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Testimony to Senate Assessments and Tax Committee
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Concerning Senate Bill 212 - Credits and Deductions for Investments in Certain Produced Water Recycling Storage and Transportation Equipment

I am Gary Mason, CEO of iSi Environmental in Wichita, Kansas. I reside at 6317 N. Grove, Park City, Kansas. We have been in business for 23 years providing environmental consulting support to private businesses throughout the region.

I personally have been involved in the environmental industry for approximately 35 years. During this time, I have worked for government, private industry and consulting sectors. My experience has been mainly in the Midwest, but at points in my career I have worked throughout most of the nation. The purpose of my remarks today is to provide you with a general overview of policies that are being considered and used by state and local governments around the country to help deal with the challenges around limited water supplies. Many of their responses combine aggressive water conservation measures with water recycling initiatives to address current as well as future water scarcity. My remarks should help guide this committee and others in your discussions about the options Kansas can employ to increase recycling and reuse of water in the state.

The policies most frequently being used across the country fall into four main categories, including efforts to:

- Provide more information on and recognition of water recycling and reuse efforts;
- Reduce or remove regulatory or cost barriers that prevent more water reuse or recycling;
- Provide financial, regulatory or other incentives for water recycling and reuse; and
- Require more water recycling and reuse.

I would like to focus specifically on the efforts being used to remove cost barriers to water recycling and the use of financial incentives to encourage water recycling among the oil and gas industry. Let's look at what two other oil producing states are doing to promote the use of produced water in oil and gas operations—Louisiana and Texas.

In Louisiana, for example they enacted a 20% produced water injection incentive that is taken against the state's severance tax. The stated objective of the exemption is: "to help accomplish the objective of reducing the discharge of produced water, and to help ease the tremendous financial burden placed upon the oil and gas industry." The exemption is an economic incentive to producers of oil and gas by allowing them to realize a severance tax savings if they inject produced water into an oil and gas reservoir, from the same reservoir and field, for the purpose of increasing the recovery of hydrocarbons therefrom.

Texas on the other hand has chosen to utilize a sales and use tax exemption to help incentive the oil and gas industry to move to the use of produced water for their operations. Sec. 151.355(7) of the Texas Tax Code provides a sales and use tax exemption for "tangible personal property specifically used to process, reuse, or recycle wastewater that will be used in fracturing work performed at an oil or gas well". This exemption applies to the state sales tax of 6.25%.

Both of these examples illustrate how states are trying to incentivize and move the oil and gas industry toward the use of produced water. Kansas is not alone in their need to resolve major water issues. However, if the state does not act soon, other states will surpass Kansas in solving the issue and potentially attracting oil and gas investment dollars away from the state.

From a more local perspective, if industry is willing to mindfully use conservation tools, it reduces the demand on fresh water resources. Water saved by these technologies will be available to farmers, residential water users, and other businesses thus avoiding negative economic impacts during these tough drought conditions.

Senate Bill 212 allows Kansas to partner with the private sector to help partially solve the water crisis currently facing the state. This bill will promote fresh water conservation by giving the oil and gas industry an incentive to move toward produced water. It has been my experience that businesses tend to avoid new environmental practices as they introduce new unknown risks. Incenting investment in produced water and related technologies, which has a significant public purpose, will have the effect of encouraging the entire industry and even other non-oil and gas related industries to better understand methods to use non-freshwater resources.

In conclusion, Senate Bill 212 is line with what other states are implementing and can be a significant first step in Kansas' efforts to promote fresh water conservation and reuse by industrial water users.