



Before the Senate Utilities Committee  
SB 576  
Testimony of Roger Thorpe, Vice-President  
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Chairman Emler and Members of the Committee,

I am Roger Thorpe, Vice President of ONEOK Field Services Company (“Field Services”), and I appreciate the opportunity to testify in opposition to Senate Bill 576. Field Services believes that Senate Bill 576 would have a profound and adverse impact on natural gas gatherers and producers across the State of Kansas. Field Services, which owns and operates more than 5100 miles of natural gas gathering pipelines in the State of Kansas from which it gathers gas from more than 5700 wells, is opposed to this bill because it will take away control of the gathering systems from their owners and operators and require them to operate as quasi-public utilities. Field Services believes that the end result of Senate Bill 576 will be to force the premature abandonment of gas producing wells in the State of Kansas, which will have an adverse impact on a large number of the citizens of the State of Kansas.

Historically, gas gathering systems were never intended or capable of being a reliable and quality source of supply for exit tap end use consumers. Many of the gathering systems in Kansas were built and developed directly by producers so they could gather their gas from their own wells. Many of the producers offered their gathering system services to other producers in the area to reduce their overall costs of gathering natural gas. Those systems were not subject to any type of rate regulation until 1997 when the Kansas Legislature passed the Chapter 55 legislation which provided for a complaint system of regulation before the Kansas Corporation Commission (“KCC”) allowing producers to obtain relief who were otherwise unable to get fair, just and reasonable rates from a gathering system operator.

In contrast to previous legislation at either the federal or state level, Senate Bill 576 requires a gathering pipeline system to provide “open access” to any exit tap customer that wants to establish an interconnection. Any gas gatherer that either buys gas that is connected to its system or transports gas from others on its system, no matter how incidental, must agree to all requests for interconnections or be subject to proceedings before the KCC. These requests could come from any exit tap customer, including residential, commercial, and irrigation end use customers. The bill completely ignores the fact that these systems contain raw unprocessed natural gas and were designed and built

for the sole purpose of moving gas from the wellhead to a treating and processing plant which then provides merchantable quality gas on to a pipeline transmission system.

One of the fundamental problems with Senate Bill 576 is that it fails to recognize that it is impractical with today's technology to properly deplete a natural gas field and serve retail customers on the same pipelines. When these gas fields were originally developed, wellhead pressures were high and serving retail customers did not appear to be a problem in the foreseeable future. As time moved forward, the natural gas wells started to deplete requiring gatherers to reduce the pressure on the gathering pipelines so that the natural gas production would continue to flow. If the pressure on the gathering pipelines is not reduced, the wells will fail to produce any gas at all and, in effect, be shut-in because the well pressure is less than the gathering pipeline pressure. In order to increase natural gas production, many gathering operators are actually putting the wells on a vacuum system which physically sucks the natural gas from the wells. As can be surmised, it is impracticable to provide natural gas service to an exit tap customer when the system is on a vacuum. Field Services believes that over time all gathering fields will have to move toward a vacuum system in order to properly deplete the natural gas field.

Senate Bill 576 insures that gas gatherers will no longer have control over their own gathering systems. Interconnections can be demanded at any point on their systems and gas gatherers are subject to proceedings before the KCC if they refuse. While the gatherer can present evidence that the interconnection could cause harm to another party, the KCC will have to decide whether it is in the public interest to shut in gas wells or require interconnections for exit tap customers. The KCC will ultimately decide the public interest and will determine which producers will continue to get gathering service.

A task force for the KCC has been studying for over a year the issues regarding the transitional issues on gathering gas from depleting natural gas fields. While the KCC has yet to issue any orders, the Staff of the KCC recently recognized that a loss of control by the gatherer of its gathering system, as required by Senate Bill 576, is a recipe for disaster: *"Open access for exit taps would eventually result in reconfiguration of the system that would be costly to the producer and ultimately lead to an early abandonment of the production reservoir"* Report and Recommendation filed January 27, 2006, in Docket No. 06-GIMG-400-GIG. Because of the increased costs that would be incurred by both gas gatherers and producers to comply with Senate Bill 576, there would be a disincentive to both gatherers and producers to make the investments in their systems to avoid premature abandonment of production reservoirs. This, in turn, would result in a negative impact on employment in the natural gas industry in Kansas.

Senate Bill 576 also mandates that gas gatherers must open their records to the public just like a public utility but they receive none of the benefits as a public utility. Gas gatherers must file information on prices paid for gas purchased, rates charged for gathering services, the terms and duration of contracts, gas gathering maps and a host of other information. The KCC is prohibited from protecting the sensitivity of that commercial information and can fine a gatherer up to \$10,000 a day for each day it fails to file that

information with the KCC. Commercially sensitive information should be protected from public disclosure. Currently, the KCC allows parties to discover this type of information, but only in the discovery phase of a complaint proceeding and the parties are required to sign a nondisclosure agreement subject to a protective order. Under this process, parties are given the information necessary to pursue their claims, but the confidential information remains protected.

Senate Bill 576 further authorizes the KCC to rewrite any contracts of gas gatherers that it doesn't like. This causes grave concerns since many of these contracts have been in effect for a number of years and are clearly property rights of the gas gatherer. The constitutional implications of this part of the bill are obvious.

Finally, Senate Bill 576 specifically eliminates the protection of gas gatherers from public utility or common carrier type regulation provided by the 1997 law and now burdens both the KCC and gas gatherers with a new and unnecessary regulatory regime.

In summary, Senate Bill 576 will force unnecessary regulation on gas gatherers. That same regulation will force the premature abandonment of gas producing reservoirs in the State. The increased costs to be incurred as a result of the unnecessary regulation of gas gatherers and premature abandonment of gas wells will also negatively impact the economy in Kansas as the result of the losses that will be incurred by producers and mineral owners, as well as lost tax revenues that would benefit all citizens. The end result of enactment of Senate Bill 576 will unquestionably have a significant and adverse impact on all of the citizens of the State of Kansas.