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Testimony to the Senate Committee on Utilities
Senate Bill 401
March 11, 2004

- Good morning Chairman Clark and Members of the Committee.
- My name is Alan DeGood, I am the current president of Kansas Independent Oil and Gas Association (KIOGA) KIOGA represents oil and gas producers in Kansas, a vast majority of which are small business entities. I am also the President of American Energies Corporation. American Energies operates over 400 oil and gas wells in the state. American Energies also has two LLC's, American Energies Pipeline, which has over 150 miles of gas gathering lines in Kansas, and American Energies Gas Service, which is a small gas utility with 50 miles of pipeline and serves 250 customers around McPherson.
- The original royalty payment law was approved in 1997, as a compromise bill between producers, purchasers and royalty interest owners. Senate Bill 401, we are discussing today, greatly concerns KIOGA members.

- There is presently legislation in place to protect any interest owner, whether it be royalty interest or working interest owners with interest in oil and/or gas well sales in Kansas.
- I am referring to K.A.R. 82-3-802 "Gas Gathering Services and Access, Complaint, Hearing" adopted by the Kansas Corporation Commission. Under this regulation, any interest owner can receive information about price and sales volume by requesting it from the operator or purchaser. If there are issues between the interest owner, operator, or purchaser, the Kansas Corporation Commission conducts an informal hearing to settle the issue. Should no agreement be reached, a formal hearing is scheduled to be heard by the KCC to reach a settlement. This system does work and is currently being utilized to determine gas prices.
- Senate Bill 401 would completely change the way interest owners will be paid.
- To begin, two major crude oil purchasers in Kansas would no longer distribute revenue, because they lack information regarding production by well on the lease.
- This means, the operator of the lease would become the revenue distributor. For American Energies, as operator of approximately 400 wells, with an average of 15 royalty, overriding royalty and working interest partners, this would mean an additional 6,000 pieces of mail per month at a cost of $.37 cents per piece. American Energies additional postage expense would be $2,200 per month. Gathering the production and sales data needed for

distribution to interest partners would require an additional employee with benefits, at a cost of $42,000 per year. A conservative estimate for the combined cost of additional postage, paper, ink, and man power is $50,000 per year.

- There are currently approximately 60,000 oil and gas wells producing in Kansas. Extrapolating American Energies' costs per well, would mean an additional $7,500,000 per year to the oil and gas producers of Kansas.
- The Amended Senate Bill 401 would break the confidentiality agreement that KIOGA members have with their oil and gas purchasers. These private contracts would no longer be private with the information as required in the proposed Senate Bill 401. I wonder if this doesn't violate the existing law K.S.A. 55-1621 (1997) which states "Nothing contained in this Act shall be construed to amend or otherwise affect any contractual obligations or rights which may otherwise exist."
- Oil and gas leases **are also contracts** between the lessee and the producer and these contract states that the price paid, is the market value of the product at the wellhead which they are receiving.
- Dr. Carr from the Kansas Geological Survey estimate that 98% of the Kansas oil wells are stripper wells and that 63% of the Kansas gas wells are classified as stripper wells meaning on the average they generate revenues of less than $100.00 per day. (Taken from the "Kansas Energy Plan 2003) The penalty phrase of the Senate Bill 401 is $1000 dollars per violation per day, with 15

interest owners in a well this would equal $15,000 per day. The average stripper oil well produce 2.7 barrels of oil per day or $86.00 a day.

- **In summary, the old adage applies, "If it isn't broken, don't fix it."**
- **The 1997 law, K.S.A. 55-1614 et seq., proposed to be amended by SB 401 is working** and K.A.R. 82-3-802 gives any interest owner the right to obtain information on any gas lease. The major gas producers have spent many hours, without the benefit of the independents, trying to work out a compromise on Senate Bill 401. The independent oil and gas industry throughout Kansas believes that the interest owners are being paid the best price possible and additional regulations would only cut into the economic life of the wells. **We urge you to not pass this legislation and support the current legislation as agreed upon by all parties in 1997.**