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Testimony re: HB 2530
House Taxation Committee
Presented by Ronald R. Hein
on behalf of
National Cooperative Refinery Association
February 6, 2012

Mr. Chairman, Members of the Committee:

My name is Ron Hein, and I am legislative counsel for National Cooperative Refinery Association. NCRA, a petroleum refinery based in McPherson, Kansas, is a cooperative organized under the Cooperative Marketing Act.

First of all, NCRA wants to express appreciation to the Chairman of this Committee for the opportunity to provide input on House Bill No. 2350. Oil production and oil refining have been a major piece of the Kansas economy for many years. In 1990 the state of Kansas produced 151,858 barrels per day of crude oil. Oil production in Kansas, after declining to approximately 87,000 barrels per day in January of 2006, has rebounded to the current level of over 114,000 barrels per day.

Correspondingly, in 1990 there were eight operating petroleum refineries in Kansas. Today there are three operating refineries. NCRA is typical of the three remaining refineries in Kansas. We employ about 640 people in Kansas. We process about 100,000 input barrels per day and sell the petroleum products both locally and regionally. NCRA is owned by three regional farm cooperatives. All gasoline, diesel fuel and propane produced at the McPherson, Kansas refinery is sold to the three cooperatives to supply agricultural demand to the farms in the upper Midwest.

Kansas crude oil production although on the increase is not enough to adequately supply the three Kansas refineries which have a daily demand for approximately 340,000 barrels of crude oil. Approximately two-thirds of this crude oil must be procured outside of the State of Kansas and sometimes even outside of the United States. Canada is currently the top importer of crude oil into the United States. Of all the potential sources for crude from outside of the United States the best choice is Canada due to their geographic location. Also Canada is one of the only major oil-exporting countries that score highly on all measurements of civil, political, and economic freedom, including the rights of women to full career, medical and travel choices; on media freedom, religious freedom, and property rights, as well as on other measurements such as judicial independence and relative freedom from corruption.

The U.S. $13 billion Keystone pipeline system is playing an important role in linking a secure and growing supply of Canadian crude oil with the largest refining markets in the United States, significantly improving North American security supply. In June 2010 TransCanada commenced commercial operation of the first phase of the Keystone Pipeline System. Keystone's first phase was highlighted by the conversion of natural gas

pipeline to crude oil pipeline and construction of an innovative bullet line that brings the crude oil non-stop from Canada to market hubs in the U.S. Midwest.
Keystone Cushing (Phase II), an extension of the Keystone Pipeline from Steele City, Nebraska to Cushing, Oklahoma went into service in February 2011. The 36-inch pipeline connects to storage and distribution facilities at Cushing, a major crude oil marketing/refining and pipeline hub. This is the Phase in which NCRA is a committed shipper.

It was of extreme importance to the survivability and competitiveness of the three remaining Kansas refineries to have the Keystone Cushing Extension (Phase II) built and especially critical to pass through the proximity of the refineries. Although by choice there are no connections or delivery points off of Keystone within the State of Kansas NCRA like the other Kansas refiners, are receiving benefit of the pipeline via deliveries at Cushing, Oklahoma and shipping back to Kansas on pipelines which already exist.

If HB2350 were to be adopted one would need to consider the economic impact not only to the three Kansas refineries but for consumers as well. The "payment in lieu of tax" would become additional overhead cost to the pipeline. The pipeline would in turn increase the tolls paid by the Kansas refiners. The higher shipping costs of the crude oil would be passed down the distribution chain and unfortunately end up being paid by the consumer of gasoline and diesel fuel.

In addition, the adoption of HB2350 would send an alarming signal to any entity contemplating investment in the State of Kansas. It would indicate to them that any deal made was not a solid guarantee but vulnerable to the possibility of being withdrawn at some time in the future. With the State's focus on retaining existing businesses as well as in attracting new ones, it would be dangerous at best to send any potential negative messages.

In summary, NCRA stands in opposition of HB 2350 and asks the legislative body to honor their past decision which offered incentives to investors willing to bring economic expansion into the State of Kansas. NCRA encourages this committee to vote no on the bill and send a pro-active message to business encouraging investment within the State of Kansas.

Thank you very much for permitting me to testify and I will be happy to answer any questions.