

# EDMISTON OIL COMPANY, INC.

OIL OPERATORS  
125 N MARKET SUITE 1130  
WICHITA, KANSAS 67202-1774

E. K. EDMISTON (1906-1995)  
JON M. CALLEN, *President*

(316) 265-5241  
FAX (316) 265-7301

## Testimony for public hearing on SB 576 Before the Committee on Utilities Kansas Senate March 9, 2006

Testimony presented by: Jon M Callen  
Edmiston Oil Company, Inc.  
125 N. Market Suite 1130  
Wichita, KS 67202  
316-265-5241  
316-265-7301 Fax

My name is Jon Callen. I am the current president of the Kansas Independent Oil and Gas Association and president of Edmiston Oil Company, Inc., a small, family owned oil and gas producer in Kansas. The roots of our company date back to 1945. I have been involved in the decision making process for our company since 1986.

On behalf of both the Kansas Independent Oil and Gas Association and my company, I wish to voice my opposition to SB 576 relating to opening gas gathering systems up as common carriers for consumers. The burden this would place on small, independent producers such our company could threaten our very existence, even in these times of elevated gas prices.

There is a significant difference between collecting gas from wells into a pipeline versus delivering gas to consumers out of a pipeline. On the collection side, gas is flowing from its raw state and may not be suitable for commercial sales or household use without some conditioning or enhancement. The expense of conditioning raw gas for resale is such that it is generally done at a central location further down the line than at the wellhead.

In addition, there is no guarantee of the volume of gas in the line on the collection side. There are many areas of Kansas where there are relatively few gas wells connected to a gathering line. Should one or more of those wells go down for some reason, gas in the pipeline could soon stop flowing. A consumer connected to such a line would then be without gas during the shut-in periods. If the consumers were residences relying on gas for home heating, they could be faced with having no gas at a critical times in winter. Residential consumers tapped into such a gathering system would reduce producers flexibility to operate their wells for their own benefit versus providing gas for consumers.

Pipeline requirements for producers to condition their gas before delivery are limited in nature compared to what is required when delivering gas to consumers. Gas delivery systems to consumers must live with a host of Federal and State rules regarding the maintenance of gas Btu,

odorizing, H<sub>2</sub>S monitoring, pressure regulation, dehydration and other conditioning that is not required of producers of gas in its natural state.

SB 576 could potentially make every pipeline system in the state of Kansas, and thus every producer of natural gas, a public utility that would have to follow federal and state utility guidelines. Opening all gathering lines for consumer activity will significantly add to the overhead cost of running and maintaining a pipeline. These costs include attaining safety standards for public consumption described above, plus metering and billing expenses just to name a few.

Notwithstanding the safety issues previously described, consumer taps along gathering systems will ultimately reduce the price received for gas sold on a system, thus reducing incentives for exploration for new gas sources. Fixed costs for gathering systems can no longer be passed along to the buyers of gas in today's deregulated world as they once were. Those fixed costs are now being pushed back to the producers. Reducing the volume of flow through a pipeline increases the cost per unit to recover the fixed cost of the gatherer's investment. Those cost increases will lower the price paid for the gas on a system, reducing incentives for producers to further explore for gas along gathering lines. Additionally, there is the distinct possibility that a significant number of consumer taps on a gathering system would render the system unreliable for producers which would lead to the premature abandonment of gas wells along the system.

Kansas independent producers believe that Kansas gas is good for Kansas consumers and the Kansas economy. We succeed when we are able to provide stable gas production that can benefit agricultural, commercial, or residential enterprise with reliability. The proposed bill would significantly alter industry's ability to explore for and produce natural gas in our state by increasing operating expenses, reducing the reliability of pipelines to purchase our gas and increasing our liability exposure to consumers.

In conclusion, I repeat the opposition of the Kansas Independent Oil and Gas Association and Edmiston Oil Company, Inc., to SB 576 and ask that the bill be defeated.

Respectfully submitted,

Jon M. Callen