

STATEMENT OF WILLIAM B. McKEAN
MANAGER OF BUSINESS DEVELOPMENT, representing
AMERICAN PIPELINE COMPANY, L.L.C. and
WOOLSEY OPERATING COMPANY, LLC

Before the Senate Utilities Committee
March 9, 2006

Re: Senate Bill No. 576

I am Bill McKean, representing Woolsey Operating Company, an oil and gas producer and operator in Wichita, Kansas, and its affiliated company, American Pipeline Company, a gas gathering and processing company with lines and a plant located near Medicine Lodge in Barber County, Kansas. Woolsey has been engaged in the production of oil and gas in Kansas for the past 35 years. As both a producer and gas gatherer serving other producers, we appreciate the opportunity to explain why we oppose Senate Bill 576.

In 1997 American Pipeline became the first gathering system in Kansas to successfully apply for unregulated status. Since its inception, the primary function of our system has been to efficiently gather and process gas to insure access to a competitive market. We have no desire and are not capable of assuming utility service obligation to transport or supply gas to small end users.

Under the proposed language of Senate Bill 576, any entity or person seeking to transport or purchase of natural gas, may request the Kansas Corporation Commission to intervene to gain an interconnection any where on a gathering system. The Bill does not set minimum or maximum limits on volumes or require that the applicant to ship or consume the unprocessed gas on a uniform basis throughout the year.

Kansas production is primarily low volume, stripper type production. We purchased the system and built the processing plant to efficiently operate the system in a manner to maximize the economic interest for our own wells and the other gas producers' wells. We minimize leaks and system pressures to increase everyone's gas production. We captured excellent commodity prices in a competitive unregulated gas market by making long-term supply commitments to two large gas marketing companies. If you require our company to serve irrigators or other rural users, system line pressures must be increased and will fluctuate due to the inconsistent consumption by end users due to seasonality and weather. Gas production from marginal wells will decrease or terminate. We will be unable to secure premium market prices from large energy marketing companies because we will not supply fixed volumes of processed gas into the Kansas Gas utility system. The additional end user taps could result in costly reconfiguration of the gathering system increasing operating costs also causing premature abandonment of wells and our gas plant. Senate Bill 576 will cause the royalty owners and producers to bear an unfair economic loss. The counties and State of Kansas will collect lower ad valorem and severance taxes.

The Bill requires the gathering system operator to provide utility services to two different types of customers with opposite expectations. The obligation to maintain higher line pressure for the end user inherently conflicts with the obligation to provide low system pressure for the producer. We are very concerned that the Bill would create for the Kansas Corporation Commission a crowded docket of conflicting complaints from customers and producers. We doubt that neither KCC nor the end user will have the expertise or the ability to conduct system modeling studies to rebut the gathering system operator's claim that a specific rural end user should not be allowed to ship or consume unprocessed gas at certain points on the system.

We also have safety concerns for the end users because raw gas supplied from our wells can be unpredictable and can contain undesirable impurities such as Hydrogen Sulfide. Even if a well is currently producing sweet gas, Hydrogen Sulfide can suddenly be produced in toxic levels.

As a small gas gathering company, we currently do not sell unprocessed gas to any end users. Currently we invoice two gas marketing companies who purchase our gas and invoice two shippers who transport gas. We do not have the infrastructure to maintain & read utility meters and prepare invoices or collect from many end users subject to cash flow problems. However our Company firmly believes that a deregulated market provides the most economic efficiencies for the State of Kansas because it encourages suppliers, end users and services companies to enter into mutually beneficial contracts. For instance our Company would welcome the opportunity to sell unregulated **processed** gas from the tailgate of our plant to any credit-worthy end user that will consume gas on a consistent basis during a twelve month period.

We urge you not to impose new regulations on our industry because it will place the gathering system operator in a no-win situation trying to serve the conflicting expectations of the end users and the other producers. It will hurt the economic interests of our current investors in the wells that we operate and will potentially require the Kansas Corporation Commission to adjudicate hundreds of complaints by rural end users that are based solely on the validity of the system operator's claims about line pressure and volume data on a specific segment of pipe. The costs of the new regulation outweigh the benefits to the rural end users.

Respectfully submitted,

American Pipeline Company, L.L.C.
Woolsey Operating Company, LLC

William B. McKean
Manager of Business Development

