

SENATE UTILITY COMMITTEE
February 21, 2007

RE: SB 325 - An Act concerning Natural Gas; relating to gas gathering facilities amending K.S.A 55-1,102, 55-1,104, 55-1,109, 66-104c and 66-2101 and K.S.A. 2006 Supp. 66-104 and 66-105a and repealing the existing sections.

Testimony of David Bleakley - Legislative Chairman
Eastern Kansas Oil and Gas Association
&
Director of Acquisitions & Land Management
Colt Energy, Inc.

The Eastern Kansas Oil and Gas Association (EKOGA) strongly opposes amending K.S.A 55-1,102, 55-1,104, 55-1,109, 66-104c and 66-2101 and K.S.A. 2006 Supp. 66-104 and 66-105a and repealing the existing sections.

Our association represents and supports eastern Kansas oil and gas producers, gas gatherers, service companies, royalty owners and associated businesses along with the overall welfare of the Kansas oil and gas industry in this state.

BACK GROUND ON EASTERN KANSAS

Eastern Kansas and in particular Southeastern Kansas has been experiencing a boom in shallow gas production thru the major development of coalbed methane gas (CBM) over the last nine years. Several hundred miles of new gas gathering pipeline has been installed to bring this gas to market. This gas production has generated millions of dollars in severance tax and conservation fee fund tax going to the state general fund and the Kansas Corporation Commission, not to mention the millions of dollars the counties have derived from the new personal property taxes being assessed on all of these new wells, pipelines and assets. Numerous Gas Companies collectively have invested several hundred million dollars to bring this boom to fruition. Most of these companies have drilled their own wells in one company, operated their wells in another and have an affiliate company build the gas gathering systems and compression to move their gas to the market. Some of the companies gather third party gas, but none of them consider themselves a public Utility and what's more they don't want to be.

OUR CONCERNS

1. This appears to be a regional battle between the Southwest Kansas Corn Growers association and the southwest Kansas gas gatherers and to a smaller extent the gas producers. Our question is, why should the rest of the gas producers and gas gatherers in the state be pulled into this regional battle thru legislation and a bill that sets up the KCC as court and the policeman to monitor, referee and enforce; access to a gathering lines, fees charged for selling and

transporting gas, and when a gas gatherer would be allowed to abandon a segment of their own pipeline?

2. Who is going to pay for the additional KCC manpower necessary to accomplish the above requirements if this bill would pass? The answer is the entire oil and gas industry across the State thru an increase in the KCC conservation assessment. This assessment was just recently raised 41% on December 22, 2006 do the fact that the oil and gas division of the KCC needed additional funding to operate. Additional manpower means additional cost which means additional KCC conservation assessments to the oil and gas industry.
3. What obligations do any gas gatherers have to give open access to anyone who wants it, just because they want a cheaper energy source than they can find anywhere else in their area? Doesn't a private pipeline have a choice to sell or not sell gas to anyone they want to under private negotiations based on economics and a business decision.
4. Most gas gatherers are not Public Utilities and don't want to be because they were organize to drill, develop, produce and gather gas to deliver into major pipelines and not for the purpose of distributing gas to individuals.
5. This bill would not encourage the drilling, development and new pipelines being laid to bring this gas to market and we believe would actually discourage and make companies rethink their investing in gas in Kansas that has been such a windfall for the state and counties.

CONCLUSION

The Hugoton gas field has been producing gas since 1928 (79 years) and has been a major revenue source for the state and has supplied gas not only to this state, but to the county over those years. It has also provide royalty owners and mineral owners with hundreds of millions of dollars of royalty income and landowners, irrigators and other rural consumers with cheap natural gas for a very long time period outlasting most gas fields many times over. Now as the old adage goes "all good things come to an end" and the Hugoton gas field is no exception and although it is not yet finished producing, it is in a very mature stage of it production life. Many landowners, irrigators and rural customers in southwest Kansas have come to look at the gas from the Hugoton field as almost a birthright having free gas taps and cheap gas passed down from grandfather to father to son, but as the proponents said themselves yesterday they do have irrigation pumps running on electricity and other energy sources besides natural gas. This begs the question, why are we here trying to pass a bill and legislate gas gatherers state wide over a dwindling resource of natural gas specifically located in southwest Kansas and in particular for relative small group of beneficiaries instead of the landowners, irrigators and rural customers looking for long term solutions to their energy needs in that part of the state. Why aren't energy sources such as ethanol (based on corn), propane, diesel, electricity, solar (although not as cheap as natural gas) being planned for and implemented for the

future. We understand this is not an easy transition period both financially or for the sake that it has been this way for so long for the landowners, irrigators and rural customers, but a prudent business person must agree legislation is not the long term answer to this problem only securing other energy sources for the future will be the real answer.

Therefore, Mr. Chairman and members of this Committee, **EKOGA WOULD STRONGLY URGE YOU TO VOTE AGAINST SB 325** and let the gas gatherers do what they were setup in business to do and that is move gas from producing wells in the fields to the major gas transmission lines greatly benefiting the State, the counties and all the citizens of Kansas.

Thank you for your time.

David P. Bleakley