



Comments Submitted to the Senate Assessment and Taxation Committee  
In Support of Senate Bill 212  
March 12, 2013

Good morning, Mr. Chairman and members of the committee. I am Ken Peterson, director of the Kansas Petroleum Council, a trade association whose membership includes companies with decades of production and current active exploration activities in the state.

I appreciate the opportunity to offer remarks in support of Senate Bill 212, an innovative tax proposal that links an obvious public need with an industry-based solution.

In his message to the Legislature in January, Gov. Brownback said, "Look out Texas, here comes Kansas," in reference to economic growth and jobs. The bill before you is a step toward that goal. Kansas can lead the way.

Numbers show robust growth in the Kansas oil and gas industry, but we are concerned about barriers to production – access to skilled labor, electricity and water, among them. The industry is working with private interests and several state agencies to anticipate and overcome these barriers. A lot of progress has been made, but more can be addressed through Senate Bill 212.

This bill is an industry response to one of the major sources of concern to all of us – the lack of water. It is, we hope, a solution to a known and ongoing problem.

The legislation creates the Produced Water Recycling, Storage and Transportation Credit. The credit applies to the purchase, construction, installation, usage and maintenance of produced water recycling, storage and transportation.

The credit conforms to the structure of other Kansas tax credits and requires that applications be submitted to the Secretary of Commerce for approval.

The credit has two phases: (1) available to a taxpayer's qualified investment up to 25 percent of the first \$250 million invested, and (2) 15 percent of the qualified investment that exceeds \$250 million.

The legislation is an economic incentive for the oil and gas industry to re-use produced water for exploration and production-related activities such as hydraulic fracturing operations in the Mississippi Limestone play of south central Kansas. One production company estimates that the use of recycled produced water in the hydraulic fracturing process can reduce fresh water demand by 75 to 80 percent per well.

Kansas can show the way in development of long-term water solutions. We can and must compete with other states in attracting drilling activities. Texas and Louisiana are beginning to tackle the importance of recycling and reusing produced waters. The activities are addressed in detail in written comments submitted by environmental consultant Gary Mason of Wichita.

I also am attaching with this statement part of a February 26 report by the city of Wichita that projects Lake Cheney will not be a viable water source in 2015 if the drought persists. It both localizes and illustrates a serious situation with water. A major benefit of the policies in Senate Bill 212 is conservation and the use of reclaimed water as an alternative water supply for the oil and gas industry.

We all know the importance of water in this state. Perhaps nothing is more personal and of greater concern than access to water. The industry respectfully asks the committee for favorable consideration of this important incentive for the recycling of a crucial resource.

Thank you for your time and courtesy.

Attachment