

Proposed

State of Kansas
Kansas Corporation Commission

Notice of Hearing on Proposed Administrative Regulations
Amended K.A.R. 82-3-206 & K.A.R. 82-3-307

Notice Dated: March 22, 2018

A public hearing will be conducted on Thursday, May 24, 2018, at 10:00 a.m. at the Kansas Corporation Commission, 1500 SW Arrowhead Road, Topeka, Kansas, 66604, to consider the adoption of proposed rules and regulations of the Kansas Corporation Commission, on a permanent basis. The Commission consists of three members appointed by the Governor to overlapping four-year terms.

This 60-day notice of the public hearing constitutes a public comment period for the purpose of receiving written public comments on the proposed rules and regulations. All interested parties may submit written comments prior to the hearing to the Kansas Corporation Commission, Conservation Division, Legal Department, at 266 N. Main, Suite 220, Wichita, Kansas, 67202, or by email to publicaffairs@kcc.ks.gov. All interested parties will be given a reasonable opportunity to present their views orally regarding the adoption of the proposed regulations during the public hearing.

Any individual with a disability may request an accommodation in order to participate in the public hearing and may request the proposed regulations and economic impact statements in an accessible format. Requests for accommodation to participate in the hearing should be made at least five working days in advance of the hearing by contacting Jonathan R. Myers at 316-337-6200. The Kansas Relay Center may be reached at 1-800-766-3777.

Summaries of the proposed regulations and their economic impact follow. Copies of the proposed regulations and the Economic Impact Statement for the proposed regulations can be viewed by contacting the Kansas Corporation Commission, Conservation Division, Legal Department, 266 N. Main, Suite 220, Wichita, Kansas 67202, and are available at <http://kcc.ks.gov>.

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. Mills charged in this manner pay expenses and costs of the Commission's conservation division. The proposed amendment will have the economic impact upon the Commission's Conservation Division of providing sufficient revenues. The Commission does not anticipate economic impact upon other governmental agencies or the general public. The Commission anticipates the economic impact on oil and gas operators and other interest holders in oil and gas produced in Kansas, through the first purchaser of production, to be paying an additional 53.00 mills on each barrel of crude oil marketed or used.

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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. Mills charged in this manner pay expenses and costs of the Commission's conservation division. The proposed amendment will have the economic impact upon the Commission's Conservation Division of providing sufficient revenues. The Commission does not anticipate economic impact upon other governmental agencies or the general public. The Commission anticipates the economic impact of oil and gas operators and other interest holders in oil and gas produced in Kansas, through the first purchaser of production, paying an additional 7.60 mills on each 1,000 cubic feet of gas sold or marketed.

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82-3-206. Oil conservation 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~~ 144.00 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~~ and other interested persons. (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 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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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.

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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.

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