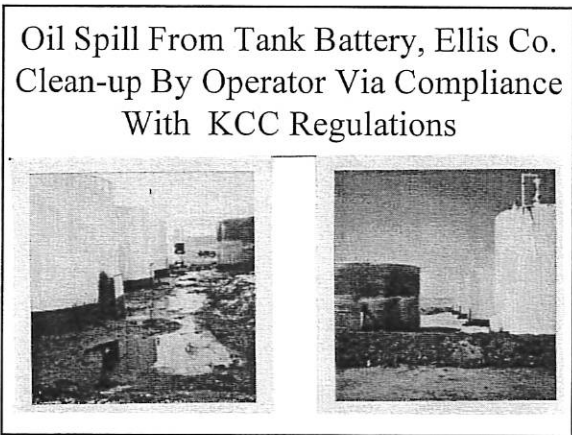
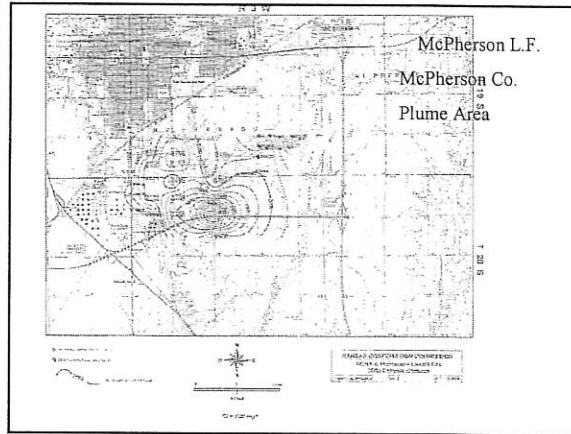
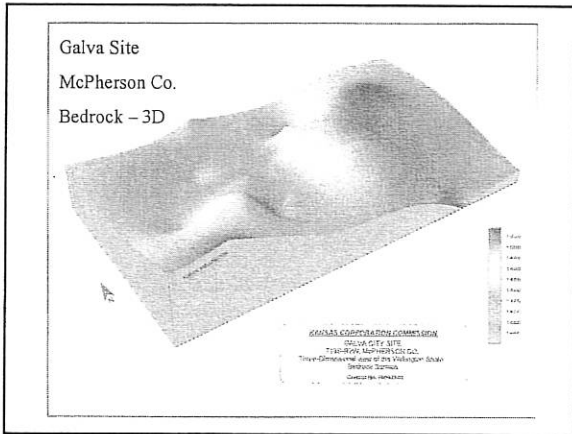


Abandoned Well / Site Remediation Fund Status of the Site Remediation Inventory

- When the abandoned well / site remediation fund was first created the KCC carried a listing of 109 sites. Of the original 109 sites, four were combined with other sites. During previous evaluation periods, 48 sites have been resolved and 18 sites have been added. Five sites were resolved during the current evaluation period, January 1, 2004 through December 31, 2004, resulting in a current total of 70 active remediation sites.
- Current distribution of active sites with respect to immediacy level is: low & low to moderate = 49%, moderate = 18%, moderate to high & high = 17%, other (under remediation) = 16%.
- Authorizations for Expenditures against projects initiated in FY2004 stand at \$358,153. Authorizations for Expenditures against projects initiated in FY2005, to date, stand at \$116,366. Indirect expenditures in KCC staff time to these projects are valued at \$44,761.
- On September 1, 2004, the KCC applied for reimbursement of remediation and well plugging costs totaling \$353,824 for the Arkansas River Project from the U.S. Coast Guard, under the OPA 90 Act.







- Considerations / Actions**
- A Net Loss of E&P infrastructure during past down-cycles of concern to both industry & KCC.
 - KCC utilizes same contractor base as industry – impacts availability and costs to program
 - B KCC must continue to increase emphasis on compliance and enforcement programs while streamlining regulatory processes where possible.
 - Oil and Gas Advisory Committee
 - Abandoned Well Regulations –consistent with Commission Rulings of K.S.A. 55-179

Considerations / Actions

- C. Program Under-Funded (FY 03, FY 04, & FY 05)
- Component surplus for program has been eliminated attempting to continue plugging and remediation projects at meaningful levels.
 - Division must continue efforts to seek alternate / additional funding sources (OPA 90, DOE, etc.)
 - Infusion of additional funds from the Conservation Fee Fund will, if continued, lead to assessment increases on production.
 - If program funding levels not restored then net result will be fewer wells plugged / less remediation undertaken.

Considerations / Actions

- D. Commission staff, after consultation with the Oil & Gas Advisory Committee, is recommending immediate changes to certain Financial Assurance requirements.
- Adjustments to cash bonding fees related to changes in the bond market.
 - Increases in blanket bond amounts for those licensees required to obtain bonding and an increase in the compliance based assurance fee. Recommended increases will provide a stronger position for near term or future calls on the Assurance Fund
 - Oil and Gas Advisory Committee to be charged by Commission Order to provide recommendations for any further changes to existing Financial Assurance requirements for oil and gas operators.