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Testimony to the Senate Utilities Committee

Senate Bill 401 – An Act relating to oil and gas concerning information to be included with payment to interest owners from the sales of oil and gas

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Good morning Chairman Clark and members of the committee. I am Edward Cross, Executive Vice President of the Kansas Independent Oil & Gas Association and I am here today to express our strong opposition to SB 401.

Senate Bill 401 is an Act relating to oil and gas concerning information to be included with payment to interest owners from sales of oil and gas (royalty owners). The underlying concerns that initiated this bill, while important, are very isolated and small. SB 401 would cause much hardship for the independent oil and gas industry. SB 401 is a bad bill for the following reasons:

- The bill addresses a symptom of a very small and isolated problem. Royalty owners need a better understanding of royalty payments. A better understanding of royalty payments is the main problem facing royalty owners. Legislative action will not solve that problem, but simply address a symptom. More information on a check stub will not educate royalty owners, but most likely create more concerns. The royalty owners of Kansas would be better served by their association if they would engage in education initiatives to better educate royalty owners about royalty payment processes. Legislative action is not the answer to a grass-roots problem. Proactive leadership from the royalty owners association would solve this small and isolated problem.
- As required under K.S.A. 2003 Supp. 55-1620 and 55-1622, the tools and institutions for addressing the concerns of royalty owners are in place and have been so since 1997.
- The problem initiating SB 401 is small and isolated. Kansas has several hundred thousand royalty interest owners. To date five (5) lawsuits have been filed concerning royalty payments. No complaints have been filed with the Kansas Corporation Commission (KCC), the Securities Commission, or the Attorney General. In addition, Exxon/Mobil conducted a survey in Texas to see if royalty interest owners wanted more information with their royalty payments. Of the 20,000 responses, only 200 requested more information. Royalty owners in Kansas are not so different than royalty owners in Texas or any other state. I am confident that 1% or less of the royalty owners in Kansas wants more information. And if they do, all they have to do is ask and it will be provided.

- SB 401 is poorly conceived. The bill asks for information that in many cases is impossible for independent oil and gas producers to provide and is of no real value. The bill then invokes unreasonable enforcement actions for violation of provisions that are impossible for many oil and gas operators to meet.

- SB 401 is very costly to the industry. The bill would require significant changes in the way production information is gathered and organized. Preparing systems to provide the required information would cost the oil and gas industry over \$7 million annually.

- Finally, the oil and gas industry is split on this bill. The Kansas Petroleum Council representing many of the larger oil and gas companies in Kansas may support a version of the current bill, while KIOGA and EKOGA strongly oppose.

For these reasons and more, we urge you to not pass this legislation and support the current legislation as agreed upon by all parties in 1997. Thank you for your time and consideration. I would be happy to answer any questions.