

MINUTES OF THE SENATE UTILITIES COMMITTEE.

The meeting was called to order by Chairperson Sen. Pat Ranson at 1:30 p.m. on March 14, 2000 in Room 231- N of the Capitol.

All members were present except

Sens. Hensley, Jones and Salisbury were excused:

Committee staff present:

Lynne Holt, Legislative Research Department

Mary Torrence, Revisors of Statute Office

Jeanne Eudaley, Committee Secretary

Conferees appearing before the committee:

Ken Peterson, Director, Kansas Petroleum Council

Maurice Korphage, Director of Conservation, Kansas Corporation Commission

Others attending:

See attached list

Sen. Clark began the meeting, since Sen. Ranson is testifying before another committee. Sen. Clark announced the committee will continue the hearing for **HB 2782-concerning oil and gas; relating to disposition of certain fees**. He introduced Ken Peterson, who stated support for the bill (Attachment 1). Sen. Steffes asked Mr. Peterson how much money has been set aside in the financial assurance fund, and Mr. Peterson did not know. He deferred to Mr. Korphage, who stated there was \$160,000 in 1998, and \$160,000 in subsequent years, for a total of approximately \$300,000. He clarified the fund is based on the number of operators, and is a new fund to pay for investigation and plugging of abandoned wells drilled on or after July, 1996; he also clarified that the operators give into the fund, but have no control over it. Mr. Peterson suggested an amendment on the bill, on Page 6, Line 34, by adding a comma after the word "fund". In answer to questions regarding the need to establish the new fund, Mr. Peterson stated the industry wanted to designate financial responsibility by current operators to ensure that potential problems in the future would be taken care of. He also stated that parties working on the original legislation agreed to segregation of the funds. Mr. Korphage explained the money that has been collected goes into the Conservation Fee Fund and that the two funds have been segregated, as they are uncertain what the Legislative intent is. Sen. Barone discussed locating and making operators responsible for cleaning up abandoned wells. Sen. Brownlee referred to clean-up of the old wells and making the responsible party be liable for the costs of clean-up, and if the contract contains language naming the responsible parties. Sen. Lee stated the responsible parties are probably those who own the mineral rights to the land, not necessarily the land owners. Sen. Ranson called on Ms. Edmiston for the applicable statute and how it reads. At that time, Ms. Holt distributed copies of the text of House Substitute fo Senate Bill No. 755 to members of the committee (Attachment 2). Ms. Edmiston stated the responsible party should be named in the title to the land and referred to K.S.A. 1999 Supp. 55-179. She discussed the statute and stated that anyone who buys the lease would assume responsibility; that the landowner would not be solely liable. Sen. Ranson referred to Page 4 of the bill, Section 6 (b) and read to the committee. She also referred to Subsection (e), and stated it appears to put the liability to the operators and to protect the landowners. Sen. Barone and Mr. Korphage discussed money available in the three separate funds, and the transfer of funds.

Sen. Ranson introduced Maurice Korphage to testify on the bill (Attachment 3). Sen. Ranson asked Mr. Korphage the balance in the Assurance Fund, and he recited the total in the fund in 1998 was \$161, 450 and in 1999, was \$151,400, making a total of over \$300,000. He reminded the committee that money may be used on plugging of old or new wells. He agreed with Sen. Ranson that the Conservation Fee Fund has approximately \$46,000, and she asked why they cannot aggregate the money from the funds to work on the priority wells. Mr. Korphage explained that only a small percentage of operators put up the cash; most of the operators put up surety bonds or letters of intent or some other form of assurance rather than cash. Sen. Ranson stated that approximately 500 wells were cleaned up in one year, but you found 600 more wells that had been abandoned. She asked Mr. Korphage why they haven't worked on the priority wells where the damage has been done and pollution is taking place, and why the number of wells being plugged has gone down the past year or two. Mr.

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Korphage distributed a graph showing the number of wells plugged for the past ten years (Attachment 4) and went over it with the committee. He also distributed a graph detailing the per well costs for the past ten years (Attachment 5), which shows the per well cost have been going down. Mr. Korphage stated that when the legislation was passed in 1996 and the program began, the commitment was made that they would not increase staff, so the program has been carried out by current staff; administration costs have not been taken out of the fund. Also, he stated the cost of oil has been down, consequently, some of the operators have left the industry which leaves fewer plugging units; also, low bid prices have effected the program. Sen. Ranson questioned again why time and resources have not been spent where priority wells are polluting, and instead Mr. Korphage and staff have continued to be more concerned about what might happen in the future. Mr. Korphage stated he is concerned with the number of priority wells needing attention and that remediation is also a high priority. Sen. Barone questioned Mr. Korphage regarding the availability of operators to bid on jobs, and recalled testimony stating there are approximately 2800 operators in the state. Mr. Korphage answered that some of the licensed operators do not want to contract with the state or for some other reason will not bid on the jobs. He added that one request for bid produced only one operator bidding on the job.

Sen. Ranson referred to "98-36 Reviewing the activities of the Corporation Commission's Conservation Division: A K-GOAL Audit Recommendations 2/98", (Attachment 6) and asked Mr. Korphage if his agency has read the recommendations and if they have a plan in place to accomplish what is set out in the guidelines. Mr. Korphage stated progress made in implementing some of the recommendations and educating staff personnel regarding the changes. Sen. Ranson referred to reviewing the recommendations and to No. 8, a and b. Mr. Korphage stated they have submitted a formal plan for plugging Priority I-A wells but did not have a copy of the plan, and Ms. Lash confirmed the Conservation Division did submit a plan for implementing both a. and b. Sen. Ranson stated it appears no formal plan has been put into effect after four years, and that it is a great concern of the committee that Priority A wells have not been given priority over B and C wells; and that the Conservation Division has not brought forward a formal plan and how it is to be implemented. Mr. Korphage stated he will bring copies of their formal plan as submitted to the Post Audit Division, and Sen. Ranson stated that would be helpful to the committee, as well as to Lynne Holt for inclusion in her report. He also discussed with the committee how the money is used, including using administration costs to cover some expenses and the need for guidance on contracting for some services.

Mr. Korphage enumerated ideas for implementing the law and formulating a workable program, which included sending information to licensed contractors on how to bid on state contracts and offering a bonus for completing work ahead of schedule, and added that some of the ideas may result in an increase in cost. Sen. Barone stated that a good idea might be to penalize contractors for not getting the work done on time. Sen. Ranson asked Mr. Korphage why he has not come forward with these ideas and formulated them into the plan earlier. Mr. Korphage replied because it took some prodding, and Sen. Ranson asked if he had been sufficiently prodded. Mr. Korphage replied he has.

Mr. Korphage made several other suggestions, and Sen. Barone stated he wanted to have more specific suggestions on paper and asked if the committee could have access to the information before work commences on the bill. Sen. Ranson stated the committee will hear another bill tomorrow and come back to this bill later. She also asked the committee for recommendations and suggestions so that Ms. Holt can include them in the final report.

Material requested by the committee from Fran Welch, Division of Purchases (Attachment 7) was distributed to the committee.

Meeting adjourned at 2:30.

Next meeting will be March 15.

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