

MINUTES OF THE SENATE NATURAL RESOURCES COMMITTEE

The meeting was called to order by Chairman Carolyn McGinn at 8:30 a.m. on March 5, 2009, in Room 446-N of the Capitol.

All members were present.

Committee staff present:

Kristen Kellems, Revisor of Statutes Office
Jason Thompson, Revisor of Statutes Office
Corey Carnahan, Kansas Legislative Research Department
Raney Gilliland, Kansas Legislative Research Department
Alissa Vogel, Committee Assistant

Conferees appearing before the Committee:

Jane Kelsey, Producer, Surface Owner
Bob Vancrum, Quest Cherokee, LLC
John Donley, Assistant General Counsel, Kansas Livestock Association (written only)
Doug Zillinger, Farmer (written only)
Charles Sizemore, Manager, Operations Engineering, Mid-Continent Division for Pioneer Natural Resources USA, Inc
Ed Cross, Kansas Independent Oil and Gas Association
Bob Krehbiel, Kansas Independent Oil and Gas Association
Richard Alldritt, Land Manager, Palomino Petroleum, Inc.

Others attending:

See attached list.

The meeting began with the approval of minutes. Senator Morris moved to approve the minutes from February 5, 2009 and February 6, 2009. Senator Abrams seconded the motion, and the motion carried.

Senator McGinn announced the continuation of the hearing on **SB 184 - Surface owner notice act.**

Senator McGinn introduced Jane Kelsey, producer and surface owner, who spoke as a proponent to **SB 184.** (Attachment 1) Mrs. Kelsey stated that she had a serious problem with a gas drilling and pipeline company, which has since been legally resolved, but could legally give no further explanation. Similar problems have been an issue in her neighborhood for the last three years, in which a property owner's right to protection under the law is almost nonexistent. She is in support of **SB 184**, as it will provide fairness to Kansas law regarding private property rights in relationship to the oil and gas industry.

Senator McGinn introduced Bob Vancrum, representing Quest Cherokee, LLC, who spoke in favor of **SB 184.** (Attachment 2) Quest Cherokee, LLC supports **SB 184** for the following reasons: it provides surface owners assurance that prior notice of significant oil and gas operations on their land will be given, it gives oil and gas operators certainty that access will be allowed for those operations, and **SB 184** will help oil and gas companies avoid litigation that is time-consuming and expensive. Quest Cherokee, LLC supports no more than 5 business days be required for oil and gas operators to give written notice to landowners prior to entry on the lease. If there is an extension of that period, then they will no longer support the passage of **SB 184.**

Ms. Kelsey and Mr. Vancrum stood for questions.

John Donley, Assistant General Counsel for the Kansas Livestock Association, provided written testimony in support of **SB 184.** (Attachment 3)

Doug Zillinger, farmer and rancher, provided written testimony in support of **SB 184.** (Attachment 4)

Charles Sizemore, Manager, Operations Engineering for the Mid-Continent Division for Pioneer Natural Resources USA, Inc, ("Pioneer") spoke as an opponent to **SB 184.** (Attachment 5) Pioneer is opposed to **SB 184** for the following reasons: it changes the manner in which the rights and obligations relating to ingress and egress are established between the oil and gas company and the landowner, the authority to

CONTINUATION SHEET

Minutes of the Senate Natural Resources Committee at 8:30 a.m. on March 5, 2009, in Room 446-N of the Capitol.

interpret and enforce the oil and gas company's rights and obligations would shift from the courts to the Kansas Corporation Commission (KCC), and notice requirements and time restrictions placed on the oil and gas company would be overly burdensome. Pioneer prefers to resolve communication problems through educational initiatives, and they support efforts to add new board positions on the KCC Oil and Gas Advisory Committee and the Commission's rules and regulations committee.

Ed Cross, President of the Kansas Independent Oil and Gas Association (KIOGA), spoke as an opponent to **SB 184**. (Attachment 6) He referred to a study conducted by the Interstate Oil and Gas Compact Commission (IOGCC) that compared states with surface related oil and gas legislation and states that relied on common law. The study concluded that common law was the more successful method, and the IOGCC did not recommend states adopt surface related oil and gas legislation. Mr. Cross stated that **SB 184** would create legal challenges, where none need to exist. He suggested educational initiatives to develop communication and a better understanding between all stakeholder groups including: continuing the Good Neighbor Initiative (Attachment 7), holding informational seminars, and creating a hotline where surface owners or tenants can voice their complaints.

Bob Krehbiel, appearing on his own behalf and on behalf of KIOGA, spoke in opposition to **SB 184**. (Attachment 8) He stated that he opposes **SB 184**, as it attempts to rewrite and impair thousands of contracts that have been in place for many years. He fully supports the measures taken by KIOGA to improve understanding and communication between landowners and oil and gas companies. He provided Committee members with an example, using his own family farm experiences, to explain the following: the rights and obligations given to an oil and gas company through a mutually agreed upon lease, the effects **SB 184** will have on an oil and gas lease, and his support for common law to resolve surface right issues. (Attachment 9)

Richard Alldritt, representing Palomino Petroleum, Inc., spoke in opposition to **SB 184**. (Attachment 10) He stated that **SB 184** would mandate a notification notice, a matter of courtesy and respect, which is already a common practice within Palomino Petroleum, Inc and a majority of other oil and gas companies. Palomino Petroleum, Inc. is opposed to **SB 184** for the following reasons: it punishes the entire oil and gas industry for the actions of a few, it is difficult to notify the appropriate person prior to oil and gas operations in cases where multiple parties may own the land or the surface owner may live out of the state or country, the contract may not be recorded in the courthouse in cases where the surface owner of record is not the actual surface owner, and it will place a burden on operators who decide on a day to day basis when and where oil and gas operations will occur.

He stood for questions.

Senator McGinn informed the Committee that discussion on **SB 184** will continue at a later date.

The next meeting is scheduled for March 12, 2009.

The meeting was adjourned at 9:30 a.m.

SENATE NATURAL RESOURCES COMMITTEE

Guest Roster

March 5, 2009

(Date)

Alan D. Good	American Energy Corp.
Darc Dayvault	KIOGA
PETER COAKLEY	American Energy Corporation
Richard Aildritt	Palomina Petroleum
Francis Kelsey	Shawnee Co. Farm Bureau
Jane Kelsey	Shawnee Co Farm Bureau
Ed Cross	KIOGA
DAVID BLEAKLEY	EKOGA COLT ENERGY, INC
KESTER TOWN	EKOGA TOWN OIL CO.
Ken May	EKOGA BUCKEYES
Jim O'Guinette	EKOGA KELLYCO-LLC
Bob Thomas	EKOGA Thomas well services, Inc.
Lesli Stateville	EKOGA Superior Oilfield Sply
HOMER BAKER	EKOGA SPON Break Energy Inc
ROBERT REUSCH	EKOGA REUSCH WEHL SERVICE INC
DARREL WATERS	EKOGA BEARTEZ DRILLING
Darrel Hughes	EKOGA Hughes Drilling
Doug Evans	EKOGA D.E. Exploration, Inc.
Clay Hughes	EKOGA CD Oil Eng.
Nick HESS	MCCOY PETROLEUM CORP.
ADAM PETZ	TRANS PACIFIC OIL CORP
Tom Borums	EKOGA
Ken Polans	KS PETROLEUM Council
Berend Koops	Hein Law Firm
Allie Devine	K. Timlock Assoc.
John Beverland	PROGAE-SUMIT

Please use black ink only!!

Senate Bill 184 Proponent
Jane Kelsey
Member Shawnee County Farm Bureau

My name is Jane Kelsey. My husband and I farm in northwest Shawnee County. I also own farmland in Labette County located within the Cherokee Basin.

I support this bill.

I have had a serious problem with a gas drilling and pipeline company and can only state that it was a right of way issue and it has been legally resolved. I cannot describe what happened to me and my land that I care for so much. When I started my ordeal in dealing with this industry I assumed that the laws of the State of Kansas were balanced. Within a day I found that I was very wrong. The laws regarding oil and gas development in Kansas are focused on development at any cost and right to protection under the law for a property owner is almost non-existent. Because of these outdated and inadequate laws for protection of private property owners and with case law against us, private rural land owners have found themselves in the position of being little more than economic prey upon their own land.

I can tell you what I have watched what has happen in the Cherokee Basin in the last 3 years. I have watched land and crops displaced without notice and without regard for understanding the need of the surface owner to earn a living from that land. I have seen crops that were damaged by the removal of fences by the gas industry which allowed for livestock to move freely from pastures in to growing crops. I have seen the methods by which the gas drilling industry and their pipeline company create their well sites and the gravel roads to each site increase cost for a farmer to farm the land and that cost is not considered.

I know what it is like to have neighbors tell me if they had only understood what these companies would do to their land they would never have let them on their land. However, as most owners have learned, leases and right of ways or lack thereof mean very little in what happens to their land. As I see it the oil and gas industry view rural Kansas land as their own to do with as they wish, when they wish, and how they wish without regard to any laws because the laws that exist are not a deterrent.

This bill before you today is just the beginning of what needs to be done to bring fairness to Kansas law regarding private property rights in relationship to the oil and gas industry.. One of the most telling conversations I had was in March 2007. Over a piece of birthday cake I told four farmers out in Barton County of my problem in Labette. The telling comment was from a farmer in his 70's and it was "Ms. Kelsey, we have had those same problems out here for over fifty years and we haven't found a way to stop them yet." well committee members it's time and this bill is your starting point. Please support it and pass it out of committee.

Jane Kelsey
9626 NW 21st St.
P.O. Box 127
Silver Lake, KS
785-582-4078.

Senate Natural Resources
March 5, 2009
Attachment #1

TESTIMONY TO THE SENATE NATURAL RESOURCES COMMITTEE

By Robert Vancrum, Representing QUEST CHEROKEE, LLC

REGARDING SB 184, THE SURFACE OWNERS NOTICE ACT

CHAIRMAN MCGINN AND OTHER HONORABLE SENATORS:

I represent Quest Cherokee, LLC which is the largest producer of natural gas in the Cherokee Basin in southeastern Kansas. Quest Cherokee was the 6th largest producer of natural gas in Kansas in 2007. Quest Cherokee drilled over 350 new wells in 2008. Quest operates more than 2,500 wells in Kansas and owns oil and gas leases covering over 500,000 acres in southeastern Kansas and northeastern Oklahoma. As a result, Quest Cherokee has a substantial amount of experience with the issues that are addressed by SB 184. We appear as primarily a proponent of the bill at least as it is presently written.

A few of you are no doubt familiar with the tension between Royalty Owners groups, farm and livestock groups representing the rights of surface owners, on the one hand, and the oil and gas producers who seek to exercise their rights under the oil and gas leases to explore for and develop the mineral rights, on the other hand. Surface owners, who do not also mineral rights, are subject to the dominant rights of the mineral owner and oil and gas lessee to use so much of the surface as is reasonably necessary to explore for and develop the minerals.

For several decades surface owner groups have proposed bills in the legislature specifying what notice must be given to the surface owners, what operations can be performed over what period after notice, and what damages must be paid by the oil and gas producer to the surface owners. Most producers have historically taken the position that the matter is settled well enough by common law made by the courts and that there aren't enough valid disputes to require further regulation by statute.

At least 10 states have already enacted some form of surface access and compensation statutes. In Quest's experience, a properly drafted surface access statute will be beneficial to both surface owners, because it provides them prior notice of significant oil and gas operations on their land, and oil and gas producers, because it gives them certainty that access will be allowed for those operations.

Even though Quest is a member of KIOGA and of EKOGA and regularly participates in their meetings and conferences and supports many of their activities, the company has had a slightly different view of this issue. Quest supports some kind of reasonable statutory clarification of some of these issues as a means to avoid litigation with the surface owners over access to its leases to conduct its activities. Quest even proposed a bill last year dealing with both the surface damage issues and notice issues because Quest felt strongly about this subject. Having said that, one problem with last year's bill was that the statutory scheme to determine damages involved putting an administrative burden on the KCC to determine damage disputes. That agency certainly doesn't have the staff or resources to take this on in the current climate. After the last session, we proposed to the farm groups that we simply put the damages issue aside and see if we could agree upon a notice bill for the 2009 session. We met and negotiated on this issue over the summer and fall and what has emerged as SB 184 is the product of those discussions.

Why does Quest feel differently than some Kansas producers about getting some of these issues resolved through legislation? It's because of Quest's experience in other states that have such statutory systems and Quest's belief that a prior notice statute is beneficial to Quest's ability to conduct its oil and gas operations. A clear statutory right to access the land to conduct those operations will allow Quest certainty that those operations can be conducted in a timely manner and will avoid disputes over access to the land that can only be resolved by the courts, which is time consuming and expensive for all concerned.

The present bill has one feature which we feel is critical to our support. We feel strongly that not more than 5 business days written notice prior to entry on the lease should be required. We know that even our drafting partners KFB and KLA want a longer notice period, and they have been very up front with us that they will ask this committee for an amendment increasing the notice period to 10, 15 days or a longer. We cannot support such a change to the bill. In the first place it currently takes five days to obtain a drilling permit from the KCC. Second, many times due to drilling rig availability and drilling logistics, Quest does not have the luxury of planning drilling locations that far in advance. Third, there are times when action needs to commence under certain leases about to expire in which you need to act very quickly. A longer notice period puts substantial additional costs and burdens on the producers at a time when they frankly won't bear that cost and may simply decide to produce elsewhere or not at all.

Also, five business days notice should be long enough. Obviously, the surface owner is or should be aware that he has an oil and gas lease on his land and, as a

result, he is or should be aware that the lease owner may enter upon that land to conduct oil and gas operations. In light of that knowledge, five business days prior notice of the lease owner's intended operations should be sufficient to enable the surface owner to take whatever actions needs to be taken. If they can't act in response to a notice that major operations are about to take place in a 5 business day period, we'd be surprised. Moreover, five business days is the minimum notice period. No doubt, in many instances, lease owners will give the notice well in advance of that deadline. In any event we will become an opponent of the bill if that period is lengthened.

Conversely, SB 184 has one feature we think is very unfair and unnecessary, and we've reserved the right with our negotiating partners to oppose it. The bill contains a provision that allows the surface owner to waive the 5 business day prior written notice requirement in a written instrument executed in advance of the operations. The present draft of the bill says that any such written waiver of notice is not valid for more than a one year period. We oppose that arbitrary limitation on such a waiver. In effect, the one year limit is designed to prevent producers from putting standard waiver of notice clauses in their oil and gas leases and thus waiving the notice requirement during the term of that oil and gas lease. We don't understand why the legislature would want to impose such a restriction. Oil and gas leases are recorded instruments, as such, the surface owner would have notice of the waiver. We certainly think longer waivers or even continuing waivers should be permitted if freely bargained for and agreed upon by both parties in a written instrument.

Lastly, Quest does not believe that any legislation should alter the freely negotiated terms and provisions of oil and gas leases and surface use agreements already in place between lessors and lessees. Therefore, the bill should contain a caveat that the provisions of the statute shall not alter the terms of those existing contracts.

I'm sorry this testimony is so long and that the issue may still perhaps seem very complex. However, we felt you needed to have some background since the issue may be new to many of you. I'd be happy to stand for questions now or at any time before you work the bill.

Bob Vancrum

913-634-8257 (Cell)



Since 1894

TESTIMONY

To: Senate Committee on Natural Resources
Senator Carolyn McGinn, Chair

From: John Donley, Assistant General Counsel

Date: February 26, 2009

Re: SB 184 – Surface owner notice act

The Kansas Livestock Association (KLA), formed in 1894, is a trade association representing approximately 5,500 members on legislative and regulatory issues. KLA members are involved in many aspects of the livestock industry, including seed stock, cow-calf and stocker production, cattle feeding, dairy production, grazing land management and diversified farming operations.

Good morning Chairperson McGinn and members of the Committee. My name is John Donley, and I am Assistant General Counsel for the Kansas Livestock Association. I appreciate the opportunity to testify this morning in support of SB 184. This is an important issue to KLA members that are also surface owners in the state.

KLA members have had numerous situations where they have had disputes with oil and gas operators over the years. One of the consistent themes to these problems has been the lack of communication from the operator. It is our belief that SB 184 will help open up a line of communication between surface owners and oil and gas operators which will, in turn, minimize conflicts and damage to the surface estate.

A comment that has stuck with me throughout discussions of this issue was when a member stated to me that they have made a concerted effort to improve communications between the oil and gas operators and themselves. By opening up this line of communication, they have found that there is less damage occurring on their property, and the operator has to pay less in damages as well. This member went on to state that if all of the operators would simply let surface owners know what is going to happen and when something is going to happen on their land, many of the disputes will go away. Unfortunately, not all oil and gas operators have been willing to have open communications with surface owners. The legislation being discussed today goes a long ways toward improving that communication.

The reason this legislation is needed is to ensure that all parties involved in an oil and gas lease have their ownership interests protected. Specifically, this bill does not alter

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March 5, 2009
Attachment # 3

Testimony on SB 184

Presented to

Senate Committee on Natural Resources

By

Douglas G. Zillinger

Owner Operator of a Farm and Ranch
In Phillips and Graham Counties, Kansas

March 5, 2009

Madame Chair and Members of the Committee:

My name is Douglas G. Zillinger and I am a farmer rancher in Phillips and Graham counties in western Kansas. Thank you for the opportunity to prepare testimony on this very important bill to our family's operation. We have a host of energy producers and transmitters on our property and have had just as many situations. We are currently working with three electric power companies with transmission lines, one natural gas company, one rural water district, 5 different oil operators on owned or rented land, one oil transmission line operator, one salt water line operator and have not had a day in the last 15 years when we did not have an unsettled damage issue with at least one of the companies. In this presentation, I will give you a brief overview of the producers, why my family and I are so dearly interested in these bills and strongly encourage you to pass both bills into law.

Examples of Good Lease Holders on our Land

The electric power companies, natural gas transmission companies, and the rural water people are excellent to work with. They call you when they are entering your land, explain the procedure to be done, and ask if there are any specific items of concern or consideration we may have. One of the electric companies decided to trim trees out of their lines this past winter. They have hired several private contract companies to do the work. We were notified by letter of the action and promised a call closer to the time of entry to do the trimming. They called about 2 weeks before the entry and asked about the way to enter the property and what they should do with the downed trees. They did a first class job of felling the trees, jointing them into manageable logs, chipped and removed the small limbs, and left the property so you would never know they were present except for the logs. We would not even have known they had done the job had my wife not been feeding cattle on that property when they were present. An excellent job on their part and so we did not ask for damages.

Our gas transmission people had an exposed line in our pasture in a draw with intermittent water flow. They called to cover the line. They were going to need some extra dirt for the job. I told them where they could get the dirt and how to get it to their site. They came in, did their work, destroyed only the grass where they loaded dirt, and smoothed off their work. The deal that I offered to them was to do a little work for me in the area to stop an erosion problem and I would not charge them cash for the damages. When the operator saw the job, he had my wife call me to be sure that I understood that he would not be able to remove all the dirt from the loading area to fix our two problems. I told her to tell him that I understood and to continue forward with the projects. Two days after completion of their work and removal of their equipment, an agent

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pumper was widening out his road to try and find firm ground to drive on. All that has resulted in is lots of 12 inch deep ruts spread over about a 50 foot wide area around the well before he finally figured out how to park his pickup and walk in. So out comes the backhoe to channel the water in the mud while it is frozen. Not too bad of a plan until they got over one of the covered pits and found out the water was coming to the surface out of the pits.

Another operator had a pipe break and drain an entire tank battery into the dike that surrounded it. The dike was unable to hold the contents because they built the dike on a 5% grade and the dike had that same grade. Their solution that I have not and will not accept is to shorten the high side of the dike. What I want is the low side of the dike raised up to level and they will have plenty of salty dirt to use as they filled a 400-foot long terrace channel to its 2 foot holding capacity. This happened in October 2008 and they just recently rebuilt the lower end of the dike by adding a little dirt to it and pushing the dike up and in with a backhoe. It will erode away just as fast as the last one did and I still haven't received or heard from the company on damages for the "cleaned up spill". Notice was given to me by a passing neighbor two days after the spill.

I had another company have a similar leak in November 2008. Their leak was contained with a backhoe digging a trench at the lower part of the hill to catch the continuous flow of salt water so vacuum trucks could suck it up and haul it off. This appears to have ruined about 5 acres of land, but we will not know until the growing season. They had a six inch tall dike around the battery and so you know that all the water escaped. So it appears that the decision has been to replace the tank battery tanks. In the process, they cleaned the oil out of one of the tanks and spread it on the lease road. They did not ask for permission or mix dirt into the oil as required by law. I have not heard one word from this out of state company and am going to have to get a lawyer after them as this mess has not even been cleaned up properly. They gave the spill area what I call "the oil field smooth it up job" which amounts to roughly leveling the area to a point where you are only leaving 12 inch deep tracks in the mud and windrows of tailings off the end of the buckets at least that tall.

In the mid 90's, we terraced one 20 acre hill that had 4 wells and a natural gas line on it. The gas people came in promptly and lowered their lines so we could get to work. We spent 60 days just trying to get the oil people interested in getting out there and spotting their lines. The superintendent came out and shut down the field after that time period. He left as the terrace operator made the first round and hit lead lines less than 10 inches deep. By now it was late September and I was trying to plant the hill to wheat. During the next two weeks, we farmed that entire hill with all kinds of earth moving machinery. I planted the wheat in Mid October and had a disastrous yield. When I questioned the oil company, they told me they didn't owe me anything because they only paid for growing crops, not making the land so crops couldn't grow. Crop Insurance doesn't pay for this either.

That next spring was exceedingly wet and the new oil line started breaking due to an installation problem. Finally, the supervisor for the oil producer called me to get permission to lay a line on top of the ground to be buried when I told them to bury it. I told him that was fine as long as he waited for me to tell him to bury it. We got to that field in early June because of the rain and found a tractorscavator in the field trying to bury the line. The trench was 4 feet deep as required and full to running over with water. The operator was trying to push the pipe down with the bucket and hurry to the top of the trench to get dirt to hold it down. The pipe continued to float out and on top of that, as I got up to him to tell him to leave, he broke the pipe that was full of pressurized crude and salt water. That patch did not grow a crop for 5 years due to compaction of the mud. It was one of the most productive parts of that field and I received no damages as it



PIONEER

NATURAL RESOURCES

Written Testimony, Re: SB 184
Senate Natural Resources Committee
Submitted by Charles M. Sizemore, P.E.
on behalf of
Pioneer Natural Resources USA, Inc.
February 26, 2009

Madam Chairman, Members of the Committee:

My name is Charles M. Sizemore, and I am the Manager, Operations Engineering for the Mid-Continent Division for Pioneer Natural Resources USA, Inc. ("Pioneer"). Pioneer is one of the largest independent exploration and production oil and gas companies in North America and is a major natural gas producer in the Hugoton and Panoma Fields in Southwest Kansas. Pioneer currently operates approximately 662 Hugoton gas wells and 328 Panoma gas wells in Kansas.

Pioneer opposes SB 184 for the reasons that are set forth in my testimony.

As with the majority of oil and gas companies, Pioneer prides itself in establishing and maintaining its contractual and business relationship with landowners who own the surface rights on lands covered by oil and gas leases owned by Pioneer. Rights and obligations of both the oil and gas company and the landowner, including the rights and obligations relating to ingress and egress, which is the primary subject of SB 184, have historically been determined by the mutually agreed upon terms and conditions contained in the oil and gas lease covering the property and the implied covenants long recognized and enforced by the courts. Pioneer is opposed to SB184 because it would change the manner in which the rights and obligations relating to ingress and egress are established between the oil and gas company and the landowner. Specifically, instead of such rights and obligations being determined by a mutual agreement between the oil and gas company and the landowner in an oil and gas lease and interpreted and enforced by the courts, those rights and obligations would be determined by state regulations, which would be interpreted and enforced by the Kansas Corporation Commission.

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Attachment #5

SB 184 changes a system that has worked well for many years. Moreover, SB 184 could unilaterally modify and alter the terms and conditions of existing oil and gas leases that have been negotiated between the parties. For some oil and gas companies, like Pioneer, SB 184 would unilaterally modify mutual agreements that have been in effect for several decades.

The notice requirements and time restrictions contained in SB 184 that must be complied with prior to oil and gas companies obtaining the right to ingress and egress on the properties covered by their oil and gas leases is unnecessary and overly burdensome. Moving the interpretation and enforcement of the rights and obligations relating to ingress and egress under oil and gas leases from the courts, which have effectively handled those issues for over a 100 years, to the Kansas Corporation Commission, which historically has not been set up to resolve disputes relating to contractual rights and obligations between oil and gas companies and landowners, but instead, has been limited to interpreting and enforcing oil and gas conservation (proration) and environmental regulations, also does not make very good sense.

Pioneer submits that the better way to proceed on this issue is to continue the initiatives that the oil and gas companies have taken over the past year to jointly work with the various landowner associations and other interested groups in an effort to educate both landowners and oil and gas company personnel as to the rights and obligations of both parties. In addition, Pioneer supports the effort to add new board positions on the Kansas Corporation Commission Oil and Gas Advisory Committee and the Commission's rules and regulations committee to allow the landowner associations membership to those committees.

I apologize for not being able to attend the committee's hearing today, but respectfully request that my written testimony be considered by the committee. Thank you for the opportunity to submit these comments.

Charles M. Sizemore, P.E.
Manager, Operations Engineering - MidContinent



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Testimony to the Senate Natural Resources Committee
Senate Bill 184
AN ACT enacting the Kansas surface owner notice act

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

February 26, 2009

Good morning Chair McGinn and members of the committee. I am Edward Cross, President of the Kansas Independent Oil & Gas Association (KIOGA). KIOGA represents the interests of independent oil and gas producers in Kansas. We have over 1,400 members from across the entire state and our members account for 86% of the oil and 63% of the natural gas produced in Kansas. We are the lead state and national advocate for Kansas independent oil and gas producers. I am responsible for public policy advocacy and interaction with external stakeholders including elected officials, regulators, governmental decision-makers, and community thought leaders. I am here today to express our opposition to Senate Bill 184 (SB 184).

As the realities of ever-increasing world energy demand confront the political realities of increasingly restrictive access to new energy supplies, no industry has leveraged the power of technology to produce more with less than Kansas' oil and gas operators. From the development of enhanced recovery techniques to retrieve previously unreachable oil thousands of feet below the surface, to the engineering of new ways to capture stranded gas trapped behind layers of impermeable rock, innovation continues to be the hallmark of Kansas oil and gas producers – even as efforts to establish political and regulatory obstacles to that progress continue.

Given these realities, and recognizing the existing knowledge gap on the crucial role that Kansas oil and gas producers play in delivering secure and affordable energy to American consumers, the Kansas oil and gas industry embarked upon an ambitious new initiative last spring to set the record straight – bringing a wealth of new information on Kansas oil and gas operations to the forefront and deploying an aggressive communications strategy designed to separate fiction from fact, myth from reality, and hyperbole from proven on-the-ground practices. These are the aims of the “Good Neighbor Initiative”.

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Attachment #6

Put aside the fact that Kansas already has a well-established system for addressing oil and gas surface issues. Put aside the fact that from April-July 2008 only 8 surface-related complaints were filed with the Kansas Corporation Commission from 2,211 wells drilled and completed. Put aside the reality that SB 184 would create a new generation of legal challenges to well-established precedents that have served both industry and landowners well over the years.

Put aside the facts. As our nation looks to improve our energy security and become less dependent on foreign energy sources, we do not need policies that disrupt orderly oil and gas development.

When it comes to surface rights concerns, industry believes an education initiative would be a much better way to address the issues and concerns of all stakeholders. Initiatives to be a good neighbor are important to the Kansas oil and gas industry. Compliance with applicable laws and regulations are important components of being a "good neighbor". However, the Kansas oil and gas industry believes other components are also important.

The Kansas oil and gas industry knows that the landowner and/or tenant in the producing areas of Kansas may have legitimate questions about oil and/or natural gas production activity occurring nearby or on their land. Maintaining a dialogue with landowners and tenants, answering questions and responding to concerns in a timely manner is important to the Kansas oil and gas industry.

The Kansas oil and gas industry is dedicated to the responsible development of Kansas' oil and natural gas resources. Responsible development includes maintaining good relationships with our neighbors and a commitment to environmental protection. The Kansas oil and gas industry works to increase community awareness of the Kansas oil and gas industry and to promote a safer and more productive industry.

As operators of oil and gas properties exercise their right to explore and develop oil and natural gas within the state, producers understand that good communication with our neighbors is essential. We use best management practices as part of our responsibility to act as a "good neighbor". We are committed to the

Protection of public safety;

Protection of the environment; and

Respect for the property rights of others.

As we pursue responsible development of energy resources to meet the nation's energy needs, we are committed to better communication and understanding between the oil and gas industry and the landowner and tenants impacted by our operations. We will continue to work in a collaborative manner with landowners, tenants, and government officials to assure the responsible development of the natural resources of our state.

The "Good Neighbor Initiative" was initiated last spring. Following the defeat of onerous surface rights legislation in Senate Judiciary Committee on March 11, 2008, the Kansas oil and gas industry understood that the real concerns of the stakeholders remained and wanted to stay engaged to improve communication and understanding.

Recognizing that educational initiatives hold the most merit for achieving the real needs of stakeholder groups, the Kansas oil and gas industry began developing the "Good Neighbor Initiative". The good neighbor initiative is an educational initiative designed to improve communication and understanding. The first Kansas draft was prepared on April 24, 2008 and was shared with representatives from the Kansas Farm Bureau, Kansas Livestock Association, and several state legislators as a preliminary draft of an educational initiative designed to maintain a dialogue between the oil and gas industry and landowners and tenants to answer questions and respond to concerns in a timely manner. Several additional meetings with stakeholder groups were held over the summer and fall of 2008. A representative from the Eastern Kansas Royalty Owners Association expressed his pleasure that industry was the first to offer a plan for addressing the surface rights concerns.

The Kansas oil and gas industry believes the development and dissemination of data and knowledge is essential to cultivating understanding and communication. The good neighbor initiative has been shared with multiple stakeholder groups and presented as a tool for developing better communication and understanding for all stakeholders. The good neighbor initiative drafts are just that, drafts in which all stakeholders review and make suggestions for consideration. Several suggestions from many stakeholders have been considered and continue to be considered.

The good neighbor initiative is not a legislative initiative, but a mutual guideline of best management practices for developing better communication and understanding among all stakeholder groups. In addition, to the written good neighbor initiative, industry and the Kansas Farm Bureau and other stakeholder groups have agreed to conduct joint informational seminars across the state to provide venues for all stakeholders to voice concerns, thoughts, and comments. These seminars are currently being scheduled and organized. In addition, the Kansas oil and gas industry has offered to establish a "hotline" for surface owner concerns. The hotline concept would consist of a dedicated phone line whereby surface owners can call with surface concerns and leave a message detailing their concerns, location, companies concerned, contact information, and other information. We proposed establishing this hotline in the KIOGA office. The surface owner is assured of a response within five business days. Industry would take the calls, contact affected parties relaying the information provided by the surface concern, and request that they contact the surface owner. If we are unable to find the affected parties or the affected parties indicate they do not wish to contact the surface owners, then an industry representative would contact the surface owner and relay the information gained.

Over the last year, the Kansas oil and gas industry, Kansas Farm Bureau, Kansas Livestock Association, Eastern Kansas Royalty Owners Association and others have spent significant resources and made good faith efforts toward developing better communication and understanding. Significant gains have been made by our efforts. The good neighbor initiative holds great promise and is progressing. The initiative should be allowed to continue and not be halted by legislative action that would most certainly not address the real concerns of the stakeholders. The good neighbor initiative holds the greatest potential for addressing the real concerns of the stakeholders and should not be derailed by legislation. I urge you to not pass SB 184.

Good Neighbor Initiatives

Kansas Independent Oil & Gas Association

Topeka Office: 800 SW Jackson Street - Suite 1400
Topeka, Kansas 66612-1216
785-232-7772

Wichita Office: 105 S. Broadway - Suite 500
Wichita, Kansas 67202-4262
316-263-7297

Eastern Kansas Oil & Gas Association

P.O. Box 355
Chanute, Kansas 66720
620-431-1020

Kansas Petroleum Council

800 SW Jackson Street - Suite 1005
Topeka, Kansas 66612
785-234-0589

Kansas Oil & Gas

Energy for the Future!

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DRAFT

Edward P. Cross
Senate Natural
Resources
March 5, 2009
Attachment #7-1 6-4



Over 6,000 products produced from petroleum

Kansas Oil & Gas Industry Fueling America and Making Positive Contributions to Our Way of Life

The Kansas oil and gas industry is a critical part of the Kansas economy. The Kansas oil and gas industry is nearly a \$4.5 billion industry that employs tens of thousands of people across Kansas each day and pumps hundreds of millions of dollars into the state's economy each year; money that helps support families, fund schools, and build roads. In Kansas, the oil and gas industry ranks second only to agriculture as the most significant contributor to

the State's gross product and will remain a vital part of Kansas' economy for many decades to come.

Nationally, Kansas remains one of the major oil and natural gas producing states. Over 2,100 licensed oil and gas operators produce over 36 million barrels of oil and nearly 370 billion cubic feet of natural gas annually. Even more amazing, the Kansas oil and gas industry invests just over \$1 billion annually into rural Kansas.

Oil and natural gas are an integral part of our society. Much of our high standard of living can be traced to the use of petroleum. Today, over 6,000 products are produced from petroleum including fuels, waxes, fertilizers, medicines, cosmetics, plastics, and more. The Kansas oil and gas industry does more than fuel Kansas and help the Kansas economy. The industry fuels America and makes positive contributions to our way of life!



What is a good neighbor?

Initiatives Important to the Kansas Oil and Gas Industry

Compliance with applicable laws and regulations are important components of being a "good neighbor". However, the Kansas oil and gas industry believes other components are also important.

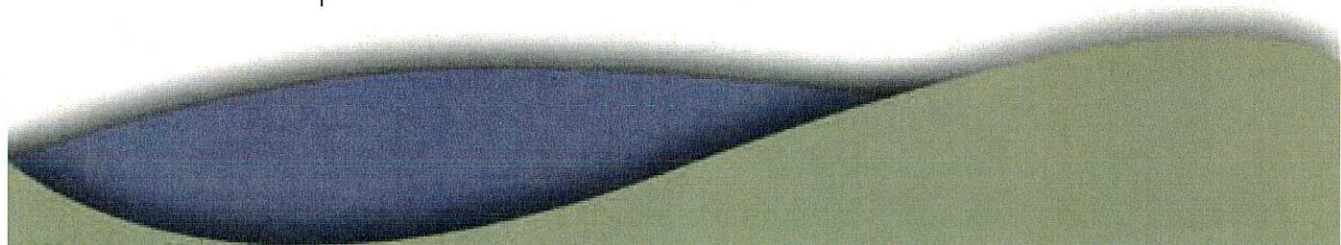
The Kansas oil and gas industry knows that the landowners and

tenants in the producing areas of Kansas may have legitimate questions about oil and/or natural gas production activity occurring nearby or on their land.

Maintaining a dialogue with landowners and tenants to answer questions and respond to concerns in a

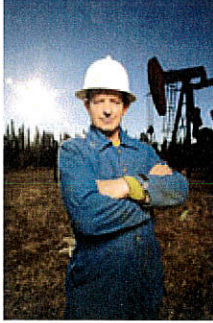
timely manner is important to the Kansas oil and gas industry.

The Kansas oil and gas industry's "Good Neighbor Initiatives" are described in this brochure. We welcome and encourage feedback on our initiatives and on our performance as a "Good Neighbor".



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Responsible Oil & Natural Gas Development A Core Value of the Kansas Oil & Gas Industry



The Kansas oil and gas industry is dedicated to responsible development of Kansas' oil and natural gas resources. Responsible development includes maintaining good relationships with our neighbors and a commitment to environmental protection. The Kansas oil and gas industry works to increase community awareness of the industry and to promote a safer and more productive industry.

Over the last ten years, severance tax collections on oil and natural gas production in Kansas have increased by 303% to over \$189 million and ad valorem tax collections have increased by 201% to over \$230 million. These tax dollars come from oil and natural gas producers and royalty owners. Nearly 11% of the value of oil and natural gas produced is paid in taxes. In addition, industry pays substantial sales taxes, income taxes, and taxes imposed on final products.

The oil and gas

industry creates great jobs in Kansas. Employment in the upstream sector of the Kansas oil and natural gas industry has increased by 49% since 1999. Today, over 26,000 Kansans are directly employed in all aspects of the Kansas oil and gas industry.

Every well drilled or recompleted in Kansas is the equivalent of a new business; providing employment, generating local and state taxes, and fueling local economic growth. A vast majority of wells drilled in Kansas are drilled and completed in rural areas. The Kansas oil and natural gas industry invested over \$1 billion into rural Kansas each of the last three years. Few industries annually contribute so significantly to the rural Kansas economy.

In addition, few industries provide the quantity and quality of jobs, tax revenues, economic development, and community support to the citizens of Kansas than the oil and natural gas industry.

As operators of oil and gas properties exercise their right to explore and develop oil and natural gas within the state, producers understand that good communication with our neighbors is essential. We are committed to the

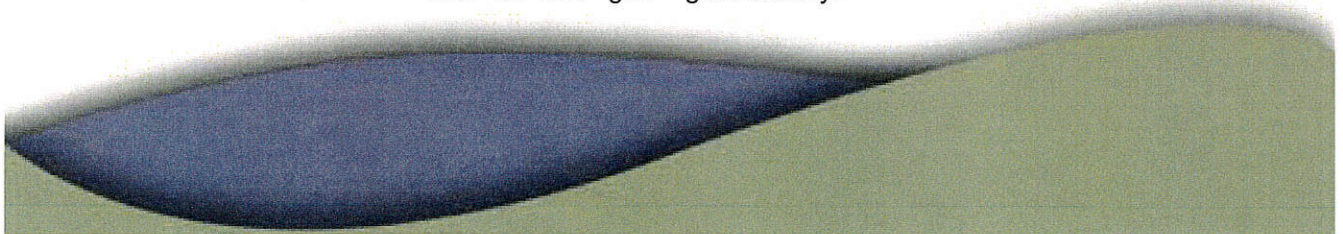
Protection of public safety;

Protection of the environment; and

Respect for the property rights of others.

We pledge to use best management practices and put them to work as part of our responsibility to act as a "good neighbor".

As we pursue responsible development of energy resources to meet the nation's energy needs, we are committed to better communication and understanding between the oil and gas industry and the landowners and tenants impacted by our operations. We will continue to work in a collaborative manner with landowners, tenants, and government officials to assure the responsible development of the natural resources of our State.



Good Neighbor Initiatives

From Your Neighbors in the Oil & Gas Industry

The Kansas oil and gas industry works to increase community awareness of the oil and natural gas industry and to promote a safer, more productive industry. The following "Good Neighbor" Initiatives describe specific areas where we believe our actions as good neighbors are especially important. Consistent with the applicable oil and gas lease and the laws and regulations governing lease operations:



1. Companies will strive to communicate with the landowners and tenants by:
 - Informing the landowners and tenants of industry property use rights (including mineral rights) and surface use rights through seminars, communications, and/or publications sponsored by Kansas oil and gas industry associations;
 - Designate a company contact person or persons who is responsible for responding to landowner and tenant questions;
 - Seeking to identify and understand the concerns of the landowners and tenants affected by our operations;
 - Attempting to notify and reasonably accommodate the nearby landowners and tenants when commencing activity that will significantly impact land subject to an oil and gas lease.
2. Companies and company contractors will respect the property and the rights of others.
3. Companies will promote public safety.
4. Companies will protect the environment.
5. Companies, through Kansas oil and gas industry associations, will emphasize education by:
 - Educating our personnel about being a good neighbor, and
 - Educating the public about oil and gas operations including safety, environmental issues, and the importance and positive impact of energy development at the state and federal levels.



Please note that emergency situations occur that require immediate response. That quick response will be necessary to protect the environment, public safety, and property rights.

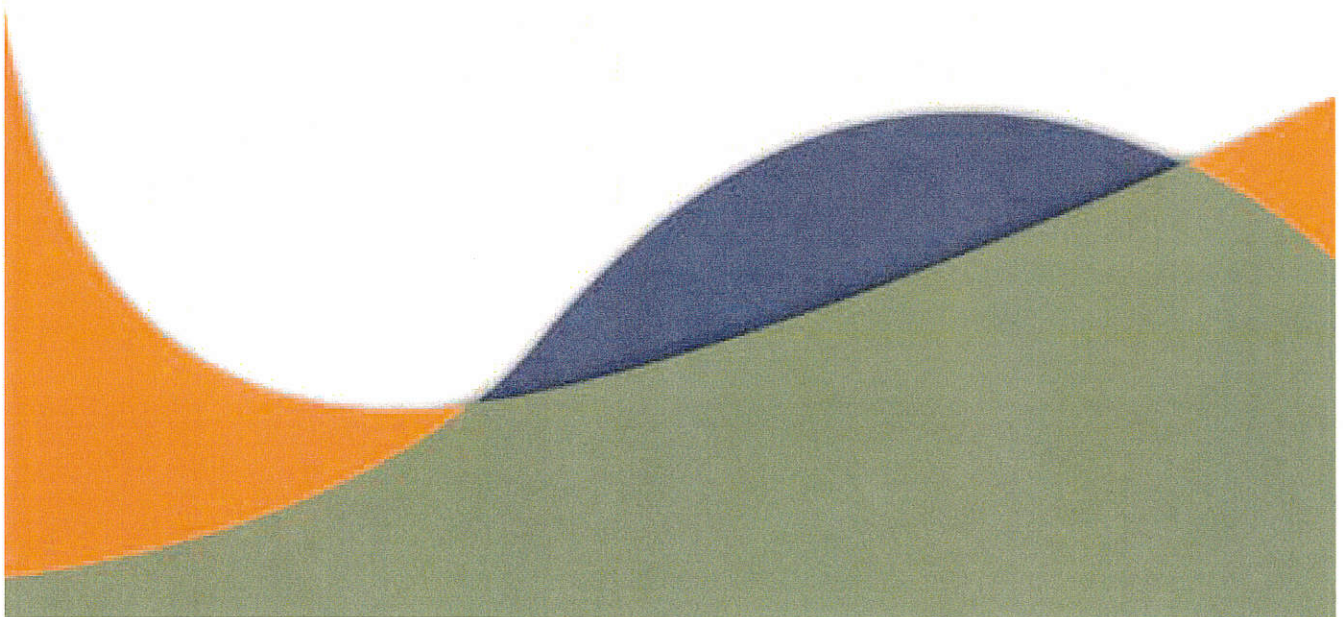
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Better Energy Education Making a Positive Difference!

As the realities of ever-increasing world energy demand confront the political realities of increasingly restrictive access to new energy supplies, no industry has done more with less than America's oil and gas operators. From the development of enhanced recovery techniques to retrieve previously unreachable oil to the engineering of new ways to capture stranded gas, innovation continues to be the hallmark of Kansas oil and gas producers.

Given these realities, and recognizing the existing knowledge gap on the crucial role that Kansas oil and gas producers play in delivering secure and affordable energy to American consumers, the Kansas oil and gas industry's energy education efforts bring a wealth of new information on Kansas oil and gas operations to the forefront to separate fiction from fact, myth from reality, and hyperbole from proven on-the-ground practices.

The energy challenges facing our state and nation have grown both in number and complexity. Better energy education is important. Better energy education is of critical importance to our state and nation in meeting future energy challenges. Because of the efforts of the Kansas oil and gas industry, Kansans are learning that the oil and gas industry is working for them, the economy, and the environment.



DRAFT

Senate Bill 184

Before the Senate Committee on Natural Resources

Testimony of Robert E. Krehbiel

February 26, 2009

Madame Chairperson and Members of the Committee:

My name is Robert E. Krehbiel, and I am appearing here today in opposition to SB 184. I am appearing on my own behalf and on behalf of the Kansas Independent Oil & Gas Association (KIOGA) at the direction of Mr. Ed Cross, President.

We oppose the premise of SB 184 which suggests that the State of Kansas should pass legislation that would re-write the terms of thousands of private contracts entered into between many Kansas landowners and their heirs, successors and assigns. This legislation would erode and diminish the value of vested property rights upon which these landowner's have relied. Such legislation raises obvious constitutional questions.

Which private contracts would SB 184 re-write? Let me explain with a personal example. A farmer in South Central Kansas wants to pay off his farm mortgages and retire. He owns 560 acres of land including the surface and all minerals to the center of the earth. A few years prior the farmer had leased the farm to an oil and gas exploration company. (See Exhibit I) This oil and gas lease resulted in a producing gas well which now provides the farmer with a monthly income in the form of a royalty check from the sale of natural gas. (See Exhibit II and Exhibit III)

In order to retire the farmer determines to sell the farm but retain the mineral interest to support his retirement. The fair market value of the land with the minerals included is approximately \$600 per acre. The minerals alone, together with the right of ingress and egress and the right to use a reasonable amount of surface to explore for and develop those minerals, are worth about \$300 per acre. Since the farmer retained the minerals the surface was sold for \$300 per acre. The purchaser was well aware of the mineral reservation and accordingly paid much less for the surface interest. The farmer continued to receive the monthly royalty check. The farmer also continued to lease the additional non producing acreage for further exploration thereby earning additional retirement income.

To complete the described sale of the land the farmer executed a Kansas Warranty Deed (See Exhibit IV) which contained the following mineral reservation:

"EXCEPTING and RESERVING unto Grantors, their heirs and assigns, all of the oil, gas and other minerals in and under and which may be produced there from together with the right to enter

Senate Natural Resources
March 5, 2009
Attachment #8

SB 184, the State of Kansas should not use its police power for the purpose of benefiting a favored class of private citizens at the expense of another.

And finally, there is simply no need for this legislation. I have worked in the oil and gas industry in various capacities for most of my professional career. During one five year stint I negotiated hundreds of oil and gas leases on thousands of acres in Western and South Central Kansas and participated in drilling forty wells per year in each of the five years. Surface owners and/or tenants in possession were always notified prior to the commencement of exploration activity. In that five year period all surface issues were resolved with surface owners and tenants without litigation and all were fairly compensated. I believe that is the norm in Central and Western Kansas where we operated. It is in fact really remarkable how very little reported case law there is regarding disputes between surface owners or tenants and oil and gas lessees.

From my own experience it is difficult to see any legitimate public purpose for which the Kansas Legislature can exercise the police power of the State to impair the obligation of these private contracts and take vested property rights without compensation. In my opinion SB 184 will create more issues than it resolves, increase litigation and cause relationships between surface users to deteriorate rather than to improve.

The answer to the issues raised by our friends at the Farm Bureau and the Kansas Livestock Association is not more legislation. The answer is education, communication and mutual cooperation. It really isnt that hard to do.

Respectfully submitted,

Robert E. Krehbiel

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Form 88 - (Producers)
Kan., Okla. & Colo. 1962 Rev. **B W** OIL AND GAS LEASE



THIS AGREEMENT made this 10th day of April 1982 between

Ralph L. Krehbiel & Leona Krehbiel, husband and wife,

Port 2, Hutchinson, Kansas 67570

(Post Office Address)

herein called lessor (whether one or more), and Aurora, Inc. lessee:

1. Lessor, in consideration of Ten & other Dollars (\$10.00 & other) in hand paid, receipt of which is here acknowledged and of the royalties herein provided and of the agreements of the lessee herein contained, hereby grants, leases and lets exclusively unto lessee for the purpose of investigating, exploring, prospecting drilling, mining and operating for and producing oil, liquid hydrocarbons, all gases, and their respective constituent products, injecting gas, water, other fluids, and air into subsurface strata, laying pipe lines, building tanks, power stations, telephone lines, and other structures and things thereon to produce, save, take care of, treat, manufacture, process, store and transport said oil, liquid hydrocarbons, gases and their respective constituent products and other products manufactured therefrom, and housing and otherwise caring for its employees, the following described land, together with any reversionary rights and after-acquired interest, therein situated in Renov County, Kansas, to-wit:

The Northeast Quarter (NE/4) and the North Half of the Northwest Quarter (N/2 NW/4)

In Section 18 Township 25 South Range 5 West and containing 240 acres, more or less, and all accretions thereto.

2. Subject to the provisions herein contained, this lease shall remain in force for a term of three (3) years from this date (called "primary term"), and as long thereafter as oil, liquid hydrocarbons, gas or other respective constituent products, or any of them, is produced from said land or land with which said land is pooled.

3. The royalties to be paid by lessee are: (a) on oil, and other liquid hydrocarbons saved at the well, one-eighth of that produced and saved from said land, same to be delivered free of cost at the wells or to the credit of lessor in the pipe line to which the wells may be connected; (b) on gas, including casinghead gas and all gaseous substances, produced from said land and sold or used off the premises or in the manufacture of gasoline or other products therefrom, the market value at the mouth of the well of one-eighth of the gas so sold or used, provided that on gas sold at the wells the royalty shall be one-eighth of the amount realized from such sale; and (c) at any time, either before or after the expiration of the primary term of this lease, if there is a gas well or wells on the above land (and for the purposes of this clause (c) the term "gas well" shall include wells capable of producing natural gas, condensate, distillate or any gaseous substance and wells classified as gas wells by any governmental authority) and such well or wells are shut in before or after production therefrom, lessee or any assignee hereunder may pay or tender annually at the end of each yearly period during which such gas well or gas wells are shut in, as substitute gas royalty, a sum equal to the amount of delay rentals provided for in this lease for the acreage then held under this lease by the party making such payments or tenders, and if such payments or tenders are made it shall be considered under all provisions of this lease that gas is being produced from the leased premises in paying quantities. Such substitute gas royalty may be paid or tendered in the same manner as provided herein for the payment or tender of delay rentals.

4. If operations for drilling are not commenced on said land or on land pooled therewith on or before one (1) year from this date, this lease shall terminate as to both parties, unless on or before one (1) year from this date lessee shall pay or tender to the lessor a rental of Two Hundred Forty & No/100 Dollars (\$ 240.00) which shall cover the privilege of deferring commencement of such operations for a period of twelve (12) months. In like manner and upon like payments or tenders, annually, the commencement of said operations may be further deferred for successive periods of the same number of months, each during the primary term. Payment or tender may be made to the lessor or to the

Farmers State Bank of Yoder, Kansas, which bank, or any successor thereof, shall continue to be the agent for the lessor and lessor's successors, heirs and assigns. If such bank (or any successor bank) shall fail, liquidate, or be succeeded by another bank, or for any reason fail or refuse to accept rental, lessee shall not be held in default until thirty (30) days after lessor shall deliver to lessee a recordable instrument making provision for another method of payment or tender, and any depository charge is a liability of the lessor. The payment or tender of rental may be made by check or draft of lessee, mailed or delivered to said bank or lessor, or either lessor if more than one, on or before the rental paying date. Notwithstanding the death of the lessor or his successors in interest, the payment or tender of rentals in the manner provided herein shall be binding on the heirs, devisees, executors and administrators of the lessor his successors in interest.

5. Lessee is hereby granted the right to pool or consolidate the leased premises, or any portion or portions thereof, as to all strata, or any stratum or strata, with other lands as to all strata, or any stratum or strata, to the gas right hereunder (excluding casinghead gas produced from oil wells) to form one or more gas operating units, but only as to the gas right hereunder, plus a tolerance of ten per cent (10%) to conform to Governmental Survey quarter sections. Lessee shall file written unit designations in the county in which the premises are located. Such units may be designated either before or after the completion of wells. Drilling operations and production on any part of the pooled acreage shall be treated as if such drilling operations were upon or such production was from the land described in this lease whether the well or wells be located on the land covered by this lease or not. The entire acreage pooled into a gas unit shall be treated for all purposes, except the payment of royalties on production from the pooled unit, as if it were included in this lease. In lieu of the royalties herein provided, lessor shall receive on production from the unit so pooled only such portion of the royalty stipulated herein as the amount of his acreage placed in the unit or his royalty interest therein on an acreage basis bears to the total acreage so pooled in the particular unit involved.

6. If, prior to the discovery of oil, liquid hydrocarbons, gas or their respective constituent products, or any of them, on said land or land pooled therewith lessee should drill and abandon a dry hole or holes thereon, or if, after discovery of oil, liquid hydrocarbons, gas or their respective constituent products, or any of them, the production thereof should cease from any cause, this lease shall not terminate if lessee commences reworking or additional drilling operations within sixty (60) days thereafter, or if it be within the primary term, (i) in the case of a dry hole, commences or resumes the payment or tender of rentals or commences operations for drilling or reworking on or before the rental paying date occurring twelve (12) months after the expiration of the rental period during which such dry hole was drilled, or (ii) in the case of cessation of production, commences or resumes the payment or tender of rentals or commences operation for drilling or reworking on or before the rental paying date next ensuing after the expiration of three (3) months from the cessation of production. If, at the expiration of the primary term, oil, liquid hydrocarbons, gas or their respective constituent products, or any of them, is not being produced on said land or land pooled therewith but operations for drilling or reworking on or before the rental paying date next ensuing after the expiration of three (3) months from the cessation of production, so long thereafter as lessee is then engaged in operations for drilling or reworking of any well thereon, this lease shall remain in force so long as drilling or reworking operations are prosecuted (whether on the same or different wells) with no cessation of more than sixty (60) consecutive days, and if they result in production, so long thereafter as oil, liquid hydrocarbons, gas or their respective constituent products, or any of them, is produced from said land or land pooled therewith.

7. Lessee shall have free use of oil, gas, and water from said land, except water from lessor's wells and tanks, for all operations hereunder, including repressuring, pressure maintenance, cycling, and secondary recovery operations, and the royalty shall be computed after deducting any so used. Lessee shall have the right at any time during or after the expiration of this lease to remove all property and fixtures placed by lessee on said land, including the right to draw and remove any casing. When required by lessor, lessee will bury all pipe lines below ordinary plow depth: Lessee shall pay for damages caused by its operations on said land. No well shall be drilled within two hundred feet (200 ft.) of any residence or barn now on said land without lessor's consent. Lessor shall have the privilege, at his risk and expense, of using gas from any gas well on said land for stoves and inside lights in the principal dwelling thereon, out of any surplus gas not needed for operations hereunder. Lessee agrees to fill pits and restore surface in timely manner

8. The rights of either party hereunder may be assigned in whole or in part and the provisions hereof shall extend to the heirs, executors, administrators, successors, and assigns, but no change or division in ownership of the land, rentals or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of lease. No such change or division in the ownership of the land, rentals or royalties shall be binding upon lessee for any purpose until or unless the person acquiring any interest has furnished lessee with the instrument or instruments, or certified copies thereof, constituting his claim of title from the original lessor. In the event of an assignment of this lease as to a separate area of each, and default in rental payment by one shall not affect the rights of other leasehold owners hereunder. An assignment of this lease, in whole or in part, shall, to the extent of such assignment, relieve and discharge lessee of any obligations hereunder, and if lessee or assignee of part or parts hereof shall fail or make default in the payment of the proportionate part of the rentals due from such lessee or assignee or fail to comply with any other provision of the lease, such default shall not affect this lease in so far as it covers a part of said lands upon which lessee or any assignee thereof shall make payment of said rentals.

9. Lessee shall not be liable for delays or defaults in its performance of any agreement or covenant hereunder due to force majeure. The term "force majeure" as employed herein shall mean: any act of God including, but not limited to, storms, floods, washouts, landslides, and lightning; acts of the public enemy; wars, blockades, insurrections, or riots; strikes or lockouts; epidemics or quarantine regulations; laws, acts, order or requests of federal, state, municipal or other governments or governmental officers or agents under color of authority; freight embargoes or failures; exhaustion or unavailability or delays in delivery of any product, labor, service, or material. If lessee is required, or ordered or directed by any federal, state or municipal law, executive order, rule, regulation or request enacted or promulgated under color of authority to cease drilling operations, reworking operations or producing operations on the land covered by this lease or if lessee by force majeure is prevented from conducting drilling operations, reworking operations or producing operations, then until such time as law, order, rule, regulation, request or force majeure is terminated and for a period of ninety (90) days after such termination each and every provision of this lease that might operate to terminate it or the estate conveyed by it shall be suspended and inoperative and this lease shall continue in full force. If any period of suspension occurs during the primary term, the time thereof shall be added to such term.

10. Lessor hereby warrants and agrees to defend the title to said land, and agrees that lessee, at its option, may discharge any tax, mortgage, or other lien upon said land, and in the event lessee does so, it shall be subrogated to such lien with the right to enforce same and apply rentals and royalties accruing hereunder toward satisfying same. In case said lessor owns a less interest in the above described land than the entire and undivided fee simple estate therein, then the royalties, including substitute gas royalty, and rentals herein provided for shall be paid the said lessor only in the proportion that his interest bears to the whole and undivided fee; however, such rental shall be increased at the next succeeding rental anniversary after the acquisition of any reversionary interest or after-acquired title to cover the interest so acquired, and lessor agrees to notify lessee in writing upon acquisition of any additional interest in the above described property, whether it be by reversion or after-acquired title, or if such additional acquisition occurs after production be obtained, then the royalty shall be increased to cover the interest so acquired. Should any one or more of the parties named above as lessors fail to execute this lease, it shall nevertheless be binding upon the party or parties executing the same.

11. If the leased premises shall hereafter be owned in severalty or in separate tracts, the premises, nevertheless, shall be developed and operated as one lease, and all royalties accruing hereunder shall be treated as an entirety and shall be divided among and paid to such separate owners in the proportion that the acreage owned by each such separate owner bears to the entire leased acreage. There shall be no obligation on the part of the lessee to offset wells on separate tracts into which the land covered by this lease may be hereafter divided by sale, devise, or otherwise, or to furnish separate measuring or receiving tanks.

12. Lessee and lessee's successors and assigns shall have the right at any time to surrender this lease, in whole or in part, to lessor or his heirs and assigns by delivering or mailing a release thereof to the lessor, or by placing a release thereof of record in the county in which said land is situated; thereupon lessor shall be relieved from all obligations, expressed or implied, of this agreement as to the acreage so surrendered, and thereafter the rentals payable hereunder shall be reduced in the proportion that the acreage covered hereby is reduced by said release or releases.

Asso OR Royalty Int 374 pg 343 June 19, 2003
Asso OR Roy 382 pg 402 Jan 6/04

IN WITNESS WHEREOF, we sign the day and year first above written.

WITNESSES:
Ralph L. Krehbiel
Leona Krehbiel

Asso OR Roy. Int. in Val. 154, Pg 316 June 23, 1982
Asso d. in Val. 154, Pg. 611 - Aug. 11 - 1982
Asso. OR Roy. Ints in Val 156, Pg 522 March 9, 1982
Robert Krehbiel
Senate Natural Resources
March 5, 2007
Attachment #9

www.wv.com
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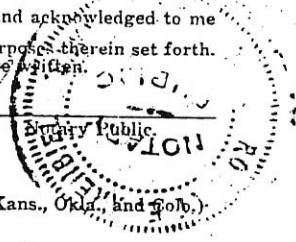
STATE OF KANSAS }
COUNTY OF RENO } ss. ACKNOWLEDGMENT FOR INDIVIDUAL (Kans., Okla., and Colo.)

Before me, the undersigned, a Notary Public, within and for said county and state, on this 10th day of April, 1982, personally appeared Ralph L. Krehbiel and Leona Krehbiel, husband & wife

to me personally known to be the identical person who executed the within and foregoing instrument and acknowledged to me that they executed the same as their free and voluntary act and deed for the uses and purposes therein set forth. IN WITNESS WHEREOF, I have hereunto set my hand and official seal the day and year last above written.

My commission expires July 3, 1983

Robert E. Krehbiel
Robert E. Krehbiel



STATE OF _____ }
COUNTY OF _____ } ss. ACKNOWLEDGMENT FOR INDIVIDUAL (Kans., Okla., and Colo.)

Before me, the undersigned, a Notary Public, within and for said county and state, on this _____ day of _____, 19____, personally appeared _____ and _____

to me personally known to be the identical person who executed the within and foregoing instrument and acknowledged to me that _____ executed the same as _____ free and voluntary act and deed for the uses and purposes therein set forth. IN WITNESS WHEREOF, I have hereunto set my hand and official seal the day and year last above written.

My commission expires _____

Notary Public.

STATE OF _____ }
COUNTY OF _____ } ss. ACKNOWLEDGMENT FOR CORPORATION

On this _____ day of _____, A. D., 19____, before me, the undersigned, a Notary Public in and for the county and state aforesaid, personally appeared _____ to me personally known to be the identical person who signed the name of the maker thereof to the within and foregoing instrument as its _____ President and acknowledged to me that _____ executed the same as _____ free and voluntary act and deed, and as the free and voluntary act and deed of said corporation, for the uses and purposes therein set forth. Given under my hand and seal the day and year last above written.

My commission expires _____

Notary Public.

-9-

No. _____
OIL AND GAS LEASE
FROM _____
TO _____
Date _____ 19____
Section _____ Twp _____ Rge _____
No. of Acres _____ Term _____
County _____
INDEXED ORIGINAL COMPARED ✓
STATE OF <i>Kansas</i>
County of <i>Rego</i>
This instrument was filed for record on the _____ day of <i>April</i> 19 <i>82</i>
at <i>8:00</i> o'clock <i>A.</i> M., and duly recorded in Book <i>109</i> Page <i>54(2)</i> of the records of this office.
By <i>Robert E. Krehbiel</i> Register of Deeds.
When recorded, return to AURORA, INC. 255 N. WATER WICHITA, KS. 67202

NOTE: When signature by mark in Kansas, said mark to be witnessed by at least one person and also acknowledged. For acknowledgment by mark, use regular Kansas acknowledgment.

STATE OF _____ }
COUNTY OF _____ } ss. ACKNOWLEDGMENT FOR INDIVIDUAL (Kans., Okla., and Colo.)

Before me, the undersigned, a Notary Public, within and for said county and state, on this _____ day of _____, 19____, personally appeared _____ and _____

to me personally known to be the identical person who executed the within and foregoing instrument and acknowledged to me that _____ executed the same as _____ free and voluntary act and deed for the uses and purposes therein set forth. IN WITNESS WHEREOF, I have hereunto set my hand and official seal the day and year last above written.

My commission expires _____

Notary Public.

THE KANSAS BLUE PRINT CO.
WICHITA, KANSAS
PHOTOSTAT SERVICE-UP-TO-DATE OIL MAPS

STATE OF KANSAS }
RENO COUNTY }

INDEXED ✓
ORIGINAL COMPARED ✓
SS WITH RECORD ✓
NUMERICAL ✓

This instrument was filed for record on the 25 day of Oct. A.D. 1982 at 1:00 o'clock 4 M. and duly recorded in Book 194 on Page 70 (1) Fee \$ 5.00

AFFIDAVIT OF PRODUCTION

STATE OF KANSAS }
COUNTY OF SEDGWICK } ss:

Rosa Mary Moore
REGISTER OF DEEDS.

WILLIAM R. SHINGLER, of lawful age, being first duly sworn upon oath, deposes and states:

THAT, on April 10, 1982, Ralph L. Krehbiel & Leona Krehbiel, husband and wife, made, executed and delivered to Aurora, Inc., Lessee, an Oil and Gas Lease upon and covering:

The Northeast Quarter (NE/4) and the North Half of the Northwest Quarter (N/2 NW/4) Section 18, Township 25 South, Range 5 West, Reno County, Kansas, and recorded in Book 109, Page 54(2), of the records of said County;

Affiant states that a well was commenced on the above described lease on or about June 10, 1982, and was completed on or about July 8, 1982, as a well capable of producing gas in paying quantities, said well being located in the Center of the Southeast Quarter of the Southeast Quarter of the Northeast Quarter (C SE/4 SE/4 NE/4) Section 18, Township 25 South, Range 5 West, Reno County, Kanss, known as the R. L. Krehbiel Well No. 1.

Affiant further states this Affidavit is made pursuant to Section 55-205, General Statutes of Kansas, 1949, and all amendments thereto, for the purpose of imparting notice that the contingencies mentioned in said lease have happened, and that said lease has therefore been extended beyond its primary term as stated and set forth therein as provided by law.

Affiant further states that he is President of Aurora, Inc., Operator of said lease and is authorized to make, and does make, this Affidavit for and on behalf of Aurora, Inc. and the other interest owners as their ownership appears of record.

-FURTHER AFFIANT saith not this 22nd day of October, 1982.

AURORA, INC.

By: William R. Shingler
William R. Shingler, President

STATE OF KANSAS }
COUNTY OF SEDGWICK } ss:

On this 22nd day of October, 1982, before me, the undersigned, a Notary Public in and for the county and state aforesaid, personally appeared William R. Shingler, to me personally known to be the identical person who signed the name of the maker thereof to the within and foregoing instrument as its President and acknowledged to me that he executed the same as his free and voluntary act and deed, and as the free and voluntary act and deed of said corporation, for the uses and purposes therein set forth.

Given under my hand and seal the day and year last above written.

Judith Buck
Notary Public

My Commission Expires:
June 9, 1985





Yearly and monthly production



R.L.KREHBIEL #1 Lease

Operator: Loeb, Herman L.
Location: SE SE NE T25S, R5W, Sec. 18
KS Dept. of Revenue Lease Code: 211904
Field: Fishburn
County: Reno
Producing Zone: Mississippian System

Annual Gas Production, (mcf)

Sample Monthly Gas Production, (mcf)
 (from 2003)

Year	Production	Wells
Production Charts		
Simple JPEG chart Flash Chart		
1984	3,758	1
1985	19,402	1
1986	17,166	1
1987	21,157	1
1988	21,810	1
1989	19,995	1
1990	22,229	1
1991	20,290	1
1992	19,655	1
1993	18,983	1
1994	17,000	1
1995	15,343	1
1996	15,155	-
1997	15,170	-
1998	13,930	-
1999	10,364	-
2000	10,986	-
2001	12,004	-
2002	18,750	1
2003	17,109	1
2004	10,501	1
2005	10,156	1
2006	12,075	1
2007	10,109	1
2008	4,005	1

*2008 data incomplete at this time.

Data from previous years may still change.
 Note: bbls is barrels; mcf is 1000 cubic feet.

Year	Month	Production	Wells	Purchaser
2003	1	1304	1	PEOPLES NATURAL GAS (UTILICORP) (100%)
2003	2	1439	1	PEOPLES NATURAL GAS (UTILICORP) (100%)
2003	3	1093	1	PEOPLES NATURAL GAS (UTILICORP) (100%)
2003	4	1745	1	PEOPLES NATURAL GAS (UTILICORP) (100%)
2003	5	1424	1	
2003	6	1443	1	
2003	7	1974	1	PEOPLES NATURAL GAS (UTILICORP) (100%)
2003	8	1226	1	West Wichita Gas Gathering, LLC (100%)
2003	9	1647	1	West Wichita Gas Gathering, LLC (100%)
2003	10	1097	1	West Wichita Gas Gathering, LLC (100%)
2003	11	1416	1	West Wichita Gas Gathering, LLC (100%)
2003	12	1301	1	West Wichita Gas Gathering, LLC (100%)
2004	1	1310	1	West Wichita Gas Gathering, LLC (100%)
2004	2	849	1	West Wichita Gas Gathering, LLC (100%)
2004	3	952	1	West Wichita Gas Gathering, LLC (100%)
2004	4	648	1	West Wichita Gas Gathering, LLC (100%)
2004	5	615	1	West Wichita Gas Gathering, LLC (100%)
2004	6	851	1	West Wichita Gas Gathering, LLC (100%)
2004	7	1151	1	West Wichita Gas Gathering, LLC (100%)
2004	8	862	1	West Wichita Gas Gathering, LLC (100%)
2004	9	1046	1	West Wichita Gas Gathering, LLC (100%)
2004	10	789	1	West Wichita Gas Gathering, LLC (100%)
2004	11	818	1	West Wichita Gas Gathering, LLC (100%)
2004	12	610	1	West Wichita Gas Gathering, LLC (100%)
2005	1	852	1	West Wichita Gas Gathering, LLC (100%)
2005	2	632	1	West Wichita Gas Gathering, LLC (100%)
2005	3	708	1	West Wichita Gas Gathering, LLC (100%)
2005	4	566	1	West Wichita Gas Gathering, LLC (100%)
2005	5	907	1	West Wichita Gas Gathering, LLC (100%)
2005	6	845	1	West Wichita Gas Gathering, LLC (100%)
2005	7	1123	1	West Wichita Gas Gathering, LLC (100%)
2005	8	1077	1	West Wichita Gas Gathering, LLC (100%)
2005	9	928	1	West Wichita Gas Gathering, LLC (100%)

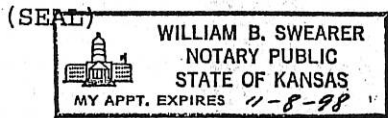
- EX 3

Ralph L. Krehbiel
Ralph L. Krehbiel

Leona Krehbiel
Leona Krehbiel

STATE OF KANSAS)
) SS:
COUNTY OF RENO)

This instrument was acknowledged before me on the 19th day of March, 1997, by Ralph L. Krehbiel and Leona Krehbiel, husband and wife.



Appointment Expires:

William B. Swearer
Notary Public



PALOMINO PETROLEUM, INC.

4924 SE 84th St. • Newton, Kansas 67114-8827
(316) 799-1000 • FAX (316) 799-2728

SB 184

Madam Chairman and members of the committee, I want to thank you for allowing me to testify today on SB 184.

My name is Richard Alldritt and I stand before you today representing Palomino Petroleum in opposition to SB 184. SB 184 is simply a solution in search of a problem.

For the last 16 years I have worked in the oil and gas industry and have worked for some 40 companies from 1993 to 2006. For the last 3 years I have worked as land manager for Palomino Petroleum, based in Newton, Kansas.

Palomino Petroleum is a small, independent oil company that operates some 105 leases in 25 counties in Kansas. As the land manager for Palomino I am on the ground or on the phone almost every day in the counties where we operate dealing with surface owners as well as tenants.

Palomino Petroleum, I believe, does business the right way regarding surface owners and mineral owners as well as tenants with proper and timely notification given before we commence any operations on leased land. When we do have a rare problem with a surface owner or tenant we resolve the issue outside the court system.

An oil and gas lease is taken from the mineral owners and gives the operator the right to explore the leased acreage. Some surface owners, our experience says less than 5%, do not own any minerals under their land. A small percentage of this 5% of these surface owners do take exception to any operations on their land and will go to great lengths to try to stop any seismic operations or drilling operations on their land as they receive no royalty from any production that may occur on their land. These surface owners are usually aware they received no minerals when they bought or inherited the land.

Regarding surface owners, approximately 30% of the land we lease is owned by absentee landlords, often living in other states or other countries.

Senate Natural Resources
March 5, 2009
Attachment #10



PALOMINO PETROLEUM, INC.

4924 SE 84th St. • Newton, Kansas 67114-8827

(316) 799-1000 • FAX (316) 799-2728

Approximately 30% of the land we lease is owned by two or more parties, in some cases there are many owners and in one case I know of there are more than 100 owners of a single quarter.

Some land has been purchased under contract and that contract is seldom recorded in the courthouse. The surface owner of record is not the actual surface owner.

Approximately 50% of the time the surface owner is not the operator, there is a tenant on the land who may or may not be in communication with the surface owner.

The last few years as oil prices climbed it was sometimes very difficult to get a drilling rig to drill your well. On occasion a drilling contractor would call and say their drilling schedule opened up for a week and they could move a rig to drill our well tomorrow.

Almost every operator in Kansas today will hire a contractor to shoot seismic on their leased acreage. The average seismic project will cover some 10,000 to 20,000 acres and may involve as many as 100 or more surface owners and tenants.

Weather in Kansas more or less sets these contractors schedules and in recent years these seismic companies have two or more years of projects scheduled. Snow or rain can completely disrupt the schedules and seismic companies can pack up and move in half a day. At times we receive notice they are moving over to begin shooting our acreage the same day. When we are paying up to \$10,000 an hour to place those seismic crews on our leased acreage we do not want to slow them down or bring the job to a complete stop.

SB 184 will place an undue and undeserved burden on operators, will create a large amount of additional paperwork, create problems instead of solving them, and probably cause some small companies to hire additional employees just to handle the paperwork and notification process.

I will be happy to stand for any questions the committee may have.

Thank you.

Richard Alldritt
Palomino Petroleum