Approved: March 22, 2000
Date

MINUTES OF THE SENATE UTILITIES COMMITTEE.

The meeting was called to order by Chairperson Sen. Pat Ranson at 1:30 p.m. on March 2, 2000 in Room 231-N of the Capitol.

All members were present

Committee staff present:
Lynne Holt, Legislative Research Department
Mary Torrence, Revisors of Statute Office
Jeanne Eudaley, Committee Secretary

Conferees appearing before the committee:
Robert Krehbiel, Executive Vice Pres., Kansas Independent Oil and Gas Association
David Nickel, Legislative Chairman, Kansas Independent Oil and Gas Association
James Daniels, General Manager, Murfin Drilling Company, Inc.

Others attending:
See attached list

In the absence of Sen. Ranson, who is attending a Post Audit meeting, Sen Clark called the meeting to order and stated the committee will hear **HB 2826-oil and gas; relating to unitization and unit operations**. He introduced Robert Krehbiel, who gave information regarding unitization and the reason for the bill (Attachment 1). He explained the need for unitization comes about when an older oil well's pressure is pumped off. He referred to a map (which is attached to his testimony) showing an oil field in Clark County, and explained it to the committee and referred to the third page of his testimony, which demonstrates the acreage participation in a unitization agreement. The initial pressure allows recovery of about 20% of the oil in the underground oil or gas reservoir. Recovery is continued by converting an existing well into an injection well which forces water or carbon dioxide (CO_2) down the well to repressurize the underground reservoir. This re- pressurization forces oil into the pumping units of all the wells that draw out of the same reservoir. He pointed out the problem arises when owners begin draining off the oil or gas from another's well. The unitization agreement involves working interest owners and royalty owners being located, which is increasingly difficult to do. Kansas has a compulsory unitization law which requires that 75% of the royalty owners and working interest owners must be involved in the negotiations and agreement before submitting it to the KCC for final approval.

Mr. Krehbiel stated the Interstate Oil and Gas Compact Commission, which is an organization of thirty producing states including Kansas, has reviewed unitization statutes, hoping to promote recent technological advancement. The study concluded that "a flexible unitization statute promotes increased use of technological advancements". After reviewing the Kansas law and consultations with the Royalty Owners Association and the KCC, the bill being considered was drafted, making minor changes to the current law to make the Kansas law more flexible. Mr. Krehbiel answered questions from the committee, including Sen. Clark, regarding if unitization can be done at different depths, and he answered it can be unitized as much as two to three layers. Answering a question from Sen. Barone regarding compulsory unitization, Mr. Krehbiel answered that unitization is a lengthy process and cannot be done if 25% or more of the owners refuse to enter the agreement or cannot be located. He pointed out that the bill changes the 75% requirement to 63% in the agreement and any working interest may submit a request for a fair and reasonable compulsory unitization from the KCC. In answer to a question regarding equal compensation for all working interest owners, Mr. Krehbiel clarified that the compensation is in the increased production of the oil wells after the unitization agreement.

Sen. Ranson introduced David Nickel, who explained the bill to the committee (Attachment 2) and answered questions. Sen. Barone questioned the strong wells vs. weak ones and asked Mr. Nickel to explain the basis for participation. He answered the allocation is based on several criteria, such as the number of wells, past production, location, etc. The owners involved in the negotiation work toward what is fair for all and attempt to accommodate the 63%, because they anticipate a benefit to every owner. Sen. Clark asked questions regarding who would bear the costs of repressurization and how the 63% is assessed - does it relate to working interest owners, number of wells, or production? Mr. Nickel responded that the allocation is based upon the various producing units and active working interests involved in the field; then the percentages are determined with costs then allocated to the various operating units. He emphasized that under the current law, the plan is set and when determination of costs has been made, it is submitted to the KCC for their approval. Mr. Nickels also emphasized that logistics are hard because of the number of people involved around the world and the reason for the bill is to expedite the process.

Sen. Ranson introduced James Daniels, who described the primary production of wells, which occurs as the energy source is depleted or reduced, and the recovery of large volumes of oil which remain in the reservoir without energy to move it. He described the secondary recovery as water being introduced into the existing wells to cause movement; consequently there is a substantial increase in production, and he gave the committee examples of the increases. He told about new technological strides made by the oil and gas industry to develop methods to recover portions of unrecovered oil remaining in reservoirs and that 30 to 50% of the original oil is all that can be expected to be recovered through primary combined with secondary means. He continued by citing studies conducted at the University of Kansas and the Kansas Geological Survey have described a tertiary recovery technique called the CO 2 (carbon dioxide) process. His company is initiating a pilot project on the Colliver and Carter oil leases where there are 89 royalty owners involved who live throughout the U.S., and he told of the difficulty in contacting 75% of them, some with a small interest in the project. Mr. Daniels stated the proposed CO 2 pilot program on the leases has a better chance of being successful if the two properties can be unitized; he stated his experience has been that the difference between the 63% and the 75% in agreement in the working interest owner and the royalty owners can make or break the potential for unitization. He closed by stating that Kansas' principal remaining oil reserves lie in the secondary and tertiary phase of oil recovery, and the recovery of that oil benefits local economies as well as the state economy. He urged the committee to pass the bill which will enable the oil and gas industry to initiate and operate the secondary and tertiary projects in Kansas. Mr. Daniels discussed with the committee the difficulty in putting the units together, and that objections to the bill could come from the owners of larger percentages who could hold out for better benefits and hurt the small owners. Sen. Brownlee asked who initiated the bill and how are the units are taxed now. Mr. Daniels answered the industry requested the bill; that the individual operator is taxed and passes it on to the unit, and that the royalty owners are also taxed. Sen. Ranson asked if anyone from the KCC was present, and acknowledged that Diana Edmiston was present and is assistant general counsel for the Conservation Division of the KCC. Sen. Ranson announced the hearing will continue next Tuesday, and requested Ms. Edmiston, or someone else from the KCC, be present to inform the committee of its role regarding the bill and the Commission's response to the bill.

Sen. Ranson also announced the review on plugging abandoned wells will be next Wednesday, with a public hearing on Thursday.

Meeting adjourned at 2:30.

Next meeting will be March 7, 2000.