KANSAS CORPORATION COMMISSION
ECONOMIC IMPACT STATEMENT
Amended K.A.R. 82-3-206 & K.A.R. 82-3-307

I. Summary of Proposed Regulation, Including Its Purpose.

Amended K.A.R. 82-3-206 increases the mill assessed on each barrel of crude oil marketed or used from 91.00 to 144.00. Amended K.A.R. 82-3-307 increases the mill assessed on each 1,000 cubic feet of gas sold or marketed from 12.90 to 20.50. The purpose is to generate sufficient revenue for the Commission's Conservation Division to meet its statutory and regulatory duties. Minor technical changes are also made to the regulations.

II. Reason or Reasons the Proposed Regulation Is Required, Including Whether or Not the Regulation Is Mandated by Federal Law.

The Conservation Fee Fund would likely see a negative balance during fiscal year 2019 without an increase in mills assessed. Federal law does not mandate this proposed regulation, nor does it exceed the requirements of an applicable federal law.

III. Anticipated Economic Impact upon the Kansas Corporation Commission.

The Commission anticipates the increase in mills assessed will result in enhanced revenue sufficient to allow the Commission's Conservation Division to meet its statutory and regulatory duties. Conservation Fee Fund revenues from sources other than mill assessments are typically between $400,000 and $500,000 annually. The remainder is from mill assessments. The Commission estimates the increase in mills assessed will result in sufficient revenue for the Conservation Division's estimated $8,889,000 budget.

IV. Anticipated Financial Impact upon Other Governmental Agencies and upon Private Business or Individuals.

The Commission does not anticipate economic impact on other governmental agencies. The Commission anticipates that oil and gas operators and other interest holders in oil and gas produced in Kansas, through the first purchaser of the production, will pay an additional 53.00 mills on each barrel of crude oil marketed or used, and an additional 7.60 mills on each 1,000 cubic feet of gas sold or marketed. The Commission does not anticipate economic impact on other members of the general public.

V. Less Costly or Intrusive Methods That Were Considered, but Rejected, and the Reason for Rejection.

The Commission considered the alternative of making no change to the regulations, but rejected that due to substantial projected budget shortfalls that would make the Commission incapable of meeting its statutory and regulatory duties. In particular, the Commission looked at staffing levels in making this determination. The Commission also considered both lower and higher mill rates, but determined that the proposed mill rates are most likely to result in the Conservation Division obtaining its necessary budget without significant surplus. The Commission also considered implementing various fee structures, especially for form filings, but rejected that alternative as more complicated, onerous, and likely insufficient to meet potential budgetary shortfalls in the near term.

82-3-206. <u>Oil conservation</u> assessment. In order to pay the conservation division expenses and administration costs not otherwise provided for, an oil conservation assessment shall be made as follows:

(a) A charge of ~~91.00~~ <u>144.00</u> mills on each barrel of crude oil or petroleum marketed or used each month shall be assessed to each producer. The charge and assessment shall apply only to the first purchase of oil from the producer.

(b) Each month, the first purchaser of the production shall perform the following:

(1) Deduct the assessment per barrel of oil marketed or used from the lease before paying for production;

(2) remit the assessment in a single check to the conservation division when making regular oil payments; and

(3) account for the deductions on the regular payment statements to producers~~, and~~ royalty owners~~, or~~ <u>and</u> other interested persons. (Authorized by K.S.A. <u>2017 Supp.</u> 55-152; implementing K.S.A. <u>2017 Supp.</u> 55-176; effective, T-83-44, Dec. 8, 1982; effective May 1, 1983; amended May 1, 1986; amended April 23, 1990; amended Dec. 6, 1993; amended Nov. 15, 1996; amended June 1, 2001; amended Dec. 22, 2006; amended P-____________.)

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82-3-307. Gas conservation assessment. In order to pay the conservation division expenses and other costs in connection with the administration of the gas conservation regulations not otherwise provided for, an assessment shall be made as follows~~.~~:

(a) A charge of ~~12.90~~ 20.50 mills shall be assessed on each 1,000 cubic feet of gas sold or marketed each month. The assessment shall apply only to the first purchaser of gas.

(b) Each month, the first purchaser of the production shall perform the following:

(1) Before paying for the production, deduct an amount equal to the assessment for every 1,000 cubic feet of gas produced and removed from the lease;

(2) remit the amounts deducted, in a single check if the purchaser desires, to the conservation division when the purchaser makes regular gas payments for this period; and

(3) show all deductions on the regular payment statements to producers, ~~and~~ royalty owners, ~~or~~ and other interested persons.

(c) The assessment established by the commission shall not apply to gas that is being returned to the ground for repressuring purposes within the field, but shall apply to gas that is produced and removed from the lease and returned to the ground for storage purposes.

(Authorized by K.S.A. 2017 Supp. 55-152; implementing K.S.A. 2017 Supp. 55-176; effective, T-83-44, Dec. 8, 1982; effective May 1, 1983; amended April 23, 1990; amended Aug. 19, 1991; amended Dec. 6, 1993; amended Nov. 15, 1996; amended June 1, 2001; amended Dec. 22, 2006; amended P-____________.)

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