

**Testimony of M. L. Korphage  
Division Director  
State Corporation Commission of Kansas  
Conservation Division  
before the  
Senate Committee on Utilities  
February 13, 2007**

**SB 238**

Good morning Chairman Emler and members of the Senate Utilities Committee. I am appearing here today in support of Senate Bill 238 and the amendments to K.S.A. 55-151 made in the bill.

The proposed amendments to K.S.A. 55-151 are twofold: (1) Instead of sending copies of intents to drill to the Kansas Department of Health and Environment (KDHE) and the Clerk of the County in which a well is located, the information concerning the intent to drill could be made available to these parties, (2) The prohibition against the Commission charging a fee for an application for an intent to drill would be eliminated and the Commission would be allowed to charge a fee for an intent to drill. Any such fee would be established by regulations adopted by the Commission.

Currently, at their request, the Commission is not sending copies of intents to drill to KDHE or to county clerks. Currently the intents to drill issued are posted daily on the KCC website and are available to KDHE, county clerks and the public. This practice has been in place for several years and has been satisfactory to all parties. In addition, we are currently in the testing stage to allow electronic filing of applications for intents to drill. The proposed amendment aligns the statute with the current practice which has evolved with technological changes and which appears to be working very well for those involved in the process.

The bulk of the Conservation Division's operating funds come from assessments on oil and gas produced in the State. Experience over the last ten years has shown that an assessment based on production of depleting resources needs to be increased every four or five years. Although small in comparison to the price of oil and gas, the last two increases have doubled the assessment. We believe that we need to start looking at other methods for funding part of the Division's operations at some point in the future. One such possible option is to place a fee on drilling intents.

In discussions with industry members of the oil and gas advisory Committee we have identified three areas that could be at least either partially or wholly funded through fees placed on drilling intents. A fee on intents to drill would place the burden of funding that part of the Division's operations on the parties using those resources rather than additional assessments on production. Or such a fee could be used to help fund the Abandoned Well Assurance Fund. That fund is used to plug abandoned wells drilled after July 1, 1996 when there is no viable responsible party available to pay plugging costs. The number of these wells, which could come

under this fund, will increase with time and the Commission in cooperation with industry is looking at methods to fortify the fund. And finally a fee on drilling intents might also be used to replace the current well plugging fee, which is charged to operators when wells are plugged. That action would in effect place a fee at the front end of the life of a well rather than at the end of the well's productive cycle.

While the Division has no immediate plans to propose a regulation placing a fee on intents to drill we believe it is an option that should be available for consideration by the Commission. Any such fee would be subject to the Commission's regulatory process, which would have the Commission receiving recommendations from the Oil and Gas Advisory Committee and would also involve a public hearing to receive additional comment from industry and the general public. For informational purposes I have attached a graph, which shows the number of drilling intents issued during the period 1999 –2006.

Thank you for the opportunity to provide these comments, should the Committee have any questions I would be glad to answer them.

