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Comments of Ryan A. Hoffman
Conservation Division Director
Kansas Corporation Commission
Before the
Joint Committee on Administrative Rules and Regulations
April 24, 2018

Chair and members of the Committee, I am Ryan A. Hoffman, Director of the Conservation Division of the Kansas Corporation Commission. Today, I will provide comments on several new proposed regulations regarding the mills assessed against the production from oil and gas wells. I will provide a brief explanation of why the amendments are necessary and a brief description of each amended regulation. I will be happy to answer any questions.

I. Summary

Commission staff has determined the current decline in production and associated decrease in revenue, combined with transfers out of the Conservation Fee Fund, will result in a negative balance during ensuing fiscal years. This determination was based on several assumptions, primarily that oil and gas production would continue to decline by 6% each year and spending from the Conservation Fee Fund would remain at approved, essentially flat levels. Given these assumptions, staff determined it is necessary to increase the mill assessed per barrel of oil production and the mill assessed against one thousand cubic feet of gas (mcf). These increases are necessary to provide sufficient revenue to meet the budgeted $8.89 million revenue required to administer the statutory and regulatory obligations of the Conservation Division.

Staff called a special Oil and Gas Advisory Committee (Advisory) meeting on November 1, 2017 to discuss potential changes to the regulations and receive feedback from its membership. During the discussion, Advisory members made requests for more information from staff and staff scheduled follow-up meetings to discuss potential alternative mill increases. The time between meetings was valuable to Advisory members and staff to explore other viable plans of action such as the impact of increasing other fees to help cover the shortfall. At a follow-up meeting, staff requested feedback from the Advisory and industry representatives regarding six different mill scenarios. The scenarios evaluated different production decline rates and mill increases based on the various production declines to meet the minimum revenue required to fund the Division. Three of scenarios also included options with a 2% Division spending decrease.

Staff appeared before the Commission at Business Meetings in December 2017 and January 2018 to provide updates on the status of the potential mill increases. Staff also presented the Commission with a copy of a proposed alternative change supplied by the Eastern Kansas Oil and Gas Association (EKOGA) and the Kansas Independent Oil and Gas Association (KIOGA). The joint proposal provided by KIOGA and EKOGA was the only proposal provided by Oil and Gas Advisory Committee membership.

Based on the series of meetings with the Advisory and general instruction from the Commission to be conservative in this process, staff has provided the proposed regulation changes below.

II. New Regulations

K.A.R. 82-3-206. Oil conservation assessment. The proposed amendment makes only one substantive change, increasing the mill charged against each barrel of crude oil marketed or used from 91.00 to 144.00. There are also a few technical changes, which do not substantively affect the meaning of the regulation.

K.A.R. 82-3-307. Gas conservation assessment. The proposed amendment makes only one substantive change, increasing the mill charged against each 1,000 cubic feet of gas sold or marketed from 12.90 to 20.50. There are also a few technical changes, which do not substantively affect the meaning of the regulation.

Thank you for your consideration of these regulations.