Approved: February 16, 1994
Date

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION.

The meeting was called to order by Chairperson Audrey Langworthy at 11:08 a.m. on February 15, 1994 in Room 519-S of the Capitol.

Members present: Senator Langworthy, Senator Tiahrt, Senator Martin, Senator Bond, Senator Corbin, Senator Feleciano Jr., Senator Hardenburger, Senator Lee, Senator Sallee, Senator Wisdom

Committee staff present: Chris Courtwright, Legislative Research Department
Bill Edds, Revisor of Statutes
Don Hayward, Revisor of Statutes
Elizabeth Carlson, Committee Secretary

Conferees appearing before the committee: Senator David Corbin
Don Schnacke, KIOGA
Jack Glaves, OXY USA
Ron Hein, MESA

Others attending: See attached list

APPROVAL OF MINUTES

Senator Sallee moved to approve the minutes of February 14, 1994. The motion was seconded by Senator Hardenburger. The motion carried.

SB 714--SEVERANCE TAX EXEMPTION FOR PRODUCTION FROM THREE YEAR INACTIVE WELLS

Senator David Corbin introduced **SB 714** and explained why it is needed in his community and district . He said this bill has to do with the economics of the state.

Don Schnacke, KIOGA, spoke in support of **SB 714** and urged the favorable passage of the bill. (Attachment 1) He spoke about the plight of the oil industry, not only in Kansas, but in the entire nation. **SB 714** is one of the recommendations to help alleviate this crisis. He said this law has been passed in Texas and it has been very successful. He said he also understands that it is being discussed in Oklahoma. It creates jobs, stimulates services and sale of supplies and results in increased sales tax collections. The state doesn't lose anything because the wells have been shut down but it would result in ad valorem taxes for the counties. This bill will not solve the entire problem, however.

There were questions from the committee concerning shutting down oil wells and if the pipes were pulled. Mr. Schnacke said the equipment is left in the ground. He was also asked about how many wells was he speaking about in Kansas, and he said it would be in approximately the 2,000 range.

Jack Glaves, OXY USA, also spoke in support of **SB 714**. (Attachment 2) He gave a great number of statistics and he said his numbers differ from Mr. Schnacke. He said the KCC advises there are currently 4,223 wells that are officially classified as "TA" which compares to 2,754 in 1992. This measure would provide an incentive to recomplete old wells with the potential of opening new zones and for multiple completions. This bill is also available for gas wells and it is estimated there are 528 gas wells that would qualify. These wells are widely distributed across the state. This exemption applies only to the severance tax and not the ad valorem tax. He urged the adoption of this bill.

Ron Hein, MESA, spoke briefly in support of **SB 714**. (Attachment 3) He said 60 percent of MESA's wells are in Kansas. **SB 714** will be beneficial to small, primarily independent oil and some small independent natural gas producers, but it will not provide relief for those producers with the vast majority of state, especially those with heavy production in the Hugoton field. Also, there will be no fiscal cost to the state and it would be helpful to the oil and gas producers in Kansas. He said a reduction in the severance tax on natural gas to parity with oil is still necessary to insure that Kansas producers can compete with other states such as Oklahoma and Texas, whose tax rates are significantly lower.

The hearing was closed on **SB 714.**

The meeting adjourned at 11:35 a.m.

The next meeting is scheduled for February 16, 1994.

GUEST LIST

SENATE ASSESSMENT AND TAXATION COMMITTEE

DATE: Feb. 15, 1994

NAME (PLEASE PRINT)	ADDRESS	COMPANY/ORGANIZATION
Ron Hein	Topeka	Mesa
Jack Glaves	Wichita	Oryx USA
Ned E. Lowry	Liberal	Lowry Exploration Inc.
Michelle Clum	Topeka	atty. Jon Small
ADAM BEREN	WICHITA	KIOGA
RAUL F. BRITO	WICHITA	BRITO / KIOGA
Jerry Langrehr	Wichita	Abercrombie Drilling Inc
GARY L Reed	Wichita	BRADEN-Deem, Inc
Dick Schremmer	Derby	KIOGA
DAVID PAUGH	WICHITA	Sunrise Oilfield Supply
MIKE REED	WICHITA	— — —
Don Callen	Wichita	Edmiston Oil Co
Albert O. Rimmer Jr.	Topeka	Maxus
RICHARD RODEWALD	EUDORA	TAXPAYER
Dena McFarland	Overland Park	OP Chamber of Commerce
SCOTT FEEKEN	TOPEKA	GOVERNOR'S OFFICE
Jim Pronold	Wichita	Kioga / Dolomite
Libby Quaid		AP
Paula Gentry Bridge	Wichita	The Texas Oil Company (1924)
LARRY G KING	WICHITA	Western Testing Co.
Steve Dillard	Wichita	Pickrell Drilling

KIOGA

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SENATE COMMITTEE ON ASSESSMENT AND TAXATION
FEBRUARY 15, 1994
RE: SEVERANCE TAX ON 3-YEAR INACTIVE WELLS

Statement of Donald P. Schnacke
Executive Vice President, KIOGA

We appear today in favor of passage of SB 714 which would establish an exemption under the Kansas severance tax law for wells which have been inactive for three years or more.

This Committee is undoubtedly aware of the plight of the oil industry in the United States and in Kansas. Senators Moran and Papay have asked us to make a presentation today to enlighten more legislators and the public about what is driving the crude oil crisis in Kansas; what effect it is having on the Kansas economy; and for suggested administrative and legislative remedies that could be enacted to relieve the pressure on this important segment of our industry. We invite all of you to attend this session beginning at noon today in the Old Supreme Court Chambers.

I'm taking the liberty of presenting to you the hand-outs which will be used today at noon. They reflect the negative trends relating to crude oil production and those who rely on that industry to survive.

There are few things the Kansas legislature can do to alleviate this crisis. It is a crisis national in scope and is driven by a national policy of reliance on the importation of cheap foreign crude oil. Our suggested legislative and administrative remedies found in the packet of information we have given each of you, are some of the initiatives we suggest you undertake to address this issue. One of those recommendations is the passage of SB 714, which would enact an incentive to bring inactive and shut-in oil production back into active production. This law was enacted in Texas last year and I understand it is on the agendas before the Oklahoma and Arkansas legislatures this year.

I've attached to this statement a recent article which appeared in the ***Oil Daily*** February 3, 1994. It reports how successful this law has been in Texas. It is incentive legislation. It creates jobs. It stimulates services and the sale of supplies, resulting in increased sales tax collections. It puts the wells back on county ad valorem tax rolls. Everyone wins. The State doesn't lose anything because while these wells were shut-in, no severance tax was collected.

Senate Assessment + Taxation
February 15, 1994
attach. 1-1

I would have to be very frank with you concerning this legislation. I have yet to find a producer that this would help. Undoubtedly there are some. There are about 2,000 temporarily abandoned wells of record in Kansas today. Unlike Texas, Kansas has several exemptions under the severance tax act and production from a revived well may or may not fall under one of them. This bill would create the 14th exemption under the crude oil severance tax law enacted in 1983. We hope that if you pass this next exemption, you won't think you have solved or contributed to the overall solution to the plight of the oil industry in Kansas. We hesitate to waste a legislative card to support this bill when our industry is in such peril and crisis--as will be outlined in some detail beginning at noon in the Old Supreme Court Chambers. We would much rather have the Committee focus on the big picture and consider an orderly repeal of the severance tax or the ad valorem tax and return Kansas oil producers to parity with other states like Oklahoma. It was a mistake to enact the severance tax in 1983 and it should be repealed.

Donald P. Schnacke

DPS:pp
Attch

The Oil Daily

Thursday, February 3, 1994 Volume 44, No. 23

Texas Industry Incentives Reactivate Twice the Number of Wells Predicted

By Jeff Share
Oil Daily Staff Writer

HOUSTON — The Texas Railroad Commission (TRC) reports that 815 inactive wells have been brought back into service under a new incentive plan that provides operators with tax breaks.

Commissioners Mary Scott Nabers and Barry Williamson said the number of well reactivations is more than double the total the TRC anticipated and is providing the state with several million dollars of additional revenue.

"We asked the Legislature to invest in the Texas energy industry by forgoing some severance taxes as an incentive to get the marginal wells pumping again," Williamson said. "This is a tremendous success story for the oil and gas industry."

Under H.B.1975, which took effect Sept. 1, operators are eligible for a 10-year severance-tax exemption for wells that are brought back to production after having been idle for at least three years.

The TRC, which lobbied heavily for the bill, projected a minimum of 368 wells would be returned to service.

"The economic implications of this response are significant," Nabers said. "The additional projected annual production from the 447 wells [the reactivations above TRC projections] means a production value of $55.3 million, an economic value of $160.8 million and a state sales tax value of $3.2 million."

She said the sales tax increase from the so-called windfall wells alone exceeds the severance-tax loss by nearly $500,000. Officials in Arkansas and Oklahoma are said to be studying the bill.

The 447 additional reactivated wells are expected to produce up to 1.7 million bbl of crude and 14.3 Bcf of natural

(Continued on page 4)

Texas...

(Continued from 1)

gas per year, Williamson said.

The reactivations include 645 oil wells averaging 12.9 b/d of crude and 23.5 MMcfd of casinghead gas per well, and 170 gas wells averaging 333.2 MMcfd each. Operators have until Aug. 31, 1995, to apply for the exemption. There were an estimated 80,000 inactive wells in 1992, Nabers said.

Williamson and Nabers said in separate interviews with *The Oil Daily* that the program's success demonstrates that producing states must take the lead in trying to restore strength to the industry.

"We've run most of our large major oil companies out of this country into other countries," Nabers said.

"They tell me it's easier for them to do business outside of America. It doesn't seem to me we did much to reverse that trend as a nation in 1993," she said.

"We need more incentives and they should start now. Every well that returns to production benefits the operator, the industry and the Texas economy. Incentives like these should only be the beginning," she said.

Although production has been falling for more than 20 years, Texas production still averages 1.55 million b/d, and the drop in prices from $20 to $14 means a loss of about $9.43 million a day, Williamson said.

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REMARKS OF JACK GLAVES
ON BEHALF OF OXY USA
IN SUPPORT OF SENATE BILL 714
BEFORE COMMITTEE ON ASSESSMENT AND TAXATION
FEBRUARY 15, 1994

This Bill amends the severance tax statute by the addition of the language contained in Section 5, Page 4, Lines 12-27, which exempts oil and gas from the severance tax produced from inactive oil and gas wells. "Inactive" is defined as any well that has not produced oil or gas in more than one month in three years prior to the date of application to the KCC, or a certification as a well sought to qualify for the severance tax exemption. The revision would become effective on publication in the statute book or July 1, 1994, and is effective only for a two year period, i.e., the application or certification must be made prior to July 1, 1996. Hence, there is a two year window of opportunity which ensures that an operator can't shut his well in for three years in order to qualify for the exemption. A qualifying well would be entitled to a ten year moratorium from severance tax collection.

This Bill is patterned after a similar provision adopted by Texas last year which became operative last September 1st. A similar measure is pending in the Oklahoma legislature (House Bill 2430). The Oklahoma measure only requires a well to be inactive for two years, and the tax exemption is effective for a ten year period. The administration of the Texas act is by the Railroad Commission. I have discussed its operation with David Garlich, Director of the Oil & Gas Division, and he confirms the data in the attached Oil Daily release. In four months (September - December

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attach 2-1

1993) 447 inactive wells were reactivated, producing 1.7 million barrels of crude oil and 14.3 million cubic feet of gas over a year's time with an economic value of over $160 million, to the benefit of the Texas economy.

The KCC advises that there are currently 4,223 wells that are officially classified as "TA" which compares to 2,754 in 1992. This does not include the multitude of old abandoned wells in Southeast Kansas, nor wells that are in waterflood projects, nor wells that have recently been shut in from the price collapse. Although the primary benefit of this legislation would flow to independent oil operators and their royalty owners in the old Central Kansas oil producing regions. The geographical extent of the benefit is surprisingly widespread. Beneficiaries would include wells that have mechanical difficulties such as a hole in the casing or tubing, or have a high water cut that makes lifting costs non-economic even though they may be capable of producing oil that would disqualify them from marginal well exemptions.

The measure would provide an incentive to recomplete old wells with the potential of opening new zones and for multiple completions. My Texas informant advises that the average oil production that has resulted from their act has been approximately 13 barrels a day, well above the marginal well exemption that exists in Kansas. The Bill is also available for gas wells and it is estimated that there are 528 gas wells outside of the prorated fields that would qualify. These wells are also rather widely distributed geographically, from Wyandotte County to Wichita

County, and as contrasted to oil wells, I presume that many qualifying gas wells are situated so as to have a marketing problems because of the absence of a pipeline in close enough proximity to make the laying a connecting line economically feasible, needs compression, or has mechanical problems that are too costly to fet without the benefit of this provision. It should be noted that the proposed exemption applies only to the severance tax, and that the wells will still be subject to ad valorem taxes and that if the incentive works, the result will be added revenue as well as sales and income tax for benefit to the state. It's difficult to see the down side to this measure as there isn't a negative fiscal impact on the state, given the fact that these wells are producing no revenue currently.

It may be a very small step, and is certainly not a substitute for reducing the severance tax on natural gas that remains pending before the legislature, nor for any other measure that is designed to address the critical problems of the industry at this point. Adoption of this measure would send a message to the industry that the legislature recognizes the need for incentives to encourage exploration and production in these trying times. We urge the adoption of this measure.

Respectfully submitted,

Jack Glaves

Legislative Counsel for
OXY USA

RP

WM

The Oil Daily

GOOD STATS FOR OK BILL

Volume 44, No. 23

Thursday, February 3, 1994

2 U.S. Companies Bring New Partners To Russian Ventures

By Jane Collin
Oil Daily Staff Writer

WASHINGTON — Two U.S. companies involved in separate Russian development projects have brought new partners on board as a way of injecting fresh capital and expertise into the schemes.

Salt Lake City-based Equity Oil Co., which hopes in February to receive government go-ahead for its Symskaya production-sharing agreement in Krasnoyarsk Krai in eastern Siberia, has sold half of its 100% stake in Symskaya Exploration Inc. (SEI) to New York-based Leucadia National Corp.

Leucadia, which is involved mainly in casualty and life insurance, will invest up to $6 million over the first five years of the 25-year project, matching Equity's contribution.

Equity, which bought out the 20% share in SEI held by another American firm, Coastline, just before Leucadia agreed to buy in, said it is seeking other partners.

The production-sharing agreement, which has been approved by the regional authorities in Krasnoyarsk, would give Russia "8% of every barrel

(Continued on page 4)

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Oil Daily Staff Writer

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Commissioners Mary Scott Nabers and Barry Williamson said the number of well reactivations is more than double the total the TRC anticipated and is providing the state with several million dollars of additional revenue.

"We asked the Legislature to invest in the Texas energy industry by forgoing some severance taxes as an incentive to get the marginal wells pumping again," Williamson said. "This is a tremendous success story for the oil and gas industry."

Under H.B.1975, which took effect Sept. 1, operators are eligible for a 10-year severance-tax exemption for wells that are brought back to production after having been idle for at least three years.

The TRC, which lobbied heavily for the bill, projected a minimum of 368 wells would be returned to service.

"The economic implications of this response are significant," Nabers said. "The additional projected annual production from the 447 wells [the reactivations above TRC projections] means a production value of $55.3 million, an economic value of $160.8 million and a state sales tax value of $3.2 million."

She said the sales tax increase from the so-called windfall wells alone exceeds the severance-tax loss by nearly $500,000. Officials in Arkansas and Oklahoma are said to be studying the bill.

The 447 additional reactivated wells are expected to produce up to 1.7 million bbl of crude and 14.3 Bcf of natural

(Continued on page 4)

Heating Oil Futures Prices Keep Climbing On Another Huge Stockdraw, Continued Cold

By Roger Benedict
Oil Daily Staff Writer

WASHINGTON — Heating oil markets stayed on the boil Wednesday following another massive drawdown of distillate stocks last week and continued frigid weather in the main Northeast and Midwest markets.

No. 2 heating oil futures prices for

than a year ago. Nationally stocks are equal to 39.3 days of supply, or 6.5 days less than a year ago.

Reportedly some major suppliers are experiencing shortfalls at New York Harbor, both of distillate fuels and the kerosene used to keep distillates from freezing in extremely cold weather. Sun Co. is allocating supplies to contract customers.

Spot heating oil at New York Harbor

Inside This Issue...

Union Texas to Cut Spending in 1994 By $30 Million, Primarily in North Sea

By Jeff Share
Oil Daily Staff Writer

HOUSTON — The board of directors of Union Texas Petroleum Holdings Inc. has adopted a 1994 budget of $160 million, a drop of more than $30 million.

The cuts will come primarily in development spending in the U.K. North Sea.

Clark Johnson, chairman and chief executive, said the Houston-based firm's capital program will focus on projects designed to increase production from its holdings in the U.K. North Sea and Indonesia as well as international exploration activities.

In all, exploration spending will represent about one-third of Union Texas' capital budget. Continued low oil prices will not affect the budget, Johnson said.

The reduction reflects lower development spending in the U.K. North Sea following the completion of the Piper and Saltire projects last year. A Union Texas subsidiary holds a 20% interest in both projects.

The company plans to spend about $44 million on development projects on its U.K. North Sea holdings. New projects include the construction of a new platform for the Claymore field.

Union Texas is earmarking $14 million for exploration activities on the Piper and Claymore blocks and the Sean Block, in which a subsidiary has a 25% working interest. It only spent $7 million on exploration there last year.

In Indonesia, the company has allocated $54 million for exploration and development projects, primarily to provide natural gas to the expanded state-owned liquefied natural gas plant at Bontang Bay.

The budget for Indonesia, cut by $20 million, also includes funds for an exploratory well to be drilled later this year in eastern Indonesia in which Union Texas has a one-third working interest and is the operator.

The company is budgeting $19 million for exploration and development projects in southeastern Pakistan, an increase of $11 million.

In addition, Union Texas anticipates spending some $19 million for exploration activities including drilling and/or seismic and geologic studies offshore Argentina, in southern Alaska and the Colville Delta area in northern Alaska, offshore Tunisia and other ventures.

The company is cutting spending in Alaska from $20 million last year to $5 million.

Union Texas also will spend about $7 million on its petrochemical interests in Louisiana.

Johnson said Union Texas will evaluate possible acquisition opportunities of proved, undeveloped reserves overseas. He said the company anticipates spending $170 million on capital projects in 1995.

Texas...

(Continued from 1)

gas per year, Williamson said.

The reactivations include 645 oil wells averaging 12.9 b/d of crude and 23.5 MMcfd of casinghead gas per well, and 170 gas wells averaging 333.2 MMcfd each. Operators have until Aug. 31, 1995, to apply for the exemption. There were an estimated 80,000 inactive wells in 1992, Nabers said.

Williamson and Nabers said in separate interviews with *The Oil Daily* that the program's success demonstrates that producing states must take the lead in trying to restore strength to the industry.

"We've run most of our large major oil companies out of this country into other countries," Nabers said.

"They tell me it's easier for them to do business outside of America. It doesn't seem to me we did much to reverse that trend as a nation in 1993," she said.

"We need more incentives and they should start now. Every well that returns to production benefits the operator, the industry and the Texas economy. Incentives like these should only be the beginning," she said.

Although production has been falling for more than 20 years, Texas production still averages 1.55 million b/d, and the drop in prices from $20 to $14 means a loss of about $9.43 million a day, Williamson said.

2 U.S. Companies...

(Continued from 1)

produced straight off the top," sources said.

The remainder would be split 80-20 in Equity's favor to allow for cost recovery. Once costs are deducted, production would be divided 50-50 with Russia up to production of around 25,000 b/d, with the proportion weighted more in Russia's favor as output rises.

SEI said it expects to begin drilling by the middle of the year using crews and equipment from Russia's Yeniseyneftegasgeologiya.

A Dutch firm, Holland Sea Search Holding (HSSH), meanwhile, has acquired a minority stake in Socoperm, the foreign partner in the Permtex joint venture set up with Russian production association Permneft in the Volga Urals region.

HSSH will pay a total of $3.125 million for the stake — of which $625,000 will be paid initially. Sources say the deal gives HSSH access to long-term oil reserves.

The acquisition is part of a more complicated share deal involving various subsidiaries of Texas-based Snyder Oil Corp., the majority shareholder in Socoperm, a 50-50 partner in Permtex.

Sources said Socoperm is now owned 56.25% by Soco International — which is wholly owned by Snyder — 18.75% by U.S. data services and exploration firm MD Seis USA, 12.5% by HSSH and 12.5% by Command. Snyder holds a minority stake in Command, which holds 29% of HSSH.

Sources at Snyder said the new arrivals "will strengthen the partnership. Both of them have more exploration expertise."

They add the Permtex joint venture, which has development and production rights to a 461-square-mile area containing at least 115 million bbl of proven and probable oil reserves, should be producing oil by the end of the first quarter of this year.

It received production licenses in late December and is now negotiating export possibilities with "more than one" registered crude exporter, sources said.

It also is pushing the U.S. Overseas Private Investment Corp. to provide $140 million in financing and insurance for well workovers, as well as new developments.

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Ronald R. Hein
William F. Ebert
Stephen P. Weir

SENATE ASSESSMENT AND TAXATION COMMITTEE
TESTIMONY RE: SB 714
Presented by Ronald R. Hein
on behalf of
Mesa
February 15, 1994

Madam Chairman, Members of the Committee:

My name is Ron Hein, and I am legislative counsel for Mesa. Mesa is one of the nation's largest independent natural gas producers and currently has approximately 60% of its natural gas reserves in the state of Kansas.

SB 714, which provides for a ten year exemption from severance tax for those wells which have been shut in for at least three years, is beneficial legislation for small, low production stripper wells in Kansas. This legislation is similar to legislation on the books in Texas, and, I believe, being proposed this year in the state of Oklahoma.

This legislation will have no impact, favorable or unfavorable, on Mesa, and will, in our opinion, have very little impact on natural gas production in the Hugoton Field.

Over the past few years, the natural gas industry has experienced twelve year low prices (now coming back up a little bit), significant increases in the ad valorem taxes paid in the Hugoton area as a result of the minimum mill levy set out in the school finance formula, and no relief regarding either severance tax or the ad valorem production taxes imposed on the vast majority of natural gas production in Southwest Kansas.

During that period of time, the natural gas industry has repeatedly asked the legislature for relief. Mesa currently pays a total production tax of approximately 15-17% of gross receipts, which includes a 7% severance tax, and approximately 8-10% in ad valorem production taxes. These taxes are paid as a gross receipts tax, regardless of whether the company is profitable or not.

During that same period of time, the legislature has continued to provide additional relief to stripper production oil and gas in this state, including exemption from property taxes under certain circumstances, reduction in the classification rate for ad valorem tax purposes, and now consideration of total

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attach 3-1

removal of the severance tax for 10 years for wells which have been shut in.

Although SB 714 will certainly be beneficial to small, primarily independent oil and some small, independent natural gas producers, SB 714 will not provide relief for those producers with the vast majority of the production in the state, especially those with heavy production in the Hugoton Field.

Although this will not provide any direct relief to Mesa, if it provides some relief to small, independent oil and gas producers on their extremely marginal production, and can be done at no fiscal cost to the state, then we support SB 714.

However, Mesa hopes that the legislature will recognize that the heavy tax burden falling on gas producers in Kansas is not impacted by this bill. A reduction in the severance tax on natural gas to parity with oil is still necessary to insure that Kansas producers can compete with producers in Oklahoma and Texas, whose tax rates are significantly lower than the confiscatory rate in Kansas.

Thank you very much for permitting me to testify, and I will be happy to yield to questions.