

MINUTES OF THE HOUSE UTILITIES COMMITTEE

The meeting was called to order by Chairman Carl Holmes at 9:00 A.M. on February 1, 2006 in Room 231-N of the Capitol.

All members were present except:

Oletha Faust- Goudeau-excused

Committee staff present:

Mary Galligan, Kansas Legislative Research  
Dennis Hodgins, Kansas Legislative Research  
Mary Torrence, Revisor's Office  
Renaë Hansen, Committee Secretary

Conferees appearing before the committee:

Erick Nordling, SW Kansas Royalty Owners Association  
Dave Corbin, Assistant to the Secretary of Revenue  
John Crump, President, SW Kansas Royalty Owners Association  
Jon Callen, President, KIOGA  
Terry D. Holdren, KFB Governmental Relations, Kansas Farm Bureau

Others attending:

See attached list.

Chairman Carl Holmes gave committee members information (Attachment 1), about Russia's plans to mine rare helium-3.

Erick Nordling, SW Kansas Royalty Owners Association, (Attachment 2), used an old oil and gas lease to explain the particulars of a lease to committee members.

Dave Corbin, Assistant to the Secretary of Revenue, (Attachment 3), offered a final update on **HR 6024** which formed a task force to identify a solution to the issues presented during hearings on **HB 2146**.

Speaking on behalf of Erick Nordling, John Crump, President, SW Kansas Royalty Owners Association, (Attachment 4), gave some background information on **HB 2673**.

Questions were asked by Representatives: Tom Sloan and Melody Miller.

Hearing on:

**HB 2673**      **Information required to be provided to oil and gas royalty interest owners regarding royalty payments.**

Jon Callen, President, KIOGA, (Attachment 5), presented testimony in favor of **HB 2673** that arose out of **HR 6024** on **HB 2146**.

Terry D. Holdren, KFB Governmental Relations, Kansas Farm Bureau, (Attachment 6), presented testimony in support of **HB 2673**.

Karen Russell, Wilson County Farm Bureau Association Board of Directors, (Attachment 7), presented testimony from their members that overwhelmingly support **HB 2673**.

Questions were asked by Representative: Rob Olson.

Hearing on **HB 2673** was closed.

CONTINUATION SHEET

MINUTES OF THE House Utilities Committee at 9:00 A.M. on February 1, 2006 in Room 231-N of the Capitol.

Because of the nature of this bill and its formulation by a committee of individuals from both sides of the issue:

Representative Tom Sloan moved to pass the bill as presented. Seconded by Josh Svaty. Passed unanimously.

The next meeting is scheduled for February 2, 2006.

Meeting Adjourned.

# HOUSE UTILITIES COMMITTEE GUEST LIST

DATE: February 1, 2006

NAME	REPRESENTING
Doug Smith	SWKROA
Jon Callen	EDMISTON OIL / KIOGA
Ed Cross	KIOGA
Tom DAY	KCC
Tanner Luca	KFB
Steve Johnson	Kansas Gas Service / ONEOK
Whitney Danner	KGS
Ron Betzen	Ks. Farm Bureau
Karen Russell	Wilson Co Farm Bureau
Cerk Noeocing	SWKROA
Ken PETERSON	KS Petroleum Council
Tom Bruno	EKOGA

## Russia to mine rare fuel on moon

Published January 30, 2006

MOSCOW (Agence France-Presse) -- Russia is planning to mine a rare fuel on the moon by 2020 with a permanent base and a heavy-cargo transport link, a Russian space official said.

"We are planning to build a permanent base on the moon by 2015, and by 2020, we can begin the industrial-scale delivery ... of the rare isotope helium-3," Nikolai Sevastyanov, head of the Energia space corporation, was quoted by ITAR-TASS news agency as saying at an academic conference last week.

The International Space Station would play a key role in the project, and a regular transport relay to the moon would be established with the help of the planned Clipper spaceship and the Parom, a space capsule intended to tug heavy cargo containers around space, Mr. Sevastyanov said.

Helium-3 is a nonradioactive isotope of helium that can be used in nuclear fusion.

Rare on earth but plentiful on the moon, it is seen by some experts as an ideal fuel because it is powerful, nonpolluting and generates almost no radioactive byproduct.

*HOUSE UTILITIES*

DATE: 2/1/06

ATTACHMENT 1

Wm. R. Hale  
Register of Deeds

Michael Keane  
Deputy

FORM 83—(Producers) Kansas

(Hermes Print, Hugoton, Kansas)

# OIL AND GAS LEASE

AGREEMENT, Made and entered into 29th day of October, 1937, by and between

J. B. Barker and Stella Barker, his wife

Party of the first part, hereinafter called lessor (whether one or more) and The Citizens Party of the second part, hereinafter called lessee.

WITNESSETH, That the said lessor, for and in consideration of One hundred thirty DOLLARS cash in hand paid, receipt of which is hereby acknowledged and of the covenants and agreements hereinafter contained on, the part of the lessee to be paid, kept and performed, has granted, demised, leased and let and by these presents does grant, demise, lease and let unto the said lessee, for the sole and only purpose of mining and operating for oil and gas, and laying pipe lines, and building tanks, powers, stations and structures, thereon to produce, save and take care of said products, all that certain tract of land situate in the County of Stevens, State of Kansas, described as follows, to-wit:

South east quarter

of Section 22, Township 34, Range 37, and containing 1.60 acres, more or less.

A →

It is agreed that this lease shall remain in force for a term of ten years from date, and as long thereafter as oil or gas, or either of them, is produced from said land by the lessee, and if lessee, shall commence drilling operations at any time while this lease is in force this lease shall remain in force and its terms shall continue so long as such operations continue with diligence and if production results therefrom then as long as production continues.

B →

In consideration of the premises the said lessee covenants and agrees:  
1st. To deliver to the credit of lessor, free of cost, in the pipe line to which lessee may connect his wells, the equal one-eighth part of all oil produced and saved from the leased premises.

2nd. To pay the lessor one-eighth, at the market price at the well for the gas so used, for the gas from each well where gas only is found, while the same is being used off the premises, and lessor to have gas free of cost from any such well for all stoves and all inside lights in the principal dwelling house on said land during the same time by making his own connections with the wells at his own risk and expense.

3rd. To pay lessor for gas produced from any oil well and used off the premises of or for the manufacture of casing head gas, one-eighth, at the market price at the well for the gas so used, the time during which such gas shall be used, said payments to be made quarterly.

C →

If no well be commenced on said land on or before the 29th day of Oct, 1938, this lease shall terminate as to both parties unless the lessee on or before that date shall pay or tender to the lessor or to the lessor's credit in the Citizens State Bank at Hugoton or its successors, which shall continue

as the depository regardless of changes in the ownership of said land, the sum of One hundred thirty and no/100 which shall operate as a rental and cover the privilege of deferring the commencement of a well for 12 months from said date. In like manner and upon like payments or tenders the commencement of a well may be further deferred for like periods of the same number of months successively. And it is understood and agreed that the consideration first recited herein, the down payment, covers not only the privileges granted to the date when said first rental is payable as aforesaid, but also the lessee's option of extending that period as aforesaid, and any and all other rights conferred.

D →

Should the first well drilled on the above described land be a dry hole, then, and in that event, if a second well is not commenced on said land within twelve months from the expiration of the last rental period which rental has been paid, this lease shall terminate as to both parties, unless the lessee on or before the expiration of said twelve months shall resume the payment of rentals in the same amount and in the same manner as hereinbefore provided. And it is agreed that upon the resumption of the payment of rentals as above provided, that the last preceding paragraph hereof, governing the payment of rentals and the effect thereof, shall continue in force just as though there had been no interruption in the rental payments.

If said lessor owns a less interest in the above described land than the entire and undivided fee simple estate therein, then the royalties and rentals herein provided shall be paid the lessor only in proportion which his interest bears to the whole and undivided fee.

Lessee shall have the right to use, free of cost, gas, oil and water produced on said land for its operation thereon, except water from wells of lessor.

E →

When requested by the lessor, lessee shall bury its pipe below plow depth.

No well shall be drilled nearer than 200 feet to the house or barn now on said premises, without the written consent of the lessor.

Lessee shall pay for damages caused by its operations to growing crops on said lands.

Lessee shall have the right at any time to remove all machinery and fixtures placed on said premises, including the right to draw and remove casing.

If the estate of either party hereto is assigned, and the privilege of assigning in whole or in part is expressly allowed, the covenants hereof shall extend to their heirs, executors, administrators, successors or assigns, but no change in the ownership of the land or assignment of rentals or royalties shall be binding on the lessee until after the lessee has been furnished with a written transfer or assignment or a true copy thereof; and it is hereby agreed in the event this lease shall be assigned as to a part or parts of the above described lands and the assignee or assignees of such part or parts shall fail or make default in the payment of the proportionate part of the rents due from him or them, such default shall not operate to defeat or effect this lease in so far as it covers a part or parts of said lands which the said lessee or any assignee thereof shall make due payment of said rental.

Lessor hereby warrants and agrees to defend the title to the lands herein described, and agrees that the lessee shall have the right at any time to redeem for lessor, by payment, any mortgage, taxes or other liens on the above described lands, in the event of default of payment by lessor, and be subrogated in the rights of the holder thereof and lessor hereby agrees that any such payments made by the lessee for the lessor shall be deducted from any amounts of money which may become due the lessor under the terms of this lease.

Should the depository bank hereafter close without a successor, lessee or his assigns may deposit rental in any National Bank located in same county with first named bank, due notice of the deposit of such rental to be mailed to lessor at last known post office address.

In Testimony Whereof, We Sign, this the 29th day of October, 1937

WITNESS: \_\_\_\_\_  
\_\_\_\_\_ (SEAL)  
\_\_\_\_\_ (SEAL)  
\_\_\_\_\_ (SEAL)  
\_\_\_\_\_ (SEAL)

### KANSAS FORM OF ACKNOWLEDGEMENT

STATE OF KANSAS, County of Stevens, ss.

BE IT REMEMBERED, That on this 29th day of October, in the year of our Lord one thousand nine hundred and thirty seven, before me, a Notary Public, in and for said County and State, came J. B. Barker and Stella Barker to me personally known to be the identical persons who executed the above and foregoing instrument, and who each duly acknowledged the execution of the same.

To Witness Whereof, I have hereunto set my official signature and affixed my notarial seal the day and year first above written.

HOUSE UTILITIES

DATE: 2/1/06

ATTACHMENT 2



**K A N S A S**

JOAN WAGNON, SECRETARY

KATHLEEN SEBELIUS, GOVERNOR

DEPARTMENT OF REVENUE  
OFFICE OF THE SECRETARY

**February 1, 2006**

Final Report to the Chairman of the House Committee on Utilities  
HOUSE RESOLUTION No. 6024

Creating a task force to examine information provided to royalty interest owners by oil and gas producers.

Dave Corbin, Assistant to the Secretary of Revenue

Chairman Holmes and Members of the Committee:

Oil and gas royalty owners requested introduction of 2005 House Bill No. 2146 to enact certain requirements of oil and gas producing companies to provide specific information on royalty check stubs. In introducing the bill, royalty owners sought information to make payments more transparent, more consistent from payor to payor and easier to verify production and payment information. Testimony was presented by both royalty interest owners and oil and gas producers to the House Committee on Utilities chaired by Representative Carl Holmes.

Testimony received made it clear that finding a solution to the issues presented by both sides would not be simple because of the variety of accounting and reporting practices used throughout the oil and gas industry. Chairman Holmes appointed a subcommittee to explore possible solutions to problems previously identified. The subcommittee met twice, hearing additional testimony. In addition, royalty owners and industry representatives met separately.

After hearing testimony following the meeting of the royalty owners and industry members, the subcommittee concluded that with additional diligent effort, both parties could reach an agreement on statutory requirements for information to be provided on royalty check stubs.

The House of Representatives of the State of Kansas passed House Resolution No. 6024 to form a task force to identify a solution to the issues presented during hearings on House Bill No. 2146. The task force was comprised of two representatives of the Southwest Kansas Royalty Owners Association, and one representative each of southeast Kansas royalty owners, the Kansas independent Oil and Gas Association, the Kansas Petroleum Council, the Eastern Kansas Oil and Gas Association, the State Corporation Commission, the Kansas Department of Revenue and the Kansas Geological Society. The members of the task force are identified in the table below:

Organization	Representative
Southwest Kansas Royalty Owners Association	John. E. Crump
Southwest Kansas Royalty Owners Association	Erick Nordling
Southeast Kansas Royalty Owners	Sen. Dwayne Umbarger
Kansas Independent Oil and Gas Association	Jon M. Callen
Kansas Petroleum Council	Brent Moore

DOCKING STATE OFFICE BUILDING, 915 SW HARRISON ST., TOPEKA, KS 66612.

Voice 785-296-3041 Fax 785-368-8392 <http://www.ksrevenue.org/> DATE:

*HOUSE UTILITIES*

*2/1/06*

ATTACHMENT

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Central Kansas Oil and Gas Association  
State Corporation Commission  
Kansas Department of Revenue  
Kansas Geological Survey

David Bleakley  
M.L. Korphage  
David Corbin  
Tim Carr

The first meeting of the task force was held in Wichita, Kansas on August 10, 2005. In addition to the initial goals of royalty owners, they identified several specific issues to be addressed, including: affiliate transactions, deductions from sales prices, information on by-products, split stream sales and enforcement provisions. Issues identified by industry were that the information sought was not easily generated on a check stub, that gas accounting was a very complex subject, that many gas producers and payors had differences in accounting methods and procedures, and that much of the information should already be available to royalty owners upon request to their payors. In addition, the industry repeated the argument that gas sales are not conducted in simple, universal contracts. Unlike most oil purchasing agreements, gas contracts are more individual to a well or lease connection based on field conditions. Reporting such individual provisions for thousands of wells to tens of thousands of royalty owners is very complex.

Additional meetings involving royalty owners and industry members were held through December, 2005. In those meetings, royalty owners reluctantly concluded that a simple solution to reporting all of the information they sought on a single check stub to be complex enough that industry acceptance would be impossible. In addition, industry members recognized the difficulty royalty owners have in understanding the information provided to them and expressed a willingness to improve their communication.

A compromise solution was reached in late November and finalized in December. The solution left unchanged the current requirements in K.S.A. 55-1620 that identify information required to be reported on check stubs for proceeds from oil and gas production. Instead, new provisions to the bill to specify information that payors would provide upon written request from a royalty owner. The annual notice provision of in the proposed bill, loosely modeled after current law in Texas, provides for an annual notice to be mailed to royalty owners informing them of their right to request specific information. Royalty owners and industry members recognized that some information which may be requested under the bill may not be in possession of the payor. In those cases, the payor will be directed to inform the royalty owner of the name and address of the operator where additional information may be obtained.

Finally, the proposed bill includes two means of enforcement available to royalty owners. The first is a form of mediation to be agreed upon by both parties. The second is that an action to enforce the information provisions can be filed in a state district court.

It should be noted that the task force did not include a representative from third-party oil purchasers which may be payors of royalty. H.B. 2146 introduced in 2005 was designed to essentially leave unchanged the basic information to be reported on the check stub for oil payments (K.S.A.55-1620). H.B. 2146 did include proposed changes for information reported on check stubs for gas payments. The bill also included proposed changes relating to both gas and oil for additional information, and for enforcement provisions for failure to supply required payment information. Producer representatives advised the task force of possible concerns that third-party oil purchasers did not want an obligation to provide information which they would not have and which should ordinarily be provided by the oil and gas lessee. It is believed by the task force committee that the provisions of the proposed bill address these potential concerns by third-party oil purchasers.

In conclusion, royalty owner representatives and gas industry representatives have agreed to the compromise provisions of a new house bill to require payors of oil and gas royalties to

provide certain information to their royalty owners upon request. Task force members acknowledge that the present bill is a positive step in improving communication with royalty owners. They also recognize that industry and royalty owners should continue to work together on production, payment and accounting issues.

The submission of the final report concludes the work of the task force committee. The compromise bill has been introduced in the 2006 legislative session as House Bill 2673.



# SWKROA

*SOUTHWEST KANSAS ROYALTY OWNERS ASSOCIATION*

209 East Sixth Street  
Hugoton, Kansas 67951

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

**Testimony before the House Utilities Committee  
House Bill 2673  
February 1, 2006**

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 2673.

**Intro and Background.**

K.S.A. 55-1620 regulates basic information to be reported to a royalty owner on the 'check stub' which accompanies a payment for proceeds attributable to oil or gas production. K.S.A. 55-1622 provides that a royalty owner may write to the payor and request additional information.

The oil and gas industry is an extremely complex and dynamic industry. There are literally hundreds of companies paying royalties on oil and gas production. Often, a lessee of the oil and gas lease may have contracted with a third party to pay the royalty owners. The accounting methodology and format of information reported on a check stub can vary significantly from payor to payor.

Royalty owners have requested revisions to these statutes to address a number of issues relating to these payments for oil and gas production. They desire an easy to understand statement, which provides clear, transparent, and consistent information from one payor to another payor. They also desired expansion of the information required by statute to be available upon request, and for an enforcement provision for payors who failed to provide the required information.

The check stub task force created by House Resolution No. 6024 worked hard to try and address these concerns.

**House Bill No. 2673**

As you know, H.B. 2673 is the result of the efforts of the check stub task force. I would like

to provide an overview of the key elements of the bill.

**Information Reported on Check Stub.** First, it is important to note that as part of the compromise with industry, H.B. 2673 does not change the current provisions of K.S.A. 55-1620. So the basic information reported on a royalty payment check stub remains unchanged.

Royalty owners acknowledge that producers have a strong reluctance to change the basic information to be reported on the check stub. Royalty owners still believe changes are needed to provide more transparent, uniform payment information on the face of a check stub. However, due to the complexities of the industry, continued dialogue with industry is needed to see if we are able to voluntarily reach an accord on how to address these concerns. As a result of the compromise for H.B. 2673, royalty owners have agreed that revisions for the check stub will be an issue reserved for some future legislative sessions.

**Information upon request - Section 1 of H.B. 2673.**

Section one of H.B. 2673 makes revisions to K.S.A. 55-1622. Section one maintains the provision for a royalty owner to send a written request, by certified mail, for additional information regarding royalty payments. Sub-sections(a)(1, 2, and 3) provide the royalty owner with additional information to identify the land and formation from which the oil and gas was produced, and to be able to use identification numbers used by state agencies and industry groups to relate the payments to specific wells or units. This could help a royalty owner to track production better, and to aid in 'verifying' production information with the information reported to state agencies.

Sub-section (a)(4) can help an owner to verify production volumes vs. sales volumes for a given sales period. The sales period was utilized in this sub-section (rather than a production period) to address concerns of industry that the timing of a sale may not strictly follow the date of production. This is especially true for oil production, since the oil is only picked up for sale when the on-site storage tanks become full.

Sub-section (a)(5) would help to reveal any deductions or adjustments not detailed on the check stub.

Sub-section (a)(6) defines split stream sales. Discussions during task force meetings revealed that some companies utilize the practice of a split stream sale, may account to a royalty owner on different basis. A split stream sales is where there may be two or more companies which share in the production from a given well or unit, but independently market their share of the production, and independently account to royalty owners. The proposed bill would make it much easier to discover the accounting methods used by each payor to determine if the royalty owner has been paid for their share of all of the production for a given period.

Sub-section (a)(7) helps to reveal if a sale is made to an affiliate of the payor. Then an owner could make further inquiry to determine if the sale to the affiliate is an 'arms length' transaction.

Sub-section (b) maintains a provision for a payor to provide a written response within 60 days from receipt of a request for information. It also contains several exceptions when a payor could

decline to respond in certain instances.

Sub-section (c) is a new provision which helps to link the royalty owner with their lessee of the oil and gas lease or operator of the production unit. Many third party payors may not have some information about the leasehold interest. If the payor doesn't have the information, then they would need to provide the royalty owner with contact information for the seller of production. This tie to the seller of production continues in the enforcement provision under new Section 3.

### **Annual Notice Provision - New Section 2.**

The annual notice provision, loosely patterned after the Texas provision, alerts royalty owners that they have the right to request additional information regarding their royalty payments. The section essentially outlines the provisions under Section 1 of the bill. The section also reaffirms the royalty owner's right to contact the payor by other means, such as telephone or email.

Many royalty owners have inherited their interests and they may not be familiar with oil and gas royalties. This provision is a positive step to notify an owner how to obtain more information. Education and communication are essential to foster a spirit of cooperativeness and openness with industry.

### **Enforcement Provisions - New Section 3.**

The enforcement provision helps to level the playing field for payors who refuse to provide the requested information upon a written request, as well as for payors who fail to provide required information on the check stub.

The bill allows either party to request mediation. The process for mediation is a voluntary process.

The royalty owner can also bring an action in a district court of Kansas, where the oil and gas was produced, to enforce the provisions of the bill.

### **Summary.**

Royalty owners are entitled to receive clear, transparent and accurate information for their royalty payments. H.B. 2673 is a step in the right direction, and we urge your adoption of House Bill 2673.

Respectfully submitted,

/s/ Erick E. Nordling

Erick E. Nordling  
Executive Secretary, SWKROA

# 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 before the House Committee on Utilities  
House Bill 2673  
Arising out of HR 6024 on H.B. 2146 introduced in 2005.  
February 1, 2006**

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

Chairman Holmes and Members of the Committee:

I am Jon Callen, President of Edmiston Oil Company, Inc. from Wichita, Kansas, and the current president of the Kansas Independent Oil and Gas Association (KIOGA). H.B. 2146 was introduced in 2005 to enact certain requirements for oil and gas producers and operators to provide specific information on royalty check stubs. Last year, I testified in opposition to H.B. 2146 as being too onerous for independent operators to comply.

Testimony received last year made it clear that there were no simple solutions to the issues presented. After a subcommittee appointed by Chairman Holmes heard additional testimony from the interested parties, a Task Force committee was appointed by virtue of House Resolution 6024 to continue a dialog to see if the parties could reach an agreement on statutory requirements for revenue reporting information.

I participated in the Task Force Committee representing the KIOGA. Several meetings were held from August to December. The meetings were helpful and informative for all of the parties involved. Parties for both sides gained a greater appreciation for the problems of the other. In the end, a consensus was reached on a compromise, causing a new bill to be introduced before the House Committee on Utilities in 2006. The new bill is H.B. 2673.

Task Force members, including myself, have reviewed the draft bill and find that it agrees with the positions reached by the parties involved. Therefore, on behalf of the Kansas Independent Oil and Gas Association, I appear before the Committee today to support passage of H.B. 2673.

I wish to thank Chairman Holmes and the members of the subcommittee for their leadership in this complex issue. I also want to thank David Corbin, M. L. Korphage and Tim Carr who facilitated the Task Force committee work last fall. In addition, I also want to thank Sen. Dwayne Umbarger who participated as a royalty owner representative from southeast Kansas whose knowledge and experience in legislative matters proved to be most helpful. Finally, all of the owner and industry members should be commended for participating in a professional manner throughout our meetings.

*HOUSE UTILITIES*

DATE: 2/1/06

ATTACHMENT 5



***PUBLIC POLICY STATEMENT***

**HOUSE COMMITTEE ON UTILITIES**

**Re: HB 2673 Oil & Gas Payment Information.**

**February 1, 2006**  
**Topeka, Kansas**

**Written Testimony Provided by:**  
**Terry D. Holdren**  
**KFB Governmental Relations**

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Chairman Holmes and members of the House Committee on Utilities, thank you for the opportunity to provide comments on HB 2673 today. 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.

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. We are grateful to the task force created by the 2005 Legislature and their efforts to resolve this issue in the months since the conclusion of last year's session.

KFB members have adopted policy that 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 support the recommendations of the task force contained in HB 2763 and 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, the non-profit advocacy organization supports farm families who earn their living in a changing industry.*

*HOUSE UTILITIES*

DATE: *2/1/06*

ATTACHMENT *6*

February 1, 2006

TO: Chairman Carl Holmes  
House Committee on Utilities

FROM: Karen Russell  
1149 5800 RD  
Elk City, KS 67344

Wilson County Farm Bureau Association  
Fredonia, KS

RE: HB 2673 – Gas & Oil Payment Information

Chairman Holmes and members of the House Utilities Committee, my name is Karen Russell and I serve on the Wilson County Farm Bureau Association Board of Directors. Recent developments in our area have resulted in increased production of Coal Bed Methane Gas. While this new production has in many ways helped to stabilize our economy and has provided additional income for many of our member families it has created a number of problems for royalty recipients.

Our members are growing frustrated about the information provided in royalty payment check stubs. According to many of our members who receive royalty payments, the information reported is often difficult, if not impossible, to decipher. The cost of transportation, treating, compression, etc. cannot be obtained from the check stubs in their current form. Moreover, it is difficult to determine what price the royalty owner is receiving when production, or a percentage of what was produced has been forward contracted. As it currently stands the check stub is the only source that provides owners with this type of information. At this point the royalty owner can only speculate if any further production occurs, if it was sold on the open market and what price was received for it.

I have had the opportunity to discuss this matter with KFB members who are also royalty owners who have compared check stubs from four production companies. None of these statements provide consistent or comparable information. There is a clear need to gain

*HOUSE UTILITIES*

DATE:

2/1/06

ATTACHMENT

7

some clarity about the production occurring on our wells, and the sales of the gas that these wells produce.

Members of Wilson County Farm Bureau and other Southeast Kansas County Farm Bureaus brought the issue of price transparency to the Kansas Farm Bureau Annual Convention in 2004 and 2005, which resulted in our current policy. Some of our members have been involved in the task force created by the 2005 legislature, and we overwhelmingly support the measures contained in H.B. 2673 and we ask for your support in bringing about responsible reform on this issue.

Thank you.