

MINUTES OF THE SENATE UTILITIES COMMITTEE.

The meeting was called to order by Chairperson Sen. Pat Ranson at 1:30 p.m. on March 7, 2000 in Room 231- N of the Capitol.

All members were present

Committee staff present:

Lynne Holt, Legislative Research Department  
Mary Torrence, Revisors of Statute Office  
Jeanne Eudaley, Committee Secretary

Conferees appearing before the committee:

Ken Peterson, American Petroleum Institute  
Diana Edmiston, Assistant General Counsel, Conservation Division, KCC

Others attending:

See attached list

Sen. Ranson called the committees' attention to the Minutes of Meetings for February 15, 16, 22 and 29, which were distributed to members with a memo. She announced a correction in the February 22 Minutes, with an incomplete sentence which will be corrected. There were no other changes. Sen. Clark made a motion the Minutes be approved as corrected, and it was seconded by Sen. Steffes; the motion passed.

Sen. Ranson announced a continuation of the hearing for **HB 2826-oil and gas; relating to unitization and unit operations.** She introduced Ken Peterson, who gave a brief statement of support for the bill (Attachment 1). Mr. Peterson added that Occidental has two projects ready for unitization, which they believe will result in an increase in production. He also stated that the Kansas Corporation Commission has the final say in this process.

Sen. Ranson referred to the reduction in percentages from 75 to 63 percent, and asked what "excluding the overriding royalty interests and others interests mean"? Mr. Krehbiel answered that overriding royalty interests are free of cost and are carved out of the working interest. As an example, if you are a landowner and I am an oil and gas operator and I would sign a lease with you for the right to go onto your property to drill a well; then I will give you a one-eighths or a three-sixteenths royalty interest; I will have a geologist hired to do the drilling, and there would be other labor and interest costs involved. Generally you give the geologist an overriding royalty interest, so of the seven-eighths ownership share of the operator, which is called the working interest, his share will be reduced by whatever percentage he gives as an incentive to his geologist as an override. Sen. Ranson then asked if the overriding interest would have the right to vote on the unitization plan. Mr. Daniels answered that in the past they would have a right to vote with the royalty owners, which tends to distort the true intent of the law; but the bill would exclude that. Sen. Ranson clarified that the proposed legislation would exclude overriding interests and other interests, and they would not be allowed to vote.

Sen. Ranson referred to the reduction in percentages from 75 to 63% and the difference in the voting requirements when using artificial energy. Mr. Daniels answered with artificial energy and secondary recovery there are existing leases with the oil and gas interests, and the royalty owners are willing to reduce the percentage. However, repressurizing involves horizontal drilling, which is rarely done in Kansas, where the reservoir is opened up to the well board which greatly increases production. You do not have forced pooling in Kansas; consequently, the royalty owners want to maintain the 75% percentage requirement. Sen. Ranson questioned if the KCC has been given the flexibility to assign owners a higher amount of royalty interest than the percentage authorized by law, if those higher interests are granted to land owners as the prevailing industry practice in certain areas of the state? Mr. Daniels answered that is the situation when you have an unleased interest in the property unit and there is no oil or gas operator and you are dealing with a land owner only, then the prevailing practice governing the amount of interest would be used.

## CONTINUATION SHEET

MINUTES OF THE SENATE UTILITIES COMMITTEE, Room 231- N Statehouse, at 1:30 p.m. on March 7, 2000.

Sen. Ranson then introduced Diana Edmiston, who stated the Commission neither opposes nor supports the bill; however, she concluded with the observation that the Commission's duty will increase as the threshold percentage required for consent of a unitization plan is lowered. Sen. Clark questioned the statement that it is difficult to locate the royalty owners, and the problem with the working interest to agree during the process. Ms. Edmiston answered it is a potential problem getting the working interests to agree, and that the objections to the unitization plan is usually in the evaluations and who bears the cost of the plan. She added that modifications to the plan are attempted until there is a resolution. To another question she confirmed that unitization can be accomplished at different layers and sometimes includes more than one parcel. She did not have statistics on the zones involved with proposed unitization plans in the past. Sen. Barone stated he wanted to understand the Commission's position on the legislation and questioned Ms. Edmiston's last paragraph and the fact that fifteen applications were filed since July, 1995, and all fifteen were approved. Ms. Edmiston stated she is not aware if any applications have been turned down. She agreed with Sen. Barone that the fundamental duty remains the same with the legislation, and that is to be fair and equitable. Sen. Brownlee also discussed objections participants have to a unitization plan and who is responsible for the costs. Ms. Edmiston stated the reasons vary with the value of the tracts of land being one. She also stated the cost sharing interests pay the cost based on a proportionment share. She stated the Commission does not oppose the bill, because the statute allows the Commission to make the final determination. Ms. Edmiston stated she was included in the hearings regarding this legislation and assisted in writing it. Sen. Ranson questioned if the Commission's attorney or staff examines the applications and if the applicants are contacted. Ms. Edmiston answered the staff examines the application and attempts to work out problems, if there is one, before the applications comes up for hearing. Sen. Ranson also asked if the Commission is able to stop the plan if there are sufficient objections to it, and Ms. Edmiston answered the statutes gives authority to the Commission to make a determination to stop the plan and referred to the statute and the first paragraph of the bill. Sen. Pugh asked if the bill is directed to any one situation, and Mr. Krehbiel answered he is not aware of one specifically, but that the working interest owners in the Russell area are considering a unitization plan.

Sen. Ranson called attention to a booklet entitled "CO2 Flooding in Kansas", which was presented to the Kansas Independent Oil and Gas Association in a meeting in May of 1998 (Attachment 3). Copies were also distributed to the committee. Mr. Krehbiel and Daniels briefly described the procedure, which is the latest technology and mixes CO2 (carbon dioxide) in an existing well and follows the water flow, and is then pumped into the oil to make it more fluid and move easier. Mr. Daniels referred to studies done at the University of Kansas and a Kansas Geological survey study, which is included in his presentation to the committee on Thursday. Mr. Daniels answered questions from the committee regarding new technology being introduced which will greatly increase oil production in the state. Sen. Ranson called the committees' attention to a written statement of support from Erick E. Nordling (Attachment 4), which has been distributed to the committee.

After discussion, Sen. Steffes made a motion the bill be passed, and Sen. Morris seconded the motion. Roll call vote was taken, and the bill passed. Sen. Ranson announced that Sen. Clark will carry the bill on the Senate floor.

Sen. Ranson announced the committee will hear a review of the statutes and post audit report on the issue of plugging of abandoned wells on Wednesday, followed by a public hearing on Thursday in anticipation of issuing a report on the subject.

Meeting adjourned at 2:30.

Next meeting will be March 8.