

Comments Submitted in Support of a Substitute for SB 401
Offered by Ken Peterson, Director
Kansas Petroleum Council

To the Senate Utilities Committee
March 11, 2004

Mr. Chairman and members of the Committee, thank you for allowing me to offer comments proposing a substitute for Senate Bill 401. I am the director of the Kansas Petroleum Council, a trade association representing several gas production companies in the Hugoton Field. They are ExxonMobil, BP, Oxy, and Anadarko.

Our member companies work hard to maintain excellent rapport with royalty owners. Seven years ago, the Legislature approved a royalty check stub law as a result of extended negotiations between oil and gas producers and royalty owners.

This year the Southwest Kansas Royalty Owners' Association requested the drafting of Senate Bill 401. The legislation was introduced on January 30. Producers said they had not been advised that the royalty owners had concerns with the current law.

In an effort to reach an understanding of their concerns, we arranged a meeting to discuss the bill with royalty interests and industry groups. Members of the Council, KIOGA, EKOGA and the Southwest Kansas Royalty Owners' Association meet on February 19 to discuss SB 401. The goal was to learn more of their concerns and to reach a possible agreement on draft language.

Our company representatives asked for examples of royalty owner difficulties with current law. They were given a royalty owner newsletter that listed those concerns. Our companies asked for actual examples and, to date, none has been provided.

To seek an agreement with the royalty owners, our company experts went to work preparing an alternative proposal to Senate Bill 401.

The compromise is before you today. It is uniform with Texas law, which, by the way, was the result of protracted negotiations between production interests and royalty owners. One does not craft legislation in a couple of months that affects tens of thousands of royalty checks and hundreds of thousands of dollars in payments.

One of our critical concerns on this issue is uniformity. Our companies issue royalty checks in many states so a key goal is consistency in the form of check stub information. That is why the substitute proposal follows Texas law.

We reached an agreement on the proposed alternative among our member companies, then submitted the substitute on Monday to the Southwest Kansas Royalty Owners' Association, to KIOGA and to EKOGA.

The substitute provides that additional information will be listed on the check stub. It requires that producers each year send out a reminder to royalty owners that they can request additional information, and it provides for court action if information is requested and is not forthcoming within a 60-day period.

Current Kansas law, with significant input from the Southwest Kansas Royalty Owners' Association, was designed to provide all necessary information. Royalty owners already can request information from companies, who must respond within 60 days. Many of our companies provide websites to assist royalty owners with their questions.

We have serious problems with SB 401 as introduced. The penalty provisions are outlandish, to coin a phrase from one of our member company representatives.

Many requests that oil and gas producers do receive are for information already provided on the check stub or by other orders. A survey of our member companies reveals that only 2 percent of all royalty payments ever even generate a request.

Original SB 401 is a case of overkill. We regard current Kansas law as sufficient, but we also are willing to work further with the royalty interests to discuss positive improvements that will work for all concerned. We invite the royalty owners to look at the substitute, to participate in more discussions and to talk about real life examples of their concerns.

Above all, we urge the Committee not to overburden the oil and gas industry with the extraordinary requests put forth in SB 401.

Thank you.