

Approved: April 29, 2005

Date

*Carl Dean Holmes*

## MINUTES OF THE HOUSE COMMITTEE ON UTILITIES.

The meeting was called to order by Chairman Carl D. Holmes at 9:09 a.m. on February 15, 2005 in Room 231-N of the Capitol.

All members were present except: Representative Eric Carter - Unexcused  
Representative Vaughn Flora - Excused  
Representative Bonnie Huy - Excused  
Representative Judy Showalter - Excused

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

### Conferees appearing before the committee:

John Crump, Southwest Kansas Royalty Owners Association, Hugoton, KS  
Erick Nordling, Southwest Kansas Royalty Owners, Assn, Hugoton, KS  
Kimberlee Hamilton, Montana  
Mike Leathers, Austin, TX  
Doug Smith, Southwest Kansas Royalty Owners Assn, Topeka, KS  
Terry Holdren, Kansas Farm Bureau, Topeka, KS  
Kenny Carter, Wilson County, KS  
Elbert Goins, Thayer, KS  
Alan DeGood, Kansas Independent Oil and Gas Association, Wichita, KS  
Jon Callen, Edmiston Oil, Wichita, KS  
David Bleakley, Eastern Kansas Oil and Gas Association, Topeka, KS

Others attending: See Attached List

### **HB 2146 - Information required with payment to oil and gas royalty interest or working interest owners**

Chairman Holmes opened the hearing on **HB 2146**.

John Crump, President of the Southwest Kansas Royalty Owners Association (SWKROA), addressed the committee in support of **HB 2146 (Attachment 1)**. Mr. Crump explained the reasons for their request of this bill and outlined the problems many of their members had been having in understanding the information included on the remittance advices included with the royalty checks.

Erick Nordling, Executive Secretary for SWKROA, spoke in support of **HB 2146 (Attachment 2)**. Mr. Nordling told the committee that this type of legislation is necessary to provide protections for thousands of royalty owners. Included with Mr. Nordling's testimony is correspondence between royalty owners and oil companies, producers, etc.

Kimberlee Hamilton shared her family's story in dealing with royalty payment difficulties (**Attachment 3**) during her testimony in support of **HB 2146**. She told of inconsistencies from companies in providing payments detail and supporting documentation on royalty payments received from her holdings.

Mike Leathers appeared in support of **HB 2146** and supplied information about his royalty payment concerns (**Attachment 4**). He told the committee he supported measures that would lead to concise uniform information begin provided by the oil and gas producers.

Doug Smith, appearing on behalf of the SWKROA testified in support of **HB 2146**. Mr. Smith shared a comparative (**Attachment 5**) of current law, the proposed legislation, and statutory language from Texas. He also provided an amendment that would eliminate 'oil' from the section dealing with leases.

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON UTILITIES, Room 231-N, Statehouse, at 9:09 a.m. on February 15, 2005

Terry Holdren, Local Policy Director for Kansas Farm Bureau Governmental Relations, addressed the committee as a proponent of **HB 2146 (Attachment 6)**. Mr. Holdren stated that many of their members have sought clarification about the price and production information received on the check stubs of their royalty payments.

Kenny Carter testified in support of **HB 2146 (Attachment 7)**. Mr. Carter urged support of the legislation so as to bring more transparency to the business.

Elbert Goins spoke in support of **HB 2146 (Attachment 8)**. Mr. Goins told the committee that the information provided by the different companies is not the same or even comparable. He said they needed clarity in the production of their wells and sales of gas.

Written testimony in support of **HB 2146** was submitted by John Majeroni (Attachment 9) and Robert Larrabee (Attachment 10).

Alan DeGood, President of the Kansas Independent Oil and gas Association (KIOGA), testified in opposition to **HB 2146 (Attachment 11)**. Mr. DeGood told the committee that this bill would completely change the way interest owners would be paid and that two major crude oil purchasers would no longer distribute revenue because they lack information regarding production by wells. He also stated that adequate information is currently available on the check stubs and should an interest owner request it, they would receive information about price, sales, volume, and ownership from the gas purchaser.

Jon Callen, President of Edmiston Oil Company, appeared as an opponent to **HB 2146 (Attachment 12)**. Mr. Callen told the committee the primary objections to the bill were 1) regarding the gas measurement reporting - important tax implications for all users; 2) reporting interest to the sixth decimal - would require new division orders to be prepared; and 3) reporting the price before and after adjustments - interferes and conflicts with contractual rights of the producer and purchaser.

David Bleakley, Legislative Chairman for the Eastern Kansas Oil and Gas Association, addressed the committee in opposition to **HB 2146 (Attachment 13)**. Mr. Bleakley stated they felt that the current statutes are adequate to serve all the interest owners needs for information provided with the sale of gas and provides them ways to obtain the information they feel is lacking.

Written testimony in opposition to **HB 2146** was submitted by Ken Peterson, Kansas Petroleum Council (Attachment 14), Jack Glaves, Duke Energy Field Services (Attachment 15), and Kevin Moore, OXY, Inc. (Attachment 16).

The conferees responded to questions from the committee.

Chairman Holmes closed the hearing on **HB 2146**.

The meeting adjourned at 10:29 a.m.

The next meeting is Wednesday, February 16, 2005 at 9:00 a.m.

# HOUSE UTILITIES COMMITTEE GUEST LIST

DATE: February 15, 2005

NAME	REPRESENTING
Tom Day	KCC
Ken Seiber	Hein Law Firm
Ed Cross	KIOGA
Zach Coble	Intern Rep. Showalter
Gene Schwinn	Schwinn Farms
ERICK NORDLING	SWKROA
Tom Bruno	EKOGA
PAT HUBBELL	AWARDARD
Scott Larson	SELF
Jon M Callen	Edmiston Oil Co. / KIOGA
Ulmo R. Good	KIOGA
DAVID BLEAKLEY	EKOGA / COLT ENERGY
LARRY BERG	MIDWEST ENERGY
Kimberly Spencer	Agrieta
Steve Johnson	Kansas Gas Service
Tom Peters	KPC
Carl E. Manton	SWKIZOA
Patrick Will	Rep. McCray-Miller
Gary Baker	Stevens County
Elliot Hains	Neosho County landowners

# HOUSE UTILITIES COMMITTEE GUEST LIST

DATE: February 15, 2005

NAME	REPRESENTING
Kenny Carter	Wilson County Royalty Owner
Chris Wilson	RBC
Doug Smith	SWKROA



# SWKROA

*SOUTHWEST KANSAS ROYALTY OWNERS ASSOCIATION*

209 East Sixth Street  
Hugoton, Kansas 67951

Telephone: 620-544-4333  
Email: erickn@swkroa.com

## Testimony of John Crump before the House Utilities Committee House Bill 2146 February 15, 2005

Chairman Holmes and Members of the Committee:

### Greeting and introduction

- SWKROA - not for profit association founded more than 55 years ago and dedicated to serving royalty owners and protecting their interests - has Board of Directors elected from each of 10 counties in Hugoton Field and two from outside that area much of our efforts, especially in recent years, devoted to subject which is focus this bill: obtaining accurate and complete information regarding how monthly royalty payments are calculated for many years, royalty owners have been very concerned about lack of information provided by producing companies when reporting monthly production royalty owner wishes know:
  - volume of gas produced from lease in which he has interest
  - what price was received for that gas
  - what is his share of that amount and what if any deductions have been made
  - what is his net amount
  - this should be straightforward calculation, but never is in addition, each producer uses own form for reporting and no two statements are same
- We believe producing companies have an obligation to report to us desired information completely and clearly
  - our relation with them is contractual
  - contract between us is lease between landowner and producer
  - lease calls for company to explore, develop and produce and pay landowner portion of proceeds of sale of any gas produced
  - that payment, the royalty, made under terms of the lease
  - under old leases in Field executed years ago, leases provided for 1/8th royalty
  - today, many leases provide for 3/16th royalty or more
  - many of our leases 60 to 70 years old
  - passed from one company to another as companies sold, merged or acquired
  - passed from one interest owner to another as landowners sold or bequeathed their interests, but basic contract still exists.

- Our association, and many royalty owners individually, have tried in recent years to obtain more complete information from companies but have not been successful
  - for example, our association met in December to discuss this bill and search for areas of agreement companies pressed for our acceptance of a Texas statute
  - my colleague will compare the two statutes for you and explain why we need a Kansas statute to meet Kansas situation
  - we have suggested since December that we meet again and we have modified our bill in attempt meet some of their concerns and have asked for written comments but have had no response.
- Representatives of companies will probably tell you that collecting and reporting this info to us would be an overly onerous burden
  - not true, companies already must collect and report this information to KCC, KGS and Department of Revenue
  - we want them to report to us information to which we are entitled, as described in HB 2146
  - producing companies process information and make payments each month to thousands of royalty owners
  - this bill would not create new requirement, would buttress a process already in place
  - royalty owners must continue to show due diligence in examining and analyzing monthly statements, but we need more complete information than we are getting now in order do that.
- There are two reasons there are thousands of royalty payments each month
  - reduction in size of fractions of royalty owners' interests, and
  - geographic dispersal of royalty owners - let me explain:
    - over years, royalties have been severed from surface and sold or bequeathed as separate interests when that happens, fractions decreased (for example, original leaseholder had four children and he divided his royalty interest equally among all four; those four each had several children and did same thing - what began as 1/8 is now 1/256th or less), at same time, those succeeding generations which have inherited (and sometimes purchased) interests, no longer live in area of Hugoton Field (part of general out-migration of population from southwest KS)
    - (incidentally, these processes of fractional reductions and geographic dispersal will probably occur for royalty interests in southeast KS, where methane gas production is becoming more important each month)
- Today, more than 70% of recipients of royalty payments from production in Hugoton Field reside somewhere other than in southwest KS - for that reason, not correct say problem covered by this bill is simply problem for southwest KS is matter of concern for all of Kansas and, for each of you - you have before you list showing residents your legislative district who receive royalty payments from Hugoton Field - examine this list carefully and I believe you will agree HB 2146 important to your constituents I urge your favorable consideration of this bill. Thank you

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# **SWKROA**

**SOUTHWEST KANSAS ROYALTY OWNERS ASSOCIATION**

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**House Utilities Committee**  
**Executive Summary of Erick Nordling**  
**Re: House Bill 2146**  
**February 15, 2005**

- Every royalty owner is entitled to a clear, accurate, transparent account of their entitlement to payments for gas and oil production of their mineral interests and to basic information from which the royalty owner could independently verify payment information.
- Power is knowledge, and the industry has a powerful bargaining chip by controlling the information it chooses to disclose to royalty interest owners.
- New legislative fixes are needed to address the changing concerns.
- This type of legislation is necessary, from a public policy standpoint, to provide protections for literally hundreds of thousands of royalty owners.
- Although SWKROA primarily deals with issues in Southwest Kansas, the majority of issues it identifies are representative of issues which impact royalty owners throughout the state.
- Royalty owners from Southeast Kansas affirm that HB 2146 represents a statewide interest in the protections this bill affords.
- The current legislation does not require the producer to reveal the amount of production by well.
- HB 2146 requires check stubs to report gas payments using sales volumes rather than production volumes. However, the bill also requires an alert if the sale volume is less than the production volume for the same period.
- The current statute does not require the producer to disclose affiliate transactions. Under current legislation, producers have sometimes used as the disclosed "price" as the price they receive from an affiliate purchaser.
- The current legislation does not address split-stream sales.
- The current legislation has no enforcement provisions.
- Opponents to HB 2146 would lead you to believe that the separate gas gathering complaint procedure before the KCC. This is not accurate.

*HOUSE UTILITIES*

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DATE: 2-15-05  
ATTACHMENT 2

# **SWKROA**

**SOUTHWEST KANSAS ROYALTY OWNERS ASSOCIATION**

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## **Testimony before the House Utilities Committee House Bill 2146 February 15, 2005**

Chairman Holmes and Members of the Committee:

My name is Erick Nordling, of Hugoton, Kansas. I am an attorney and have spent my legal career representing landowners. I am also the Executive Secretary of the Southwest Kansas Royalty Owners Association, a voluntary association with over 2,600 members who own mineral and royalty interests in the Hugoton Gas Field area. I am a royalty owner too. I am appearing on behalf of the members of SWKROA and on behalf of other Kansas royalty owners to urge your support for the passage of House Bill 2146.

### **Intro and Background.**

John Crump, our Association President, has provided you with a good overview of our concerns. I will focus on the history of the current statute, the reason why we are advocating for a revision to the current statute, and an overview of the key elements of the bill.

I will also briefly distinguish the HB 2146 and our current check stub statute (K.S.A. 55-1620, et seq.) from the complaint procedure under the "gas gathering" regulations. (K.A.R.82-3-801, et seq.)

First of all, you may be asking yourself why such a bill is before you. Legislation to provide basic information on royalty owner 'check stubs' is not unusual, and has been required for a number of years by many states. A quick review of at least nine states<sup>1</sup> in the central U.S., including Kansas all have legislation requiring basic information to be reported on royalty check stubs. These states probably comprise of a large part of gas and oil production in the lower 48 states.

So, as new problems are revealed about accounting practices and payment policies to these many hundreds of thousand royalty owners<sup>2</sup>, new legislative fixes are needed to address the changing

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<sup>1</sup> Alabama, Arkansas, Colorado, Kansas, Nevada, North Dakota, Oklahoma, Texas, and Wyoming have royalty payment reporting statutes. Other states may also have reporting statutes too.

<sup>2</sup> KIOGA (the Kansas Independent Oil and Gas Association) recently estimated that there are over 200,000 Kansas royalty owners.



concerns. Kansas is no different! To my knowledge, both the Oklahoma<sup>3</sup> and Texas<sup>4</sup> legislatures also have bills pending to deal with price transparency issues and changes needed on the check stub statutes.

This type of legislation is necessary, from a public policy standpoint, to provide protections for literally hundreds of thousands of royalty owners who have limited or inferior knowledge and information compared to large multi-national oil and gas company conglomerates, or even compared to 'independent producers.'

SWKROA is an organization with its roots in the Hugoton Gas Field area, which comprises most of the ten southwest Kansas counties. Although the membership in the Association is relatively small compared to the total number of royalty owners in southwest Kansas, the Association probably has been and is the strongest advocate of royalty owner rights in Kansas. Non-member royalty owners from Southwest Kansas, and royalty owners throughout Kansas have benefitted from the active role of the association. Similarly, industry has trade associations, such as the Petroleum Council, KIOGA and EKOGA, who indirectly provide benefits to non-members of their associations. Often, in organizations like SWKROA, the Petroleum Council, KIOGA, EKOGA, or even a legislator, it is the vocal few who represent and speak for the nameless masses. It is a maxim of our society that 10% of the people provide 90% of the efforts to improve society for the masses. It does not lessen the need or integrity of the groups' advocacy. Although SWKROA primarily deals with issues in Southwest Kansas, the majority of issues it identifies are representative of issues which impact royalty owners throughout the state.

Also, even though SWKROA deals primarily with production from the Hugoton Gas Field area, it appears that each of the members of this Utilities Committee have constituents from your own legislative districts who have production from this area.

Recently, SWKROA officials met several times with royalty owners from Southeast Kansas (in the Chanute area) who are experiencing similar problems. We spoke with them about this legislation and they concurred for the need of the HB 2146. I believe we will hear from several proponents of HB 2146 who are from the Southeast Kansas area. The royalty owners from Southeast Kansas affirm that HB 2146 represents a statewide interest in the protections this bill affords.

As other states have also had to address revisions to their legislation, so should Kansas. The oil and gas industry is an ever changing, dynamic, complicated industry. The industry is handling millions of dollars each month for hundreds of thousands of royalty owners. It is no different than a bank or credit card company being fully accountable and transparent on its operations for its customers.

However, in reality, the banking and credit card systems are much simpler than accounting for the gas and oil industry. For instance, banking is primarily tracking deposits, debits, transfers and interest payments. On the other hand, for the gas and oil industry decisions are made at many, many points along the way (each without any input or knowledge of a royalty owner), such as: what is the starting point for the sale price; is it a sale to an affiliate at less than an arms length transaction; what

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<sup>3</sup> Oklahoma Legislation introduced in 2005 as HB 1759 - SB 576, Royalty Owner Protection Act.

<sup>4</sup> See attached Article in the January 2005 edition of the National Association of Royalty Owners (NARO) newsletter "ROAR," entitled "Fear of the Unknown," by Dave Vinson.

deductions are expressly permitted by the lease, if any; what deductions will the operator take until challenged by litigation; whether these deductions are to be revealed on the royalty check stub, or just reported as a net price; and what decimal interest to use to pay the royalty owner. These types of decisions by oil and gas operators are often not revealed to royalty owners without being forced to do so through legislation.

Each and every royalty owner, no matter how large or small, how sophisticated or unsophisticated, or whether they ask questions about their payments or not, should be entitled to be provided with a clear, accurate, transparent account of their entitlement to payments for gas and oil production of their mineral interests and basic information from which the royalty owner could independently verify payment information. It is their right, and the payor's obligation. You would expect no less from your bank or credit card company.

Industry will lead you to believe this legislation is unnecessary, unduly burdensome, very costly, and is not representative of the majority of royalty owners in Kansas. These charges are unfounded and unsupported and are addressed in these remarks and through proponents testimony.

### Royalty Owner Survey.

Last Spring, SWKROA conducted a survey of its members regarding royalty payments. We had approximately 1130 surveys returned. A copy of the survey results is attached to my testimony. We feel the survey results would be typical of all Kansas royalty owners, even though we only surveyed SWKROA members.

The second survey question asked members to indicate from which companies they received royalties. Based on the number of responses to this question, it appears that the answering members receive royalty payments from an average of more than two gas companies. The top five responses for companies paying royalties were: Anadarko, BP America, ExxonMobil, OXY, or Pioneer. These companies are considered to be the larger producers in Southwest Kansas. However, around 33% of the responses indicated they received royalties from other companies.

Below is the summary of the survey showing the percentage of response for each answer (rounded up to the next whole number):

- |   |           |
|---|-----------|
| 3. Are you able to adequately interpret the information furnished on you royalty payments to verify if you have been properly paid for the production of oil and gas? | NO - 67%  |
| 4. If your answer to question 3 is 'No,' have you tried to obtain additional information about your royalty payments?   | NO - 74%  |
| If your answer is 'Yes,' did you contact your payor in writing?   | NO - 70%  |
| If your answer is 'Yes,' would you rate the experience as beneficial?   | NO - 62%  |
| If your answer is 'Yes,' were you successful in obtaining an adequate response?   | NO - 64%  |
| 5. Would you like all deductions from your royalty payment to be disclosed on your check stub?  | YES - 96% |

- |    |   |           |
|----|---|-----------|
| 6. | Would you like to know if your gas or oil has been sold to an affiliate of your producer?   | YES - 92% |
| 7. | Would you like details of sales and production for each well in which you own a royalty interest?   | YES - 93% |
| 8. | Would you like to be advised if you are receiving royalty payments from different companies for production from the same well?  | YES - 92% |
|    | If your answer is 'Yes,' would you like for each company to report payments to you on a comparable basis?   | YES - 94% |
| 9. | Do you feel that it is necessary for the Kansas Legislature to provide enforcement tools to aid you in obtaining information on your royalty payments in the event your producer will not provide the mandated information? | YES - 90% |

Most of the questions and answers speak more for themselves. Over the years, I have had dealt with many royalty owner inquires about their royalty payments. Questions 3 and 4 reveal to me that many royalty owners are not able to adequately interpret their royalty payment information to determine if they have been properly paid. And of those who do query the payor, the majority appear to be frustrated with the responses they receive. Other royalty owners who have legitimate questions, may feel intimidated that they do not know the terminology well enough to ask for additional information. I hear this complaint frequently. Yet questions 5-8 indicate that 9 out of 10 royalty owners want more detailed information reported to them. These answers support the need for HB 2146.

**History of Royalty Owner Check-Stub Legislation in Kansas.**

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.

With the deregulation of natural gas at the federal level, the states were forced to develop regulations for gas gathering facilities. In 1996, the Kansas Legislature established a Gas Gathering Task Force consisting of 14 members.

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, in 1997 responded by passing a bill referred to as "Truth In Royalty

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bill” and as “the royalty owner check-stub bill” (K.S.A. 55-1620, 55-1621 and 55-1622), which required producers to provide royalty owners certain information in connection with their royalty payments.

### **Senate Bill No. 401, 2004 Kansas Legislature.**

Senate Bill No. 401 was introduced in the Senate Utilities Committee during the 2004 Legislative Session by the late Sen. Stan Clark. Prior to the introduction of the bill, SWKROA officials met with members of industry and their lobbyists in order to explore possible alliances on the bill language. The bill was introduced without a consensus from industry. SWKROA continued to meet and discuss the bill during the session, and based on these discussions SWKROA responded by agreeing to make some significant changes to the bill language to address concerns of industry. Industry also presented language for a proposed substitute, which basically patterned off legislation in Texas. The industry language ignored critical provision desired by SWKROA.

In furtherance of SWKROA’s desire to negotiate a bill that was favorable to both industry and royalty owners, SWKROA officials requested Sen. Clark to withdraw the bill from further hearings. Some producers may argue that the bill was killed in committee, but that simply is not true.

SWKROA officials continued to meet with industry throughout the Summer and Fall of 2004 on compromise language. SWKROA revised the bill yet again to address concerns of the industry. Industry offered little to no suggestions, save Texas language which was not responsive to our needs.

One of the main revisions to the bill which you see before you today was to address the concerns of KIOGA to treat oil on a different basis. Sub-section (b) of Section 1 of the Bill essential keeps oil at a status quo with the current legislation.

HB 2146 also contains concessions from SB 401 which allow the operator to continue to pay royalty on a lease or unit basis, rather than on a well by well basis.

Unfortunately, our efforts to work with the producers have failed, we now have to turn to you for your assistance.

### **Gas Gathering Complaint Procedure Not Applicable.**

Opponents to HB 2146 would lead you to believe that the separate gas gathering complaint procedure before the KCC. This is not accurate. K.S.A. 55-1,101, defines 'Gas gathering services' as “the gathering or preparation of natural gas for transportation, whether such services are performed for hire or in connection with the purchase of natural gas by the person gathering or preparing the gas or a marketer affiliated with the person gathering or preparing the gas.” Kansas Administrative Regulations, K.A.R. 82-3-801, et seq. govern the reporting procedure and complaint process for gas gathering services.

These regulations primarily deal with complaints which might arise from producers who question the gathering fees charged to them, irrigators having to pay for gas gathering fees, and other consumers who utilize gas gathering services. However, transparency of gathering fees was a key component for these regulations. The royalty owners believe they are not to be charged for costs to



gather natural gas<sup>5</sup>. The regulations do include royalty owners in the list of parties entitled to have the KCC review the gathering fee.<sup>6</sup> However, the right to challenge gathering rates under these regulations is secondary to the producer's obligation to reveal deductions for gathering fees (and any other deductions) in the first place on the royalty 'check stub'.

### Need for New Legislation: HB 2146.

The 1997 bill was presented as an industry compromise. For instance, the bill did not address "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. The producers breached the compromised language of the bill by lobbying for removal of this critical provision shortly before final action on the bill. Thus, royalty owners were happy to have a law "requiring" producers to provide royalty owners information, but were frustrated that there was no statutory remedy to enforce the law. Legislation in other states (referred to above) generally provide for a range of sanctions, including civil damages, criminal liability, and allowance for attorney fees.

SWKROA General Counsel, Gregory J. Stucky, of the law firm of Fleeson, Goosing, Coulson & Kitch, L.L.C., Wichita, wrote an article for a recent SWKROA newsletter which discussed some of the shortcomings of the current legislation. House bill 2146 is designed to cure those deficiencies. Among the major deficiencies are the following:

**1. The current legislation 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 HB 2146 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. Although certainly not every royalty owner has the sophistication or ability to verify payments, we are mindful of this duty.

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 some report on a lease or unit basis.

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<sup>5</sup> In fact, there are four class action lawsuits pending in the District Court of Stevens County, Kansas which challenge deductions from royalty for gathering of natural gas (including suits against Pioneer Natural Resources, OXY, Anadarko, and ExxonMobil). There was also a settlement in 2004 of case which had been filed against BP.America.

<sup>6</sup> Sub-section (c) of K.A.R. 82-3-802 provides that, "Any consumer of gas-gathering services, any person seeking direct purchase of natural gas at the wellhead, any royalty owner, or any natural gas producer may request that the commission investigate and initiate proceedings to review a fee, term, or practice being used by a person offering gas-gathering services."

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 (KDOR), where the reports are generally made on a well by well basis, the volumes don't necessarily match your sales volumes. Which value to you use to verify production? (This should also 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 to you use to verify production?

For a royalty owner, verification means attempting to match production volumes to sales volumes. HB 2146 requires check stubs to report gas payments using sales volumes rather than production volumes. However, the bill also requires an alert if the sale volume is less than the production volume for the same period. Ultimately, without production volumes, there is no way to verify if full payment has been received for the sale of such production. During the 2004 Legislative Session SCR (Senate Concurrent Resolution) No. 1829 was passed to encourage industry to work with government offices in designing reporting information on production volumes. In order for a royalty owner to be sure they can reconcile production volumes with sales volumes, the issues raised in SCR 1829 may need to be enacted under a statutory framework which would allow royalty owners access to information.

**2. The current statute does not require the producer to disclose affiliate transactions.**

Following meetings with industry last fall, we revised our draft of the bill to only require an alert from the payor if the payment included a transaction with an 'affiliated party.' Under current legislation, producers have sometimes used as the disclosed "price" as the price they receive from an affiliate purchaser.

**3. The current legislation does not address split-stream sales.** Split-stream sales were a concern in 1996 and 1997, but none of the producers were willing to address it as part of the compromise bill. HB 2146 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 payor which 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 obtain adequate information to confirm that an owner has been paid properly.

The royalty owner often has no explanation on their remittance stub, or after inquiry, to reveal split sales. 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 HB 2146 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 legislation 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 included provisions for enforcement, which granted the district courts of this state to award damages, including attorney fees. Attorney fees are generally not allowed, absent statutory authority.

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.

#### Summary.

Royalty owners are entitled to receive clear, transparent and accurate information for their royalty payments. Industry has, or should have all of the requested information, but yet they strongly oppose providing royalty owners with the requested information on the royalty check stub.

Back to the banking analogy, it makes you wonder what they may be hiding. The industry knows and perhaps counts on it being difficult for a royalty owner to know precisely how the industry chooses to pay them and the information it chooses to reveal to the royalty owner. They also know that litigation is expensive and time consuming for a royalty owner obtain necessary information and perhaps learn that improper payments have been made to them. It is easy for them to argue that royalty owners don't want more information and that it would be too expensive to comply. Power is knowledge, and the industry has a powerful bargaining chip by controlling the information it chooses to disclose to royalty interest owners. This supports the public policy concern for this legislation, which provides protection for even the smallest royalty owner.

We do believe that royalty owners should be entitled to a full explanation from their producers about how they calculate their royalty payments. House Bill 2146 requires the producers to give royalty owners that information. We urge your adoption of House Bill 2146.

Respectfully submitted,

/s/ Erick E. Nordling

Erick E. Nordling  
Executive Secretary, SWKROA

Attachments



# Fear Of The Unknown

By Dave Vinson, NARO-TX President

The mysterious and unpredictable journey that is the Texas Legislature is once again underway. As usual, the mineral owner will need to be concerned about a number of issues. There is a lot of adventure between now and March 11th, which is the filing deadline for new bills.

One of the most controversial legislative issues may very well address the conflict that has developed between royalty owners, operators and pipeline purchasers over gas contracts. On November 18th, the NARO-Texas Board of Directors met with a number of industry representatives so they could better understand and address the situation. The meeting included presentations from the Texas Independent Producers and Royalty Owners Association, The Alliance of Energy Producers, and The Texas Pipeline Association. Is there a problem? No question. There are a lot of assertions being made and I am sure there will be more as the session develops.

A major component of the argument has been the evolution of Percentage of Index Pricing. This should be of concern for a royalty owner under a professionally negotiated lease that addresses post-production costs. To explain the situation properly, you have to be very elementary. Under historic contractual agreements, the operator would pay a certain negotiated cost to transport gas to a point of sale. A check stub under an unfavorable lease agreement would show the gross revenue

received by the operator at the point of sale, the deduction of the transportation and other post-production costs and the net payment paid to the royalty owner. A professionally negotiated lease agreement with post-production language would reflect the same gross amount, except it would have no deduction from the net price paid to the royalty owner other than severance tax.

Percentage of Index pricing typically moves the purchase point from a downstream point to the wellhead. The cost of transportation of the gas is paid by a percentage deduction off an index price such as the Houston Ship Channel. This creates a real dilemma for the royalty owner. The costs of transportation have already been deducted and the net price is paid to the operator for disbursement to the royalty owners. A royalty owner in this situation would not see a deduction on his check, so he would naturally assume that the terms of his lease are being recognized.

At the time many of these contracts that are currently under attack were originated, the index price at \$3.00 per MCF or less amounted to a maximum pipeline/transportation fee of 60 cents. In subsequent years the index price has exceeded \$7.00 per MCF and the fee has risen proportionately. It is easy to see the concern for a royalty owner as a bigger portion of the revenue has gone to satisfy these costs.

How widely this process is being used is still a mystery, although there is no ques-

tion that it is a reality. The reason it has now become a predominant point of discussion is the continued escalated price of gas. With the potential for future price spikes, it is essential that the industry get a grasp on the situation. Is every operator guilty? Absolutely not! All pipeline companies are not doing business unfairly, but it is hard to tell because royalty owners can't see the contracts.

The NARO Board addressed this situation in a National Board meeting on December 7th in Tulsa, Oklahoma when they passed the following resolution:

*"That NARO and its state affiliates encourage transparency in natural gas contracts in order to verify that royalty payments are being paid in accordance with their oil and gas lease."*

This is a difficult issue that has strained a lot of relationships at a time when all facets of the industry in Texas need to be united in an effort to overcome School Finance and Dominant Estate Issues. Many of the recent achievements of NARO-Texas have been attained by our working relationships with industry groups that may not agree with this position. Although the environment in Texas is not favorable for class actions, they are a huge problem in other states. A good case can be made that this exists because the royalty owner is not a part of the contractual equation and there is no transparency in the process. The revenue pie is bigger than ever. All facets of the industry must seek an equitable solution to this issue.



**SWKROA Member Survey Results**

**Tuesday, February 08, 2005**

Total Survey Responses: **1130**

1. From which Southwest Kansas counties do you receive royalty payments?

Finney -122	Grant -284	Greely -20	Hamilton -66	Haskell -141
Kearny -198	Morton -182	Seward -103	Stanton -90	Stevens -384

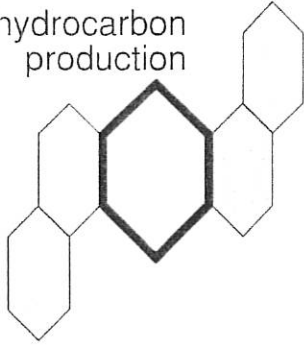
2. From which companies do you receive royalties on Kansas oil and gas production?

Anadarko -402	BP America -389	Cimarex Energy -81
Exxon Mobil -384	OXY -288	Pioneer -287
Other -794		

3.	Are you able to adequately interpret the information furnished on your royalty payments to verify if you have been properly paid for the production of oil and gas?	Yes -360	No -719
4.	If your answer to question 3 is 'No,' have you tried to obtain additional information about your royalty payments?	Yes -193	No -558
	If your answer is 'Yes,' did you contact your payor in writing?	Yes -119	No -272
	If your answer is 'Yes,' would you rate the experience as beneficial?	Yes -85	No -140
	If your answer is 'Yes,' were you successful in obtaining an adequate response?	Yes -62	No -108
5.	Would you like all deductions from your royalty payment to be disclosed on your check stub?	Yes -1030	No -38
6.	Would you like to know if your gas or oil has been sold to an affiliate of your producer?	Yes -941	No -87
7.	Would you like details of sales and production for each well in which you own a royalty interest?	Yes -945	No -75
8.	Would you like to be advised if you are receiving royalty payments from different companies for production from the same well?	Yes -931	No -78
	If your answer is 'Yes,' would you like for each company to report payments to you on a comparable basis?	Yes -820	No -49
9.	Do you feel that it is necessary for the Kansas Legislature to provide enforcement tools to aid you in obtaining information on your royalty payments in the event your producer will not provide the mandated information?	Yes -889	No -97

2-11

hydrocarbon  
production



OIL PRODUCERS, INC. OF KANSAS

December 8, 2004

Mr. Eric Nordling  
Kramer, Nordling & Nordling LLC  
209 E 6<sup>th</sup> St  
Hugoton, Ks. 67951

Re: Timothy J. Coulter

Dear Mr. Nordling,

I am in receipt of your December 2, 2004 letter concerning the above referenced royalty owner. In answer to your questions, the OOG Coulter and the OOG Ferguson are the same wells at Anadarko's Coulter B-1 and Ferguson A-1. Anadarko operates and purchases the gas produced from these wells thus causing split stream gas. When we purchased the wells, we set them up with the OOG designation so they would sort with all the non-operated properties.

We are paid 40% of the revenue and our decks are set up at 100% ownership with Anadarko listed as 60% do not distribute, thus disbursing the 40%. The .0125 royalty is his percentage of the entire royalty with 40% of his proportionate share of the runs coming from Oil Producers and 60% coming from Anadarko. I have included a copy of the most recent check from Anadarko and our spreadsheet for input into our revenue system. Please note that their property gross listed on the Anadarko check is our 40% share not 100% of the volume.

At your convenience, please review the information and if I can answer any other questions, please let me know.

Sincerely,

Diana Richecky

2-12

August 26, 2004

SWKROA  
P. O. Box 250  
Hugoton, KS 67951

Gentlemen:

We continue to have problems with Amcon Resources. We believe that they deliberately cheat us.

Kansas Natural Gas sold to Amcon in 1997 approximately 21% of F. J. Loomis gas wells:  
Well #1730 Jewell i  
Well #2010 Maune 2-36

In a letter from Kansas Natural Gas, we were told "at a price of \$1.52 for the month, the owner gross you are entitled to is \$1.05, not the .07 per the check attachment."

Also each year since, I have received much less than I expected--in comparison with Kansas Natural Gas. I wrote to my cousin, Dorothy Loomis, and she is very confused about the royalty but she did say, where I was dissatisfied with the \$10.20 I received in 2003, she said she received \$2.19--and she has a larger decimal share of the well than I do.

I do know that each of us 4 sisters get approximately the same amount and we do have equal decimal shares.

I wrote Amcon about this matter but my letter was ignored.

GMX had been paying on the F. J. Loomis gas unit but we did not know that they had sold it. A letter to GMX brought the information that Amcon Resources had purchased this well effective 9-1-02. But, to date, Amcon has paid me (or my sisters) nothing on this well. At the monthly average that GMX had been paying, I believe Amcon owes me, as of this date, approximately \$300.00 on this F. J. Loomis gas unit. (\$1,200.00 for us 4 sisters).

Eaglwing held our royalty money for almost 1 year before they paid it to us. You stated that there is a Kansas statute wherein royalties can only be held 60 days without paying interest. My sister, Dorothy Shields, asked an Eaglwing attorney if they were going to pay us interest. He said not unless we hired an attorney. My cousin, Dorothy Loomis, sent them a letter about paying us interest but they ignored her letter. We believe all of our cousins are faring much worse than we are.

If we are being deliberately cheated, do they have to pay the Court costs?

We do not know what to do.

Yours truly.

*Sara L. Littlejohn*

ANADARKO PETROLEUM CORPORATION

TEL. 832/636-1000  
P.O. BOX 1330 • HOUSTON, TEXAS 77251-1330

January 28, 2005

E. Paul Boles Trust  
E. Paul Boles & Patsy Boles Co-Trustees  
P O Box 919  
Liberal, KS 67905-0919**RE: Owner # 825347 & 401085**  
**Longcor 1, Well 0488901**  
**Fitzgerald C-2-11, Well 1101903**  
**Boles 3-11, Well 1123502**

Dear Interest Owner:

According to our records, you were erroneously paid twice by Anadarko Petroleum for January 2003 through August 2003 gas sales on the subject wells. You were first paid under owner number 401085 on various dates in 2003, and again under owner number 825347 on check number 23181042 dated October 26, 2004.

The attached Owner Detail Sales Reports show all amounts that were paid to you for both owner numbers. Please send a refund check for \$26,227.76 to Anadarko Petroleum at the following address:

**Anadarko Petroleum Corporation**  
*Attn: Arthurene Jones*  
**P O Box 1330**  
**Houston, TX 77251-1330**

We apologize for any inconvenience that this may have caused you. If we can be of further assistance, please contact me at (832) 636-7661.

Sincerely,

A handwritten signature in cursive script that reads "Arthurene W. Jones".

Arthurene W. Jones  
Supervisor, Revenue Accounting

2-14



Good morning,

My name is Kimberlee Hamilton. I am appearing before you on my behalf. I am also a member of the SWKROA. I am hoping to convey to you the urgent need for this HB to be put into effect. Not only for the valuable information greatly deserved and needed by the royalty would owners but, it also benefit the producers as well. It would eliminate hundreds if not thousands of man hours in unnecessary correspondence in regard to the current inconsistencies of revenue statements. This is a universal problem that needs to be addressed. I believe the HB 2146 would be a welcome relief to the current state of confusion and frustration.

With this in mind, I will do my best to try to make sense out of something that does not make sense...

I took over my Mother's estate in '99. The property involved has been in my family since the early 1900's. My Great Grandfather homesteads the land where our mineral rights were established, some of the wells are even named after my Grandfather. They were handed down through the generations, up to '99, when I was named executer of the estate.

Both of my Grandparents had Alzheimer, so information on maintenance of royalty interests was lost. My Mother was diagnosed with Lou Gehrig's disease in the early '90s. Information was not communicated due to illness. 1999 was largely a learning year for me.

My Mother had left me with a tax bill delinquent as far back as 1994. Self taught with the occasional visit with the customer service rep.'s from a couple of Oil & Gas Companies early on and SWKROA to date. There was a lot of trial and error. In order to maintain my position as executer of the estate without heavy penalties from Federal and State tax, I had to learn as fast as possible to try and make sense of the revenue statements coming in. I am still learning.

*HOUSE UTILITIES*  
DATE: 2-15-05  
ATTACHMENT 3

I was left to take over my older disabled Brother's trust, also challenged by another sibling, not forgetting the taxes weighing over me. I had to give a lot of people a lot of answers. On a quarterly basis I had to show a competent level of executing my duties. I combed over any and all back revenue statements, any correspondence between my Mother and attorneys and/or producers available to me. Between Oil & Gas companies merging, changing names, division orders changing well names and lease numbers...some just "fell through the cracks" others were left off legal documentation (i.e. Bedford-2 w/ Anadarko, Yeiser A#2-4 w/Extex, Bedford C-2 w/ Cimarex). I have made countless phone calls, countless faxes, hours with attorneys, incurring many bills with no satisfactory resolve. There seems to be no rhyme or reason to compare revenue statements from one producer to the other when burden of payment to a well exists. It is simply a nightmare. For instance, one said well has split stream sales. There is no continuity or common format to the revenue statements, the formulas for calculating volume production, and/or royalty interests are by no means of a uniform format.

#### Exhibit A

- In just one random letter that I had pulled from my files, dating back to Feb. 12, 2002, it is communicated to Mr. Erick Nordling, three separate issues with Oil & Gas companies. The letter describes the chaotic information from revenue statements, conflicting information from department to department within the same company and from company to company when pertaining to burden of payment on a common well. There are "deductions / adjustments" in the tens of thousands of dollars as well as conflicting reports from producers to interest owners on volume production. I have been told in many instances that there was no production from a said lease, only to follow up with communication with the KCC, where volume production was reported on said date. A call back to the appropriate departments, informing them that volume production was reported. Granting them that it was probably just an oversight...communications with the production company deteriorated rapidly. I was shuffled from department to department only to reach voice mail. The "people I needed to talk to were all on vacation". Because the two companies were splitting the burden of payment, I

3-2

was told to "call the other company". I was bouncing back and forth for many months.

#### Exhibit B

- July 22, 2002 Helmerich & Payne sent an abrasive response.

#### Exhibit C

- Note attached from Mr. Nordling's office, dated August 1, 2002, with the observation of H & P being "defensive".

#### Exhibit D

- H & P, August 2002 revenue statement has the product code #5 (helium), with no information on "unit price" or "net volume column" Only a small pay out in the "gross value" column. Again I retain the services of Mr. Nordling's firm to generate another letter of inquiry, with still no answer.

#### Exhibits E, F & G

- Anadarko, September 2002 revenue statement shows a well with back payments back to 1996. This shows some of the many hours, days, weeks and months of emails, faxes, phone calls and formal letters to the company to try and get a definitive answer to my questions raised. To date there are still no answers to years of payments missing or proof of said payments made. I was told funds stay in a suspense account from 5-7 years before they are escheated and yet funds were escheated just a few years ago?

Good morning Chairperson Holmes and the rest of the members of this committee.

My name is Mike Leathers. I grew up in southwest Kansas on the family farm in Haskell County. Austin, Texas, has been my residence since 1976. I now own the farm including the mineral interests under it. I am appearing before you on my behalf as well as a member of the Southwest Kansas Royalty Owners Association. I am in favor of measures that would lead to a check stub from oil and gas producers showing concise uniform information. I believe such information would be invaluable to the royalty interest owner in reconciling amounts due.

A few years ago, a portion of my land became part of a 1,160 acre unit comprised of 29 forty acre tracts known as the South Eubank Waterflood<sup>A</sup>. It is a secondary recovery project. Water is injected in the ground to flush the oil to the surface. A division order<sup>B</sup> showing my share of the unit was drafted by Chesapeake. Chesapeake is the operating partner with Anadarko and Oxy having the other major working interests<sup>C</sup>. Oxy has chosen to take their share of the production "in kind", which is a common practice. This means each partner individually owns and markets the oil from each well. I receive two checks for my share of the production from the unit, one from Chesapeake and another from Oxy; however, this was not always the case.

For the first year, I received only one check each month and it was from Chesapeake<sup>D</sup>. I found the information presented on their stub both intimidating and confusing. In my attempt to reconcile my interest on the check stub back to the division order I discovered I was receiving only about 60% of the amount due me. At first I thought I was just missing something. The multiplier on the check stub did not match the division order. The volume being reported did not come close to what I had been told to expect.

I discovered that Oxy should be sending a check for their portion. After uncountable phone calls and emails over several months, they finally found a problem and started sending checks. Now, I had two check stubs<sup>E</sup> presenting totally different figures for the same production. Adding the check amounts together still fell short of the amount I estimated I should be receiving.

Again, after several months of questions in email exchanges, Chesapeake discovered they should be including the Anadarko interest in my check. Their solution changed the information on the check stub again but still there is no way I am able to reconcile the interest on my checks to the division order. This is due to what they call an inflated decimal<sup>F</sup>, which I still don't understand. By adding the amounts of the checks from Chesapeake and Oxy, I am now receiving approximately what I estimate I should be, but I still am not sure about it.

In Austin, I owned a company employing 10 people, who designed and wrote computer programs for accounting applications that had to meet the approval of CPA's and auditors. Estimating is not acceptable to most auditors and it rubs me the wrong way too.

HOUSE UTILITIES  
DATE: 2-15-05  
ATTACHMENT 4

To my friends, I explain the problem this way. Imagine me as the owner of a gasoline station. A customer drives up to a pump and dispenses 10 gallons of fuel into the tank of their car. They pay me \$18 and drive away. At the end of the day, after many different customers have purchased fuel from me, I am able to multiply the total gallons by the price per gallon and arrive at the amount I should have in my cash register. After selling several thousand gallons of fuel, the over/short amount is within a few cents of the total it should be. The state comes around periodically to certify that the fuel dispenser accurately measures each gallon of fuel. The price is for one gallon. It is all uniform and easily reconciled.

Now imagine that I have a group of investors each with a specific share of the company. I must pay them their fair share of the sales. As information for them on the check stub, I would offer the total gallons sold for the day, the price per gallon for the day, the gross amount in dollars, a decimal that represents their share of the company (which is also shown in our partnership agreement somewhat like a division order), and the amount of money they are due. There would be one line per day and I would pay them once per week. Everything I present to them can be easily verified and reconciled because it is uniform.

Now, suppose I find a Mexican supplier for some of the fuel and he tells me I can pay him for the fuel after I sell it instead of when he delivers it and furthermore, he will send payment to my partners for their share of his sales. That is an attractive proposition to me.

Suppose he decides on his check stub to report the quantity in liters and the price per liter in pesos. And further, he decides to include the exchange rate of pesos to dollars for the given day. Then the statement comes printed in Spanish. This should provide some illustration of the problem the royalty recipient faces.

In an email from a frustrated employee within the accounting department of Oxy, I was informed that I am but one of 35,000 owners to whom they make payments each month. If the check stub information was uniform among the producers, I strongly believe his job would be infinitely easier due to a reduction of questions regarding the stub information.

We pretty much have to accept their report of the volume produced, but if everything else was in terms we could understand and uniform among producers, we would be able to reconcile the information resulting in fewer questions.

It has taken a year and countless hours for me to get to where I think I am receiving the amount due me. I am still unable to reconcile my checks back to the division order. My participation in the unit is approximately 20%. I personally received around \$50,000 for the production Oxy and Anadarko had received but for which they had not paid me. I am not in the habit of making five digit loans to oil companies. That means the producers were sitting on \$250,000 that could have gone undetected. I believe it is because most owners find the check stub information intimidating, confusing and not uniform that they feel forced to accept what they receive.

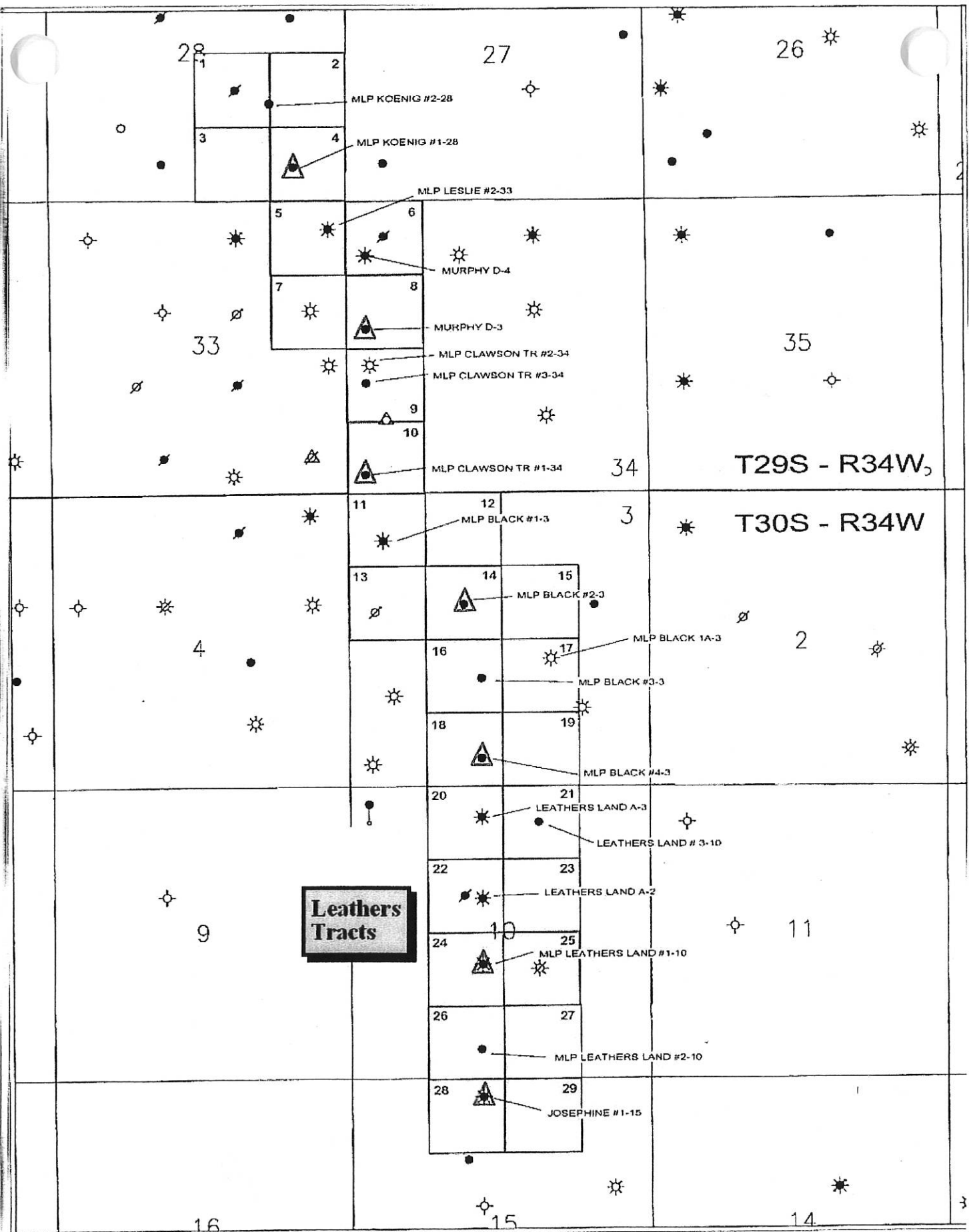


By the way, Oxy is still not sending checks to all of the owners in the unit and Chesapeake is unable to explain negative items shown on the checks stubs of several of my payments. It is better, but still not correct. And, I am but one of 35,000 owners dealing with but three producers on just one project. How many more errors have gone undetected? How many royalty owners are willing to go what I have gone through to insure that they are being paid correctly?

- 
- <sup>A</sup> Unit Tract Map
  - <sup>B</sup> Division Order from Chesapeake
  - <sup>C</sup> Working Interest Chart
  - <sup>D</sup> Chesapeake Check Stub – January 2004
  - <sup>E</sup> Check Stubs from Chesapeake and Oxy for July 2004 Production
  - <sup>F</sup> Inflated Decemal Explanation by Chesapeake

~~2~~





**LEGEND**

△ PROPOSED INJECTION WELL

**EXHIBIT A  
UNIT AGREEMENT**



Chesapeake Operating Inc.		
South Eubank Waterflood Project LOCATION MAP Haskell County, Kansas		
JGSC	Scale 1:3021034	4/19/2011
51705EA.GPJ		ELBANK SOUTH

*Handwritten signature/initials*

**DIVISION ORDER**

D: CHESAPEAKE OPERATING, INC., PAYOR  
 P.O. BOX 18496  
 OKLAHOMA CITY, OK 73154

PROPERTY NO: 212402  
 EFFECTIVE: FIRST PRODUCTION  
 PREPARED BY: PATSY WATTES  
 DATE PREPARED: 10/17/02  
 PRODUCT(S): OIL & GAS

This agreement is made and entered into on October 17, 2002.

The undersigned severally and not jointly certifies it is the legal owner of the interest set out below of all the oil, gas and related liquid hydrocarbons produced from the property described below:

OPERATOR: CHESAPEAKE OPERATING, INC. OWNER NO: 639199 INT TYPE: 2 (1 = WI, 2 = RI, 3 = ORI)  
 PROPERTY: SOUTH EUBANK WATERFLOOD PROJ OWNER: MICHAEL RAY LEATHERS  
 LEGAL DESCRIPTION: SE SEC 28; E/2 NE SEC 33; W/2 W/2 SEC 34-29S-34W; NW, SW NE, E/2 SW & W/2 SE SEC 3; E/2 W/2 & W/2 E/2 SEC 10; NE NW & NW NE SEC 15-30S-34W  
 HASKELL, KANSAS COMMENTS: N/A  
 NET ACRES: 1160.000000

STATUS	BPO Net Ac	BPO Lse NRI/RI	BPO Unit Int.	APO1 Net Ac	APO1 Lse NRI/RI	APO1 Unit Int.	APO2 Net Ac	APO2 Lse NRI/RI	APO2 Unit Int.
PA	238.795280	0.12500000	0.02573225	160.918390	0.12500000	0.01734034	n/a	n/a	n/a

**VISION OF INTEREST**

THIS AGREEMENT DOES NOT AMEND ANY LEASE OR OPERATING AGREEMENT BETWEEN THE INTEREST OWNERS AND THE LESSEE OR OPERATOR OR ANY OTHER CONTRACTS FOR THE PURCHASE OF OIL OR GAS.

The following provisions apply to each interest owner ("Owner") who executes this agreement:

**TERMS OF SALE:** The undersigned will be paid in accordance with the division of interest set out above. The payor shall pay all parties at the price agreed by the operator for oil and gas to be sold pursuant to this division order. Purchaser shall compute quantity and make corrections for gravity and temperature and make deductions for impurities in the oil.

**PAYMENT:** From the effective date, payment is to be made monthly by payor's check, based on this division of interest, for oil runs and gas produced during the preceding calendar month from the property listed above, less taxes required by law to be deducted and remitted by payor as purchaser. Payments of less than \$100.00 may be accrued before disbursement until the total amount equals \$100.00, or until December 31 of each year, whichever occurs first. However, the Payor may hold accumulated proceeds of less than \$10.00 until production ceases or the Payor's responsibility for making payment for production ceases, whichever occurs first. Payee agrees to refund to payor any amounts attributable to an interest or part of an interest that payee does not own.

**INDEMNITY:** The owner agrees to indemnify and hold payor harmless from all liability resulting from payments made to the owner in accordance with such vision of interest, including but not limited to attorney fees or judgments in connection with any suit that affects the owner's interest to which payor is made party.

**DISPUTE; WITHHOLDING OF FUNDS:** If a suit is filed that affects the interest of the owner, written notice shall be given to payor by the owner together with a copy of the complaint or petition filed. In the event of a claim or dispute that affects title to the division of interest credited herein, payor is authorized to withhold payments accruing to such interest, without interest unless otherwise required by applicable statute, until the claim or dispute is settled.

**TERMINATION:** Termination of this agreement is effective on the first day of the month that begins after the 30th day after the date written notice of termination is received by either party.

**NOTICES:** The owner agrees to notify payor in writing of any change in the division of interest, including changes of interest contingent on payment of money or expiration of time. No change of interest is binding on payor until the recorded copy of the instrument of change or documents satisfactorily identifying such change are furnished to payor at the time the change occurs. Any change of interest shall be made effective on the first day of the month following receipt of such notice by payor. Any correspondence regarding this agreement shall be furnished to the addresses listed unless otherwise advised by either party. In addition to the legal rights provided by the terms and provisions of this division order, an owner may have certain statutory rights under the laws of this state.

WITNESS	SIGNATURE OF INTEREST OWNER	SOCIAL SECURITY/ TAX I.D. NO.	REVENUE ADDRESS
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**Subject:** FW: South Eubank Waterflood Proj. (212402)  
**From:** "Melissa Jarvis" <mjarvis@chkenergy.com>  
**Date:** Mon, 25 Oct 2004 09:47:38 -0500  
**To:** <mleathers@snowbd.com>

Mr. Leathers,

Our records indicate your title royalty interest in the South Eubank Waterflood (212402) is .02573225. Below is the Working Interest owners that you burden.

501097	ANADARKO	0.00726777	JOA
605037	CHK EXPLORATION	0.00923224	JOA
502069	OXY USA	0.00923224	TIK
<b>TOTAL</b>		<b>0.02573225</b>	

**This total matches  
the division order**

The payment decimal that you are being paid is .02739213 which is actually an inflated decimal. The flat decimal used is .01650001 (Anadarko & Chesapeake burden) and the inflation factor is .60236310. Chesapeake has 60% of the market, Oxy USA is taking their gas in kind and they have the other 40%. Please let me know if you have any questions.

Thank You,  
*Melissa Jarvis*  
Oil & Gas Payments  
Chesapeake Energy Corporation  
Phone: 405-879-9295  
Fax: 405-879-9558  
[mjarvis@chkenergy.com](mailto:mjarvis@chkenergy.com)

-----Original Message-----

**From:** Mike Leathers [mailto:mleathers@snowbd.com]  
**Sent:** Thursday, October 21, 2004 3:21 PM  
**To:** Dori Williams  
**Cc:** Abe Henry; Patsy Watters; Gayle Harris  
**Subject:** Re: South Eubank Waterflood Proj. (212402)

I continue to have no luck at reconciling the check stub to my division order. Will someone please tell me the total volume of oil produced from the unit for the month of July 2004?

Dori Williams wrote:

| Thank you all!

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PROD DATE	P C	PRICE	I T	PY GP	LEASE				PAYMENT DECIMAL	OWNER				
					VOLUME	TAX	DEDUCT	NET VALUE		VOLUME	GRS VALUE	TAX	DEDUCT	NET
212402-SOUTH EUBANK WATERFLOOD PROJ					STATE: KS COUNTY: HASKELL				LEGAL: SECTIONS 28,33,34-29S-34W, 3,1					
502	1	25.203	2	02	-46.05	-53.41	.00	-1107.20	.01578072	-.73	-18.32	-.84	.00	-17.48
502	1	25.192	2	02	-6.51	-7.54	.00	-156.46	.01578072	-.11	-2.59	-.12	.00	-2.47
502	1	25.201	2	02	55.49	64.35	.00	1334.08	.01578072	.87	22.07	1.02	.00	21.05
502	1	25.204	2	02	7.84	9.08	.00	188.52	.01578072	.13	3.12	.14	.00	2.98
502	1	25.202	2	02	128.42	148.93	.00	3087.52	.01578072	2.02	51.07	2.35	.00	48.72
502	1	25.201	2	02	-408.32	-473.53	.00	-9816.83	.01578072	-6.44	-162.39	-7.47	.00	-154.92
502	1	25.202	2	02	-243.73	-282.67	.00	-5859.93	.01578072	-3.85	-96.93	-4.46	.00	-92.47
502	1	25.202	2	02	491.90	570.49	.00	11826.40	.01578072	7.76	195.63	9.00	.00	186.63
502	1	25.201	2	02	293.63	340.54	.00	7059.50	.01578072	4.63	116.78	5.37	.00	111.41
502	1	25.202	2	02	-211.34	-245.09	.00	-5081.11	.01578072	-3.34	-84.05	-3.87	.00	-80.18
502	1	25.201	2	02	-112.33	-130.27	.00	-2700.61	.01578072	-1.77	-44.67	-2.06	.00	-42.61
502	1	25.202	2	02	100.72	116.83	.00	2421.57	.01578072	1.59	40.06	1.84	.00	38.22
502	1	25.203	2	02	53.53	62.08	.00	1287.08	.01578072	.84	21.29	.98	.00	20.31
602	1	24.651	2	02	127.94	145.31	.00	3008.56	.01578072	2.02	49.77	2.29	.00	47.48
602	1	24.651	2	02	-410.91	-466.77	.00	-9662.66	.01578072	-6.48	-159.85	-7.37	.00	-152.48
602	1	24.650	2	02	-211.94	-240.73	.00	-4983.73	.01578072	-3.34	-82.45	-3.80	.00	-78.65
602	1	24.650	2	02	495.03	562.31	.00	11640.65	.01578072	7.81	192.57	8.87	.00	183.70
602	1	24.651	2	02	255.32	290.02	.00	6003.90	.01578072	4.03	99.32	4.58	.00	94.74
602	1	24.651	2	02	-221.48	-251.58	.00	-5208.13	.01578072	-3.49	-86.16	-3.97	.00	-82.19
602	1	24.650	2	02	-109.08	-123.90	.00	-2565.03	.01578072	-1.72	-42.43	-1.96	.00	-40.47
602	1	24.650	2	02	140.78	159.90	.00	3310.39	.01578072	2.22	54.76	2.52	.00	52.24
602	1	24.652	2	02	69.33	78.75	.00	1630.38	.01578072	1.10	26.97	1.24	.00	25.73
702	1	25.102	2	02	129.97	150.17	.00	3112.46	.01578072	2.05	51.49	2.37	.00	49.12
702	1	25.102	2	02	-392.20	-453.16	.00	-9392.13	.01578072	-6.19	-155.37	-7.15	.00	-148.22
702	1	25.103	2	02	-228.76	-264.32	.00	-5478.36	.01578072	-3.61	-90.62	-4.17	.00	-86.45
702	1	25.103	2	02	472.49	545.95	.00	11314.98	.01578072	7.45	187.17	8.62	.00	178.55
702	1	25.103	2	02	275.60	318.44	.00	6599.95	.01578072	4.35	109.18	5.03	.00	104.15
702	1	25.102	2	02	-244.59	-282.61	.00	-5857.30	.01578072	-3.86	-96.89	-4.46	.00	-92.43
702	1	25.102	2	02	-106.25	-122.76	.00	-2544.37	.01578072	-1.68	-42.09	-1.94	.00	-40.15
702	1	25.102	2	02	151.55	175.11	.00	3629.23	.01578072	2.39	60.04	2.76	.00	57.28
702	1	25.103	2	02	65.83	76.06	.00	1576.52	.01578072	1.04	26.08	1.20	.00	24.88
802	1	26.619	2	02	151.07	184.46	.00	3837.02	.01578072	2.38	63.46	2.91	.00	60.55
802	1	26.620	2	02	-390.57	-476.92	.00	-9920.13	.01578072	-6.16	-164.07	-7.53	.00	-156.54
802	1	26.619	2	02	-249.95	-305.20	.00	-6348.41	.01578072	-3.95	-105.00	-4.82	.00	-100.18
802	1	26.619	2	02	470.52	574.54	.00	11950.70	.01578072	7.42	197.66	9.07	.00	188.59
802	1	26.620	2	02	301.11	367.68	.00	7647.87	.01578072	4.75	126.49	5.80	.00	120.69
802	1	26.619	2	02	-241.61	-295.02	.00	-6136.53	.01578072	-3.81	-101.49	-4.66	.00	-96.83
802	1	26.620	2	02	-120.83	-147.55	.00	-3069.04	.01578072	-1.91	-50.76	-2.33	.00	-48.43
802	1	26.619	2	02	138.41	169.01	.00	3515.34	.01578072	2.18	58.14	2.67	.00	55.47
802	1	26.620	2	02	59.22	84.52	.00	1758.12	.01578072	1.09	29.08	1.53	.00	27.75
902	1	28.793	2	02	98.38	129.38	.00	2703.37	.01578072	1.56	44.70	2.04	.00	42.66

INTEREST TYPES (IT)

PRODUCT CODE (PC)

DEDUCT CODE

2-ROY.	1-OIL 2-GAS	BW-BACKUP WITHHOLDING EV-SEV TAX KC-KS CONSERVATION NE-NETTING EXPENSE NM-NM WITHHOLDING SB-OK WITHHOLDING SO-OK SEV TAX SV-SEV TAX TC-LA CENT FAC GAS TR-LA CENT FAC OIL
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CHECK TOTAL

2,356.72

OWNER NUMBER	639199	CHECK NUMBER	2530962	CHECK DATE	1/29/2004
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P.O. Box 18496  
 Oklahoma City, OK 73154  
 (405) 879-9333

duplicates furnished. State taxes have been deducted and paid where required. When writing, refer to lease number and owner number.

*Handwritten initials*

PROD DATE	P C	PRICE	I T	PY GP	LEASE				PAYMENT DECIMAL	OWNER				
					VOLUME	TAX	DEDUCT	NET VALUE		VOLUME	GRS VALUE	TAX	DEDUCT	NET
212402-SOUTH EUBANK WATERFLOOD PROJ					STATE: KS	COUNTY: HASKELL	LEGAL: SECTIONS 28,33,34-29S-34W, 3,1							
704	1	39.034	2	02	734.46	1281.87	.00	27387.62	.02739213	20.12	785.32	35.12	.00	750.20
704	1	39.035	2	02	2420.57	4224.72	.00	90262.37	.02739213	66.31	2588.21	115.72	.00	2472.49
					LEASE TOTAL					3373.53	150.84	.00	3222.69	
					OWNER TOTAL					3373.53	150.84			
INTEREST TYPES (IT)					PRODUCT CODE (PC)					DEDUCT CODE				
2-ROY.					1-OIL					BW-BACKUP WITHHOLDING EV-SEV TAX KC-KS CONSERVATION NE-NETTING EXPENSE NM-NM WITHHOLDING SB-OK WITHHOLDING SO-OK SEV TAX SV-SEV TAX TC-LA CENT FAC GAS TR-LA CENT FAC OIL				
<b>CHECK TOTAL</b>													<b>3,222.69</b>	
OWNER NUMBER			639199		CHECK NUMBER			2819558		CHECK DATE			9/29/2004	





Handwritten initials/signature

OIL & GAS REVENUE DETAIL

NO. 201-043402  
CHECK NO. 518986  
CHECK DATE 08-25-2004  
TOTAL OIL AND GAS CHECK AMOUNT \$1,717.77

DIVISION ORDER # NAME	COUNTY STATE	P C	PROD DATE	BTU FACTOR (if used)	V P B	O D E	K I	OWNERSHIP DECIMAL	PRICE	VOLUME	GROSS VALUE	PRODUCTION TAXES	T Y P E	OTHER AMOUNT	NET VALUE	OWNER INT. NET VALUE
1500201-013 S EUBANK TR 24	HASKELL KS	1	07/04	0.000	L O		2	.0312500	36.577	1280.85 40.03	46850.16 1464.07	2098.67 65.58			44751.49	1398.49
1500201-014 S EUBANK TR 26	HASKELL KS	1	07/04	0.000	L O		2	.0312500	36.577	266.52 8.33	9748.61 304.64	436.69 13.65			9311.92	290.99
1500201-014 SOUTH EUBANK TRACT 2	HASKELL KS	3	06/04	1.607	L O		2	.0312500	08.82	94 3	829.40 25.92	34.82 1.09	1 1	45.11 1.41	749.47	23.42
1500201-015 SOUTH EUBANK TRACT 2	HASKELL KS	3	06/04	1.607	L O		2	.0312500	08.63	20 1	172.58 5.39	7.25 .23	1 1	9.39 .29	155.94	4.87

Your Owner Totals Are:

1800.02

80.55

1.70

Your Payment Is:

1717.77

FININTEREST (FC) PRODUCT CODE  
1 - Oil  
2 - Condensate  
3 - Oil Well Gas  
4 - Gas Well Gas  
5 - Carbon Dioxide Gas  
6 - Helium  
7 - NGL

(V/P) VOLUME PRESSURE BASE  
1 - 14,710 psi  
3 - 14,630 psi  
3 - 15,025 psi  
4 - 15,325 psi  
5 - Other

OTHER TYPE  
1 - Gathering/Compression  
4 - Transportation  
5 - Interest  
9 - Ad Valorem Tax  
M - Processing Related Fee

CODE  
L - Lease Total  
O - Owner's Share  
P - Plant Total

— RETAIN THIS STATEMENT —  
FOR TAX PURPOSES  
DUPLICATES CANNOT BE FURNISHED



**Subject:** FW: South Eubank Waterflood Proj. (212402)

**From:** "Melissa Jarvis" <mjarvis@chkenergy.com>

**Date:** Mon, 25 Oct 2004 09:47:38 -0500

**To:** <mleathers@snowbd.com>

Mr. Leathers,

Our records indicate your title royalty interest in the South Eubank Waterflood (212402) is .02573225. Below is the Working Interest owners that you burden.

501097	ANADARKO	0.00726777	JOA
605037	CHK EXPLORATION	0.00923224	JOA
502069	OXY USA	0.00923224	TIK
<b>TOTAL</b>		<b>0.02573225</b>	

The payment decimal that you are being paid is .02739213 which is actually an inflated decimal. The flat decimal used is .01650001 (Anadarko & Chesapeake burden) and the inflation factor is .60236310. Chesapeake has 60% of the market, Oxy USA is taking their gas in kind and they have the other 40%. Please let me know if you have any questions.

Thank You,  
 Melissa Jarvis  
 Oil & Gas Payments  
 Chesapeake Energy Corporation  
 Phone: 405-879-9295  
 Fax: 405-879-9558  
[mjarvis@chkenergy.com](mailto:mjarvis@chkenergy.com)

-----Original Message-----

**From:** Mike Leathers [mailto:mleathers@snowbd.com]

**Sent:** Thursday, October 21, 2004 3:21 PM

**To:** Dori Williams

**Cc:** Abe Henry; Patsy Watters; Gayle Harris

**Subject:** Re: South Eubank Waterflood Proj. (212402)

I continue to have no luck at reconciling the check stub to my division order. Will someone please tell me the total volume of oil produced from the unit for the month of July 2004?

Dori Williams wrote:

Thank you all!

440

**Current law**

**KSA 55-1620**

(c) Whenever a payment is made to an interest owner 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;

(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 thousand cubic feet of gas sold;

**House Bill No. 2146**

**Section #1**

(c) Whenever a payment is made to an interest owner for proceeds attributable to the sale of gas production, or for the sale of associated products, if any, the following information, at a minimum, shall be included and labeled on the check stub:

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

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

(3) the total volume attributable to such payment, measured in thousand cubic feet (MCF) or in million British thermal units (MMBTU), and the total volume of any associated products attributable to such payment, including the units of measurement for the sale thereof;

(4) the price received per unit of measurement, prior to any deductions or adjustments, which shall be the price per MCF or MMBTU, in the case of gas, or the appropriate unit of measurement for associated products sold;

**Texas – Oil & Gas Royalty Reporting Standards**

**Sec.91.502. Types of information pro**

Each check stub, attachment to a pay form, or other remittance advice include:

**Sec.91.502** (1) the lease, property, or well name, any lease, property, or well identification number used to identify the lease, property, or well, and a county and state in which the lease, property, or well is located;

**Sec.91.502** (2) the month and year during which the sales occurred for which payment is being made;

**Sec.91.502** (3) the total number of barrels of oil or the total amount of gas sold;

**Sec.91.502** (4) the price per barrel or per MCF of oil or gas sold;

HOUSE UTILITIES  
DATE: 2-15-05  
ATTACHMENT 5

Current law

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

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

House Bill No. 2146

(5) the conversion factor between MCF and MMBTU for the volume attributable to such payment;

(6) the total amount of state severance and any other production taxes or levies applied to the sale;

(7) the owner's interest in oil and gas production from such lease or property, expressed as a decimal and calculated to at least the sixth decimal place;

(8) an itemized list of any other deductions or adjustments, including any volume or value deductions or adjustments from the produced volume;

Texas – Oil & Gas Royalty Reporting Standards

*Available in Texas upon written request under Sec.91.504* (b) If a royalty interest owner requests information by certified mail concerning the heating value of the gas produced or sold from the lease, property, or well in which the owner has an interest, the payor must, not later than the 60th day after the date the payor receives the request, provide by certified mail:

- (1) a copy of the Form G-1 filed with the commission; or
- (2) a check stub or separate statement that includes the information.

**Sec.91.502** (5) the total amount of state severance and other production taxes paid;

**Sec.91.502** (9) the owner's interest in sales from the lease, property, or well expressed as a decimal;

**Sec.91.502** (7) any other deductions or adjustments;

*Available in Texas upon written request under Sec.91.504. "Providing information about payment deductions and adjustments, heating value or lease identification"*

(a) If the payor does not explain on the check stub, attachment to the payment form, or other remittance advice, or by a

2-5

Current law

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

House Bill No. 2146

- (9) the total value attributed to the owner's interest in the sale of the production from the gas well, lease or property, or associated products, before and after any deductions or adjustments;
- (10) an advice or alert to the owner if such payment includes production from more than one well;
- (11) an advice or alert to the owner if such payment is for less than the total production from the lease, property or well during which the sale occurred for which payment is being made; and
- (12) an advice or alert to the owner if the price reported under subsection (c)(4) is for a sale between payor and an affiliated party.

Texas – Oil & Gas Royalty Reporting Standards

CS

separate mailing, deductions from or adjustments to payments, 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.

**Sec.91.502.** (8) the net value of total sales after deductions;

**Sec.91.502.** (10) the owner's share of the total value of sales before any tax deductions;

**Sec.91.502.** (11) the owner's share of the sales value less deductions; and

*Texas has no similar provision*

*Texas has no similar provision*

*Texas has no similar provision*

**Current law**

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

**KSA 55-1622**

Upon written request by the payee, submitted to the payor by certified mail, the payor shall provide to the payee in writing a specific listing of the amount and purpose of any other deductions or adjustments, including volumetric deductions, with explanation of such treatment. A written response shall be provided within 60 days of the receipt of such certified mail request.

**House Bill No. 2146**

(d) With respect to all payments for the sale of gas or oil, or associated products, the check stub shall include a name, address and telephone number, and an email address if available, where the interest owner may receive clarification or supplementation of the information reported pursuant to this act.

*Kansas has no similar provision*

**Section #2**

(a) An interest owner who has received a payment from a payor may request in writing, by certified mail, additional information from the payor, such as:

(1) Each lease, property or well identification number used by the payor for royalty payment purposes and a corresponding lease, property or well identification number for identification by the payor used by the state corporation commission and/or the A.P.I. number;

(2) each lease, property or well name;

**Texas – Oil & Gas Royalty Reporting Standards**

h-s

**Sec.91.502.** (12) an address and telephone number at which additional information regarding the payment may be obtained and questions may be answered.

**Sec.91.502.** (6) the windfall profit tax paid on the owner's interest;

**Sec.91.504. Providing information about payment deductions and adjustments, heating value or lease identification**

*(Sections (a) and (b) are contained above)*

(c) 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;

Current law

House Bill No. 2146

Texas – Oil & Gas Royalty  
Reporting Standards

SS

(3) each well which may have contributed to production and sale of gas or oil, when the royalty payment may have only identified the sale in relation to the lease, property or unit description;

(4) the field name;

*Information provided in Section 1(c)(1)*

(5) for a given month of production for which payment has been received or is due the owner, the total produced volume of oil, measured in barrels, and/or total produced volume, measured in MCF, as reported for each well, lease or unit to the state corporation commission, the department of revenue and/or the Kansas geological survey;

*Kansas has no similar provision*

*Texas has no similar provision*

(3) the field name;

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

*Texas has no similar provision*

(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.



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(6) details on the conversion from a fractional interest to a decimal interest, used by payor to calculate owner's interest in production from each lease, property or well;

(7) the reason for any deductions from or adjustments to any payment; and

(8) information concerning transactions, such as, but not limited to, sales or services to produce, gather, compress, treat or process gas, between the payor and an affiliated party.

(b) A payor who receives a request for information under subsection (a) and has not otherwise provided such information shall provide a full explanation of the requested information to the interest owner by certified mail not later than the 30th day after the date the payor receives the request.

*Texas has no similar provision*

**Sec.91.504. Providing information about payment deductions and adjustments, heating value or lease identification**

(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, 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.

(d) A payor who receives a request for information under Subsection (c) shall provide the information by certified mail not later than the 60th day after the date the payor receives the request.

(c) Within six months after the effective date of this act, and at least once every 12 months thereafter, the payor shall provide the following statement to each interest owner to whom the payor makes a payment:

“K.S.A. 55-1620 et seq., and amendments thereto, gives an owner of an interest in oil or gas produced in Kansas the right to request from us information about itemized deductions and about transactions between us and any affiliated company. The request must be in writing and must be made to us by certified mail at the following address: (supply address). We must respond to a request for such information by certified mail not later than the 30th day after the date the request is received.”

(e) 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 91.504, Texas Natural Resources Code, gives an owner of a royalty interest in oil or gas produced in Texas the right to request from a payor information about itemized deductions, the heating value of the gas, and the Railroad Commission of Texas identification number for the lease, property, or well that may not have been 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 Commission of Texas 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 Railroad Commission of Texas’ Office of Public Assistance or accessing the commission’s website.

Current law

House Bill No. 2146

Texas – Oil & Gas Royalty  
Reporting Standards

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(d) If the information required by K.S.A. 55-1620, and amendments thereto, is provided in some other manner on a monthly basis, in writing, the payor is not required to include such information on the check stub

**Sec.91.506. Exemption**

If the information required by Section 91.502 is provided in some other manner on a monthly basis, the payor is not required to include the information on the check stub, attachment to the payment form, or other remittance advice.

*No enforcement provision in current law*

**Section 3**

Any district court within this state shall have jurisdiction to enforce the provisions of this act. The court may award court costs, reasonable attorney fees and other allowable litigation expenses incurred by a party in an action to enforce this act.

**Sec.91.507. Enforcement**

(a) A royalty interest owner who does not receive the information required to be provided under Section 91.502 or 91.503 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 91.504 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 91.504 or this section, as



*Kansas has no similar provision*

applicable. The prevailing party is entitled to recover reasonable court costs and attorney 's fees.

**Sec. 91.505. Providing other information**

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 91.504, and the request is made by certified mail, the payor must respond to the request by certified mail not later than 30 days after the request is received

*Texas Natural Resources Code – Oil & Gas  
Royalty Reporting Standards*

*Added by Acts 1985, 69th Legislature, chapter  
199, Section 1, effective September 1, 1985.*

*Amended by Acts 2001, 77th Legislature,  
chapter 824, Section 2, effective September 1,  
2002*

Prepared by the:  
SOUTHWEST KANSAS ROYALTY  
OWNERS ASSOCIATION  
209 East Sixth Street  
Hugoton, Kansas 67951

1 the case of gas, or the appropriate unit of measurement for associated  
2 products sold;

3 (5) the conversion factor between MCF and MMBTU for the volume  
4 attributable to such payment;

5 (6) the total amount of state severance and any other production taxes  
6 or levies applied to the sale;

7 (7) the owner's interest in ~~oil and~~ gas production from such lease or  
8 property, expressed as a decimal and calculated to at least the sixth dec-  
9 imal place;

**DELETE**

10 (8) an itemized list of any other deductions or adjustments, including  
11 any volume or value deductions or adjustments from the produced  
12 volume;

13 (9) the total value attributed to the owner's interest in the sale of the  
14 production from the gas well, lease or property, or associated products,  
15 before and after any deductions or adjustments;

16 (10) an advice or alert to the owner if such payment includes pro-  
17 duction from more than one well;

18 (11) an advice or alert to the owner if such payment is for less than  
19 the total production from the lease, property or well during which the  
20 sale occurred for which payment is being made; and

21 (12) an advice or alert to the owner if the price reported under sub-  
22 section (c)(4) is for a sale between payor and an affiliated party.

23 (d) With respect to all payments for the sale of gas or oil, or associated  
24 products, the check stub shall include a name, address and telephone  
25 number, and an email address if available, where the interest owner may  
26 receive clarification or supplementation of the information reported pur-  
27 suant to this act.

28 Sec. 2. K.S.A. 2004 Supp. 55-1622 is hereby amended to read as  
29 follows: 55-1622. ~~Upon written request by the payee, submitted to the~~  
30 ~~payor by certified mail, the payor shall provide to the payee in writing a~~  
31 ~~specific listing of the amount and purpose of any other deductions or~~  
32 ~~adjustments, including volumetric deductions, with explanation of such~~  
33 ~~treatment. A written response shall be provided within 60 days of the~~  
34 ~~receipt of such certified mail request. (a) An interest owner who has~~  
35 ~~received a payment from a payor may request in writing, by certified~~  
36 ~~mail, additional information from the payor, such as:~~

37 (1) Each lease, property or well identification number used by the  
38 payor for royalty payment purposes and a corresponding lease, property  
39 or well identification number for identification by the payor used by the  
40 state corporation commission and/or the A.P.I. number;

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

42 (3) each well which may have contributed to production and sale of  
43 gas or oil, when the royalty payment may have only identified the sale in

5-80





**KANSAS FARM BUREAU**  
**The Voice of Agriculture**

2627 KFB Plaza, Manhattan, Kansas 66503-8508 • 785-587-6000 • Fax 785-587-6914 • www.kfb.org  
800 SW Jackson St., Suite 1300, Topeka, Kansas 66612-1219 • 785-234-4535 • Fax 785-234-0278

*PUBLIC POLICY STATEMENT*

**HOUSE COMMITTEE ON UTILITIES**

**Re: HB 2146 Oil & Gas Payment Information.**

**February 15, 2005**  
**Topeka, Kansas**

**Testimony provided by:**  
**Terry D. Holdren**  
**Local Policy Director**  
**KFB Governmental Relations**

---

Chairman Holmes and members of the House Committee on Utilities, thank you for the opportunity to appear before you today. I am Terry Holdren and I serve as the Local Policy Director—Governmental Relations for Kansas Farm Bureau. As you know, KFB is the state's largest general farm organization representing more than 40,000 farm and ranch families through our 105 county Farm Bureau Associations.

As many of you are aware, this is not the first year this debate has occurred. For some time our members, many of whom own leases on oil and natural gas reserves beneath their property, have sought clarification about the price and production information received on the check-stub of their royalty payments. While current law requires that production companies provide specific information and a mechanism for royalty owners to request additional information or clarification, there remains great disparity in the information that is provided and the response by production companies to requests for additional information.

HB 2146 seeks to clarify and end that disparity so that check stub reporting is uniform and accurate. KFB members recently considered and adopted policy that

*HOUSE UTILITIES*

DATE:

2-15-05

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supports additional requirements for production companies which will promote transparency in production and price reporting so that lease owners have accurate and reasonable information. We respectfully ask that you take favorable action on the bill before you today.

Thank you.

*Kansas Farm Bureau represents grass roots agriculture. Established in 1919, this non-profit advocacy organization supports farm families who earn their living in a changing industry.*

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COMMITTEE ON UTILITIES  
FEBRUARY 15, 2005

My name is Kenny Carter. I am a royalty owner in Wilson County Kansas. This is the area known as the Cherokee Basin, where coal-bed methane gas is being produced. Our land was first drilled and produced by Devon Energy. Then a company called Quest Cherokee, LLC bought the Devon leases. We have sold gas for about 2 1/2 years.

Along with this statement is a copy of a recent settlement sheet for 1 month production. As you can see, this company already has many, but not all, of the items listed in the legislation HB 2146. After talking to several area royalty owners, three concerns became apparent: (1) Not all operators use the same format on their check stubs (2) To find out how and where one's gas is priced is almost impossible and (3) A detailed list of deductions is not present. For an example of an unknown deduction, please refer to the Deduction column, third from the right, on the settlement sheet that you have. As you can see, there is no description of this deduction. These deductions may be in the form of line loss, transportation charges, compression charges and the transfer of the gas between entities that may be affiliated.

There seems to be no clear way to verify the price and the volume of the gas pumped for the month and the deductions one may received. Verification of the base price and volume and a listing of all deductions is important.

This legislation, HB 2146, will remedy many concerns about deductions and unknown reductions in price and/or volume. Thus, I urge you to support this legislation and bring more transparency to this business.

Thank you very much.

*HOUSE UTILITIES*

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**BLUESTEM PIPELINE, L.L.C. OKLAHOMA CITY OK 73120 (405)488-1304**

CHECK DATE: 12/10/04

SALE MO/YR	OIL GAS	REVENUE TYPE	PRICE	TOTAL MCF/BBL	MMBTU FACTOR	INT TYPE	PAYMENT DECIMAL	GROSS SALES	TOTAL TAXES	DEDUCT	NET SALES	OWNER AMOUNT
					KS:WILSON							
10/04	GAS	REG	4.76	92.00	.95098	RI	.09375000	437.62	.84	65.52	371.26	
				8.63				41.03	.09	2.42		38.52
					KS:WILSON							
10/04	GAS	REG	4.83	954.00	.96689	RI	.06250000	4610.83	208.36	684.25	3718.22	
				59.63				288.17	13.02	16.70		258.45

*Handwritten initials: JZ*

February 15, 2005

TO: Chairman Carl Holmes  
House Committee on Utilities

FROM: Elbert Goins  
3405 Brown Road  
Thayer, KS 66776  
620.839.5221

RE: HB 2146 Oil & Gas Payments

Chairman Holmes and members of the House Utilities Committee, my name is Elbert Goins. I am a landowner and lease owner from Neosho County. Recent developments in our part of the state have resulted in increased production of Coal Bed Methane Gas. This new production has in many ways helped to stabilize our economy and has provided additional income for my family and many others.

However, there is a growing sense of frustration among my neighbors over the information provided to us with our royalty payments. The check stub is the only source of this information. Unfortunately, the information reported there is often difficult, if not impossible, to decipher. There are always uncertainties about what is being deducted from my royalty check, whether it is the cost of transportation, treating, compression, etc. And, it is often difficult to determine what price I am receiving when my production, or a percentage of it has been forward contracted. I am also unable to determine if any additional production occurred and if so whether it was sold on the open market and what price was received for it.

I have had the opportunity to discuss this matter with many of my fellow royalty owners. Among our group, we have compared check stubs from four production companies, all containing equally frustrating information. None of these statements provide the same or even comparable information. Please help us gain some clarity about the production occurring on our wells, and the sales of that gas.

Thank you.

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ATTACHMENT 8

TROL OIL AND GAS, INC  
 161 E. WARM SPRINGS RD, SUITE 300  
 LAS VEGAS, NV 89120-3144  
 Phone: (702)454-7318  
 Fax: (702)434-7594

**Operating Statement**

02/01/2005

ELBERT D & DELORES D GOINS  
 3405 BROWN ROAD  
 THAYER, KS 66776-

90280  
 Operating Month: 12/2004

Description	Interest	Gross	Your Share
Unit: 2008-001 GOINS A (Royalty)			
<b>31020 GAS SLS LSE VOL PRICE MCF BTU 984.49</b>			
12/2004 427.00 MCF @ 4.6211131	0.1250000000	1,973.22	246.65
427.00 MCF x Int. -> 53.38 MCF			
<b>50020 STATE TAX &amp; KCC ASSES GAS</b>			
STATE TAX & KCC ASSES GAS	0.1250000000	-3.90	-0.49
<b>Net Revenue This Unit</b>		<b>1,969.32</b>	<b>246.16</b>
<b>Unit Total</b>			
<b>Amount You Receive This Unit</b>			<b>246.16</b>

Unit: 2014-001 E. GOINS B #1 (Royalty)			
<b>31020 GAS SLS LSE VOL PRICE MCF BTU 981.23</b>			
12/2004 544.00 MCF @ 4.6058109	0.1250000000	2,505.56	313.20
544.00 MCF x Int. -> 68.00 MCF			
<b>50020 STATE TAX &amp; KCC ASSES GAS</b>			
STATE TAX & KCC ASSES GAS	0.1250000000	-113.46	-14.18
<b>Net Revenue This Unit</b>		<b>2,392.10</b>	<b>299.02</b>
<b>Unit Total</b>			
<b>Amount You Receive This Unit</b>			<b>299.02</b>

Summary Of All Units For	ELBERT D & DELORES D GOINS
SALES	559.85
COST OF SALE	-14.67
<b>Total Amount You Receive</b>	<b>545.18</b>

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VIRGIL YORK

DAKOTA PRODUCTION CO.

PERIOD	MCF	GROSS \$	12.50%	ROYALTY	<KCC>	NET \$	CK-DATE	MISC
Nov-02	1219	5,010.59		626.32	11.13	615.19	01/02/03	
Dec-02	1831	7,378.85		922.36	16.72	905.64	02/03/03	
Jan-03	1799	8,401.98		1,050.25	16.43	1,033.82	03/03/03	
Feb-03	2100	10,314.49		1,289.31	19.18	1,270.13	04/03/03	
Mar-03	3078	21,249.86		2,656.23	28.10	2,628.13	05/01/03	
Apr-03								
May-03								
Jun-03								
Jul-03								
Aug-03								
Sep-03								
Oct-03								
TOTAL	10028	52,355.77		6,544.47	91.56	6,452.91		

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Devon Energy Production Company, L.P.  
 20 North Broadway  
 Oklahoma City, Oklahoma 73102-8280

STATEMENT OF OIL & GAS PAYMENTS

Co. #: 001  
 Owner#: 284108

*[Handwritten Signature]*  
 Check#:   
 Date: 200

JOHN M COPE &

PR Date	Product	Interest %	Int Type	BTU Price	GROSS INFORMATION				NET INFORMATION								
					Volume	Gross	Prod Tax	Other Ded	Net Amount	Volume	Gross	Prod Tax/Code	Other Ded/Code	WPT	Net Amount		
<b>240301-001 CALLAWMAN, EUGENE 29-1</b>					<b>St/County: KS WILSON</b>				<b>Section/Twn/Rng: 029/029S/017E</b>								
7-2003	GAS-MCF	.03620690	ROY	.989	5.045	1975.00	9965.19	384.71	538.86	9041.62	71.51	360.81	13.93	SV	19.51	TP	327.37
7-2003	GAS-MCF	.03620690	ROY	.989					957.96	957.96-					34.68	TP	34.68
Total Net For 240301-001:											71.51	360.81	13.93	54.19		292.69	
<b>240303-001 COPE, SHERRY 32-2</b>					<b>St/County: KS WILSON</b>				<b>Section/Twn/Rng: 032/029S/017E</b>								
7-2003	GAS-MCF	.11154627	ROY	.991	5.056	3014.00	15241.18	588.33	824.15	13828.70	336.20	1700.09	65.63	SV	91.93	TP	1542.53
7-2003	GAS-MCF	.11154627	ROY	.991					1465.15	1465.15-					163.43	TP	163.43
Total Net For 240303-001:											336.20	1700.09	65.63	255.36		1379.10	
Total Net For Owner:											407.71	2060.90	79.56	309.55		1671.79	
Net Totals By Product:																	
GAS-MCF :											407.71	2060.90	79.56	309.55		1671.79	



Cornell University

Real Estate Department

15 Thornwood Drive  
Ithaca, New York 14850  
t. 607.266.7866  
f. 607.266.7876

February 10, 2005

TO CHAIRPERSON HOLMES AND  
MEMBERS OF THE HOUSE COMMITTEE ON UTILITIES:

I am writing this letter in support of House Bill 2146.

As Director of Real Estate for Cornell University, Ithaca, New York, I provide oversight to the university's large number of mineral interests in the Hugoton Field. The changes being sought in the Bill are important to the university and to the citizens of Kansas because they will provide us the limited information we need to insure that we are being paid in accordance with the terms of the lease.

Without the legal requirement to provide this information to royalty owners, producers have no motivation to provide it and it is virtually impossible for royalty owners to protect themselves outside of the courts.

Royalty owners have much to be concerned about. We believe that often the sales price or quantity of gas shown on check stubs is altered by producers to net out unidentified costs. We believe that sales to unidentified affiliated parties are taking place at perhaps less than true market prices. We believe that a certain number of the deductions which are cryptically identified on the check stub are improper. But without the requirement for the producers to provide us accurate and more detailed information as proposed by this Bill, there is little that we can do to resolve our concerns.

Royalty owners need to know that there was indeed an arms length sales transaction, that the sales price on our check stub is the actual sales price and that deductions from our proceeds are proper. The provisions of this Bill lead us to that information.

*HOUSE UTILITIES*  
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Some might say that legislation is not needed here and is intrusive. Many of the mineral leases in Kansas were made in a different era and are still in effect. The long-term nature of oil and gas leases does not give royalty owners the opportunity to bargain for lease clauses necessary to protect themselves given the modern situation. Legislation is a perfectly applicable solution.

The producers state that they have received few complaints from royalty owners on this subject. I suggest that it is because royalty owners have given up. I have personally tried in the past to obtain information on behalf of Cornell University but the requests were ignored or refused. Many royalty owners are individuals, charities or small organizations without the sophistication and resources of the producers. Currently we have few legal rights to the routine information we seek and thus no power to deal with the large companies.

Please protect the citizens of Kansas and those with mineral interests residing outside of your state by requiring producers to give us the limited information we need to insure that we are being paid in accordance with the terms of the lease. Without the legal requirement to provide this, producers have no motivation to provide it and it is virtually impossible for royalty owners to protect themselves.

Very truly yours,

John E. Majeroni  
Director

JEM/ss

Robert Larrabee  
Box 1009  
Liberal, Kansas 67901

Testimony before the House Utilities Committee  
House Bill 2146  
February 15, 2005

Chairman Holmes 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

BP America  
 Production on Two Wells  
 Security Elevator "C" & Security Elevator "C" 3HI  
 #00701487

Date	Irrigation Gas		Other Gas		Irrigation Gas Price Above Other Gas Price
	MCF	Price per MCF	MCF	Price per MCF	Price Difference
2003					
April	268	4.6991	10,734	3.6166	1.0825
May	374	4.9076	11,199	3.7346	1.1730
June	109	5.6213	10,625	4.3416	1.2797
July	346	5.2597	10,536	4.1231	1.1366
August	196	4.6403	10,653	3.6029	1.0274
September	1161	4.8481	10,205	3.8238	1.0843
October	136	4.3531	10,198	3.4020	0.9511
November	38	4.2906	9,996	3.3485	0.9421

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**Kansas Independent Oil and Gas Association  
American Energies Corporation  
155 North Market, Suite 710  
Wichita, KS 67202  
Phone: 316-263-5785  
Fax: 316-263-1851  
[alan@americanenergies.com](mailto:alan@americanenergies.com)**

**Testimony to the House Committee on Utilities  
House Bill 2146  
February 15, 2005**

- Good morning Chairman Holmes and Members of the House Utilities 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 250 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 Check Stub Bill was originally approved in 1997, as a compromise bill between producers, purchasers and royalty interest owners.

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The amended HB2146, 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 gas well sales in Kansas.
- I am referring to the Kansas General Rules and Regulations #82-3-802 "Gas Gathering Services and Access, Complaint, Hearing". Under this regulation, any interest owner can receive information about price, sales volume and ownership by requesting it from the gas purchaser. If there are issues between the interest owner 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 was used last year to determine the gas price on a ONEOK gas contract, however, no royalty owner has used it.
- Senate HB2146 would completely change the way interest owners will be paid.
- To begin, the two major crude oil purchasers in Kansas would no longer distribute revenue, because they lack information regarding production by wells on the lease or unit as required in Section 2 of HB2146.
- 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. This would also mean there would be 2,113 revenue distributors for the oil and gas leases in Kansas, making every operator a distributor.
- The HB2146 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 HB2146.
- Oil and gas leases **are contracts** between the lessee and the producer and that contract states that the price paid, is the market value of the product at the wellhead which they are receiving.
- The 1997 Senate Bill 401 is working and the Kansas General Rules and Regulations #82-3-802 gives any interest owner the right to obtain information on any gas lease. The major gas purchasers have spent many hours trying to work out a compromise on what is needed on a gas statement. The Senate Utilities Committee in 2004 requested a joint committee between the Kansas Corporation Commission, the Kansas Geological Survey and the

Kansas Department of Revenue to determine what is needed on a gas revenue statement. The committee has not given us an answer.

- The Eastern Kansas Oil and Gas Association and the Kansas Oil and Gas Association believe that the oil and gas operators, working interest owners, and royalty interest owners are being paid the highest possible prices for their products. Adequate information is currently available on the check stubs. Any additional rules and regulations would only cut into the economic life of the wells.
- **In summary, the old adage applies, "If it isn't broken, don't fix it."**

# EDMISTON OIL COMPANY, INC.

OIL OPERATORS  
125 N MARKET SUITE 1130  
WICHITA, KANSAS 67202-1774

E. K. EDMISTON (1906-1995)  
JON M. CALLEN, *President*

(316) 265-5241  
FAX (316) 265-7301

Testimony for public hearing on H.B. 2146  
Before the Utilities Committee  
Kansas House of Representatives  
February 15, 2005

Testimony presented by: Jon M Callen  
Edmiston Oil Company, Inc.  
125 N. Market Suite 1130  
Wichita, KS 67202  
316-265-5241  
316-265-7301 Fax

My name is Jon Callen. I am president of Edmiston Oil Company, Inc., a small, family owned oil and gas producer in Kansas. The roots of our company date back to 1945. I have been involved in the decision making process for our company since 1986. Edmiston Oil Company has been distributing gas revenue paid to us by the gas pipelines since the mid-1970's.

I wish to voice my opposition to H.B. 2146 relating to reporting requirements to be included on oil and gas check stubs. The proposed bill would reopen existing law to make additions to the requirements that are both unnecessary and onerous to producers. In some cases, the information requested is unavailable without an inordinate amount of effort, if at all.

My primary objections to the bill are as follows:

- Gas measurement reporting should be based on thousand cubic feet(MCF). This has important tax implications for all users. Reporting in million British thermal units (MMBtu) will not work because the MMBtu value for a well varies over time. The Btu value is dependent on the associated products that are in the gas when they take the sample and can vary from day to day, and hour-to-hour even.
- Reporting the payee's interest to the sixth decimal place or seventh decimal place would be considered the industry norm. The request to change the law to require interests reported to at least six decimal places would require new division orders prepared and signed by all interest owners and could require software programs to be

*HOUSE UTILITIES*

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reprogrammed. This seemingly simple requirement could take longer to implement than the bill contemplates.

- Reporting the price before and after adjustments begins to interfere and conflict with the contractual rights of the gas producer and the gas purchaser. Oil producers are able to negotiate better pricing than the posted price depending on the volume and location of leases dedicated to an oil purchaser. Likewise, gas producers are able to negotiate pricing with gas purchasers based on volume, gas quality, etc. Providing the detail of the pricing mechanisms on a check stub is publishing private contractual details.
- The proposed requirement to include contact information on the check stub is not clear in that it does specify whether that should be the information for the producer or the purchaser.
- H.B. 2146 proposes to require notification as to whether the production is from more than one well and whether or not it is for less than the total production from the lease or property. This information is too cumbersome to manage and would be almost impossible to report.
- H.B. 2146 proposes that upon request, an interest owner may request additional information from a payor that would include an inventory of the wells and leases, including an identification number used by the state corporation commission and/or the A.P.I. number. A.P.I. numbers began in the 1970's. Wells drilled before 1970 may not have identification numbers at all associated with them. The Kansas department of revenue assigns a number to the lease or unit, but not individual wells.
- H.B. 2146 proposes that the payee provide details on how the conversions from a fractional interest to a decimal interest was calculated. Often times, those interest have been passed along through several generations of family members which divide the interests into smaller and smaller interests with each generation. For example, my company operates one gas lease that has a total of 58 interest owners. Their interests range from a high of 9.57% to as small as 0.087%. [SEE EXHIBIT A] In the case of oil wells, the oil purchasers handle the changes to interest owners frequently without the operators knowledge since we don't disperse the revenue. Leases with this number of interest owners is quite common throughout Kansas.
- Gas measurement is not an exact science. Gas is not a solid or liquid substance that is easily measured. Gas volume is highly variable

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depending on the temperature and the pressure under which it is being measured.

The primary method of measuring gas is to record the differential pressure on either side of a standard plate with a known opening on a round paper chart. The temperature is also recorded. A known conversion factor is applied to that differential pressure factor to calculate how much gas flowed through the standard opening in the plate over time. The temperature factor is applied to convert the gas measurement to a standard operating temperature of 60<sup>0</sup> F.

Often times, the measurement at the lease or well meter is used to add with other meters in the area to calculate the proportionate share of gas that flowed downstream of them through a master pay meter.

It is not uncommon for any given lease to have the payment for the gas volumes estimated and reported a stub followed by corrections as audited information is derived. [SEE EXHIBIT B].

For the typical small Kansas operator who uses his pickup for his office, often pumping the wells during the day and managing the paperwork at night, new requirements like these would threaten the ability of the smaller independent operators to survive.

In conclusion, H.B. 2146 has been written primarily with the Hugoton and Panoma gas fields in mind. Proposed reporting requirement for individual wells and field names in other areas of the state are almost irrelevant. The Spivey-Grabs-Basil oil and gas field in Kingman and Harper County are of a nature where gas wells are scattered among oil wells that make casinghead gas. The gas sold from the oil wells on a lease are aggregated through one meter on the lease. Attempting to identify how to distribute the gas production among the multiple wells on a given lease would be onerous and would not provide any useful information. With the proposed bill being so one sided in its application and thought, passing this bill would likely have unintended consequences for operators and purchasers across the rest of the State of Kansas.

I want to thank you for the opportunity to appear before you and to express my views on this proposed legislation. I would encourage you to not support H.B. 2146.

Respectfully submitted,

Jon M. Callen

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EXHIBIT A

4-21

NTITY 01

EDMISTON OIL CO INC  
125 N MARKET, #1130  
WICHITA, KS 67202-1774

PAGE

REPORT DATE: 02/11/2005

\*\*\*\*\* DIVISION OF INTEREST MASTER REPORT \*\*\*\*\*

LEASE	PROD CODE	EFF DATE	OWNER NO.	OWNER NAME	STATE	INTEREST	TYPE	TAX	PAY	OPER. EXP.	LAST UPDATE
LAUTERBACH											
0000004981	20	01/1999	0 3	VE	KS	.0937500000	R	T	P	.0000000000	12/16/2004
0000004981	20	01/1999	0 0	RO	KS	.0478516000	W	T	P	.0000000000	12/16/2004
0000004981	20	01/1999	0 3	LO	KS	.0008681000	R	T	P	.0000000000	12/16/2004
0000004981	20	01/1999	0 4	AR	KS	.0478516000	W	T	P	.0000000000	12/16/2004
0000004981	20	01/1999	0 3	VE	KS	.0478516000	W	T	P	.0000000000	12/16/2004
0000004981	20	01/1999	0 4	DO	KS	.0239258000	W	T	P	.0000000000	12/16/2004
0000004981	20	01/1999	0 5	AR	KS	.0239257000	W	T	P	.0000000000	12/16/2004
0000004981	20	01/1999	0 5	BE	KS	.0068359000	O	T	P	.0000000000	12/16/2004
0000004981	20	01/1999	0 3	VE	KS	.0013021000	R	T	P	.0000000000	12/16/2004
0000004981	20	01/1999	0 4	EL	KS	.0013021000	R	T	P	.0000000000	12/16/2004
0000004981	20	01/1999	0 5	M.	KS	.0013020000	R	T	P	.0000000000	12/16/2004
0000004981	20	01/1999	0 4	RA	KS	.0478516000	W	T	P	.0000000000	12/16/2004
0000004981	20	01/1999	0 6	A/C M	KS	.0239258000	W	T	P	.0000000000	12/16/2004
0000004981	20	01/1999	0 9	RI	KS	.0022786000	O	T	P	.0000000000	12/16/2004
0000004981	20	01/1999	0 5	JA	KS	.0091146000	O	T	P	.0000000000	12/16/2004
0000004981	20	01/1999	0 6	A/C P	KS	.0039063000	O	T	P	.0000000000	12/16/2004
0000004981	20	01/1999	0 7	A/C L	KS	.0039063000	O	T	P	.0000000000	12/16/2004
0000004981	20	01/1999	0 8	A/C C	KS	.0039063000	O	T	P	.0000000000	12/16/2004
0000004981	20	01/1999	0 7	DA	KS	.0039062000	R	T	P	.0000000000	12/16/2004
0000004981	20	01/1999	0 7	A/C P	KS	.0117186000	O	T	P	.0000000000	12/16/2004
0000004981	20	01/1999	0 7	TE	KS	.0022786000	O	T	P	.0000000000	12/16/2004
0000004981	20	01/1999	0 4	RU	KS	.0026042000	R	T	P	.0000000000	12/16/2004
0000004981	20	01/1999	0 2	VA	KS	.0017361000	R	T	P	.0000000000	12/16/2004
0000004981	20	01/1999	0 4	ED	KS	.0013021000	R	T	P	.0000000000	12/16/2004
0000004981	20	01/1999	1 6	R F	KS	.0119629000	W	T	P	.0000000000	12/16/2004
0000004981	20	01/1999	1 0	CA	KS	.0478516000	W	T	P	.0000000000	12/16/2004
0000004981	20	01/1999	2 6	A/C K	KS	.0957032000	W	T	P	.0000000000	12/16/2004
0000004981	20	01/1999	2 5	A/C R	KS	.0191406000	W	T	P	.0000000000	12/16/2004
0000004981	20	01/1999	2 6	A/C I	KS	.0191406000	W	T	P	.0000000000	12/16/2004
0000004981	20	01/1999	2 7	A/C P	KS	.0191406000	W	T	P	.0000000000	12/16/2004
0000004981	20	01/1999	2 8	A/C J	KS	.0191406000	W	T	P	.0000000000	12/16/2004
0000004981	20	01/1999	2 9	A/C A	KS	.0191406000	W	T	P	.0000000000	12/16/2004
0000004981	20	01/1999	2 3	A/C 2	KS	.0478516000	W	T	P	.0000000000	12/16/2004
0000004981	20	01/1999	3 2	LO	KS	.0008681000	R	T	P	.0000000000	12/16/2004
0000004981	20	01/1999	3 4	VE	KS	.0017361000	R	T	P	.0000000000	12/16/2004

5-2

EXHIBIT A

NTITY 01

EDMISTON OIL CO INC  
125 N MARKET, #1130  
WICHITA, KS 67202-1774

PAGE

REPORT DATE: 02/11/2005

\*\*\*\*\* DIVISION OF INTEREST MASTER REPORT \*\*\*\*\*

LEASE	PROD CODE	EFF DATE	OWNER NO.	OWNER NAME	STATE	INTEREST	TYPE	TAX	PAY	OPER. EXP.	LAST UPDATE
0000004981	20	01/1999	3 2	RE	KS	.0017361000	R	T	P	.0000000000	12/16/2004
0000004981	20	01/1999	3 5	VI	KS	.0039062000	R	T	P	.0000000000	12/16/2004
0000004981	20	01/1999	3 3	JO	KS	.0039062000	R	T	P	.0000000000	12/16/2004
0000004981	20	01/1999	3 1	VI	KS	.0039062000	R	T	P	.0000000000	12/16/2004
0000004981	20	01/1999	3 7	HE	KS	.0039062000	R	T	P	.0000000000	12/16/2004
0000004981	20	01/1999	4 6	KA	KS	.0119629000	W	T	P	.0000000000	12/16/2004
0000004981	20	01/1999	5 7	VE	KS	.0312500000	R	T	P	.0000000000	12/16/2004
0000004981	20	01/1999	5 4	HE	KS	.0008681000	R	T	P	.0000000000	12/16/2004
0000004981	20	01/1999	5 2	MA	KS	.0052083000	R	T	P	.0000000000	12/16/2004
0000004981	20	01/1999	5 8	VI	KS	.0008681000	R	T	P	.0000000000	12/16/2004
0000004981	20	01/1999	5 6	PH	KS	.0008681000	R	T	P	.0000000000	12/16/2004
0000004981	20	01/1999	5 1	VI	KS	.0008681000	R	T	P	.0000000000	12/16/2004
0000004981	20	01/1999	5 5	BO	KS	.0010417000	R	T	P	.0000000000	12/16/2004
0000004981	20	01/1999	5 3	HA	KS	.0010417000	R	T	P	.0000000000	12/16/2004
0000004981	20	01/1999	5 0	PA	KS	.0010417000	R	T	P	.0000000000	12/16/2004
0000004981	20	01/1999	5 8	RA	KS	.0010417000	R	T	P	.0000000000	12/16/2004
0000004981	20	01/1999	5 6	VI	KS	.0010417000	R	T	P	.0000000000	12/16/2004
0000004981	20	01/1999	5 7	A/C K	KS	.0957032000	W	T	P	.0000000000	12/16/2004
0000004981	20	01/1999	6 0	BE	KS	.0026041000	R	T	P	.0000000000	12/16/2004
0000004981	20	01/1999	7 6	NO	KS	.0068359000	R	T	P	.0000000000	12/16/2004
0000004981	20	01/1999	9 7	MA	KS	.0039062000	R	T	P	.0000000000	12/16/2004
0000004981	20	01/1999	9 7	AN	KS	.0039062000	R	T	P	.0000000000	12/16/2004
0000004981	20	01/1999	9 8	A/C C	KS	.0957031000	W	T	P	.0000000000	12/16/2004
						1.0000000000				.0000000000	





Statement of Oil and Gas Purchased/Sold  
(Federal and State Taxes have been deducted where required)  
Keep for tax purposes. Duplicates cannot be furnished.

Owner's Name: [REDACTED]

Check Date: 01/20/05

PG 3 OF 8

WHEN INQUIRING PLEASE REFER TO YOUR BUSINESS ASSOCIATE NO.

ENTRY NO	DOI NUMBER	PURCHASED/SOLD		PRODUCT CODE	LC	QUANTITY	BTU FACTOR	AVERAGE UNIT PRICE \$	TOTAL VALUE \$	PRODUCTION TAXES \$	TOTAL VALUE AFTER TAX \$	INTEREST TYPE	DECIMAL	PAYMENT		
		MO	YR											GROSS VALUE \$	NET VALUE \$	
10146	00007	09	2004	203		HARRISON										
10146	00007	09	2004	203	19											
10146	00007	09	2004	203	20											
10146	00007	11	2004	203												
10146	00007	11	2004	203	19											
10146	00007	11	2004	203	20											
10146	00007	11	2004	204												
10146	00007	11	2004	204	19											
10146	00007	12	2004	300												
10146	00007	09	2004	400												
10146	00007	09	2004	400	20											
10146	00007	11	2004	400	20											
10146	00007	11	2004	400	20											
10146	00007	11	2004	400	20											

11 - NON-RESIDENT ALIEN 02 - AD VALOREM DIRECT RECOVERY 04 - UTAH STATE TAX 05 - COLORADO STATE TAX 06 - INTEREST PAID  
10 - OIL MINORITY ALIEN TAX 10 - BACKUP WITH-HOLDING TAX 12 - NON-RESIDENT INCOME TAX 17 - SETTLEMENT DIFFERENCES  
MAINLINE TRANSPORTATION 20 - POST PRODUCTION & PROCESSING COSTS PR - PRODUCTION TAXES EX - EXTRACTION TAXES

UIC CODES: 10X - OIL (BBL) 20X - GAS (MCF) 30X - CONDENSATE (BBL) 40X - PLANT PRODUCTS (BBL/GAL)  
70X - SULFUR (TONS) 80X - INJECTANTS (BBL)

EXHIBIT B



Statement of Oil and Gas Purchased/Sold  
(Federal and State Taxes have been deducted where required)  
Keep for tax purposes. Duplicates cannot be furnished.

Owner's Name: [REDACTED]

Check Date: 01/20/05

PG 4 OF 8

WHEN INQUIRING PLEASE REFER TO YOUR BUSINESS ASSOCIATE NO.

ENTRY NO	DOI NUMBER	PURCHASED/SOLD		PRODUCT CODE	LC	QUANTITY	BTU FACTOR	AVERAGE UNIT PRICE \$	TOTAL VALUE \$	PRODUCTION TAXES \$	TOTAL VALUE AFTER TAX \$	INTEREST TYPE	DECIMAL	PAYMENT		
		MO	YR											GROSS VALUE \$	NET VALUE \$	
1146	00011	11	2004	203												
1146	00011	11	2004	203	19											
1146	00011	11	2004	204												
1146	00011	11	2004	204	19											
1146	00011	12	2004	300												
1146	00011	09	2004	400												
1146	00011	09	2004	400	20											
1146	00011	11	2004	400	20											
1146	00011	11	2004	400	20											

11 - NON-RESIDENT ALIEN 02 - AD VALOREM DIRECT RECOVERY 04 - UTAH STATE TAX 05 - COLORADO STATE TAX 06 - INTEREST PAID  
10 - OIL MINORITY ALIEN TAX 10 - BACKUP WITH-HOLDING TAX 12 - NON-RESIDENT INCOME TAX 17 - SETTLEMENT DIFFERENCES  
MAINLINE TRANSPORTATION 20 - POST PRODUCTION & PROCESSING COSTS PR - PRODUCTION TAXES EX - EXTRACTION TAXES

UIC CODES: 10X - OIL (BBL) 20X - GAS (MCF) 30X - CONDENSATE (BBL) 40X - PLANT PRODUCTS (BBL/GAL)  
70X - SULFUR (TONS) 80X - INJECTANTS (BBL)

3/16  
10/6/05  
12-b



**Statement of Oil and Gas Purchased/Sold**  
(Federal and State Taxes have been deducted where required)  
Keep for tax purposes. Duplicates cannot be furnished.

Owner's Name:

Check Date: 01/20/05

PG 5 OF 6

WHEN INQUIRING PLEASE REFER TO YOUR BUSINESS ASSOCIATE NO.

PROPERTY NUMBER	DOI NUMBER	PURCHASED/ SOLD		PRODUCT CODE	LC*	QUANTITY	BTU FACTOR	AVERAGE UNIT PRICE \$	TOTAL VALUE \$	PRODUCTION TAXES \$	TOTAL VALUE AFTER TAX \$	INTEREST TYPE	DECIMAL	PAYMENT		
		MO	YR											GROSS VALUE \$	NET VALUE \$	
10165	00001	11	2004	204	19				0.95-							
10165	00001	11	2004	204	20				146.18-							
10165	00002	01	2003	204		1.00-		4.3700	4.37-	0.19-						
10165	00002	02	2003	204		0.00		0.0000	0.14	0.00						
10165	00002	11	2004	204		105.00	0.965	6.8362	717.80	27.07-						
10165	00002	11	2004	204	19				0.57-							
10165	00002	11	2004	204	20				87.05-							
10165	00015	01	2003	400		2.00		27.6850	55.37	0.00						
10165	00015	02	2003	400		2.00		18.4550	36.91	0.00						
10165	00015	11	2004	400		2.00		23.3000	46.60	0.00						
10165	00016	09	1998	400		0.85		21.0824	17.92	0.00						
10165	00016	10	1998	400		1.49		21.0470	31.36	0.00						
10165	00016	11	1998	400		1.49		21.0470	31.36	0.00						
10165	00016	12	1998	400		1.49		21.0470	31.36	0.00						
10165	00016	01	1999	400		1.49		22.1946	33.07	0.00						
10165	00016	02	1999	400		1.49		22.1946	33.07	0.00						
10165	00016	03	1999	400		1.49		22.1946	33.07	0.00						
10165	00016	01	2003	400		3.00		24.6067	73.82	0.00						
10165	00016	02	2003	400		3.00		24.6067	73.82	0.00						
10165	00016	11	2004	400		2.00		34.9500	69.90	0.00						
1309	00015	09	2004	203		52.00	1.089	5.3679	279.13	17.12						
1309	00015	09	2004	203	19				10.66-							
1309	00015	09	2004	203	20				23.47-							
1309	00015	11	2004	203		64.00	1.084	7.3942	473.23	29.27						
1309	00015	11	2004	203	19				17.14-							
1309	00015	11	2004	203	20				37.18-							
1309	00015	11	2004	204	19	2,088.00	1.072	7.3548	15,356.89	949.58						
1309	00015	11	2004	204	20				556.21-							
1309	00015	11	2003	300		0.06		30.0000	1.80	0.08						
1309	00015	12	2004	300		199.61		42.1784	8,419.23	387.28						
1309	00015	09	2004	400		0.00		0.0000	269.72	19.88						
1309	00015	09	2004	400	20				15.64							
1309	00015	11	2004	400		4,163.00	0.8246	3,432.72	164.02-	231.83						
1309	00015	11	2004	400	20				164.02-							
1309	00023	09	2004	203		86.00	1.063	5.1816	445.62	27.48						
1309	00023	09	2004	203	19				17.03-							
1309	00023	09	2004	203	20				35.54-							
1309	00023	11	2004	203		81.00	1.059	7.2817	589.82	36.64						
1309	00023	11	2004	203	19				21.36-							
1309	00023	11	2004	204		2,652.00	1.057	7.2462	19,217.00	1,193.55						
1309	00023	11	2004	204	19				696.02-							

1 - NON-RESIDENT-ALIEN Q2 - AD VALOREM DIRECT RECOVERY Q4 - UTAH STATE TAX Q5 - COLORADO STATE TAX Q6 - INTEREST PAID  
Q8 - OKLAHOMA ALIEN TAX Q9 - BACKUP WITHHOLDING TAX Q10 - NON-RESIDENT INCOME TAX Q17 - SETTLEMENT DIFFERENCES  
Q20 - POST PRODUCTION & PROCESSING COSTS PR - PRODUCTION TAXES EX - EXTRACTION TAXES

ICT CODES: 1XX - OIL (BBL) 2XX - GAS (MCF) 3XX - CONDENSATE (BBL) 4XX - PLANT PRODUCTS (BBL/GAL)  
7XX - SULFUR (TONS) 8XX - INJECTANTS (BBL)

0.2104K 100 1,222.83 4535 4718 10301  
D. Morrow #2 71951 2688 870 6059



**Statement of Oil and Gas Purchased/Sold**  
(Federal and State Taxes have been deducted where required)  
Keep for tax purposes. Duplicates cannot be furnished.

Owner's Name:

Check Date: 01/20/05

PG 6 OF 6

WHEN INQUIRING PLEASE REFER TO YOUR BUSINESS ASSOCIATE NO.

PROPERTY NUMBER	DOI NUMBER	PURCHASED/ SOLD		PRODUCT CODE	LC*	QUANTITY	BTU FACTOR	AVERAGE UNIT PRICE \$	TOTAL VALUE \$	PRODUCTION TAXES \$	TOTAL VALUE AFTER TAX \$	INTEREST TYPE	DECIMAL	PAYMENT		
		MO	YR											GROSS VALUE \$	NET VALUE \$	
1309	00023	11	2004	204	20				1,438.69-							
1309	00023	12	2004	300		103.85		42.1784	4,380.23	201.49						
1309	00023	09	2004	400		0.00		0.0000	404.24	29.76						
1309	00023	09	2004	400	20				23.04							
1309	00023	11	2004	400		4,762.00		0.8206	3,907.48	264.75						
1309	00023	11	2004	400	20				180.91-							

1 - NON-RESIDENT-ALIEN Q2 - AD VALOREM DIRECT RECOVERY Q4 - UTAH STATE TAX Q5 - COLORADO STATE TAX Q6 - INTEREST PAID  
Q8 - OKLAHOMA ALIEN TAX Q9 - BACKUP WITHHOLDING TAX Q10 - NON-RESIDENT INCOME TAX Q17 - SETTLEMENT DIFFERENCES  
Q20 - POST PRODUCTION & PROCESSING COSTS PR - PRODUCTION TAXES EX - EXTRACTION TAXES

ICT CODES: 1XX - OIL (BBL) 2XX - GAS (MCF) 3XX - CONDENSATE (BBL) 4XX - PLANT PRODUCTS (BBL/GAL)  
7XX - SULFUR (TONS) 8XX - INJECTANTS (BBL)

TOTALS \$1,994.41 \$1,905.20

176.76  
1352  
16

8921  
12-7



Statement of Oil and Gas Purchased/Sold
(Federal and State Taxes have been deducted where required)
Keep for tax purposes. Duplicates cannot be furnished.

Owner's Name:

Check Date: 01/20/06

PG 3 OF 6

WHEN INQUIRING PLEASE REFER TO YOUR BUSINESS ASSOCIATE NO.

Main table for PG 3 OF 6 with columns: ENTRY NUMBER, DOI NUMBER, PURCHASED/SOLD, PRODUCT CODE, LC, QUANTITY, BTU FACTOR, AVERAGE UNIT PRICE, TOTAL VALUE, PRODUCTION TAXES, TOTAL VALUE AFTER TAX, INTEREST TYPE, DECIMAL, PAYMENT (GROSS VALUE, NET VALUE).

11 - NONRESIDENT ALIEN 02 - AD VALOREM DIRECT RECOVERY 04 - UTAH STATE TAX 05 - COLORADO STATE TAX 06 - INTEREST PAID 08 - OKLAHOMA ALIEN TAX 10 - BACKUP WITHHOLDING TAX 12 - NON-RESIDENT INCOME TAX 17 - SETTLEMENT DIFFERENCES 18 - LINE TRANSPORTATION 20 - POST PRODUCTION & PROCESSING COSTS PR - PRODUCTION TAXES EX - EXTRACTION TAXES

UCT CODES: 10X - OIL (BBL) 20X - GAS (MCF) 30X - CONDENSATE (BBL) 40X - PLANT PRODUCTS (BBL/GALS) 70X - SULFUR (TONS) 90X - INJECTANTS (BBL)



Statement of Oil and Gas Purchased/Sold
(Federal and State Taxes have been deducted where required)
Keep for tax purposes. Duplicates cannot be furnished.

Owner's Name:

Check Date: 01/20/06

PG 4 OF 6

WHEN INQUIRING PLEASE REFER TO YOUR BUSINESS ASSOCIATE NO.

Main table for PG 4 OF 6 with columns: ENTRY NUMBER, DOI NUMBER, PURCHASED/SOLD, PRODUCT CODE, LC, QUANTITY, BTU FACTOR, AVERAGE UNIT PRICE, TOTAL VALUE, PRODUCTION TAXES, TOTAL VALUE AFTER TAX, INTEREST TYPE, DECIMAL, PAYMENT (GROSS VALUE, NET VALUE).

11 - NONRESIDENT ALIEN 02 - AD VALOREM DIRECT RECOVERY 04 - UTAH STATE TAX 05 - COLORADO STATE TAX 06 - INTEREST PAID 08 - OKLAHOMA ALIEN TAX 10 - BACKUP WITHHOLDING TAX 12 - NON-RESIDENT INCOME TAX 17 - SETTLEMENT DIFFERENCES 18 - LINE TRANSPORTATION 20 - POST PRODUCTION & PROCESSING COSTS PR - PRODUCTION TAXES EX - EXTRACTION TAXES

CT CODES: 10X - OIL (BBL) 20X - GAS (MCF) 30X - CONDENSATE (BBL) 40X - PLANT PRODUCTS (BBL/GALS) 70X - SULFUR (TONS) 90X - INJECTANTS (BBL)

EXHIBIT B

Handwritten mark: 12-6



HOUSE UTILITIES COMMITTEE

February 15, 2005

RE: HB 2146 - An Act relating to oil and gas; concerning information to be included with payments to interest owners from sales of oil and gas; amending K.S.A. 2004 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 oppose HB 2146.

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 HB 2146, 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? **Colt Energy, Inc. is a purchaser and producer of natural gas and coal bed methane gas in southeast Kansas since 1998 and has never had one request for additional information in that period of time.**
3. If there have been complaints, are such complains against one gas or oil purchaser in particular or against several?
4. Are such complaints and violations covered 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.

HOUSE UTILITIES

DATE: 2-15-05

ATTACHMENT 13

- 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.

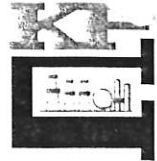
In conclusion, EKOGA feels that the current statues 55-1620 and 55-1622 are very adequate to serve all the interest owners needs for information provided with the sale of oil or gas and that the current statues provide for the interest owners to request additional information from the oil and gas purchasers 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 taxpayers' expense. If this "information" issue is a real problem then it should be addressed; but, if this is a more isolated issue between a small number of royalty owners and one or two oil and gas purchasers or producers then we would like to see the problem resolved between those parties 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 HB 2146.

Thank you for your time.

David P. Bleakley

13:2



Comments Submitted to the House Utilities Committee  
In Opposition to House Bill 2146

By Ken Peterson, Director  
February 15, 2005

Mr. Chairman and members of the Committee, thank you for allowing me to submit a written statement in opposition to House Bill 2146.

The Kansas Petroleum Council joins KIOGA and EKOGA in objecting to the provisions of this unwarranted and unnecessary legislation.

We urge the committee to reject House Bill 2146 for a variety of reasons, including:

1. Existing Kansas law on royalty check disclosure is working. The current statute was enacted in 1997 after extensive negotiations between producers and the Southwest Kansas Royalty Owners Association.
2. Proponents of this legislation have not proven the need for this bill. Much of the information required by HB 2146 is readily available from the operator if a particular interest owner asks for it.
3. Kansas royalty owners already can request additional information if they are unclear about details on their check stub. They can ask questions or raise concerns through a variety of channels, including correspondence, phone, fax or email. A survey of member companies revealed that only 2 percent of all payments generate a request and many of those requests are for information already provided on the check stub.

For greater detail on these and other points, I refer you to the written comments of Kevin Moore of OXY USA. Mr. Moore also has attached to his statement a copy of a check stub issued by OXY that shows the extensive nature of information already provided to royalty interests.

The written comments of Mr. Jack Glaves of Duke Energy Field Services provides a legal perspective of the proprietary nature of information sought for disclosure in House Bill 2145, and also how Section 3 encourages litigation.

House Bill 2146 is unneeded, and we urge you to oppose it.

Thank you.

HOUSE UTILITIES

DATE: 2-15-05

ATTACHMENT 14

HOUSE BILL 2146  
COMMITTEE ON UTILITIES  
FEBRUARY 15, 2005

STATEMENT OF DUKE ENERGY FIELD SERVICES  
BY JACK GLAVES

Duke Energy Field Services is a major provider of gas gathering and processing services in Kansas. We are connected to over 2,000 wells and operate the National Helium processing plant (extracting liquids and helium) near Liberal, Kansas. We currently offer to small producers, for a fee, a service of making distribution of proceeds to their working interest and royalty interest owners.

The additional burdens imposed by this bill would require us to seriously consider discontinuing the proceeds distribution service. We would simply pay 100% to the operator, as we are currently doing with the majority of our producers.

We don't believe that the proposed bill is workable. The specific deductions required to be broken out are left to the imagination. We view compliance with the requirements as being problematic, if not impossible. It creates an untenable situation.

We abhor the failure to protect proprietary information contained in contracts between payors and affiliated parties. Gathering and processing are competitive services which require confidential transactions.

The provisions of new Section 3 permits forum shopping ("any district court") and encourages litigation. Sort of tort reform in reverse.

This bill is overkill, to say the least.

Jack Glaves  
Legislative Counsel

Glaves, Irby and Rhoads  
120 S Market, Suite 600  
Wichita, KS 67202  
316-262-5181

*HOUSE UTILITIES*

DATE: 2-15-05  
ATTACHMENT 15



OXY USA Inc.  
5 Greenway Plaza, Suite 2400  
P.O. Box 27570, Houston, TX 77227-7570

February 15, 2005

Kansas House Utilities Committee

RE: Statement of Opposition to Kansas House Bill No. 2146  
Amending Kansas Check Stub Statute

Ladies and Gentlemen:

OXY USA Inc operates approximately 1,656 wells in southwest Kansas and, as a result, it disburses proceeds to over 4,650 owners every month. Forty-six percent (46%) of those owners have Kansas addresses and 54% of the owners have addresses outside the State of Kansas.

OXY opposes the proposed bill because some of the information requested is not kept in the fashion required under the proposed bill, much of the information mandated by the bill is readily available from the operator if a particular owner requests it, and the cost of modification of accounting systems required to comply with the proposed bill would far outweigh any benefit received by the few owners who desire to see such detailed information.

OXY offers the owners a choice of payment by actual check or electronic deposit directly to the owner's preferred bank account. Regardless of form of payment, OXY sends a 'payment detail statement' to each owner, detailing the support for the payment in compliance with current Kansas law. In addition, OXY staffs an Interest Owner Relations Group to respond to any questions owners may have concerning their payment or maintenance of their account, such as address change, ownership transfer, or any other matter. Owners can contact OXY by mail, phone, fax, or email, and all of these addresses are provided each month on the check stub. The OXY owner website, "oxyroyalty.com", is available to provide information, payment history, 1099 tax statements, and answer frequently asked questions as an additional service to its interest owners.

OXY's Interest Owner Relations staff contacts all interest owners with questions within 24-48 hours of their initial inquiry, and then tracks those inquiries to ensure a prompt response time and to confirm that the owner receives the information requested. Over the past six months OXY has received only 103 inquiries with respect to the almost 28,000 checks it has issued to its 4,650+ Kansas interest owners. Of those few inquiries coming from 2.5% of OXY's Kansas interest owners, 94% percent were for issues not addressed by the proposed bill, such as name, address and ownership changes, requests for 1099 forms, and questions regarding payments that had not arrived as a result of U.S. Mail delays.

The current Kansas statutes mandating information to be provided each month to interest owners was passed by the Kansas legislature effective 1998 after much discussion and input from both industry and interest owners. Nothing has changed since the passage of that bill. The

*HOUSE UTILITIES*

An Occidental Oil and Gas company

DATE: 2-15-05

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February 15, 2005

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current payment statement required by law provides sufficient information for determination of proper payment. The property name, county, production date, product, price, volume, gross value, deductions, taxes, owner decimal and owner net value are all itemized on the statement.

As mentioned above, for those few interest owners that want more information, OXY will provide that owner, upon inquiry, any other reasonable information that he or she may require, including any of the items that the current proposed bill is trying to mandate. The amendments suggested to current law by the proposed bill will require extensive and expensive changes to accounting and computer systems in order to capture and generate the proposed additional information. The cost and time required to comply with the provisions of the proposed legislation are unnecessary since the vast majority of the information sought to be placed on the check stub is already available either through OXY's existing statement, public records or by OXY's Interest Owner Relations department upon simple inquiry.

OXY USA Inc.



Kevin Moore

OXY Inc.

Manager Revenue & Regulatory Accounting

16-2



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\* PLEASE NOTE THE CORRESPONDENCE ADDRESS AND TELEPHONE NUMBER \*  
\* BY STATE AS THEY APPEAR ON YOUR REVENUE DETAIL STATEMENT \*  
\*\*\*\*\*

FOR ALL STATES(EXCEPT CALIFORNIA)  
WWW.OXYROYALTY.COM  
E-mail owner\_relations@oxy.com

OR  
CALL: (713) 215-7231 FAX: (713) 350-4881  
OR WRITE TO:  
ATTENTION: INTEREST OWNER RELATIONS  
P.O. BOX 27570  
HOUSTON, TX 77227-7570

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FOR PROPERTIES IN CALIFORNIA  
WWW.OXYROYALTY.COM  
E-mail owner\_relations@oxy.com

OR  
CALL: (861) 763-6263  
ATTENTION: INTEREST OWNER RELATIONS  
P.O. BOX 1002  
TUPMAN, CA 93276-1002

\*\*\*\*\*IMPORTANT MESSAGE\*\*\*\*\*

28% FEDERAL BACKUP WITHHOLDING TAX IS WITHHELD FROM CHECKS IF  
OXY HAS NOT RECEIVED A SOCIAL SECURITY OR TAXPAYER NUMBER.  
UNTIL THE NUMBER IS FURNISHED THIS DEDUCTION WILL CONTINUE.

FOR YOUR PROTECTION, REQUESTS FOR ADDRESS CHANGES CANNOT BE PROCESSED  
BY TELEPHONE OR EMAIL.

TO ASSIST YOU, A PRINTABLE ADDRESS CHANGE FORM CAN BE FOUND AT  
WWW.OXYROYALTY.COM.

PLEASE PRINT, COMPLETE, SIGN & MAIL THE FORM OR SIMPLY MAIL A SIGNED,  
WRITTEN REQUEST TO:

ATTENTION: INTEREST OWNER RELATIONS  
P.O. BOX 27570  
HOUSTON, TX 77227-7570

PLEASE INCLUDE YOUR OWNER NUMBER, SOCIAL SECURITY OR TAXPAYER NUMBER,  
OLD ADDRESS AND NEW ADDRESS WHEN REQUESTING AN ADDRESS CHANGE.

Thank You

**CHECK IS ATTACHED HERE**

116-3

12-9-11

OXY USA INC.

OIL & GAS REVENUE DETAIL

OWNER NO: OWNER CO:201  
 CHECK NO:  
 CHECK DATE:  
 TOTAL OIL AND GAS CHECK AMOUNT

DIVISON ORDER # NAME	COUNTY STATE	P C	PROD DATE	BTU FACTOR	V P B	C O D E	K I	OWNERSHIP DECIMAL	PRICE	VOLUME	GROSS VALUE	PRODUCTION TAXES	T Y P E	OTHER AMOUNT	NET VALUE	OWNER INT NET VALUE
(KI) KIND OF INTEREST	(PC) PRODUCT CODE	(VPB) VOLUME PRESSURE BASE	OTHER TYPE		CODE											
1- Working	1- Oil	1- 14.730 Psi	1- Gathering/Compression		L- Lease Total											
2- Royalty	2- Condensate	2- 14.650 Pxo	4- Transportation		O- Owner's Share											
3- Overriding Royalty	3- Oil Well Gas	3- 15.025 Psi	5- Interest		P- Plant Total											
	4- Gas Well Gas	4- 15.325 Psi	9- Ad Valorem Tax													
	5- Carbon Dioxide Gas	5- Other	M- Processing Related Fee													
	6- Helium															
	7- NGL															

FOR ALL STATES EXCEPT CALIFORNIA CALL: (713)-215-7231  
 FOR PROPERTIES IN CALIFORNIA CALL: (661)-763-6049