

**Testimony in Support of Senate Bill 212- Credits and Deductions for  
Investments in Certain Produced Water Recycling, Storage and  
Transportation Equipment**

**Senate Assessment & Taxation Committee  
Tuesday, March 12, 2013**

Chairman Donovan and Members of the Senate Assessment & Taxation Committee:

My name is Erik Bartsch, and I am the General Manager for the Mississippi Lime/Mid-Contingent play for Shell Exploration and Production. In my current role I am responsible for the development of Shell's operations here in Kansas. I would like to thank the committee for allowing me the opportunity to testify today on behalf of Shell in support of Senate Bill 212.

Senate Bill 212 encourages companies involved in the oil and gas industry within Kansas to invest in and utilize produced water technologies in their exploration and production related activities such as hydraulic fracturing. Through the use of an investment tax credit, this bill helps level the playing field between utilizing fresh water and investing in and implementing water recycling technologies and systems, which require large upfront capital investments thereby making the use of produced water in oil and gas operations more expensive than using fresh water.

The need for large volumes of water is a growing challenge for oil and gas production and refining, and managing the risks has become increasingly demanding, especially in Kansas where drought conditions have continued for the last few years. Solving the water access issue for the oil and gas industry is critical if Kansas is going to be able to compete with other oil and gas producing states and continue on the path for economic growth and job creation for Kansans. Encouraging water reuse for the oil and gas industry has three primary benefits for Kansas: (1) it can be a significant conservation tool used to reduce the effects of the current drought conditions plaguing the state and forecasted to continue; (2) it can offer an alternate means for managing wastewater that would otherwise be injected into Class II disposal wells; and (3) maybe most importantly, reclaimed water provides an alternative water supply for the oil and gas industry and reducing the pressure on fresh water sources that can be used for other purposes.

We support this legislation for the following reasons:

- (1) This bill is a good example of how private industry can partner with Kansas to develop a long-term solution for the water issues facing both the state and the oil and gas industry-- and can be a win-win for public and private interests.. Governor Sam Brownback recently laid out a challenge to have "people thinking differently" with regard to the state's water challenges, and noted that the state should push as aggressively as possible to persuade farmers, industry and everyday Kansans to conserve water, in addition to having cities develop and improve water sources. This bill is an example of meeting that challenge.

- (2) This bill is a strategic priority for Shell's business in Kansas; will help move the industry to a more sustainable solution related to water use, while respecting the needs of the agricultural community and Kansas residents.
- (3) This bill reduces the after tax cost of investing in and implementing expensive water recycled technologies that are sometimes too costly to consider for many companies. Easing the financial burden of choosing produced water solutions over fresh water solutions is important as projects are often competing internally with other company projects for investment dollars.

While we understand the fiscal implications of Senate Bill 212, we encourage the Committee to consider the long-term tax revenues that will accrue to both the state and local communities from both sales/use and property taxes once these assets are put in place. The assets will be added to the property tax rolls of the counties where the infrastructure is located and will likely generate property taxes for over 20 years. In addition, the initial purchase and maintenance of these assets will generate sales and use taxes.

For example, assuming a \$100 million capital investment in produced water recycling technology is made by a company, the available credit would be \$25 million and could be taken over a four (4) year period or \$6.25 million annually.

Property taxes would however begin to be paid in the year the asset was placed in service and likely continue for the next twenty (20) years. At an equipment tax rate of 30%, total property taxes paid over the life of the assets would be approximately \$60 million.

The amount of tax revenues generated over the life cycle of the assets covered by the initial investment tax credit, far outweigh the amount of the investment credit itself. The simple example also does not take into any sales and use taxes that would be paid on the acquisition and maintenance of the assets.

Promoting and adopting sustainable solutions for effective life cycle management of water makes economic and environmental sense. Therefore, we respectfully urge you to support Senate Bill 212 and help Kansas move forward in resolving its water challenges while continuing its growth and expansion of its oil and gas industries. This legislation is an opportunity for Kansas to "think differently" and rise to the challenge issued by Governor Brownback.