

Comments to:

Kansas Senate Committee on Utilities

Re: Senate Bill No. 576

March 9, 2006

Topeka, Kansas

By:

E. R. (Dick) Brewster
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On Behalf of:

BP America Inc.

Mr. Chairman and members of the Committee, for the record, my name is Dick Brewster, and I am Government Affairs Director for BP America. We sincerely appreciate your time and attention in discussing Senate Bill No. 576.

BP is a worldwide energy Company, and is one of Kansas' largest producers of natural gas, and one of the largest gas producers in North America. Our Kansas production is located in Southwest Kansas in what is called the Hugoton gas field. We have a long history in Kansas in both gas production and in retail marketing of motor fuels and related products. In all BP's operations, safety is our number one priority.

It's never easy or comfortable to appear before a Senate Committee in opposition to a bill requested by the President of the Senate. But I do appear today in opposition to Senate Bill No. 576.

We wear several hats in Kansas: BP is (1) a producer of natural gas, (2) a gas gathering system owner/operator, (3) a gathering system contract operator, and (4) a gas processing plant owner and operator. We have a large and increasing commitment to Kansas as we continue investment in our Southwest Kansas gas operations.

Current Kansas law requires gathering system operators to provide "open access" to producers of gas. That is, gathering system operators are required to gather gas from any and all producers in the area, regardless of size. And gatherers are prohibited from charging unfair and/or discriminatory rates to producers for gathering services. BP did not oppose enactment of the current statute, or its implementation. We support open access for producers to have a way to get their gas to the marketplace; that is, into a processing plant and interstate pipeline.

We do not believe current law requires "open access" for *delivery* of gas to end use customers. However Senate Bill No. 576 appears to require such access, and we do not believe that turning gathering systems and operators into quasi-utilities is good policy or in the best interests of the producers, operators, processors or the people of Southwest Kansas.

BP and its predecessor operator in Southwest Kansas, Amoco, have provided a limited number of end users with gas for decades, usually gas directly from the wellhead and, to a much lesser degree, the gathering system. This is because many mineral leases require us to provide free gas to heat the primary residence on the lease as long as there is a producing well on that lease. And, like many other producers, we have provided many farmers with gas to fuel their irrigation pump engines. This irrigation gas is sold at a negotiated price, and usually sold at the wellhead. There are rare situations where irrigation gas is sold from a gathering line, or free gas for the principal dwelling is provided from the gathering line. In these cases, a gathering line tap was used as a convenience and cost saver for the customer.

Many free gas taps as described above are being replaced, at our cost, with propane, electricity if available, or utility gas service where available. We're converting many of these users from wellhead gas primarily for safety reasons. Pressures in the field are declining, and in some wells, there is an increasing health threat from H₂S in the gas stream. Irrigation gas remains subject to contract between the irrigator and producer.

From the gatherer's perspective, requiring exit taps creates significant problems: Measurement of gas tap volumes is difficult and untimely, often delaying shipper statements, leading to adjustments for prior royalty payments and payments to other interest owners.

The gas field pressure is declining, and BP and other operators have installed compressors on gathering systems, which increase the life of the field and help maintain or increase production rates. A gas tap on the suction side of a compressor may not leave adequate pressure to deliver the gas, so service will be curtailed or interrupted. Yet without this compression, the field decline rate will increase, hastening the abandonment of production.

Most gathering system lines have to be "pigged" to remove liquids. This activity and other maintenance require closing all exit valves, again curtailing service to any exit taps.

Furthermore, end users whose gas comes from gathering line exit taps may well get gas with excess liquids, gas not meeting utility specifications, un-odorized gas, and in an increasing number of areas, gas with an unsafe H₂S content.

All these observations lead to the conclusion that exit taps on gathering systems cannot provide end users with continuity and consistency of gas supply, nor can safety be assured.

Typically, the exit taps I have described require the end user to lay the line from the gas tap to the end user's building. Our experience has shown that there is very little maintenance on these lines. Leaks may develop and remain undetected. Remember this gas is not odorized. And, sadly enough, it has been our experience that from time to time, there are other "taps" on these customer owned lines, often with inferior plumbing that does not meet code requirements. Again, this event produces significant safety concerns.

Interestingly, when this legislature required open access by gathering lines for receipt of gas from all producers, it put a significant obstacle in the way of this bill. A gathering operator is required to carry gas belonging to many producers. But a gathering operator cannot contract for the sale and delivery of gas he or she does not own.

Looking at this bill from the perspective of a processing plant owner/operator is not helpful. The gas load at many plants in the area is already reduced significantly. Our Jayhawk plant at Ulysses is now processing volumes at less than half its capacity. (220

mmcf of the 450 mmcf capacity) Exit taps will further reduce these volumes, requiring major modifications to the plant to handle smaller volumes, or closing the plant and directing the gas to another processor.

Senate Bill No. 576 does not fare well from a producer's perspective either. Most of the gas exiting our processing plant serves multi-year contracts, primarily with public utilities. Exit taps will reduce supplies for these downstream customers, and result in less value to the plant operator, producer and royalty owner.

The simple fact is this: gathering systems were not designed to deliver gas to end users. Those who built them and those who invest in their operation did not intend to get into the gas utility business. Gathering systems cannot deliver gas with the assured continuity or quality that is required by most end users.

Requiring exit taps on the state's more than 100 gathering systems will result in increased costs to producers, gathering operators, and processors. Increased costs will equal earlier abandonment of processing, and ultimately an earlier abandonment of gas production.

The KCC staff recognized what I and others are saying to you, Mr. Chairman and members of the Committee. In the staff's Report and Recommendations of January 27, 2006, in Docket No. 06-GIMG-400-GIG, staff noted on page 7:

The provision of exit taps on a gathering system should be left to the discretion of the gathering system operator.Staff believes gas gathering services do not include delivery of gas to end use customers and ...must necessarily remain secondary to the primary function of gathering gas i.e. moving the gas from the producer to the transmission line. 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. Exit taps would also diminish the amount of gas delivered to gas plants for processing....

We strongly urge this committee not to approve Senate Bill No. 576.

On a personal note: I've been associated with the Kansas Legislature since 1971, as a lobbyist and three term member of the House. Increasing the life of the Hugoton gas field has been a concern for at least that long. Since 1981, when I began working for Amoco, now BP, I've often been asked what can be done to increase the life of the Hugoton Field. That question has come to me from legislators, past and present as well as governors and their staffs, past and present.

In the final analysis, the decision when to stop producing gas from a well or lease is an economic one. As a gas production area matures, the cost of maintaining production, the cost of reducing the production decline, increases. So, when I get asked that question, my answer is: Do anything you can to reduce the cost of producing gas and getting it into

the marketplace.

The biggest single state controlled cost of production in Kansas is the property tax. It is often the equivalent of an 8 to 12 or more percent severance tax. The severance tax rate itself in Kansas is relatively low, but reducing or eliminating it would help. My 6 years in the Kansas House give me a clear enough picture of the need of local governments, not to mention their political power, to understand that asking for a property tax reduction or elimination on gas reserves is not realistic.

So, perhaps there is little or nothing Kansas can do to increase the life of the Hugoton Field. But what I suggest you should not do is adopt Senate Bill 576, or any other bill that can only increase the cost of production. What I believe you do not want to do is shorten the life of the Hugoton Field, even if there is little you can do to lengthen it.

Mr. Chairman, members of the committee, I appreciate your time and attention. I'll be happy to answer any questions you might have.

Respectfully,

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BP Government Affairs Director