

March 26, 2012

The Honorable Pat Apple, Chairperson
Senate Committee on Utilities
Statehouse, Room 224-E
Topeka, Kansas 66612

Dear Senator Apple:

SUBJECT: Fiscal Note for SB 418 by Senate Committee on Utilities

In accordance with KSA 75-3715a, the following fiscal note concerning SB 418 is respectfully submitted to your committee.

SB 418 would amend current law regarding the regulation of drilling for oil or gas to specifically address the practice of horizontal drilling. The bill would give the Kansas Corporation Commission (KCC) the authority to establish horizontal drilling units of approximately uniform size and shape covering any actual or prospective common source supply of oil and gas within the state to prevent the unlawful waste of oil or gas and to protect the correlative rights of interested parties. The KCC would be required to promulgate rules and regulations necessary for the administration of the bill.

The bill would allow a person to make an application to drill within a horizontal drilling unit if one or more persons who collectively own at least an undivided 50.0 percent of the interest in the minerals or the right to drill a well for oil or gas from the total lands within the proposed horizontal drilling unit. The bill would also give the KCC the jurisdiction to establish horizontal drilling units for horizontally drilled wells containing 640 acres plus 10.0 percent tolerance and, in instances where the evidence supports the application, up to 1,280 acres.

SB 418 would specify that the separately owned tracts and oil and gas rights included within the horizontal spacing unit would be combined to form a single unit for the purposes of drilling for and producing oil or gas. Operations and production from one tract within the unit would constitute operations and production from all separate tracts within the unit. All existing and future property rights, oil and gas leases, contracts, and other rights or obligations included within a unit would be regarded as amended and modified only to the extent necessary to conform to the provisions of the section.

According to SB 418, the owner or owners of oil and gas rights in and under an unleased tract of land would be regarded as the owner of a royalty interest equivalent to the highest royalty interest provided in an oil and gas lease owned, or contracted to be owned, by the applicant in such a unit to the extent that the proportion of the unleased tract would bear to the total acreage within the unit as determined by the KCC. The bill would not pool the owners of the working interest, or bind the owners of the right to drill any well within the unit. If the

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parties within a horizontal drilling unit do not voluntarily agree to jointly develop a unit, those rights may be unitized by the Kansas Unitization Act that is found in KSA 55-1301. The bill would establish that a horizontal well spacing unit for a common source of supply may include acreage from more than one governmental section, but could not exceed 1,280 acres.

SB 418 would specify that the horizontal spacing unit established would constitute a developed unit as long as a well capable of producing oil or gas located in the common source of supply would be covered by such a unit.

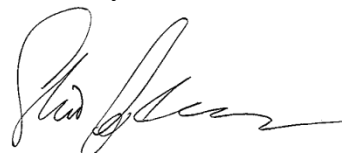
The bill would authorize the KCC to make an order providing for unitization and unit operation of a pool or part of a pool if the development of the pool or part of the pool by the drilling of a horizontal well or wells would maximize recovery within the reservoir and thereby substantially increase the ultimate recovery of oil and gas.

The bill would prohibit an order of the KCC providing for unit operations under certain economic conditions to become effective unless and until the plan prescribed by the KCC has been approved in writing by those persons who would be required to pay at least 50.0 percent of the costs of the unit operation.

Estimated State Fiscal Effect				
	FY 2012 SGF	FY 2012 All Funds	FY 2013 SGF	FY 2013 All Funds
Revenue	--	--	--	--
Expenditure	--	--	--	\$519,977
FTE Pos.	--	--	--	--

The Kansas Corporation Commission indicates that the passage of SB 418 would increase expenditures from the Conservation Fee Fund by \$519,977 and increase unclassified temporary positions by six in FY 2013. The staff and expenditures would be needed to administer the additional duties required by the bill. These amounts have been included in *The FY 2013 Governor's Budget Report*.

Sincerely,



Steven J. Anderson, CPA, MBA
Director of the Budget

cc: Tom Day, KCC