

Southwest Kansas Royalty Owners Association

209 East Sixth Street
Hugoton, KS 67951

Testimony before the Senate Utilities Committee Senate Bill 401 March 11, 2004

Senator Clark and members of the Senate Utilities Committee:

My name is John Crump and I reside in Lakin, Kansas. I am the President of the Board of Directors of the Southwest Kansas Royalty Owners Association and I appreciate the opportunity to express to you my views in support of SB 401. The royalty owners in the Hugoton field need this legislation to help them ensure they are correctly paid for gas taken from that field. This is an area of concern not only for southwest Kansas but for all the state -- people who receive royalties live throughout Kansas and indeed all over the United States and the problems encountered are not confined to the area of the Hugoton field.

Our Association, and our support for this legislation, should not be perceived as opposition to the oil and gas industry. On the contrary, we wish the industry well; it is self-evident that if the industry does not do well, we as royalty owners also do not do well. We are well aware of the tremendous economic advantages which the industry has brought to the southwest Kansas area over the past six decades through development of the field, employment of residents of the area, and payment of taxes to local governments and to the state of Kansas. Our purpose in supporting this legislation is to seek ways to be sure we are treated fairly and in accordance with the contractual arrangements we have with the producing companies under the terms of our leases to them.

Our seeking your support for this legislation does not mean that we expect the Legislature to do our work for us. Neither do we expect through the passage of this legislation to require the companies to do our work for us. We are aware that royalty owners, just as recipients of payments in any business arrangements, must show due diligence in ascertaining that our payments are correct. We examine carefully the information provided to us with our payments and we ask questions regarding items which are incomplete or incorrect; we will continue to do so. However, that due diligence is often not enough and we find ourselves short of the information we desire. This legislation will help us obtain the information we need.

It should be noted that the reporting of gas taken from the Hugoton field is hopelessly chaotic. The producing companies report to the royalty owners the volume of gas taken and the prices for which that gas is sold; they report to the Kansas Corporation Commission the volume of gas; they report to the Kansas Department of Revenue the volume and the price, to the Kansas Geologic Survey the volume, and annually a report is made to county assessors of volume and price in each of the producing counties. None of these reports agree with each other. This legislation would not correct that situation but that unevenness of reporting adds to the need for this legislation because we are unable to tap into any source to confirm information provided to us by the companies.

Our Association believes that the reporting requirements imposed by this legislation would not be an onerous burden to the producing companies. Some companies already report most of this information and the reporting we seek with this bill would not be a new requirement but only a codification of what those companies are already doing. Other companies are not furnishing all the desired information and those companies would need to revise their procedures for collecting and reporting production information. However, that revision would be a one-time operation and, once established, each succeeding month the required information would quickly and easily entered into the revised format. Our Association has made an effort to ascertain whether the reporting requirements in SB 401 are out of line with the requirements of other states since many of the producing companies operate in surrounding states; our finding is that other states already require this kind of information.

We are also aware that the producing companies are uncomfortable with some provisions of the legislation because it would require them to report information on prices paid and they feel that is privileged and proprietary information. However, that requirement already exists, Mr. Chairman. I refer to the provisions of K.S.A. 1620; the proposed legislation does not, therefore, impose a new requirement to report prices received for gas sold. Our leases state that we are to be paid a proportion of the income from the gas which is taken and sold; we cannot be sure that it is being done correctly without information regarding the price received for the gas. With this legislation, we would be able to see what the price was, and to see what deductions were made from that price, so that we can calculate that the payment to us was the correct one.

As part of this statement, I am including several payment invoices to illustrate some of the problems we encounter as royalty owners. I have altered those statements to eliminate references to the identity of the royalty owner and I have added questions to the invoices to indicate for your perusal where I believe the producing companies have been incorrect or incomplete in their reporting.

I appreciate your courtesy in extending to me the opportunity to present my views and I urge your favorable consideration of SB 401.

Respectfully submitted,

/s/ John E. Crump

John E. Crump
President, SWKROA

Attachments