

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 9:14 a.m. on March 16, 2005 in Room 231-N of the Capitol.

All members were present.

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:

Edward Cross, Kansas Independent Oil & Gas Association, Topeka, KS
Bruce Graham, Kansas Electric Power Cooperatives, Topeka, KS
Barb Hinton, Legislative Division of Post Audit, Topeka, KS

Others attending: See Attached List

SB 70 - Creating the Kansas petroleum education and marketing act

Chairman Holmes opened the hearing on **SB 70**.

Edward Cross, Executive Vice President of the Kansas Independent Oil & Gas Association, addressed the committee in support of **SB 70**. (Attachment 1). Mr. Cross stated that the need for the legislation is to provide an energy education program that focuses on optimizing the state's energy strengths and promotes economic growth. He outlined the proposed funding mechanism and how other states handle similar programs. Additionally, he provided the committee copies of a proposed amendment that would fine tune the program further. Mr. Cross responded to questions from the committee.

Written testimony in support of **SB 70** was provided by Mike Terry, Oklahoma Energy Resources Board (Attachment 2).

Written testimony in opposition to **SB 70** was submitted by Rick Stinson, Lario Oil & Gas Company (Attachment 3).

Chairman Holmes closed the hearing on **SB 70**.

HB 2519 - Legislative post audit act, exempting persons regulated by the state corporation commission under chapter 66 of the Kansas Statutes Annotated

Chairman Holmes opened the hearing on **HB 2519**.

Bruce Graham, Kansas Electric Power Cooperatives, testified in support of **HB 2519** (Attachment 4). Mr. Graham told the committee that the bill was a corrective measure from the 2004 session and would return Corporation Commission review of the utilities to the previous level.

Written testimony in support of **HB 2519** was submitted by Steve Johnson, Kansas Gas Service (Attachment 5).

Barb Hinton, Legislative Post Auditor, provided neutral comments on **HB 2519** (Attachment 6). Ms. Hinton explained that exempting all public utilities listed under Chapter 66 would limit the Legislature's ability to obtain answers regarding issues with entities addressed through the audit function.

Mr. Graham and Ms. Hinton responded to questions from the committee.

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON UTILITIES, Room 231-N, Statehouse, at 9:14 a.m. on March 16, 2005

Chairman Holmes closed the hearing on **HB 2519** and opened the debate.

Representative Myers moved to recommend **HB 2519** favorable for passage. Representative Carter seconded the motion. Motion carried. Representative Oharah will carry the bill.

The meeting adjourned at 10:29 a.m.

The next meeting will be Thursday, March 17, 2005 at 9:00 a.m. in Room 526-S for a joint meeting with the Senate Committee on Utilities.

HOUSE UTILITIES COMMITTEE GUEST LIST

DATE: March 16, 2005

NAME	REPRESENTING
Jim Gartner	SBC
Jack Graves	Duke-P-H & KM
HARRY BEEG	MIDWEST ENERGY
STEVE JOHNSON	Kansas Gas Service
REX BUCHANAN	KS. GEOLOGICAL SURVEY
Ken PETERSON	KS Petroleum Council
ED CROW	KIOGA
Barb Hinton	Post Audit
Tom Day	KCC
BRUCE GRAHAM	KEPCo
Doug Smith	SWKROA

Kansas Independent Oil & Gas Association

800 S.W. Jackson Street – Suite 1400

Topeka, Kansas 66612

Phone 785-232-7772 Fax 785-232-0917

Email: kiogaed@swbell.net

Testimony to the House Utilities Committee

Senate Bill 70 – An Act creating the Kansas petroleum education and marketing act

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

March 16, 2005

Good morning Chairman Holmes and members of the committee. I am Edward Cross, Executive Vice President of the Kansas Independent Oil & Gas Association, and I am happy to be here today to express our support for Senate Bill 70 (SB 70). I am the primary author of SB 70 and have first-hand experience managing a program similar to that created by SB 70.

Introduction

My comments today will explain why SB 70 is needed, how SB 70 meets those needs, how the program is funded, how the program benefits all citizens of Kansas, and close with some concluding remarks.

Why SB 70 is Needed

The National Petroleum Council has repeatedly cited public image as the number one problem facing the domestic oil and gas industry. The need for better energy education cannot be underestimated. Carl Michael Smith, former Deputy Secretary of the U.S. Department of Energy Office of Fossil Fuels said, "America needs to improve its domestic energy image. In his national energy policy, President Bush called for an emergency energy education program. We must help inform the public about the benefits of American domestic energy resources and the essential role they play in terms of our economy and national security."

Several states have taken initiatives over the past decade to address the need for better energy education. Oklahoma was the first with a program initiated in 1993. Ohio and Illinois followed in 1998. Today, New Mexico and Michigan have also begun programs and Wyoming, Texas and several Appalachian states are looking to develop similar programs. I was the executive director for the Illinois program before I came to Kansas and I can attest to the significant positive impact the program makes for all citizens of the state.

HOUSE UTILITIES

DATE: 3-16-05

ATTACHMENT 1

How SB 70 Meets the Need for Better Energy Education

Kansas Oil & Gas Resources Board (KOGRB)

SB 70 creates the Kansas oil and gas resources board (KOGRB) to administer the Kansas petroleum education and marketing program. The KOGRB will consist of 15 members appointed by the qualified producer associations in Kansas, namely the Kansas Independent Oil & Gas Association, the Kansas Petroleum Council, and the Eastern Kansas Oil & Gas Association.

KOGRB Mission

The mission of the KOGRB is to coordinate a program designed to:

- Demonstrate to the general public the importance and significance of the oil and natural gas industry in Kansas;
- Encourage the wise and efficient use of energy;
- Promote environmentally sound production methods and technologies;
- Support research and educational activities concerning the oil and natural gas industry;
- Promote oil and natural gas exploration and production safety;
- Support job training and research activities concerning oil and natural gas production; and
- Implement and comply with the provisions of the Kansas Petroleum Education and Marketing Act.

The goal of the program is to bring the vitality, contributions, and environmental responsibility of the Kansas oil and gas industry to light through positive action and education.

Program Credibility

The credibility of the KOGRB program has been established by several qualifiers. First, a strategic plan has been developed that defines the challenge, goals, expected outcomes, performance indicators, and objectives for the program. The development and dissemination of data and knowledge are essential for cultivating an understanding and appreciation of the Kansas oil and gas industry's contributions to our national, state, and local energy needs. The challenge for the KOGRB is: How can the Kansas oil and gas industry educate the public on the importance of the oil and gas industry to Kansas' history, society, and economy? Two goals have been outlined in the strategic plan. Goal 1-A is to maintain effective oil and natural gas related primary and secondary energy education programs. Goal 1-B is to provide oil and natural gas industry public outreach, information, and educational experiences to the general public. The strategic plan provides a roadmap in the form of specific objectives for meeting the goals. The strategic plan also outlines expected outcomes and performance indicators as qualitative and quantitative measures of progress.

1-2

The credibility of the KOGRB program was further established through professional publications and presentations. A professional paper discussing the public outreach program in Kansas was published in 2004 by the Integrated Petroleum Environmental Consortium, a consortium of The University of Tulsa, The University of Oklahoma, Oklahoma State University, and The University of Arkansas. In addition, an article discussing the program was published in the December 2004 issue of the *American Oil & Gas Reporter*.

As other states look to initiate better energy education programs, the Kansas efforts have not gone unnoticed. On invitations, presentations on the design and progress of the Kansas energy education and public outreach efforts have been made during 2004 at the International Petroleum Environmental Conference and the Appalachian Producers Marketing Conference.

Last, but certainly not least, the credibility of the KOGRB programs is established by the certification of the energy education curricula brought to Kansas schools. During 2004, the Kansas oil and gas industry developed programs, curricula, and lesson plans that meet Kansas State Department of Education (KSDE) K-12 learning standards for Science and Social Science. In addition, many of these programs, curricula, and lesson plans meet National Science Education Standards and have been accredited in part by the National Science Teachers Association and the National Youth Leadership Council. The KOGRB will also provide teacher training programs that assist educators in providing a model for collaborative learning using crude oil, natural gas, and energy issues. The KOGRB will bring better energy education to Kansas schools through a standards-based program specifically aligned with KSDE learning standards.

Funding Mechanism

To fund the activities of the KOGRB, SB 70 proposes a voluntary assessment not to exceed 1/20 of 1% (0.0005%) of gross revenues of oil and natural gas produced from each well in the state of Kansas shall be deducted from proceeds paid by the first purchaser to each interest owner. This assessment is a voluntary checkoff and shall be treated in all respects accordingly. An annual cap of \$20,000, determined on a calendar year basis, shall be placed on any one interest owner. The assessment shall not in any manner be deemed to be a tax or governmental assessment of any kind, and the state of Kansas shall have no duty or responsibility with respect to any such assessment. The assessments imposed shall be remitted to the KOGRB by the first purchaser and shall be deposited with a bank or savings and loan association.

By way of illustrating the small burden this puts on any interest owner, a 12 ½% interest owner who receives \$7,482 in natural gas proceeds in a given year from a well that produces the Kansas average natural gas stripper well production of 32.8 Mcf per day would contribute \$3.74 to the KOGRB program.

1-3

A 12 ½% interest owner who receives \$4,142 in crude oil proceeds in a given year from a well that produces the Kansas average oil well production of 2.27 barrels of oil per day would contribute \$2.07 to the KOGRB program. The assumptions in these illustrations include a market price of \$5 per Mcf for natural gas and \$40 per barrel for crude oil and the interest owner chooses to participate in the program.

Any interest owner may seek a refund. The KOGRB shall refund to each interest owner requesting a refund the amount of the assessment paid by the interest owner during the preceding calendar year plus interest earned at the rate equal to the average United States Treasury bill rate of the preceding calendar year. Historical and empirical evidence suggests the oil and natural gas industry will support this program. The refund rate from other states are very low e.g., 5% in Oklahoma and less than 1% in Illinois and Ohio. The enormous benefits of the program far outweigh the very small financial burden placed on the industry.

Program Benefits

For Kansas, better energy education means educating the public on the importance of oil and natural gas to Kansas' history, society, and economy for decades to come, as well as the role of alternative energy sources in the long-term future of our nation. Indeed, an effective energy education program educates the public on all energy sources, but should focus on bringing the truth about energy sources; dispelling misconceptions about important environmental and economic issues, and optimizing our state's energy strengths and minimizing energy weaknesses.

An energy education program that focuses on optimizing our state's energy strengths will result in a better educated public that produces better energy policy, better public policy, economic growth, and energy value growth for all of Kansas. Better energy education in Kansas recognizes the role of conservation and efficiency, alternative energy sources, and environmental impact of providing energy value growth for Kansas.

Conclusion

Better energy education is needed for economic growth in Kansas. The Kansas oil and gas industry's vision for a better Kansas is growing. Our confidence going forward is based on our past performance. Our past successes prove we can make a difference! We have only just begun to capture the value of the opportunities that our industry can create. We have elevated our expectations and truly believe our best performance is yet to come! SB 70 will make a positive difference and create value for all Kansans. I urge the Kansas Legislature to pass Senate Bill 70.

1-4

Kansas Oil & Gas Resources Board (KOGRB) Energy Education and Public Outreach Program

Strategic Plan March 2005

The development and dissemination of data and knowledge are essential to cultivating an understanding and appreciation of the Kansas oil and gas industry's contributions to our national, state, and local energy needs. The Kansas Independent Oil & Gas Association (KIOGA), Kansas Petroleum Council (KPC), and the Eastern Kansas Oil & Gas Association (EKOGA) are leaders among state industry associations in their support for energy education. For example, the KIOGA Educational Foundation, founded in 2001, has developed and disseminates energy education programs that emphasize the importance of energy in our everyday lives and is designed to increase awareness about the significance and viability of the Kansas oil and gas industry to our national, state, and local energy needs.

The Kansas Oil & Gas Resources Board (KOGRB) has developed teacher workshops, classroom presentations, and curricula that are designed to address the issues teachers and educators need to meet Kansas State Department of Education (KSDE) K-12 learning standards for both science and social science. More specifically, the KOGRB energy education program meets KSDE science learning standards 1 (Inquiry & Design), 2 (Physical Science), 4 (Earth Science), 5 (Science & Technology), 6 (Environmental Science), and 7 (Science History). The KOGRB energy education programs also meet KSDE social science learning standards for economics, history, and geography. Many KOGRB energy education programs meet national science education standards and have been accredited in part by the National Science Teachers Association (NSTA) and the National

Youth leadership Council (NYLC). The KSDE has advocated the energy education programs developed and disseminated by the KOGRB.

The KOGRB supports many educational initiatives to convey energy education and oil and gas industry information to the public. These efforts include building educational partnerships, developing and distributing formal educational resource materials, and improving hands-on educational opportunities. A special KOGRB emphasis is on oil and gas energy education for primary and secondary schools. The emphasis is on classroom presentations and teacher workshops.

The following challenge, goals, and objectives have been established to direct KOGRB in addressing energy education needs:

Challenge: How can the Kansas oil and gas industry educate the public on the importance of the oil and gas industry to Kansas' history, society, and economy?

KOGRB provides leadership by coordinating and enhancing existing energy education programs and curricula, developing new programs and curricula, and providing support for a variety of audiences and informal education providers. KOGRB works in partnership with many other agencies, organizations, and educators to develop and deliver teacher training programs and opportunities.

KOGRB develops and disseminates information on a wide range of oil and gas and energy issues through programs at schools, training facilities, educational materials, newsletters, reports, publications, web site, and other venues. KOGRB education programs meet national and state standards for science education, are based on identified needs and evaluated for effectiveness.

Goal 1-A: Maintain effective oil and gas related primary and secondary energy education programs.

KOGRB has implemented teacher workshops designed to incorporate long-term, standards-based oil and gas energy education into Kansas classrooms. KOGRB teacher workshops are designed to assist educators in providing a model for collaborative learning using crude oil, natural gas, and energy issues. Teachers and educators who complete KOGRB teacher workshops, seminars, and/or symposia receive continuing professional development units and/or continuing education units for their work.

KOGRB strives to ensure that our educational offerings are tied to KSDE learning standards. By providing standards-based energy education curricula and other resources to supplement curricula, many adult and student learners will be reached. KOGRB is committed to making our resources and programs available to broad audiences through brochures, booklets, CD's, internet, and other venues.

Expected Outcomes

1. Increased awareness and appreciation of the Kansas oil & gas industry's contributions to Kansas' history, society, and economy.
2. Increased understanding of the Kansas oil and gas industry among teachers and school children.
3. Greater use of KOGRB energy education materials in classrooms.

Performance Indicators

1. Number of teachers using KOGRB energy education materials in classroom.
2. Number of teachers completing KOGRB teacher workshops.
3. Number of primary and secondary students reached with energy education classroom presentations.

Objectives

Objective 1-A-1: Conduct training for industry professionals to make classroom presentations.

Objective 1-A-2: Conduct Petroleum Professionals in the Classroom (Petro Pros) presentations in elementary and secondary schools throughout the state of Kansas.

Objective 1-A-3: Conduct oil and gas energy education teacher workshops.

Objective 1-A-4: Provide oil and gas energy related educational materials and programs to elementary and secondary schools throughout the state of Kansas.

Objective 1-A-5: Provide on-line support to Kansas teachers and educators.

Goal 1-B: Provide oil and gas industry public outreach, information, and educational experiences to the general public.

KOGRB reaches out to the general public to inform them on oil and gas energy issues and activities. Many of KOGRB's educational materials and publications provide information about the Kansas oil and gas industry and stress the importance of energy in our every day lives. KOGRB's public outreach efforts include radio advertising, TV advertising, outdoor advertising, news media, on-site marketing, online exposure, and industry workshops.

KOGRB relies on an extensive volunteer network to provide educational and public outreach services that could not be delivered with KOGRB staff alone. Volunteers are trained to assist or guide educational and public outreach activities in both formal and informal settings. KOGRB also relies on volunteers to provide feedback on activities and programs. The KOGRB reviews the feedback to determine important public outreach issues and potential strategies to resolve those issues.

Expected Outcomes

1. Greater public awareness and appreciation of the Kansas oil & gas industry's contributions to Kansas' history, society, and economy.
2. Increased understanding of important environmental and economic issues surrounding the oil and gas industry.
3. Increased public participation in KOGRB educational activities.
4. Greater public satisfaction with KOGRB activities and programs.

Performance Indicators

1. Number of positive news media stories.
2. Number of participants completing KOGRB industry workshops.
3. Number of educators, students, and general public expressing high satisfaction with KOGRB public outreach program.
4. Volunteer hours assisting KOGRB education & public outreach programs.

Objectives

Objective 1-B-1: Develop and distribute oil and gas industry energy educational materials and publications to the general public.

Objective 1-B-2: Develop and maintain media advertising campaigns (radio, TV, newspaper, outdoor, etc.) and media kits to disseminate

information on the contributions the Kansas oil and gas industry makes to Kansas' history, society, and economy and optimize positive publicity.

Objective 1-B-3: Develop and encourage civic club and professional presentations to disseminate information about the positive contributions to history, society, and the economy made by the Kansas oil and gas industry.

Objective 1-B-4: Develop and maintain NewsLine service as a media outlet for oil and gas energy issues.

Objective 1-B-5: Host and participate in special public and professional events and programs with on-site marketing to promote and highlight the positive contributions of the Kansas oil and gas industry

Objective 1-B-6: Conduct workshops and programs that provide oil and gas energy related experiences to new audiences.

Objective 1-B-7: Maintain a volunteer network to assist in KERB educational and public outreach programs.

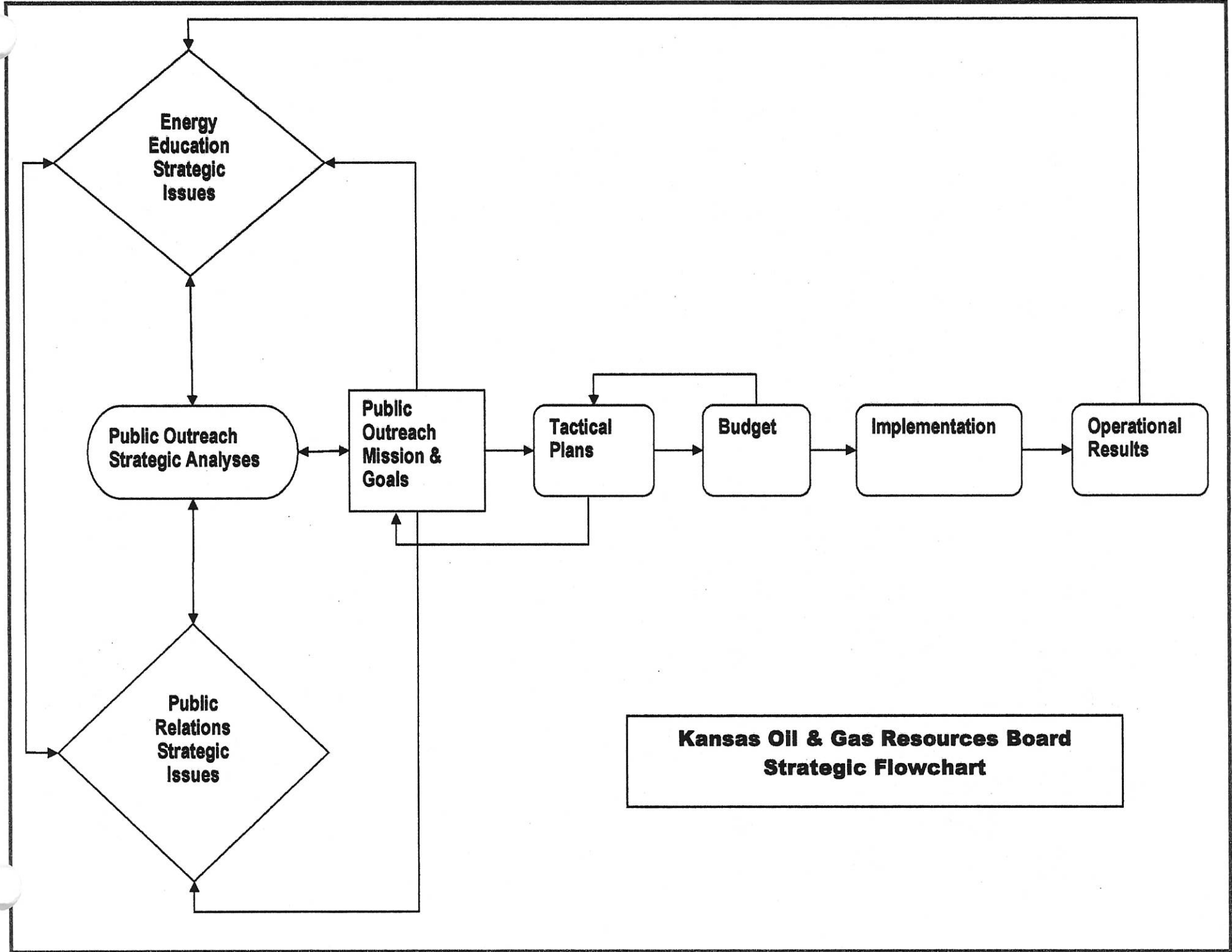
Objective 1-B-8: Respond to media inquiries and public requests.

Conclusion

The Kansas oil and gas industry's vision for a better Kansas is growing. Our confidence going forward is based on our past performance. Our past successes prove we can make a difference! We have only just begun to capture the value of the opportunities that our industry can create. The KOGRB energy education and public outreach program has made a positive difference, fostering better energy education for Kansas and creating value for the Kansas oil and gas industry. We have elevated our expectations and truly believe our best performance is yet to come!

1-7

81



**Kansas Oil & Gas Resources Board
Strategic Flowchart**

theless, IOGCC notes, marginal oil production contributes 15 percent of all the oil produced in the lower 48 states.

Texas leads the country in both the number of and production from stripper oil wells, at 123,402 and 128 million bbls, respectively. The state's 5,657 plugged and abandoned oil wells are also the most. South Dakota leads the country with an average per well production of 5.87 bbl/d.

Economic Impact

The report also offers economic analysis of stripper wells' impact in the United States, by Ryder Scott Petroleum Consultants' Olds, who notes "each barrel of

oil and Mcf of natural gas that is produced represents an energy asset that the United States does not have to import."

The study shows that the oil and gas wells plugged and abandoned in the surveyed states during 2003 would have produced oil and gas valued at \$471 million. The total value of oil and gas lost from abandonments during 2003 for all states was \$528.7 million. The IOGCC calculates a theoretical loss value of \$12.2 billion for the surveyed states and \$16.3 billion for the country in 2003.

Were that marginal oil and gas production lost, Olds indicates, "This would represent about 860,000 barrels of oil and 4.0 Bcf of gas each day. Using the weighted average wellhead prices for

stripper production, the daily amount would have to be spent on imports would be \$44.7 million each day."

The report also estimates that "every dollar of stripper oil and gas production creates an additional \$1.01734 of economic activity throughout the economy, and that 9.7 jobs are dependent on every \$1 million of stripper oil and gas produced."

IOGCC calculates that the cumulative impact of marginal production over the past 12 years at 5.9 billion barrels of oil equivalent. Output of the wells abandoned during that period would have contributed \$6.5 billion of economic activity and nearly 35,000 jobs, the compact holds. □

Energy Education

Kansas Takes State-Specific Approach

By Edward P. Cross

TOPEKA, KS.—Developing and disseminating data and knowledge are essential to cultivating an understanding and appreciation of our national, state, and local energy needs. The Kansas oil and gas industry has developed and is implementing a very effective energy education program that emphasizes the importance of energy in everyone's daily life.

The need for better energy education cannot be underestimated. Carl Michael Smith, former deputy secretary of the U.S. Department of Energy Office of Fossil Fuel, said, "America needs to improve its domestic energy image. In his national energy policy, President Bush called for an emergency energy education program. We must help inform the public about the benefits of American domestic energy resources and the essential role they play in terms of our economy and national security."

A national energy education effort is needed. However, better energy education is best achieved on a state-by-state basis. Each state has specific energy education needs. A national effort would be most effective if it complemented general energy data and knowledge with state-specific energy education needs.

The Kansas oil and gas industry recognizes this axiom, and is coming together to provide meaningful energy education for all Kansans.

Crude oil and natural gas account for 95.7 percent of Kansas energy production and more than 91 percent of energy consumption. Studies indicate investments being made now in alternative energy sources

will not alter the Kansas or U.S. energy mix in significant ways for decades. Certainly, alternative energy sources will be a part of a long-term solution to our nation's energy needs, but fossil fuels will remain a core component of the U.S. energy mix well into the future.

For Kansas, better energy education means realizing these facts and educating the public on the importance of oil and natural gas to Kansas' history, society, and economy for decades to come, as well as the role of alternative energy sources in the long-term future of our nation. Indeed, an effective energy education program educates the public on all energy sources, but energy education should focus on energy value growth. That is to say, energy education should focus on optimizing a state's energy strengths and minimizing weaknesses.

An energy education program focused on optimizing a state's energy strengths will result in a better educated public that produces better energy policy, better public policy, and economic growth. One state's strength may be another's weakness. That is why state-by-state energy education programs will be most effective for disseminating energy education nationwide. Better energy education in Kansas recognizes the role of conservation and efficiency, energy sources other than the oil and natural gas, and the environmental impact of providing energy value growth for Kansas.

Group Effort

The Kansas oil and gas industry is represented by the Kansas Independent Oil & Gas Association, the Kansas Petrole-

um Council, and the Eastern Kansas Oil & Gas Association. Realizing the importance of better energy education, these groups have come together to develop an energy education program focusing on energy value growth.

By using an educational foundation developed by KIOGA in 2001, the Kansas oil and gas industry has developed teacher workshops, classroom presentations, and curricula designed to address the energy issues teachers and educators in Kansas need to meet Kansas State Department of Education K-12 learning standards for both science and social science. Many of the educational programs meet national science education standards, and have been accredited in part by the National Science Teachers Association and the National Youth Leadership Council.

The Kansas oil and gas industry energy education program curricula and material emphasize oil and gas energy education for primary and secondary schools through classroom presentations and teacher workshops. The Kansas oil and gas industry is providing energy education leadership by developing new oil and gas energy education programs and curricula, coordinating and enhancing existing oil and gas energy education curricula, and providing support for a variety of audiences and education providers.

Teacher workshops have been developed to incorporate long-term, standards-based oil and gas energy education into Kansas classrooms. The teacher workshops are designed to assist teachers and educators in providing models for collaborative learning using crude oil,

natural and energy issues. Information on a wide range of oil and gas energy issues is disseminated through programs in schools, training facilities, and educational materials.

The Kansas oil and gas industry has built educational partnerships with other agencies, organizations, educators, and other state energy education efforts, including Oklahoma, Ohio and Illinois. The Kansas oil and gas industry was able to build on the work of the Oklahoma Energy Resources Board, the Ohio Oil & Gas Energy Education Program, and the Illinois Petroleum Resources Board to develop energy education curricula and material aligned with KSDE science and social science learning standards needed for use in Kansas classrooms. The KSDE has advocated the energy education programs developed and disseminated by the Kansas oil and gas industry.

The Kansas oil and gas industry's energy education curricula use rocks, fossils, drill bits, maps, and other learning tools to demonstrate how oil and gas are formed, discovered and produced, and what products are made from oil and gas. The program also explains how oil and gas improves quality of life and keeps Americans' standards of living high.

The oil and gas energy education program teaches students the truth about the Kansas oil and gas industry, dispelling misconceptions about important environmental and economic issues, and ex-

plaining what the Kansas oil and gas industry is doing to make the future of Kansas brighter.

Challenges And Goals

The credibility of the Kansas oil and gas industry energy education effort is established by the strategic plan, which outlines the challenges, specific goals, expected outcomes, performance indicators, and objectives of the program.

Educating the public on the importance of the oil and gas industry to Kansas' history, society, and economy is the challenge facing the Kansas oil and gas industry. To meet this challenge, the Kansas oil and gas industry has outlined two goals:

- Maintain an effective oil- and gas-related primary and secondary oil and gas energy education program; and
- Provide oil and gas industry public outreach, information, and educational experiences to the general public.

Expected outcomes and performance indicators provide qualitative and quantitative measures of the program's progress. Specific objectives provide a roadmap for establishing credibility and achieving the program goals. Certification of the curricula, workshops, and presenters further qualifies the Kansas oil and gas industry program. The Kansas oil and gas industry energy education effort is providing a standards-based program for use in Kansas schools.

Better energy education is needed for economic growth and national security. The Kansas oil and gas industry has come together, and is providing meaningful energy education for all Kansans. □



EDWARD P. CROSS

Edward P. Cross is executive vice president of the Kansas Independent Oil & Gas Association, and manages the KIOGA Educational Foundation, which was formed to provide energy education and improve the image and credibility of the Kansas oil and gas industry. Previously, Cross served as executive director of the Illinois Petroleum Resources Board, where he directed energy education programs designed to improve the image and credibility of the Illinois oil and gas industry. Cross is a registered professional geologist and certified school business official, and holds a B.S. in geology and an M.B.A. from Southern Illinois University.

IOGCC Annual Meeting

States Must Lead Energy Policy Debate

By Bill Campbell

OKLAHOMA CITY—In a way, the tone for the Interstate Oil & Gas Compact Commission's 2004 annual meeting was set 70 years ago, about 100 miles north of the Oklahoma City setting for this year's convention.

It was in 1934 that Oklahoma Governor E.W. Marland called a handful of governors to Ponca City, Ok., to discuss a crisis in U.S. energy policy, recalled Alaska Governor Frank Murkowski in his luncheon address at the 2004 IOGCC annual meeting.

"In that day, the crisis was the inability of industry, states, and the federal government to deal effectively with the conflicts of a rapidly expanding energy production sector," related Murkowski, who will serve as IOGCC's 2005 chairman.

That meeting was the genesis of the

Interstate Oil Compact Commission, the precursor to today's IOGCC. Seventy years later, Murkowski contended, "We face an even greater national energy crisis. This time it involves spiraling energy costs, rapidly growing demand, and the decline of domestic production.

"As Governor Marland said in the 1930s, 'I believe it is time to get the governors to rally this country behind a national energy policy that makes sense,'" Murkowski declared, adding: "I can't think of a better organization than the IOGCC to lead this mission."

Murkowski led a parade of speakers representing industry as well as state and federal governments in defining the task and outlining the principles of what he called a "reality based national energy policy" during the Oct. 4-5 IOGCC meeting.

He began with an action list for IOGCC. "The first thing is to utilize the

full resources and superb communications capabilities of the IOGCC to support a national energy policy," he announced.

Murkowski said that entailed issuing press releases supporting all IOGCC resolutions, and initiating "an aggressive rebuttal policy concerning inaccurate national energy policy statements in the national media." To accomplish this, he said the IOGCC staff would e-mail all official representatives monthly, encouraging them to alert the staff and state representatives charged with responding to inaccurate media coverage of energy issues.

Second on his action list, Murkowski said, is "to invite all industry companies that have registered for any IOGCC event during the past two years to attend an informal round table to discuss ways and means to promote a successful national energy policy in 2005."

Finally, Murkowski called for forging

Polymer Power

Petroleum-based Products

Cycle 8

Wonder Why . . .

Have you ever wondered how many of the products you use today come from petroleum?

Concept

Petroleum is a part of our daily lives. Many products such as nylon, plastics and rubber come from petroleum-based polymers. Scientists have been able to develop polymers with many different properties.

Kansas State Department of Education Learning Standards

Grade 6

Science Inquiry Standards

Observe and Measure; Classify; Experiment; Interpret and Communicate; Inquiry

Physical Science Content Standards

Matter has physical properties that can be measured (i.e., mass, volume, temperature, color, and texture). Changes in physical properties of objects can be observed, described, and measured using tools such as simple microscopes, gram spring scales, metric rulers, metric balances, and Celsius thermometers.

Grade 7

Science Inquiry Standards

Observe and Measure; Classify; Experiment; Interpret and Communicate; Inquiry

Physical Science Content Standards

Matter has physical properties that can be measured (i.e., mass, volume, temperature, color, texture, and density). Physical changes of a substance do not alter the chemical nature of a substance (e.g., phase changes of water and/or sanding wood).

Grade 8

Science Inquiry Standards

Observe and Measure; Classify; Experiment; Interpret and Communicate; Inquiry

Physical Science Content Standards

Substances react chemically with other substances to form new substances with different characteristics (e.g., rusting, burning, reaction between baking soda and vinegar).

Matter has physical properties that can be measured (i.e., mass, volume, temperature, color, texture, density, and hardness). In chemical reactions and physical changes, matter is conserved (e.g., compare and contrast physical and chemical changes).

National Science Education Standards

Substances react chemically in characteristic ways with other substances to form new substances (compounds) with different characteristic properties.

Technology influences society through its products and processes. Technology influences the quality of life and the ways people act and interact.

Benchmarks for Science Literacy

The configuration of atoms in a molecule determines the molecule's properties. Shapes are particularly important in how large molecules interact with others.

Activity One - Petroleum Products

Recognizing products made from petroleum.

Materials

— Handout entitled "Polymer Power" (blackline master)

Discovery Procedure



1. Look around the classroom and list everything you see that is made from petroleum.
2. Review the "Polymer Power" handout and circle everything on that list that is made from petroleum.

Concept Formation

1. How many items did you list?
2. How many items did you circle?
3. How many more can you think of?
4. What do they all have in common? (Possible answer(s): They all contain hydrogen and carbon.)

Activity Two - Polymer Chain Simulation

Modeling monomers, polymers and polymer chains.

Materials

— Student Volunteers

Discovery Procedure

1. Ask for eight volunteers to demonstrate the chemical concept of "cross-linking." (Instructor may want to inform students that they will be holding hands or wrists.) Tell the class that each volunteer represents a "monomer"-- one unit.
2. Have monomers move freely around the room.
3. Have two groups of four monomers join hands to form two short segments of the polymer chain. "Poly" means many, and "mer" means unit, so a polymer is many units linked together.
4. Have each polymer move around the room with hands still linked. Point out that they can move relatively freely.
5. Explain that some polymer chains contain cross-linkers that connect the polymer chains together. Have one other student play the role of the cross-linker by holding the arm of one monomer in the middle of each of the polymer chains.



6. Have the polymers try to move around as before. (While some movement is still possible, it will be more restricted than before the cross-linker was added.)

Concept Formation

1. When was the polymer movement least restrictive? (Possible answer(s): When there were fewer links.)
2. When was the polymer movement most restrictive? (Possible answer(s): When the cross-linker was added.)
3. Were the polymers still able to move about when the cross-linker was added? (Possible answer(s): Yes, but their movement was more restrictive.)
4. What does this experiment tell us about the characteristics of polymers. (Possible answer(s): Polymers can move, but not as easily as monomers. The more links, the more difficult it is for polymers to move.)

Expansion

- Using pattern included in the kit, make a paper doll polymer chain. (Fold in one direction, not accordion-style.)

Activity Three - Making Polymer Putty

Making putty in the classroom.



Materials

- ___ Small paper cups or baggies
- ___ Craft sticks
- ___ Saturated borax (sodium borate) solution
- ___ White school glue
- ___ Water
- ___ Measuring spoons or other measuring devices such as graduated, disposable medicine cups
- ___ "Fuel-less" Video

Safety



- ▶ Do not taste Polymer Putty!
- ▶ Some people have an allergic reaction to dry borax.
- ▶ Use adequate ventilation when preparing the solution and wash your hands after contact with the solid.



- ▶ Students should not handle the dry borax.
- ▶ Students should wear goggles.



Teacher Preparation

Make a saturated sodium borate solution by adding 1/4 cup of borax in 1 quart of warm water. Stir to dissolve. Pour the solution off any undissolved solid.



Discovery Procedure



1. Measure 15ml (1 Tbsp) white glue and pour it into a small paper cup or baggie. Observe the glue and record observations. (Instructor: Explain that the glue has polymer molecules (polyvinyl acetate)).

1-15



2. Measure 15ml (1 Tbsp) water and add it to the glue in the cup/baggie. Stir with a craft stick or knead in the baggie. Repeat observations and record.
3. Measure 10ml (2 tsp) borax solution. Ask someone to help you so you can stir with the craft stick as the borax (cross-linker) is added to the glue solution (If using a baggie, knead with your hand while holding the baggie upright). (Instructor: Explain that the borax solution acts as the cross-linker with the polymer molecules.)
4. Once the Polymer Putty is formed, remove it from the cup/baggie and knead it for several minutes.



5. Record your observations? (Instructor: Allow time for free exploration.)

Concept Formation

1. Roll the Polymer Putty into a ball and set it in the palm of your hand. Does the ball keep its shape?
2. Pat the Polymer Putty between your hands and try to form a thin "pancake." Hold it at one end and observe.
3. Drop a ball of Polymer Putty onto a clean non-wooden table top. Does it bounce? How quickly does it begin to spread out?
4. Use coins or small objects to make imprints in the Polymer Putty. Do these imprints last?
5. Roll the Polymer Putty into a tube shape and slowly pull it apart while holding it at both ends. Reform the tube and pull it apart quickly. Put the Polymer Putty on top of an upside down cup. What happens?

6. With a washable marker or fluorescent highlighter, write your name or draw a face on a plastic bag. Shape the Polymer Putty into a small pancake, place it over the design and remove it carefully. What happens?

7. What have you learned about polymers? (Answers will vary.)

Expansion

- Compare your product with those made using different combinations of glue, water, and borax.



Disposal

Store Polymer Putty in a sealed plastic bag so it will not dry out. To retard mold growth, keep it in the refrigerator. When you are finished with your Polymer Putty, discard it in a waste can. Do NOT put it down the drain. Do not set Polymer Putty on natural wood furniture as it will leave a water mark. Polymer putty may also stick to other materials. If Polymer Putty sticks to the carpet, use vinegar to dissolve it; then wash the area with soap and water.

Activity Four - Making a Rubber Band

Seeing the polymer characteristic of stretching.

Materials

- ___ Liquid latex (available from most science supply stores and some hobby stores)
- ___ Vinegar
- ___ Small cups
- ___ Paper towels
- ___ Stirring stick
- ___ Pencils, test tubes or graduated cylinders



Discovery Procedure

1. Dip a pencil/open end of a test tube or graduated cylinder into the liquid latex. Remove your pencil, holding it over the cup for about 10-20 seconds to allow the excess to drip back into the cup.
2. Dip the latex coated pencil into the cup of vinegar and hold it there for 20-30 seconds. Remove from the vinegar, allowing the excess to drip into the cup for about 20-30 seconds (for best results allow to dry overnight before completing next step).
3. With the point of a pencil, poke a small hole in the latex at the tip of your pencil and quickly, but evenly, roll the latex down the pencil.
4. Slide the "rubber band" off your pencil. Let the rubber band rest for a few minutes while you make two or three more rubber bands.



5. Test the strength and stretchiness of the rubber bands. Be careful not to pull too hard. Compare your rubber bands to those made by others in your group.



Note: (You may prefer to make a rubber ball by pouring about 1 Tbsp of latex into the bottom of a paper cup. Add 1 Tbsp of vinegar and work the liquid back and forth with a stirring stick for a few minutes; then take out and form into a ball. Limit size to 1-inch diameter.)



6. Compare and contrast the rubber band and the polymer putty.

Concept Formation

1. What have you learned about polymers? (Answers will vary.)
2. View "Fuel-less" video.
3. Refer to the "Polymer Power" handout. Use what you now know about the characteristics of polymers to determine if any additional products are made from petroleum-based polymers. Circle additional products.

Teacher Information

The most used by-product of crude oil is gasoline; however, today more than 6,000 products are produced wholly or in part, from petroleum. These products contain polymers.

A polymer is a huge, chain-like molecule made by combining many small molecules called monomers. A wide variety of polymers are obtainable because they can be made from different kinds of monomers, and monomers can be put together in many different ways to form polymers. They may be flexible or rigid, transparent or opaque, heat resistant or not, waterproof or water-soluble, electrical insulators or conductors, hard or soft, and elastic or not.

Nearly all the materials that make up living organisms involve polymers. These include such things as bone, cartilage, tendons, hair, enzymes, certain hormones, DNA, cotton, wool, wood and latex from rubber trees. These are called natural polymers.

Synthetic polymers are becoming more and more a part of our daily lives. They are made from petroleum and are used to make thousands of products (see Polymer Power handout). We encounter these substances constantly in everything from plastic soda bottles to foam polystyrene cups to disposable diapers. Synthetic polymers are used to manufacture such a variety of items because chemists are able to design products with the specific properties required.

Polymer Power

garbage bags ~ insulated foam cups ~ milk jugs ~ toothpaste tubes
sandwich bags ~ fast food containers ~ shoe strings ~ junk food bags
pop bottles ~ plastic eating utensils ~ shampoo bottles ~ shoe string tips
food wraps ~ disposable razors ~ egg cartons ~ thread spools ~ rope
margarine tubs ~ disposable diapers ~ coffee stirrers ~ insulation ~ yarn
caulking ~ beverage boxes ~ shrink wrap ~ bubble packing ~ Silly String®
Silly Putty® ~ Slime® ~ cellophane tape ~ epoxy glue ~ Super Glue®
dishpans ~ pens ~ plastic cups ~ food storage containers ~ combs
toothbrushes ~ ceiling light covers ~ table tops ~ chair seats ~ carpet
refrigerators ~ telephones ~ floor tile ~ synthetic fabrics for clothing
rubber soles on shoes ~ bicycle and automobile paint ~ tires ~ dashboards
floor mats ~ bicycle hand grips ~ reflectors ~ roller blades ~ sunglasses
vinyl wall covering ~ glasses ~ compacts ~ contact lenses ~ pencil cases
lipstick tubes ~ hair spray ~ windbreakers ~ raincoats ~ rubber gloves
tights ~ galoshes ~ umbrellas ~ sweaters ~ Nerf ball® ~ Frisbee®
snorkels ~ swim fins ~ wet suits ~ volleyballs and nets ~ basketballs
racquetballs ~ tennis balls ~ tennis racquets and strings ~ guitar strings
balloons ~ rubber bands ~ credit cards ~ portable radios ~ computers
watch faces ~ safety glasses ~ false teeth ~ hearing aids ~ lunch boxes
coffee mugs ~ thermos bottles ~ lunch tray ~ flower pots ~ Velcro®
microwave cookware ~ lawn chairs ~ football helmets ~ football pads
cleats ~ footballs ~ hockey pucks ~ buttons ~ erasers ~ wigs
parachutes ~ sailboats ~ sails ~ gears ~ playing cards ~ floor wax
furniture polish ~ clarinets ~ flutes ~ recorders ~ video recorders
videotapes ~ audio tapes ~ compact discs ~ luggage ~ computer monitors
metallic balloons ~ flea collars ~ life rafts ~ model planes ~ model cars
pacifiers ~ baby bottles ~ baby rattles ~ baby diapers ~ pillow cases
exercise mats ~ photographs ~ mannequins ~ store signs ~ book bags
school desks ~ knapsacks ~ rulers ~ protractors ~ overhead projectors
transparencies ~ movie film ~ dust brushes ~ rubber tubing ~ fishing line
fishing bobbers ~ tackle boxes ~ waders ~ life jackets ~ cameras
sneakers ~ vitamin capsules ~ safety glasses ~ sponges ~ seat cushions
particle board ~ hair dryers ~ life jackets ~ hair curlers ~ ping-pong balls
tents ~ windshield wipers ~ shower doors ~ electrical tape ~ bubble gum
house paint ~ ice chests ~ car batteries ~ water pipes ~ zippers ~ pianos
band-aids ~ mops ~ curtains ~ pot handles ~ picture frames ~ wallets
shoe polish ~ fan belts ~ paint brushes ~ vinyl siding ~ checkers ~ flags
rubber duckies ~ puppets ~ earphones ~ whistles ~ trash cans
motorcycle helmets ~ coasters ~ ice cube trays ~ hang gliders ~ sandals
skateboard wheels ~ measuring tapes ~ extension cords ~ sun visors

KIOGA
Proposed
Amendment

[As Amended by Senate Committee of the Whole]

Session of 2005

SENATE BILL No. 70

By Committee on Assessment and Taxation

1-20

10 AN ACT creating the Kansas petroleum education and marketing act.
11
12 *Be it enacted by the Legislature of the State of Kansas:*
13 Section 1. The provisions of sections 1 through 11, and amendments
14 thereto, shall be known and may be cited as the Kansas petroleum edu-
15 cation and marketing act.
16 Sec. 2. As used in this act:
17 (a) "Act" means the provisions of sections 1 through 11, and amend-
18 ments thereto;
19 (b) "board" means the Kansas energy *[oil and gas]* resources board
20 as created by this act;
21 (c) "first purchaser" means:
22 (1) With regard to crude oil, the person to whom title first is trans-
23 ferred beyond the gathering tank or tanks, beyond the facility from which
24 the crude oil was first produced, or both; and
25 (2) with regard to natural gas, the person to whom title first is trans-
26 ferred beyond the inlet side of the measurement station from which the
27 natural gas was first produced;
28 (d) "independent producer" means a person who complies with both
29 of the following:
30 (1) Produces oil or natural gas and is not engaged in refining either
31 product; and
32 (2) derives a majority of income from ownership in properties pro-
33 ducing oil or natural gas;
34 (e) "interest owner" means a person who owns or possesses an oil or
35 gas leasehold interest in the gross production of oil or natural gas pro-
36 duced from a well in Kansas. For the purposes of this act, an oil and gas
37 leasehold estate interest shall include the working interest ~~and any over-~~
38 ~~riding royalty interests or other interest carved out of the working interest~~
39 in any oil and gas lease[, **but shall not include royalty interests**];
40 (f) "person" means an individual, group of individuals, partnership,
41 corporation, association, limited liability company, cooperative or any
42 other entity or an employee of the entity; and
43 (g) "qualified producer association" means an entity that is organized

and any overriding interest
carved out of the working
interest

1-21

1 under section 501(c)(6) of the federal internal revenue code and in ex-
2 existence on the effective date of this act, organized and operates within
3 the state of Kansas, and in which a majority of the members of such
4 association's governing body consists of independent producers. In ad-
5 dition to any other entity which constitutes a qualified producer associ-
6 ation as defined in this subsection, the Kansas independent oil and gas
7 association, the Kansas petroleum council and the eastern Kansas oil and
8 gas association shall be qualified producer associations.

9 Sec. 3. (a) ~~Upon meeting the requirements of this act,~~ any group of
10 qualified producer associations ~~may~~ create, fund, administer, operate,
11 manage, be members of and enjoy the benefit of a Kansas energy [*oil*
12 *and gas*] resources board to administer a Kansas petroleum education
13 and marketing program. The purpose of the board created by this act
14 shall be to: (1) Coordinate a program designed to demonstrate to the
15 general public the importance and significance of the oil and natural gas
16 industry in Kansas; (2) encourage the wise and efficient use of energy;
17 (3) promote environmentally sound production methods and technolo-
18 gies; (4) support research and educational activities concerning the oil
19 and natural gas industry; (5) promote oil and natural gas exploration and
20 production safety; (6) support job training and research activities con-
21 cerning oil and natural gas production; and (7) implement and comply
22 with the provisions of this act. The Kansas energy [*oil and gas*] resources
23 board may be formed as a not-for-profit member corporation in which
24 the Kansas independent oil and gas association, the Kansas petroleum
25 council and the eastern Kansas oil and gas association shall be members.
26 The Kansas energy [*oil and gas*] resources board, if formed as a not-for-
27 profit member corporation, shall be formed, operated and dissolved in
28 accordance with the provisions of chapter 17 of the Kansas Statutes An-
29 notated, and amendments thereto, and shall enjoy all of the rights of not-
30 for-profit member corporations under Kansas law, subject of the restric-
31 tions and conditions set forth in this act. The Kansas energy [*oil and gas*]
32 resources board shall be a voluntary private organization and shall not be
33 deemed in any manner to be a governmental or quasi-governmental board
34 or other such organization.

35 (b) The board's governing body shall be composed of 15 members to
36 be appointed by the governing bodies of the following qualified producer
37 associations as follows: (1) ~~Eleven~~ trustees to be appointed by the Kansas
38 independent oil and gas association;

39 (2) three trustees to be appointed by the Kansas petroleum council;
40 and

41 (3) ~~one trustee~~ to be appointed by the eastern Kansas oil and gas
42 association.

43 (c) A trustee of the board shall:

It shall be lawful for

to

provided that the requirements of this act are met

Ten

two trustees

1-22

- 1 (1) Be at least 25 years of age;
- 2 (2) be a resident of the state of Kansas; and
- 3 (3) have at least five years of active experience in the oil and natural
- 4 gas industry.
- 5 (d) A trustee shall serve for a term of three years, except that of the
- 6 initial appointments: (1) Five trustees shall serve for one year; (2) five
- 7 trustees shall serve for two years; and (3) five trustees shall serve for three
- 8 years. Vacancies in the board for any trustee shall be filled by the qualified
- 9 producer association which appointed the vacating member and shall be
- 10 filled for the remaining term of the vacating trustee.
- 11 (e) After July 1, 2005, the trustees of the board which are appointed
- 12 by the qualified producer associations may by majority vote appoint a
- 13 representative to serve as an additional trustee from each of the following
- 14 groups:
- 15 (1) A representative of royalty owners; and
- 16 (2) a non-industry representative.
- 17 Such additional trustees shall have full voting rights and privileges and
- 18 shall serve three-year terms. Such additional trustees may be removed at
- 19 any time from the board by majority vote of the trustees appointed by
- 20 the qualified producer associations.
- 21 (f) The board shall elect annually a presiding officer of the board.
- 22 (g) The board may elect other officers as considered necessary by the
- 23 board.
- 24 (h) No trustee of the board shall receive a salary or reimbursement
- 25 for duties performed as a member of the board, except that trustees are
- 26 eligible to received reimbursement for travel expenses incurred in the
- 27 performance of board duties.
- 28 Sec. 4. The board shall have the following powers and duties, to:
- 29 (a) Administer and enforce the provisions of this act;
- 30 (b) establish an office for the board within the state of Kansas;
- 31 (c) elect a presiding officer and any other officers that may be nec-
- 32 essary to direct the operations of the board;
- 33 (d) employ personnel as shall be deemed necessary to carry out the
- 34 provisions of this act;
- 35 (e) administer the ~~energy~~ **[oil and gas]** resources fund;
- 36 (f) approve or disapprove the budget of the board;
- 37 (g) adopt rules as the board deems necessary to carry out the provi-
- 38 sions of this act;
- 39 (h) enter into contracts or agreements for studies, research projects,
- 40 experimental work, supplies or other services to carry out the purposes
- 41 of this act; and to incur those expenses necessary to carry out such pur-
- 42 poses. A contract or agreement entered into under this subsection shall
- 43 provide that:

1-23

1 (1) The person entering the contract or agreement on behalf of the
2 board shall develop and submit to the board a plan or project together
3 with a budget that shows estimated costs to be incurred for the plan or
4 project; and

5 (2) the person entering the contract or agreement shall keep accurate
6 records of all such person's transactions, account for funds received and
7 expended and make periodic reports to the board of activities conducted
8 and other reports that the board may require;

9 (i) keep accurate records of all financial transactions performed pur-
10 suant to this act. Such records shall be audited annually by an independ-
11 ent auditor and an annual report shall be compiled;

12 (j) accept and deposit into the energy **[oil and gas]** resources fund
13 donations, grants, contributions and gifts from any public or private
14 source; and

15 (k) keep an accurate record of all assessments collected.

16 Sec. 5. (a) There shall be an annual meeting of the board at which
17 the annual report and proposed budget shall be presented. The board, at
18 the call of the presiding officer, shall hold at least three other regular
19 meetings each year. The presiding officer shall establish the time, manner
20 and place for all meetings and shall provide notice of the meetings. A
21 majority of the members of the board shall constitute a quorum for the
22 transaction of any business of the board. In addition, the board shall
23 determine the circumstances under which additional meetings of the
24 board may be held.

25 (b) The board may appoint a director who shall carry out the provi-
26 sions of the act. The director shall not be one of the appointed board
27 members.

28 Sec. 6. The Kansas energy **[oil and gas]** resources board is hereby
29 authorized to levy assessments on the production of oil and natural gas
30 in Kansas for the purposes of a petroleum education and marketing pro-
31 gram. There is hereby created a special fund to be designated as the
32 energy **[oil and gas]** resources fund. The fund shall be a continuing fund,
33 not subject to fiscal year limitations and shall consist of all moneys re-
34 ceived by the Kansas energy **[oil and gas]** resources board from assess-
35 ments received and collected pursuant to section 7, and amendments
36 thereto, and donations, grants, contributions and gifts from any public or
37 private source.

38 Sec. 7. (a) To fund the activities of the Kansas energy **[oil and gas]**
39 resources board, and in the discretion of the board, a voluntary assess-
40 ment not to exceed an amount of 1½ cent per barrel of crude oil produced
41 and ¾ cent per thousand cubic feet of natural gas produced from each
42 well in the state of Kansas shall be deducted from proceeds paid by the
43 first purchaser to each interest owner. Any interest owner may seek a

0.0005% of the gross
revenues from oil or
natural gas produced

1-24

reached

1 refund as provided in this act. An annual cap of \$20,000, determined on
 2 a calendar year basis, shall be placed on ~~any one interest owner. The~~
 3 ~~board shall refund annually to any interest owner the amount which such~~
 4 ~~interest owner's assessments exceeded the annual cap, except that vol-~~
 5 ~~untary contributions made by any such interest owner shall not be con-~~
 6 ~~sidered in determining whether such cap has been exceeded. This as-~~
 7 ~~essment is a voluntary checkoff and shall be treated in all respects~~
 8 ~~accordingly. The assessment shall not in any manner be deemed to be a~~
 9 ~~tax or governmental assessment of any kind, and the state of Kansas shall~~
 10 ~~have no duty or responsibility with respect to any such assessment.~~

assessments against any
 one interest owner. An
 interest owner's
 assessments shall cease
 immediately for the
 remainder of the calendar
 when such interest owner's
 assessments reach the
 annual cap. Additional

11 (b) The assessment imposed pursuant to subsection (a) shall be de-
 12 ducted from the proceeds of production and collected by the first pur-
 13 chaser. There shall be a conspicuous line item ~~on the division order and~~
 14 ~~on each run statement showing the amount and pertinent time period of~~
 15 ~~the assessment. The division order and each run statement shall provide~~
 16 the Kansas energy **[oil and gas]** resources board contact information for
 17 obtaining more information or directions for obtaining a refund of the
 18 assessment. The assessments, which are imposed on the interest owner,
 19 shall be remitted to the Kansas energy **[oil and gas]** resources board by
 20 the first purchaser not later than the 15th day of each month following
 21 the end of the month in which the assessment was collected. The moneys
 22 collected pursuant to section 6, and amendments thereto, shall be de-
 23 posited with a bank or savings and loan association and shall be used only
 24 in defraying costs of administration of the petroleum education and mar-
 25 keting program and for carrying out the provisions of sections 3, 4, 9 and
 26 10, and amendments thereto.

strike as marked

27 (c) The board shall be responsible for taking any appropriate legal
 28 action necessary to collect any assessment which is not paid or is not
 29 properly paid.

30 Sec. 8. (a) Any person subject to the assessment levied by section 7,
 31 and amendments thereto, may request a refund as provided in this section
 32 of the assessment paid on production for the preceding calendar year.
 33 Upon compliance with the provisions of this section and rules adopted
 34 by the board to implement this section, the board shall refund to each
 35 person requesting a refund the amount of the assessment paid by or on
 36 behalf of the person during the preceding calendar year. Refunds made
 37 shall include interest earned at the rate equal to the average United States
 38 treasury bill rate of the preceding calendar year as certified by the state
 39 treasurer.

40 (b) The request for a refund of the assessment paid on production
 41 for the preceding calendar year shall be made before the end of the third
 42 calendar month following the calendar year for which the refund is re-
 43 quested. Failure to request a refund during this period shall terminate

1-25

1 the right of any person to receive a refund for the assessment paid on
2 production for the preceding calendar year. The board shall give notice
3 of the availability of the refund through press releases or another means
4 the board deems appropriate.

5 (c) Each person requesting a refund shall execute an affidavit show-
6 ing the amount of refund requested and demonstrating that the affiant
7 was the owner of the production and such other matters as the board
8 reasonably requires for which the refund is requested. The board may
9 verify the accuracy of the request for refund prior to issuance of such a
10 refund.

11 (d) No person requesting a refund under this section shall be eligible
12 to serve or have a representative serve as a member of the board.

13 Sec. 9. (a) All interest earned on moneys in the ~~energy~~ **[oil and gas]**
14 resources fund shall remain in the fund.

15 (b) The board shall not use any funds collected under section 7, and
16 amendments thereto, for the purpose of influencing government action
17 or policy, except that the board may recommend amendments to this act.

18 Sec. 10. In the event of the establishment of a national or regional
19 program for an assessment on oil and natural gas production for an ed-
20 ucation and marketing program for oil and natural gas, the board, by
21 majority vote, may elect to designate up to a maximum of 35% of the
22 funds collected under this act to the national or regional program in lieu
23 of an additional assessment as may be required by the national or regional
24 program.

25 Sec. 11. (a) This act is intended as enabling legislation and shall not
26 be construed to limit any lawful activity, including the creation of any
27 checkoff, education and marketing program or other type of association
28 otherwise permitted by law.

29 (b) If any provision of this act is held to be invalid or unconstitutional,
30 it shall be conclusively presumed that the legislature would have enacted
31 the remainder of this act without such invalid or unconstitutional
32 provision.

33 Sec. 12. This act shall take effect and be in force from and after its
34 publication in the statute book.

1-26



R. J. "Bob" Sullivan, Jr.
Chairman

Steven C. Agee
Vice Chairman

J. D. Holbird
Secretary

Julie S. Kruger
Treasurer

Mike Terry
Executive Director

SUPPORTING TESTIMONY FOR SENATE BILL No. 70

The Kansas Petroleum Education & Marketing Act

**Submitted to: House Utilities Committee
Representative Carl Holmes-Chairman**

March 14, 2005

Submitted by: Mike Terry-Executive Director
Oklahoma Energy Resources Board (OERB)

It is my honor and privilege to submit this written testimony in support of Senate Bill 70 to create the Kansas Petroleum Education and Marketing Act. The OERB was created by the Oklahoma Legislature in 1993 and I have directed the Board's activities since March, 1994. I have personally been involved in assisting other oil and gas states such as Ohio, Illinois, Texas, Wyoming, Colorado, New Mexico, and North Dakota in drafting similar legislation for the creation of industry-funded education programs similar to the OERB proto-type.

The oil and natural gas industry is one of the most misunderstood industries in America today. The industry continues to be hit hard with costly waves of environmental overkill and regulatory discrimination that seems to grow annually. We are wrongly symbolized as prime polluters, greedy, knavish and no longer important to economic prosperity. The results are more orphaned and abandoned wells, decreased exploration and production, and the growing glut of imports, and corresponding plummeting of jobs and tax revenues.

Text books in our schools are practically void of important facts about fossil energy, how it was formed millions of years ago, how it is explored, produced, transported and ultimately consumed in our homes and businesses. Most students and teachers have no idea how electricity is generated or how we heat and cool our schools. What is visible are pictures of oily birds and beaches, huge solar panels and wind farms.

(more)

HOUSE UTILITIES

3555 NW 58th, Suite 430 • Oklahoma City, OK 73112
Telephone 405-942-5323 Fax 405-942-3435

Toll Free DATE: 3-16-05

ATTACHMENT 2

It is past time for us to be realistic in recognizing that in today's society, perception is reality. Despite individual efforts by oil and gas companies, the domestic energy industry has not unified in such a concerted effort to answer the bombastic charges exhibited by extremists. This bias is now encountered at virtually every level of society—even in producing states such as Kansas. We are perceived as bad environmental stewards and money mongrels—so therefore it must be true. A 2002 national study by Gallup cited the oil and gas industry as dead last on the corporate image chart rankings. Sadly, even in producing states such as Kansas, we don't do much better.

The OERB represents the first petroleum industry checkoff in the nation. Created in 1993, funding for the program is accomplished with an assessment of 1 tenth of 1% (.001) on oil and natural gas revenues when sold at the well head. The assessment is refundable at the end of each calendar year if contributors do not want to participate in OERB activities. The assessment is collected by the first purchasers and refunds have averaged approximately five (5) percent of revenues. No major oil and gas company has ever asked for a refund of the OERB assessment. Although some large companies contribute several hundred-thousand dollars annually to the OERB, the average royalty owner contributes less than \$3 per year. The "checkoff" funding system has proven to be fair and equitable for all interest owners.

The OERB has proven to be one of the most successful public/private partnerships ever development on Oklahoma. In addition, it is an excellent example of how all interest owners; whether major companies, small independents or royalty owners, can share equally in funding, industry responsibility and mission for the good of all concerned.

One of the obvious opportunities for this type of education initiative is the partnerships that can be developed with the schools. With the help and support of the Oklahoma Department of Education, the OERB has developed and implemented energy education curricula and other programs for every grade level. Educators from across the State of Oklahoma have joined forces with the OERB to bring exciting and challenging hands-on science curricula where students are introduced to the basics of how petroleum is transformed from prehistoric remains to fuel and other products that allow us the quality of life we all enjoy. Initially developed for elementary and middle schools, these concepts have been enriched and expanded to the high school level with activity-based energy modules in not only science, but also math, social studies, language arts and history. These lessons relate "real world" applications to learning about today's energy industry. With OERB curricula being taught in two-thirds of all the school districts in Oklahoma (on a voluntary basis), energy education has become common-place in our state.

2-2

In addition, oilfield safety programs have been developed to help students learn about the dangers awaiting their curiosity when associated with things like toxic fumes, electric boxes, pumping units, tank batteries, pipelines, etc. A sister program in Ohio has also implemented oilfield fire and safety programs for the general public with their checkoff dollars.

If and when this bill is passed, the industry will have the opportunity to educate the deserving people of Kansas about one of its most important resources. There are a multitude of myths and unknowns that can be corrected through the sound and responsible uses of these checkoff dollars. In Oklahoma, we have used our checkoff dollars to educate about the industry's environmental responsibility, the importance of a vibrant and healthy industry which has built our state and continues to be the corner stone of our state's economy and tax base. We have also communicated the importance of industry related jobs and how career opportunities for our young people are as promising as they have ever been. In addition, we have established relationships with the media enabling us to tell these stories in the most creditable format available . . . the news media.

I believe Kansas is primed and ready for this type of program. As one of the largest oil and gas producing states, it is imperative that the energy story be told in a way that will build respect, credibility and empower the industry to continue to grow and prosper. I congratulate Ed Cross, Executive Vice-President of KIOGA and its board of directors for taking the lead in this initiative. Many of the companies that have seen the success of the OERB are also operating oil and gas properties in Kansas. I believe they share my view that enactment of SB 70 will be one of the most important pieces of legislation ever passed on behalf of the industry.

Respectfully Submitted,



Mike Terry
Executive Director

Lario Oil & Gas Company
301 S. Market
Wichita, KS 67209
Phone: 316-265-5611
Fax: 316-265-5610

March 16, 2005

Members of the Utilities Committee
Kansas House of Representatives

RE: **Senate Bill No. 70**

Ladies and Gentlemen:

It is my understanding that you are considering Senate Bill 70 on Wednesday, March 16, 2005, and may take action upon the legislation. As I am unable to attend the hearing, I would like to submit the following letter concerning the Senate Bill 70 for the committee's consideration.

Senate Bill 70 is a Bill that was sponsored by the Kansas Independent Oil and Gas Association. Lario is a member of that organization. The main purpose of the letter is to advise the Committee that not all members of KIOGA support the legislation. Lario does not support Senate Bill 70 and I have discussed the proposed legislation with other KIOGA and non-KIOGA members, many of whom do not support the Bill.

The reasons that Lario opposes this proposed legislation is as follows:

First, this is another assessment (tax) on the oil and gas producers of this state. The Bill places a cap on the assessment that will affect only the majors and large independent oil and gas companies. It will impact the smaller operators the hardest and these are the operators that keep our stripper production going. Many of these small operators are not members of KIOGA or EKOGA and thus have had no representation on this proposal. I do not know the figures but the total the total number of owners that will be affected by the legislation is substantially larger that the number represented by KIOGA and most of these interest owners have no knowledge of the existence of this Bill or that it was proposed by a segment of the their industry.

Second, according to the provisions of the Bill, the burden of compliance is placed upon the "first purchasers" of the production. These first purchasers are third parties who have no involvement in the purpose of the Bill. In my conversations with the KIOGA members, I was informed that very little, if any, conversations were had with

HOUSE UTILITIES
DATE: 3-16-05
ATTACHMENT 3

the first purchasers that are intended to shoulder the burden of this act until recently. I do know of one response from a first purchaser who, after review, had serious concerns with the legality of the Bill. Although it is not intended as an evaluation of such a position, I would raise the question of why you, as legislators, are passing a tax (assessment) that has no connection to the State and over which the State exercises no control. Is this for the benefit of the people of the State of Kansas or is it for the benefit of the industry?

Thirdly, I would suggest that the cost of compliance with this Bill will be substantial. In particular, there are areas where I believe that actual compliance with the Bill has not been considered. I also believe that you, as legislators, need to consider such costs of compliance prior to passage out of committee. I have not seen or been advised of any studies concerning these costs. Some of the specific requirements of the Bill that will have costs associated with them are the following: 1) the exclusion of the "royalty owners" (Sec 2e) will create additional programming requirements; 2) the requirement of the inclusion of language on the run statement and on the Division Order (Sec 7b) will require additional programming changes and, if necessary to comply with the act, the re-issue of thousands of Division Orders; 3) the imposition of a cost per barrel and per mcf assessment rather than a percentage will require additional programming changes in our software. These are costs identified through conversation with Lario's IT manager. The extent of these costs is unknown but these are not costs that we in the industry can "pass on". For those of us that distribute proceeds, this is simply another cost that will be incurred and the smaller operators that distribute proceeds will be hit the hardest if they can comply with the Bill.

Fourth, the refund mechanism (Sec 8) has apparently received little consideration. Conversations with KIOGA employees and members supporting the Act indicated that their concept of the refund mechanism would place the burden of keeping track of the proceeds on the interest owner. Although I do not know the details, when questioned on this matter, Ed Cross, KIOGA Executive VP suggested using 1099's and an average price to determine the number of barrels or mcf and thus dollars of refund to which an interest owner is entitled. I see two concerns in this approach. First, such approach means that the appointed Board is not keeping track of the interest owners that paid in proceeds, only dollars. Second, many small interest owners would not be receiving the correct refund as.

Lario supports the concept of educating the citizens of Kansas about one of the State's largest industries but we do not think that this is the way to do it. We would request that you do not pass this legislation out of committee.

Lario appreciates your consideration of our position and thanks you for the opportunity to present it to you.

Sincerely,

E. D. Stinson
Vice President – Land & Legal

Cc: Senator Les Donovan

3-2

From: "Rick Stinson" <rstinson@lariooil.com>
To: "Virginia Beamer" <beamer@house.state.ks.us>, "Annie Kuether" <kuether@house.state.ks.us>, "Bonnie Huy" <huy@house.state.ks.us>, "Carl Holmes" <holmes@house.state.ks.us>, "Carl Krehbiel" <krehbiel@house.state.ks.us>, "Don Myers" <myers@house.state.ks.us>, "Eric Carter" <Carter@house.state.ks.us>, "Forrest Knox" <knox@house.state.ks.us>, "Jason Watkins" <Watkins@house.state.ks.us>, "Jim Morrison" <Morrison@house.state.ks.us>, "Josh Svaty" <svaty@house.state.ks.us>, "Judy Morrison" <morrisonj@house.state.ks.us>, "Judy Showalter" <showalter@house.state.ks.us>, "Lynne Oharah" <oharah@house.state.ks.us>, "Margaret Long" <longm@house.state.us>, "Melosy McCray-Miller" <millerm@house.state.ks.us>, "Peggy Mast" <mast@house.state.ks.us>, "Robert Olson" <olson@house.state.ks.us>, "Tom Hawk" <hawk@house.state.ks.us>, "Tom Sloan" <sloan@house.state.ks.us>, "Vaughn Flora" <Flora@house.state.ks.us>
Date: Wed, Mar 16, 2005 7:51 AM
Subject: Hearing on Senate Bill 70

Ladies and Gentlemen

I am unable to attend the hearings on Senate Bill 70 which I understand is scheduled today. I would submit the comments on the attached letter for your consideration.

Rick Stinson
Lario Oil & Gas Company

301 S. Market
Wichita, KS 67202

316-265-5611

CC: "Les Donovan" <donovan@senate.state.ks.us>

3-7

Testimony in support of HB 2519

House Utilities Committee

March 16, 2005

Presented by Bruce Graham, KEPCo, on behalf of:

Kansas Electric Power Cooperative, Inc. (KEPCo) – Topeka, Kansas
Sunflower Electric Power Corporation – Hays, Kansas
Kansas Electric Cooperatives, Inc. – Topeka, Kansas
Westar Energy, – Topeka, Kansas
KCP&L – Kansas City

The utilities noted above support HB 2519 which restates the historical exemption of electric utilities from the authority of Kansas Post Audit. The Legislature entrusts the Kansas Corporation Commission (KCC) with the responsibility for oversight and regulation of utilities. In addition, utilities are subject to review by most or all of the following: the Kansas Citizens Utility Ratepayers Board (CURB), the Federal Energy Regulatory Commission (FERC), the Nuclear Regulatory Commission (NRC), the Southwest Power Pool (SPP), the Environmental Protection Agency (EPA), the Department of Energy (DOE), the Securities and Exchange Commission (SEC) and the Federal Rural Utilities Service (RUS).

Section 1 – (c), prior to last year stated as follows:

(4) Audit of any person who is regulated or licensed by any state agency or who operates or functions for the benefit of any state institution; except that this subsection (c) (4) shall not include audit of any person regulated by the state corporation commission.

The bill change during the 2004 Session was designed to address certain oil and gas royalty issues. However, while achieving that goal, the bill also subjected electric utilities to a new level of possible review. We believe that the KCC has broad powers and is the entity most familiar and knowledgeable about utility operating issues. Therefore, Post Audit authority is unnecessary and duplicative.

Thank you for your time and hope you will support passage of HB 2519.

HOUSE UTILITIES

DATE: 3-16-05
ATTACHMENT 4



KANSAS GAS SERVICE

A DIVISION OF ONEOK

Before the House Utilities Committee
Testimony on HB 2519
Steve Johnson
Manager, Governmental Affairs
Kansas Gas Service – Topeka, Ks.
March 16, 2005

Chairman Holmes and Members of the Committee,

Thank you for the opportunity to address your committee this morning about our support for HB 2519, which exempts companies regulated by the Kansas Corporation Commission, under any act contained in chapter 66 of the Kansas Statutes Annotated, from audit by the Legislature's division of post audit.

As you can imagine our Company, Kansas Gas Service and our parent, ONEOK, Inc. is subject to many audits by several different government agencies. Not the least of which is the Kansas Corporation Commission (KCC). A few other government agencies that have some level of audit authority is the Citizens Utility Ratepayers Board (CURB), Kansas Department of Revenue, the Federal and State Department's of Transportation (DOT), the Federal Energy Regulatory Commission (FERC), the Federal Department of Energy (DOE) and the Kansas Department of Health and Environment (KDHE).

Most recently the Federal Sarbanes-Oxley Act, enforced by the SEC, has caused all investor owned utilities to review their accounting and self audit practices in great detail. This act alone has caused many changes in audit and tracking procedures in all aspects of our businesses.

As a result, we firmly believe another audit by the Legislature's division of post audit is not necessary because we are confident, any information they maybe seeking can be obtained from one of the other agencies that are already thoroughly auditing our books.

Kansas Gas Service strongly supports House Bill 2519 and urges the committee to pass it out favorably.

Again, thank you for the opportunity to address you this morning. I will be glad to stand for questions at the appropriate time.

HOUSE UTILITIES

DATE: 3-16-05

ATTACHMENT 5



LEGISLATURE OF KANSAS
LEGISLATIVE DIVISION OF POST AUDIT

800 SOUTHWEST JACKSON STREET, SUITE 1200
TOPEKA, KANSAS 66612-2212
TELEPHONE (785) 296-3792
FAX (785) 296-4482
E-MAIL: lpa@lpa.state.ks.us
www.kslegislature.org/postaudit

Testimony for the House Utilities Committee on HB 2519
Barb Hinton, Legislative Post Auditor
March 16, 2005

Mr. Chairman and members of the Committee, thank you for allowing me to appear before you regarding HB 2519.

Last year, the Legislature removed the prohibition against the Legislative Post Audit Committee being able to authorize audits of entities regulated by the Corporation Commission. That prohibition had been in place since our office was created in the early 1970s.

Senator Morris had introduced that legislation (SB 365) because such audits could be authorized for people or entities regulated by every other State agency, and because he and other legislators had raised questions over the years as to whether certain KCC-regulated entities (mostly oil or gas companies) were complying with the law in such areas as effectively implementing required programs, or accurately applying the law in setting and collecting various fees and taxes. Until the law was changed last year, such questions could not be addressed through a legislative audit.

Under the amended law (K.S.A. 46-1114), audits of KCC-regulated entities are limited to issues that address compliance with laws or regulations, collection or remittance of taxes or fees, or other matters related directly to state government programs or functions. These audits cannot address corporate governance or financial issues, except as they related directly to state government programs or functions.

The final version of SB 365 exempted telecommunications companies (as described under K.S.A. 66-1,187) from being audited.

HB 2519 would again exempt all public utilities listed under Chapter 66 of the Kansas Statutes Annotated from the possibility of being audited. That includes all electric companies, motor carriers, and common carriers, including oil and gas pipelines. However, a number of the potential audit questions legislators have raised over the years have related—either directly or indirectly—to activities of oil and gas pipelines. (Oil and gas producers still would be subject to audit because they are discussed in another chapter of the statutes.)

I can't predict what audit questions legislators may have in the future. But exempting all public utilities listed under Chapter 66 would limit the Legislature's ability to get questions about such entities addressed through the Legislature's audit function.

HOUSE UTILITIES

DATE: 3-16-05

ATTACHMENT 6