

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE

The meeting was called to order by Vice Chairman Les Donovan at 10:55 a.m. on March 10, 2004, in Room 519-S of the Capitol.

All members were present except:

Senator David Corbin- excused
Senator Edward Pugh
Senator Mark Taddiken- excused

Committee staff present:

Chris Courtwright, Legislative Research Department
Shirley Higgins, Committee Secretary

Conferees appearing before the committee:

Ed Cross, Kansas Independent Oil and Gas Association

Others attending:

See Attached List.

Senator Donovan called the Committee's attention to the minutes of the March 9 meeting.

Senator Buhler moved to approve the minutes of the March 9, 2004, meeting, seconded by Senator Lee. The motion carried.

Discussion on: **SB 369—Mineral severance tax exemptions**

Senator Donovan recalled that the hearing on **SB 369** was held on February 2. At that time, the Kansas Independent Oil and Gas Association (KIOGA) testified in support of the bill and proposed several amendments which the Department of Revenue had not seen prior to the meeting.

Ed Cross, KIOGA, noted that, as introduced at the request of the Department of Revenue, the bill simply allowed for a bi-annual application for severance tax exemptions. KIOGA offered amendments regarding severance tax exemptions for low-volume oil production, coal bed methane, and production enhancement. KIOGA suggested placing the low-volume severance tax exemption on gas wells at 60 Mcf per day. Mr. Cross noted that KIOGA believes this exemption should be based on volume produced, not dollars generated per day, so that fluctuations in price would not cause monthly changes as to whether a well was exempt or not.

Senator Donovan commented that fiscal note on the 60 Mcf amendment is substantial. Mr. Cross indicated that the fiscal note would be between \$9 million and \$18 million. Mr. Cross also noted that the Interstate Oil and Gas Compact Commission defines a low-volume stripper well as a natural gas well that produces 60 thousand cubic feet (Mcf) per day or less. He said an average stripper gas well in Kansas averages 32.8 Mcf per day, and one that is not a stripper averages almost 125 Mcf per day. Using 60 Mcf, Kansas has almost 10,500 stripper wells and about 7,200 non-stripper wells. Mr. Cross noted that the oil industry would like to see natural gas exempted on volume rather than a monetary value but emphasized that KIOGA would not want the bill killed because of the fiscal note on the 60 Mcf. He noted that perhaps this is not the year to look at changing from a monetary value to 60 Mcf or perhaps 40 Mcf. He pointed out that the price reference points for low volume suggested by KIOGA are well below what oil prices are today, thus, there would be no negative fiscal note on them.

Senator Donovan confirmed that, without the 60 Mcf amendment, **SB 369** has no fiscal note. For the Committee's information, he asked Department of Revenue staff to prepare fiscal notes on 35 Mcf and 40 Mcf. Staff agreed to have the fiscal notes prepared by next week. Senator Lee noted that the other amendments proposed by KIOGA should also be discussed if the Committee chooses to adopt them.

The meeting was adjourned at 11:15 a.m. The next meeting is scheduled for March 15, 2004.