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Testimony for public hearing on S.B. 325
Before the Senate Utilities Committee
Kansas Senate
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The Kansas Independent Oil & Gas Association (KIOGA) represents oil and gas producers in Kansas, the majority of which are small family businesses. Kansas oil and gas operations include over 2,400 oil and gas producers of which includes over 1,000 natural gas producers. Kansas oil and gas operators produce over 450 billion cubic feet of gas per year from over 17,000 gas wells and over 33 million barrels of oil per year from over 41,000 oil wells. KIOGA's mission is to improve the market for oil and gas produced in Kansas and to promote the welfare of the oil and gas industry in the State of Kansas. KIOGA has represented the Kansas oil and gas industry since 1937.

Because of the capital investment required, the number of gas gathering pipelines is limited in any one area. The cost for competitors to lay parallel lines along the same routes seldom makes sense. As a result, while gas producers may have choices as to who they can sell their gas, they rarely have a choice for which pipeline will carry the gas to market.

Further, in spite of higher natural gas prices since the winter of 2000-2001, and the current emphasis of producers to seek natural gas as a production target, the graph below (See Figure 1), demonstrates that gas production in this state is in a very mature state with steady declines.

S.B. 325 legislation to provide open access to pipelines will only accelerate the production decline in Kansas. This will be the natural result of an increased cost of doing business for gathering lines to administer the regulatory environment that would thrust upon them. It would also reduce their flexibility to rapidly adjust to changing market conditions. The gathering lines would have no choice but to pass those costs on to producers. They can no longer pass those costs on to end users as they could before federal deregulation of natural gas. In today's world of declining throughput, pipelines must constantly review their economics. Interfering with a gathering systems internal planning by forcing open access to one and all who request a connection will raise

the cost of doing business, thus shortening the life of the producing wells connected to the line.

KIOGA recognizes the importance of the agricultural community to the financial well being of this state. However, gas producers rely solely on the gathering lines as their primary arteries to justify their decisions to explore for natural gas. We would vigorously oppose any proposals that would threaten those lifelines, especially any proposal that would unilaterally alter our investment decisions negatively.

S.B. 325 creates an environment that would upend the natural gas industry by reintroducing regulatory controls over private enterprise without just compensation. The expense of operating in such a regulatory environment would ultimately be passed along to producers. Because of its potential to harm the natural gas industry in Kansas, we respectfully request that you vote against S.B. 325.

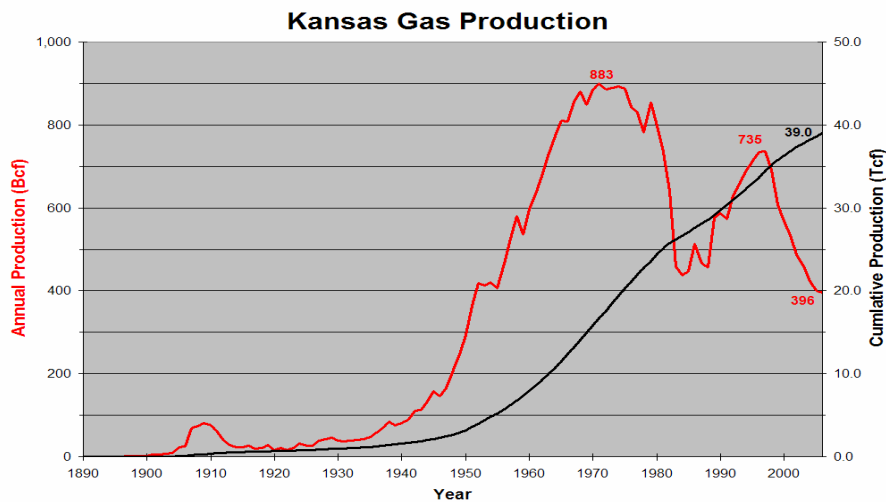


Figure 1—Gas production history in Kansas (red line) and cumulative gas production (black line) through 2005. Courtesy of the Kansas Geological Survey.