Oil & Gas Day at the State House

Over 250 Attend “Kansas Oil & Gas Day” Legislative Reception

The Kansas Independent Oil & Gas Association (KIOGA) along with the Eastern Kansas Oil & Gas Association (EKOGA) and the Kansas Petroleum Council (KPC) hosted an “Oil & Gas Day” legislative reception in the Kansas State Capitol in Topeka on January 29, 2020. Several KIOGA, EKOGA, and KPC members made the trip to Topeka to showcase the Kansas oil and gas industry and to remind legislators and government officials about the challenges facing the oil and gas industry and the importance of oil and gas to our state.

A Kansas country breakfast was offered to all Kansas legislators, government officials, and other decision-makers. Over 25 KIOGA members joined KIOGA Chairman David Bleakley and our legislative sponsor State Senator Rob Olson (R-Olathe) in welcoming legislators and governmental decision-makers to Kansas Oil & Gas Day at the State Capitol.

Continued on Page 12
KANSAS INDEPENDENT OIL & GAS ASSOCIATION

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OIL AND GAS FIELDS OF KANSAS
2009

Gas Field Oil Field Oil & Gas Field

The Kansas Independent Oil & Gas Association (KIOGA) believes in seeking common ground, through common sense solutions, to the challenges facing the Kansas oil and gas industry. Our bipartisan approach provides a uniquely powerful voice for our members at the state and national level.

Our work is critical.
Your support is vital.

KIOGA Wichita Office
229 E. William - Suite 211
Wichita, Kansas 67202-4027
316-263-7297

KIOGA Topeka Office
800 SW Jackson Street - Suite 1400
Topeka, Kansas 66612-1216
785-232-7772
Executive Committee needs these comments and suggestions from its members to make decisions and to make recommendations to the KIOGA Board of Directors at our three Board Meetings: December, Mid-Year (April) and Annual (August).

Members of the 2019/2020 Executive Committee are as follows:

- Chairman: David Bleakley
- SW Vice Chair Charles Wilson
- SC Vice Chair: Alan Banta
- E Vice Chair/Investment Chair: Barry Hill
- NW Vice Chair: Ed Nemnich
- Secretary: Jeff Bloomer
- Treasurer: Scott Fraizer
- Past Chair/Nominating Chair: Ken White
- At Large/By-Laws Chair: Barry Hill
- At Large/Finance Chair: Andrew Krauss
- At Large: Dan Schippers
- #Ed Cross: President (Non-voting)

I would like to express my sincere appreciation to each one of these members for giving their time and talents to help our organization move forward.
in this new decade, and I also want to sincerely thank each one of their companies for this support of KIOGA. It takes volunteers and commitment to keep our Association strong!

The Executive Committee began meeting in November and discussed the need for a By-Laws update as KIOGA is currently operating under the 1952 version. Jeff Kennedy has graciously agreed to help with restating the By-Laws and bringing them up to current association standards tailored to KIOGA’s needs. Every member will have an opportunity to see a copy of the proposed By-Laws Restatement and to comment before a vote will be scheduled.

The Executive Committee made a recommendation to the Board of Directors in December for moving the accounting office to Topeka. This recommendation was sent back for further study and the following committees are working on more detail for analysis by the Executive Committee on the issue of closing, downsizing, or repurposing the Wichita Office. These committees will also be making recommendations for cost controls and changes to the annual meeting format with the hopes of providing more focus on our trade show vendors/annual meeting supporters and lowering the cost to attend the meeting for all our members while still maintaining a high quality annual meeting.

The Committees appointed for this study are as follows:

- **Finance Committee**
  - Andrea Krauss, Chair
  - Barry Hill - Investments
  - Scott Graizer - Treasurer
  - Charlie Wilson
  - David Bleakley

- **Human Resources Committee**
  - Alan Banta, Chair
  - Jeff Kennedy - By-Laws
  - Ed Nemnich
  - Dan Schippers
  - David Bleakley

- **Investment Committee**
  - Barry Hill - Chair
  - Scott Fraizer - Treasurer
  - David Bleakley

In addition, at the December Board Meeting, Jeff Kennedy agreed to convene a listening group to hear ideas from all interested Board Members on any changes being studied or proposed for KIOGA.

I will soon be appointing Chairmen and Members for the following committees to work with the Executive Committee and to bring forth suggestions to the Board:

1. **Marketing** – to review the current KIOGA website/communication materials and make recommendations for improvements
2. **Membership** – to review the current Membership Data Base and to work with staff and Directional Vice-Chairs on new member initiatives
3. **Strategic Planning** – to develop a Strategic Plan for KIOGA including the drafting of a Mission Statement for our association

Please let me or any of the Executive Committee members know if you, or anyone you recommend, has an interest in any of these areas and would be willing to serve. My cell phone number is: (620) 365-9419. The path to leadership starts with Committee Service!

**CAMARADERIE**

Please mark your calendars for the Mid-Year Meeting in Garden City on April 15-17, 2020. Meetings will be held at the Clarion Inn and Convention Center. Reserve your room soon at the Clarion Inn and Convention Center (620)275-7471 or Heritage Inn & Suites (620)277-7477.

As I said before, I strongly encourage you to volunteer, stretch yourself, get involved and share your talents to help KIOGA move forward with a “2020 VISION PLAN.” CHANGE IS HARD, but TOGETHER, we can chart the path for our Association to advocate for our industry in the years ahead!

Sincerely,

David P. Bleakley
KIOGA CHAIRMAN
Providing Quality Seismic Since 1993

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## KIOGA Mark your Calendar

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<td>April 15-17, 2020</td>
<td>Garden City, KS</td>
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<td>April 17, 2020</td>
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<td>SPE Improved Oil Recovery Conf.</td>
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<td>IOGCC Annual Business Meeting</td>
<td>May 17-19, 2020</td>
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<tr>
<td>KIOGA 83rd Annual Convention</td>
<td>August 16-18, 2020</td>
<td>Wichita, KS</td>
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KIOGA Engaged in Addressing Tax and Energy Policy Challenges

As 2019 came to a close, U.S. House Democrats moved to a quick vote to impeach President Trump while simultaneously cutting deals on trade and spending. On the impeachment front, the U.S. House voted on two Articles of Impeachment - Obstruction of Congress and Abuse of Power. The vote was a virtual party line vote with a small handful of mostly Trump-District Democrats breaking ranks to vote against impeaching the President. Senate Majority Leader McConnell said the U.S. Senate will conduct the trial in January 2020 and negotiations on how the Senate will manage the impeachment trial began in early January.

McConnell proposed two options. A short trial, with House Managers and the President’s lawyers making their respective arguments followed by a vote. The second option would be a full trial with each side calling witnesses, a process that could go on for weeks. McConnell characterized the second option as “Mutual Assured Destruction” and strongly urged a short Senate trial. With five Democrat Senators and Independent Bernie Sanders running for the Democratic nomination, and with Senate rules requiring that all Senators be seated all day, Monday through Saturday during an impeachment trial (with no use of electronic devices allowed on the Senate floor) the best bet is a quick trial in the Senate.

In late December 2019 during the same time period when the U.S. House was considering impeachment, the White House and House Democrats announced a deal on the United States-Mexico-Canada Agreement (USMCA). Speaker Pelosi announced a House vote on the USMCA before the end of 2019. Given the close sequence of the Impeachment and USMCA votes, U.S. Senate Majority Leader McConnell said final action on the USMCA will follow immediately after final votes on impeachment.

Also, in mid-December 2019, Congressional and White House negotiators reached agreement on an FY 2020 spending package that forestalled the need for another stop-gap spending measure and averted a potential government shutdown.

It was also announced in early January the U.S. and China have reached a trade agreement avertting additional tariffs and the beginning of rolling back some current tariffs in return for Chinese concessions including lowering trade barriers and purchasing more US agricultural products.

The U.S. House of Representatives sandwiched a vote on impeaching the President between major bi-partisan votes handing the same President victories on a major North American trade agreement as well as key spending priorities. So in the end we will likely see a Democratic U.S. House impeach the President and the Republican Senate acquit the President. After an FBI investigation that began before President Trump was sworn into office, culminating with Mueller Report absolving the President of any collusion with Russia and a ceaseless two-year effort by U.S. House Democrats to reverse the outcome of the 2016 election through Impeachment, and after an unprecedented avalanche of negative media from every corner of the world, President Trump is still standing having been impeached by the House, acquitted in the Senate and with two major trade agreements and a comprehensive spending agreement to carry the government through the 2020 fiscal year. The establishment may not have a lot to celebrate, but for the rest of America it’s shaping up as a pretty good year.

Federal Oil & Gas Tax Issues Arise

Federal oil and gas tax discussions emerged in Washington in late 2019. With Democratic presidential candidates and advocates for the Green New Deal calling for the end to oil and gas tax provisions, critical oil
and gas tax provisions like percentage depletion are under scrutiny. KIOGA has been engaged early-on to provide a foundation and resource for credible information regarding oil and gas tax provisions to a number of key federal policymakers. In September 2019 and again in November 2019, KIOGA President Edward Cross met with the Congressional Joint Committee on Taxation to educate key federal policymakers on the importance of critical tax provisions, namely percentage depletion and intangible drilling costs (IDCs), on the small businesses that make up the independent oil and gas industry in Kansas and across the nation.

Cross shared with each of the policymakers the importance of critical tax provisions, namely percentage depletion and IDCs, on the small businesses that make up the independent oil and gas industry in Kansas and across the nation.

The bottom-line message provided to each of the policymakers was clear. Congress should reject unwarranted proposals that would significantly harm the competitiveness of American natural resources industries by eliminating or reducing the present-law percentage depletion and IDCs tax provisions. Cross provided and discussed with each of the policymakers the following information:

- The IHS study The Economic Impact of Eliminating the Percentage Depletion Allowance
- KIOGA written comments submitted to the Joint Committee on Taxation
- KIOGA white paper explaining percentage depletion and IDCs
- KIOGA white paper on the origin and evolution of the depletion allowance and IDCs
- KIOGA report on the economic impact of the oil and gas industry in Kansas and the impact percentage depletion and IDCs have on the industry in Kansas
- KIOGA white paper on why percentage depletion and IDCs are not subsidies
- KIOGA comparison of tax provisions for majors and independents
- KIOGA White Paper State of the Oil & Gas Industry

**Tax Foundation** – KIOGA President Edward Cross was contacted by the Tax Foundation, a Washington, DC think tank that focuses on tax policy, in late 2019. The Tax Foundation read KIOGA’s report titled Kansas Oil & Gas Industry Strategic Analysis and KIOGA’s white paper titled State of the Oil & Gas Industry – Dynamic Challenges Facing Kansas Oil and Natural Gas Industry. They were very interested in the analysis of the impact of state and federal taxes on the small businesses that make up the Kansas oil and gas industry. Cross met with the Tax Foundation to further discuss Kansas oil and gas industry tax analyses metrics.

**Percentage Depletion Spared from GREEN Act** – In November 2019, U.S. Congressional Democrats released a discussion draft of the green tax bill, the GREEN Act. It was a sweeping tax bill that renewed expired energy credits, created new credits and incentives, and converted the investment tax credit and production tax credit into refundable credits. The good news is that the legislation left percentage depletion alone. KIOGA President Edward Cross has been communicating with the Joint Committee on Taxation (JCT) since September 2019 about this issue. In many minds, repealing percentage depletion was the perfect complement to a bill designed to reduce carbon emissions. KIOGA’s visits with the members of the JCT in September and November along with continuous follow-up discussions and correspondence was very productive and impactful for educating members and staff on the role that percentage depletion plays in keeping our industry alive.

**GREEN Act takes first step toward implementing carbon tax** – While we were successful in keeping percentage depletion from being a part of the FY 2020 spending package; foundations were formed for implementing a carbon tax. Democrats want the Treasury Secretary to report to Congress on the feasibility of using data from the EPA’s Greenhouse Gas Reporting Requirements to isolate greenhouse gas emissions by taxpayer, with an eye towards implementing a carbon tax in the future. Step one in implementing a carbon tax is to determine who is producing how much carbon. While much of the GREEN Act did not pass, it will likely serve as a central political document for the 2020 election and, should a Democrat capture the White House in 2020, a starting point for an aggressive green energy bill during the first 100 days.

**Going Forward**

As we move forward into 2020, tax and energy policy continues to be prominent topics of discussion in Washington. As 2020 begins we enter the second year of the 116th Congress. Lawmakers in both parties agree the partisan politics of the 2020 election will kick into high gear as soon as January.
KIOGA Educational Foundation

The KIOGA Educational Foundation (KEF) has given out eleven grants to date. We are in the process of taking applications thru the end of December to award other Kansas Schools for their STEM (Science, Technology, Engineering and Math) projects. If you know a school that would fit in this catagory, please have their school contact us. Grants awarded to date:

- Gordon Parks Academy - Wichita, KS (2)
- Heller Elementary - Neodesha, KS
- Marshall Elementary - Eureka, KS
- Victoria Elementary - Victoria, KS
- Spaght Science & Communications - Wichita, KS
- Derby North Middle School - Derby, KS (2)
- Brooks Center for STEM - Wichita, KS
- Bucklin High School - Bucklin, KS
- WSU Mobile Learning Lab Lincoln Jr/Sr. High - Lincoln, KS

If you are interested in donating to the the program, contact KEF at kef@kioga.org.
Check out the new Facebook page.

Please consider making KIOGA Educational Foundation as your donation in lieu of flowers. KEF is dedicated to the education of teachers and students, on the benefits of the oil and gas industry.

KEF | 229 E William Suite 211 | Wichita, KS 67020

In Memory Of:
- James Leon “Jim” Schoenberger  Superior Oil Service  Russell, KS
KIOGA
New Members

We welcome the following members to the KIOGA family. Thank You for your continued support!

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<thead>
<tr>
<th>Name</th>
<th>Company</th>
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<tr>
<td>Jeff M. Pike</td>
<td>Martin Pringle Oliver Wallace &amp; Bauer LLP</td>
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<td>Daniel French</td>
<td>Stratakan Exploration</td>
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<td>Michael Corley</td>
<td>Mercatus Energy Advisors</td>
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<tr>
<td>Peter Cook</td>
<td>Cook CPA, LLC</td>
<td>Wichita, KS</td>
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SAVE THE DATE
THE 2020 HALL OF FAME INDUCTION DINNER & CEREMONY

Saturday, April 18, 2020

Tickets can be purchased for $50 per person; make checks payable to Kansas Oil & Gas Museum Foundation and mail to:
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The Newly Renovated Kansas Oil & Gas Hall of Fame Museum will be open for tours on Saturday, April 18th from 10am to 5pm.

For Additional Information Please Contact:
John Francis at 620.786.9920
Christopher Smith at 620.792.7801

Proceeds benefit the Kansas Oil & Gas Museum Foundation
2020 Hall of Fame Inductees to be Announced late February.
we have organized the event and we are delighted that our friends at EKOGA and KPC joined us to host the event. The event has proven to be an exceptional venue and opportunity for our industry to communicate and with state legislators and government decision-makers on issues important to our industry.

Kansas State Capitol

“The difference this day makes for the Kansas oil and gas industry is tremendous,” said Edward Cross, KIOGA President. “By having oil and gas producers from across the state taking part, our legislative leaders and governmental decision-makers will have no doubt about the challenges and opportunities facing the Kansas oil and gas industry.”

As part of the “Kansas Oil & Gas Day” legislative event, KIOGA members met with several key legislators and key agency officials after the breakfast to discuss issues important to the Kansas oil and gas industry.

Several legislators and government officials joined the reception including:

- **Lieutenant Governor Lynn Rogers**
- **House Speaker Ron Ryckman (R-Olathe)**
- **Senate President Susan Wagle (R-Wichita)**
- **House Majority Leader Dan Hawkins (R-Wichita)**
- **House Speaker Pro Tem Blaine Finch (R-Ottawa)**
- **House Minority Leader Tom Sawyer (D-Wichita)**
- **House Majority Whip Blake Carpenter (R-Derby)**
- **House Energy Committee Chair Joe Seiwert (R-Pretty Prairie)**
- **House Tax Committee Chair Steve Johnson (R-Assaria)**
- **House Appropriations Committee Chair Troy Waymaster (R-Bunker Hill)**
- **Senate Majority Whip Elaine Bowers (R-Concordia)**
- **Senate Utility Committee Chair Ty Masterson (R-Andover)**
- **Senate Commerce Committee Chair Julia Lynn (R-Olathe)**
- **Senate Financial Institutions & Insurance Committee Chair Rob Olson (R-Olathe)**
- **77 State Representatives**
- **18 State Senators**

In addition, a number of agency decision-makers and legislative staffers stopped by to visit. Turnout for the reception was exceptional. Over 250 people attended the reception.

Many legislators, government officials, and other decision-makers expressed their gratitude for the breakfast, camaraderie, and discussions saying they look forward to our event every year because “it is the best breakfast reception of the entire session”. The good will and positive relationships we nurture at this annual event provides phenomenal value for our industry. The 2020 reception marks the 14th consecutive year...
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(620) 242-6873

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2019 - A Challenging Year for Oil & Gas Industry

Industry Activity Very Conservative

These are critical times for the Kansas oil and natural gas industry, economically and politically. The challenges we face grow in number and complexity are exacerbated by a volatile oil and natural gas price environment. The advocacy efforts of the Kansas Independent Oil & Gas Association (KIOGA) have only gotten more urgent.

Crude oil prices averaged $47.29 per barrel in 2019. The Energy Information Administration (EIA) January 2020 Short-Term Energy Outlook (STEO) forecasts West Texas Intermediate (WTI) crude oil price to average $65 in 2020 and $68 in 2021. Kansas Common crude oil is usually priced at about $10-$11 less than WTI. Once again the market is fraught with uncertainty and 2020 could experience volatile price fluctuations.

KIOGA has compiled statistics that paint a remarkable picture of the oil and natural gas industry’s impact on the Kansas economy and the level of state taxes imposed on the industry. KIOGA has prepared several white papers and reports that provide a summary of the current state of the oil and natural gas industry.

“These informational pieces highlight how oil and natural gas uniquely impacts many aspects of our life,” said Edward Cross, KIOGA President. “Whether it is providing well-paying jobs, saving consumers thousands of dollars each year on their energy bills, producing the building blocks for products we use every day, or developing innovations that have reduced air emissions to historic lows, the oil and natural gas industry is a vital part of the Kansas and U.S. economy.”

Independent Oil and Gas Industry

Leads the Way

The independent oil and natural gas producers continue to lead the way in the Kansas oil and natural gas industry. Independent producers account for over 92% of the oil and 63% of the natural gas produced in Kansas. Kansas independent oil and natural gas producers have some significant advantages. The independent oil and natural gas producers in Kansas have developed strong skill sets based on their size and scale. Independents historically use their resources to the fullest and therefore accelerate the process of creating value from their assets. Independents are typically able to run quicker and leaner than larger companies. Finally, Kansas independents know Kansas geology and how to develop wells in Kansas. Kansas independent producers have a subsurface intelligence that you cannot buy and gives them a very unique competitive advantage. Kansas independent producers have a significant advantage by running lean but being smart. All of this gives independents some significant advantages.

Kansas Industry Activity

Oil and natural gas activity in Kansas was very subdued in 2019. The Kansas oil and gas industry produced over 33 million barrels of oil and nearly 186 billion cubic feet of natural gas in 2019. Nearly 84% of the value of the Kansas oil and natural gas industry comes from oil production and 16% comes from natural gas production. The industry saw 10-39 drilling rigs running each month during 2019 (a 31% decrease from 2018 and down 77% from 2014). The KCC reports 1,207 drilling permits were issued in 2019 (down 36% from 2018 and down 83% from 2014). The KCC oil production fell by 3.6% in 2019, which followed a 3.1% drop in 2018 and 5.5% drop in 2017. Kansas Crude oil production has dropped by 32.4% since 2014. Kansas natural gas production fell by 8.1% in 2019 and has decreased by 35% since 2014. While the average oil well in Kansas produces 2.3 BOPD and the average natural gas well produces 32 Mcf per day, the industry supports 118,000 jobs, $3 billion in family income, and pay $1.4 billion and state and local taxes. Oil production decline has slowed considerably over the last couple of years, but natural gas production continued to decline significantly.

Kansas Oil & Gas Industry Strategic Analysis

KIOGA has prepared a report on the oil and natural gas industry’s impact on the economic vitality of Kansas and the level of state taxes imposed on the industry. The report shows that the oil and natural gas industry is a key contributor to the Kansas economy.

After many decades of productive stewardship, oil and natural gas resources continue to play an important part of the livelihoods of Kansans throughout the state. The Kansas oil and natural gas industry is a critical part of the Kansas economy. The Kansas oil and natural gas industry generated nearly a $2.1 billion in output, put tens of thousands of people all across Kansas to work each day, and pumped hundreds of millions of dollars into the state’s economy last year; money that helped support families, fund schools, and build roads. The Kansas oil and natural gas industry is a vital element of the Kansas economy today and will be a critical part of the economy going forward.

Oil prices have been on an upward trend since October 2019 as easing tensions between the U.S. and China allayed
fears that slowing global growth would erode fuel demand. Oil also received a boost from OPEC+ pledge in December 2019 for deeper output cuts. OPEC+ cuts should keep a floor under prices and allay concerns that 2020 will see renewed oversupply. A sense of cautious bullishness has developed as we head into 2020. Going forward, the market will test OPEC’s resolve on output cuts.

Kansas producers are focusing on the most resilient short-cycle projects and concentrating on their core competencies and smaller producer advantages. Operators are high-grading and drilling only the best projects. In many cases, improved productivity is less about improved technology and more about better application of existing technology. However, there still exists a juxtaposition between those producers that are more aggressively engaging in development activity and those that are still dealing with leverage on their balance sheets and adhering to cash flow neutrality.

KIOGA put together our annual Kansas Oil & Gas Industry Strategic Analysis study to highlight the importance of the oil and gas industry in Kansas. You can find the complete report on KIOGA’s website at www.kioga.org. Some of the key findings include:

- Kansas lost over $730 million in oil and gas output since 2014.
- Royalty payments dropped by over $400 million across Kansas in 2017-2019.
- Severance tax collections on oil and natural gas production decreased by about 20% in 2019 and are down nearly 70% from 2014 levels.
- Ad Valorem taxes collections on oil and natural gas decreased 8% in 2019 and is down 64% from 2014 levels.
- More than $138 million in severance and ad valorem taxes was paid by the oil and natural gas industry during the last year, making the oil and gas industry one of the most heavily taxed industries in Kansas, as over 13% of the value of oil and natural gas produced is paid in taxes. And that doesn’t include sales taxes, income taxes, or the taxes imposed on final products.
- The Kansas oil and gas industry pays taxes not just once, but multiple times before the oil and natural gas reached its final destination. Taxes are imposed on oil and natural gas while still in the ground, then again when they are produced, when transported, when refined, and again when sold as final products. Plus the Kansas oil and gas industry is subject to all other general business, and income taxes that other businesses pay. These taxes reduce the rates of return on new exploration and production investments by an average of 26.5%.

KIOGA also developed a white that summarizes America’s energy picture today, challenges and opportunities faced by the small businesses that make up the Kansas oil and gas industry, and what industry is doing to address those challenges. You can find the white paper titled State of the Oil & Gas Industry – Dynamic Challenges Facing Kansas Oil & Gas Industry on KIOGA’s website at www.kioga.org.

During the give and take of public discourse, few truly stop to think how absolutely essential oil and natural gas are to our lives, to our prosperity and security, and to our future. Oil and natural gas are the foundation of our energy-dependent economy. They profoundly affect how we live and work. They are key to our mobility, to keeping our homes and businesses warm, to providing us with electric power, and to supplying the raw materials for countless consumer and industrial products.

Oil and natural gas are an integral part of our society. Much of our high standard of living can be traced to the use of petroleum. The Kansas oil and natural gas industry fuels America, helps the Kansas economy, and makes positive contributions to our way of life!
Challenging Issues Face 2020 Kansas Legislature

The 2020 Kansas Legislative session began on January 13th. Governor Kelly delivered her “State of the State” address on January 15th outlining her key issues including Medicaid expansion and tax cuts. With significant challenges and an election year, the 2020 Kansas legislative session could be a high-pressure session for legislators.

Kansas Lawmakers begin 2020 Session

The Kansas Legislature is back in session, tackling matters old and new that may impact the oil and gas industry. The first few weeks saw legislative committees mostly receiving agency updates and informational presentations. KIOGA engaged on a number of legislative issues and met with legislators about our priorities for the 2020 session.

State of the State Address -

Governor Kelly delivered her “State of the State” address on January 15th saying she wants to expand Medicaid and will propose three tax cuts. House Speaker Ron Ryckman (R-Olathe) gave the Republican response to the Governor’s address. Ryckman warned of budget gimmicks that give the appearance that the state budget is structurally sound. Speaker Ryckman said the Governor is spending $209 million more than the state is bringing in this year and proposes $274 million more spending than receipts next year. A pillar of the Governor’s budget plan calls for refinancing of the Kansas Public Employees Retirement System (KPERS) which would cost $4.4 billion more to the state in the long run in exchange for $130 million in savings next year, and $200-$250 million in savings in the next two years. This plan was rejected by the legislature in 2019 by a 36-87 vote in the House.

Senate President Susan Wagle (R-Wichita) said she agreed with the Governor that Kansas’ economy is getting better, but that it was not because of Kelly’s election to Governor. Wagle said Kansas’ economy is better because we have a U.S. President who delivered a package of tax cuts to improve the economy and slashing regulations. Wagle said large receipts shouldn’t mean more dollars to grow government. Wagle said we should pass the Trump tax cuts on to Kansans, lower the sales tax on food, and allow Kansans to itemize their mortgage interest and property taxes. Wagle said there are no excuses for not passing the additional funds back to the taxpayer. Governor Kelly’s desire to expand government and Senator Wagle’s desire to pass additional funds back to taxpayers becomes the starting line for the battles between the Governor and the Legislature for the upcoming 2020 Legislative Session.

Budget – Governor Kelly proposed a $7.85 billion budget for the upcoming fiscal year. The State is starting with a $1.1 billion ending balance as receipts continue to come in higher than expectations due to the strong economy. Total revenues are estimated to be $7.6 billion and the Governor’s budget spends a total of $7.85 billion, an all-time high for receipts and expenditures. Governor Kelly’s budget continues her commitment to reduce transfers from the state highway fund, transferring $73 million less than last year. Governor Kelly plans to get additional revenue to pay for her government expansion programs by again proposing to re-amortize the actuarial shortage in the Kansas Public Employee Retirement System (KPERS) trust fund. That re-amortization would give Kelly about $131 million in additional cash to spend that would allow her to grow government programs, startup expanded Medicaid, and pay increases for state employees.

Tax Issues – Governor Kelly proposed three tax recommendations in her budget. The first is called a tax cut on the food sales tax. However, her proposal makes the food sales tax credit eligible for low-income families refundable, meaning if those individuals have no income tax liability, they are still eligible for a refund from the food sales tax credit. The actual rate itself is not being reduced.

The second tax recommendation in Governor Kelly’s budget, spends $54 million to restart state aid to local units.
of government under the Local Ad Valorem Tax Reduction Fund (LAVTR). The LAVTR fund is money given by the state to local governments to help lower property taxes. This program has been in place since the early 2000’s, but has not been funded. It was defunded in the early 2000’s because history had shown that when the LAVTR was funded, property taxes increased at a higher rate. The reason was local governments did not lower mill rates when valuations increase. A state stimulus packaged as property tax relief does nothing to relieve property taxes when the overall tax burden does not go down. House Appropriations Committee Chair Troy Waymaster (R-Bunker Hill) said the Governor’s local property tax relief plan would be worth about $12 per home.

The third recommendation in the Governor’s budget would subject digital services, property, and goods such as streaming services like Netflix or Hulu, and digital goods like music and books to sales tax. This is expected to generate more than $20 million in new revenue to the state.

K-12 School Finance – For the first time in a while, school finance will not be lingering cloud over the legislature following the passage of last year’s school finance plan. Last year’s bill significantly increased K-12 spending and added $90 million in new spending annually last year and this year, then another $90 million annually in new money in 2022 and 2023. Uncertainty remains because of a budget that spends more than the State will receive in revenue. Time will tell if the legislature will honor these K-12 commitments as other needs are requested by other essential state services.

KIOGA State Advocacy Strategy

Kansas state lawmakers returned to Topeka in January for the 2020 Kansas legislative session and KIOGA has prepared. There will be many tough policy debates on issues critical for the Kansas oil and gas industry. And with all 165 state lawmakers up for reelection in 2020 as well as an open U.S. Senate seat, there will likely be lots of political headlines. That is why every legislative session KIOGA prepares a legislative/regulatory/communication agenda. KIOGA Chairman David Bleakley and KIOGA President Edward Cross visited with several KIOGA members across the state last October in our annual listening tour to hear our members concerns and receive input about state and federal issues. The core focus of KIOGA’s work at the Statehouse during the 2020 legislative session will be on protecting the Kansas oil and gas industry from increased costs while also defending industry gains made in recent years. The KIOGA legislative agenda for the 2020 legislative session will be one in which we will work to minimize legislative assaults on the independent oil and gas industry and optimize legislative targets of opportunity.

Meeting with Governor Kelly and Key House & Senate Leadership – KIOGA President Edward Cross met with Governor Kelly in November and again in January to provide an update on the state of the Kansas oil and gas industry and to share KIOGA’s legislative agenda which lays out what’s important to KIOGA members and where we stand on energy, tax, and regulatory issues. Cross also met with House Speaker Ron Ryckman (R-Olathe) and Senate President Susan Wagle (R-Wichita) in January in separate meetings to discuss energy issues and begin laying groundwork for the upcoming 2020 Kansas Legislative Session. Cross also met with the House Minority Leader Tom Sawyer (D-Wichita), House Speaker Pro Tem Blaine Finch (R-Ottawa), House Minority Whip Jim Gartner (D-Topeka) and Senate Vice President Jeff Longbine (R-Emporia).

In addition, Cross met with the Chairs of the House Energy Committee, House Appropriations Committee, House Tax Committee, Senate Utilities Committee, Senate Judiciary Committee, and Senate Insurance & Financial Institutions Committee. Cross discussed the state of the Kansas oil and gas industry and what 2020 may hold for the Kansas oil and gas industry, abandoned well legislation, injection well issues, seismic issues, carbon capture issues, electric issues, and more.

KIOGA Presentations to Key Committees – KIOGA President Edward Cross was invited and made informational presentations about the state of the Kansas oil and gas industry and the key challenges and opportunities the industry faces in 2020. Cross made these presentations before the House Energy Committee on January 16th, the Senate Utilities Committee on January 23rd, and again in January.
Several potential issues affecting the Kansas independent oil and gas industry could emerge during the 2020 Kansas legislative Session. Activists continue efforts to disrupt orderly oil and gas development in Kansas. They work backwards from a conclusion using an innuendo-filled collection of unfounded allegations to generate anxiety around injection wells and oil and gas development in general. They offer ideas that are contradictory or otherwise separated from reality and try to manufacture debate that confuses policymakers and the public with assertions that are out of context and need more information for a complete and informed discussion. Mischaracterizing oil and gas activity has been and continues to be a common practice and strategy of activist groups across the nation. This pattern of accusation without scientific evidence is intended to create public anxiety about oil and gas production and to discredit effective regulatory programs. KIOGA, individual operators,
were drilled. A second bill will instill across the state, regardless of when they party can be used to plug such wells abandoned wells with no responsible that funds paid by industry to plug propose combining the two funds so regulatory certainty into abandoned well plugging responsibility. Both industry and the KCC have been plagued by the question of who is responsible for plugging orphaned wells since the Kansas Appeals Court in January 2015 overturned the Quest Order. The court held that a company acquiring a lease was not responsible for plugging any orphan wells found on it as long as the company did not cause those abandoned wells to become environmental hazards. KIOGA will be supporting the KCC proposal to clarify responsibility for abandoned wells. Finally, the KCC will be proposing a measure to establish a reimbursement procedure for parties who wish to plug abandoned wells. KIOGA will support all three proposals.

KIOGA to Support Abandoned Well Legislation - KIOGA will be working to help advance proposals addressing abandoned well issues in the 2020 Kansas Legislative Session. These proposals will be introduced by the Kansas Corporation Commission (KCC). The first is a proposal to consolidate the two plugging funds. Currently, there are two industry fee funds for plugging abandoned wells with no responsibility party. One fund is used for abandoned wells drilled prior to 1996 and the second fund is used for abandoned wells drilled after 1996. The fund for wells drilled after 1996 is used infrequently and often builds in value creating a target for legislative sweeps. We will propose combining the two funds so that funds paid by industry to plug abandoned wells with no responsible party can be used to plug such wells across the state, regardless of when they were drilled. A second bill will instill earthquake damage, force the KCC to consider potential seismicity in issuing permits for injection wells, and imposing a volume cap on wells throughout the state.

KIOGA stays keenly poised to address any attempts by those who oppose American oil and gas development to promote legislation and/or regulations designed to stop oil and gas production. KIOGA President Edward Cross has met with key legislative leaders and committee chairs in advance of the legislative session to provide fact-based scientific information about injection wells, seismic activity, hydraulic fracturing, climate issues, and more. KIOGA is prepared and ready to defend the oil and gas industry at every opportunity.

Uniform Partition of Heirs Property Act – During the 2019 session, the Uniform Partition of Heirs Act was introduced. KIOGA opposed the measure because the proposal would have made it practically impossible to partition many parcels of real estate in Kansas. The problem is that partitioning is often the best option to fix title problems that would otherwise render the land unable to be developed for oil and gas production. Last year, the measure did not advance out of committee. KIOGA will be vigilant to address any action to advance the measure again in 2020.

Environmental Activists Expected to again introduce uninformed oil and gas regulation bills – Several issues affecting KIOGA members could emerge during the 2020 Kansas Legislative Session. During the 2019 Kansas Legislative Session, lawmakers rejected uninformed injection well/earthquake bills advanced by the Sierra Club and other activists. Each of the last seven years, the Sierra Club and other activists have had bills introduced that include a list of onerous rules and regulations designed to stop oil and gas production. This laundry list of oil and gas regulations that have no environmental benefit but high associated costs and includes carefully thought-out restrictions on hydraulic fracturing, waste management, emissions, moratoriums on injection wells, establishing an earthquake risk pool fund, and other measures with the goal of stopping oil and gas production. The foundations for these proposals are based on unfounded information and activist propaganda.

This upcoming session (2020) will likely see the same. We can expect activists to try to advance legislative proposals to create a risk pool to compensate property owners suffering from partitioning issues, and force the KCC to consider potential seismicity in issuing permits for injection wells, and imposing a volume cap on wells throughout the state.
KIOGA is here to help!

A message from your KIOGA President, Edward Cross

For over 150 years, the oil and gas industry has been a vital part of Kansas’s way of life and at KIOGA our goal is to help ensure our industry thrives well into the future.

KIOGA’s vision is simple - to promote the development of Kansas’s oil and natural gas resources for the betterment of society. We recognize that our members truly are the fabric of many communities throughout Kansas. KIOGA members not only employ and support over 100,000 Kansans and their families with good-paying jobs boosting our state economy, but also pay significant taxes and often make significant charitable gifts that support communities and general overall well-being of our state.

With over 4,000 members, KIOGA is the lead state/national advocate for the Kansas oil and gas industry. KIOGA identifies and interprets public policies and regulations that are fundamental to our member’s success. Our quick analyses and evaluations of issues and concerns result in significant arbitrage value for KIOGA members who benefit from our substantial first-mover advocacy advantages. We engage on state and federal regulatory issues and meet with key state and federal policymakers on policy issues. We continue to build relationships and work with allies at the state and federal level. Finally, we litigate when necessary.

Through rigorous engagement at the state and federal level, KIOGA works to create a more stable and predictable political and regulatory environment for our members. We are committed to being a positive, credible, and proactive voice for industry, promoting respectful dialogue and education to advance oil and gas interests at the state and federal level. We accomplish this through the three pillars of our Business Strategy: Legislative, Regulatory, and Outreach.

In 2019, our mission manifested itself in many positive ways including:

**Legislative Success:** No anti-oil and gas bills were approved by the Kansas Legislature. Legislature passed association health plan measure KIOGA supported. KIOGA engaged at the federal level by providing fact-based scientific information to the White House for a recommended national energy plan, and to 350 federal policymakers to address issues concerning emissions, tax policy, energy policy and more.

**Regulatory Success:** Worked with Kansas Corporation Commission (KCC) to revise state regulations on abandoned wells, budgeting, and injection wells. At the federal level, KIOGA is intensely engaged to address proposed methane emission regulation, lesser prairie chicken listing status, and more.

**Legal Victories:** In
every company in the oil and natural gas industry. Companies need the best and latest advocacy and public outreach efforts. That is what you get with KIOGA.

For the oil and gas industry, the challenges never end. KIOGA takes our charge seriously and pursues excellence on your behalf each day. Let KIOGA be your partner in success. We provide unmatched public policy advocacy and a powerful voice for you in state and federal government. KIOGA is an investment in our energy future!

August 2019, the Kansas Supreme Court sided with KIOGA in a defeasible term mineral interest case following the very reasoning applied in the KIOGA amicus brief, even citing the KIOGA brief on a couple of points.

Public Outreach: KIOGA continues our Next Step to Raising Energy Awareness program speaking at 22 public forums, engaging in over 50 media inquiries, and providing 13 editorials to media across Kansas and the nation last year.

It is only with your support that we were able to accomplish these goals. KIOGA wants to build on this momentum in 2020 and your support allows us to continue to proactively engage state and federal policymakers and regulatory officials to aggressively defend our industry and promote the development of Kansas’s oil and natural gas resources.

Though we face many familiar legislative and regulatory challenges in 2020, KIOGA stands stronger and more united than ever to face these obstacles and seek meaningful opportunities to evolve and succeed. To be a member of KIOGA is to be among the premier oil and gas companies in Kansas and across the nation.

As a professional advocate for the Kansas oil and natural gas industry, KIOGA has used our significant advocacy experience and talent to form strong and productive bipartisan relationships with state and federal policymakers as well as state and federal regulatory agencies.

The bottom line is that unsound policies, regulations, and public perceptions threaten the profit and growth opportunities of every company in the oil and natural gas industry. Companies need the best and latest advocacy and public outreach efforts. That is what you get with KIOGA.

For the oil and gas industry, the challenges never end. KIOGA takes our charge seriously and pursues excellence on your behalf each day. Let KIOGA be your partner in success. We provide unmatched public policy advocacy and a powerful voice for you in state and federal government. KIOGA is an investment in our energy future!
Climate Considerations Excluded from Re-Write of Environmental Reviews

New Migratory Bird Bill Moving Through Congress - Methane Update and more

The White House is poised to exclude climate considerations from its rewrite of rules surrounding the nation’s core environmental law. The proposed changes to the National Environmental Policy Act (NEPA) guidelines would include the end of a requirement that federal regulators consider the implications for climate change.

NEPA, signed into law by President Nixon, gives communities input and allows them to challenge federal decisions on projects like pipelines, highways, and bridges. And it requires federal regulators to analyze a host of impacts. The Trump plan would “simplify the definition of environmental effects and clarify that effects must be reasonably foreseeable and require a reasonably close causal relationship to the proposed action.” In other words, the government could only study the impacts tied directly to a project, not how a project would add to a larger problem, something environmentalists have been clamoring for.

The move to overhaul NEPA is the latest in a series of regulatory proposals to reduce government oversight, in line with President Trump’s promise to speed up the construction and repair of aging bridges, roads, and airports.

Trump said infrastructure construction was “tied up and bogged down by an outrageously slow and burdensome federal approval process. We’re going to have a very strong regulation, but it’s going to go very quickly.”

Under the proposed changes, federal agencies would be limited to two years to conduct environmental impact statements. In addition, federal agencies would also allow companies to prepare their own consultants to conduct environmental analysis.

All phases of energy production need efficient, effective, and streamlined processes to ensure that we can meet our growing energy demands. The Trump Administration’s modernization of NEPA removes bureaucratic barriers that were stifling construction of key infrastructure projects needed for U.S. oil and gas producers to deliver energy in a safe and environmentally protective manner.

New Migratory Bird Bill Moving Through Congress

Oil and gas companies would once again face the risk of criminal prosecution for the unintentional killing of migratory birds if a bill moving through Congress becomes law.

The Migratory Bird Treaty Act of 2020 was approved January 15th by the U.S. House Natural Resources Committee on a party-line 20-14 vote. The bill would include general permits tailored for certain industrial activities, including oil and gas wastewater disposal pits and natural gas flares.

A new regulatory system for those sectors would be due from the U.S. Fish & Wildlife Service within 5 years of enactment of the legislation. The new system would come with requirements for best practices or technologies, annual permit fees, mitigation fees, and record keeping requirements.

U.S. Representative Alan Lowenthal (D-CA) stressed during the Natural Resources Committee discussion that companies would be exempt from criminal prosecution if they adhere to the regulations, even if birds are killed. But Republicans on the committee objected to a new array of regulations and fees and uncertain liabilities.

Former Interior Department Solicitor Daniel Jorjani issued a legal opinion in December 2017 saying violations of the Migratory Bird Treaty Act can be treated as criminal only when intentional. The Lowenthal bill is designed to overturn that legal opinion.

Methane Update

One KIOGA’s top federal regulatory priorities. On August 29th, EPA proposed changing regulated emissions for oil and gas from methane back to volatile organic compounds (VOC). KIOGA supports this decision because it prevents the use of the federal regulatory process from shutting down low production wells.

EPA’s decision in 2016 to regulate methane instead of VOC was purely a political decision driven by environmental activists desire to regulate low
production wells out of business. The 2016 EPA decision was based on a flawed Environmental Defense Fund (EDF) study that characterized low producing wells as super- emitters.

KIOGA President Edward Cross submitted comments on behalf of KIOGA to EPA on November 22nd supporting the EPA’s proposal to change the regulated emission for oil and gas from methane back to VOC. We also joined comments submitted November 25th by our industry methane litigation coalition. The coalition comments were legal intensive. Cross met and talked over the comments with our litigation coalition legal counsel in late 2019 and he was pleased that KIOGA would submit additional comments. KIOGA’s comments complemented the legal intensive comments with technical support and cost of compliance information. KIOGA’s submitted comments give KIOGA standing and build a solid position for reinstating a low production well exemption.

KIOGA joined Kansas to a group of states (MI, KS, IN, IL) to have the U.S. Department of Energy conduct field measurements of methane emissions and volatile organic compounds (VOC) from marginal wells and production site tank facilities. The field measurements are necessary to counter the argument presented by environmental groups that marginal wells are super emitters. Preliminary results from field measurements of VOC’s and methane emissions from marginal wells and tank facility sites in KS, WV, KY, IN found no quantifiable or measurable emissions from wells or tank facilities. The final report of the findings is expected to be released by the end of May 2020.

KIOGA met with cooperating oil and gas associations in early 2020. Our plan is to coordinate an effort to urge EPA to exclude low producing wells from methane regulations – or, if necessary, develop specific regulations for low producing wells.

**Lesser Prairie Chicken (LPC)**

KIOGA President Edward Cross met with Department of Interior (DOI) Secretary David Bernhardt in 2019 and relayed that LPC populations are up 71% since 2013 drought without Endangered Species Act (ESA) designation. Cross told Secretary Bernhardt that during the Obama administration it was hard to get participation in voluntary conservation plans when everyone believed that the administration was going to list the LPC anyway. He urged Bernhardt to take a different approach – don’t list the LPC as threatened or endangered and work with stakeholders on meaningful conservation efforts that not only protect the bird, but also protects the livelihoods of people and businesses in the LPC habitat areas.

DOI was sued by environmental activists in June for not doing something about the LPC. In September, U.S. District Court of Columbia issued settlement agreement requiring USFWS to make decision on whether LPC listing is warranted by May 2021.

**Proposed Gas Gathering Line Regulations Move Forward**

The U.S. Department of Transportation Pipeline and Hazardous Materials Safety Administration (PHMSA) continues developing a gas gathering line regulatory proposal. PHMSA’s final gas gathering safety rule is being prepared and is anticipated to be sent to the DOT Secretary’s office by the end of the first quarter 2020. KIOGA President Edward Cross is a member of the Independent Petroleum Association of America (IPAA) Pipeline Safety Task Force. We (IPAA task Force) have been working to educate PHMSA about the concerns of small independent producers. PHMSA plans to issues regulations for gas gathering lines 8 5/8” OD and greater.

PHMSA is also looking to develop regulations that focus on Safety Provisions for Large Diameter Rural Gas Gathering Lines. These include Type C and Type D gathering lines.

- **Type C:** Any gathering line greater than 12.75” outside diameter, with a maximum allowable pressure (MAOP) of 20% or more of specified minimum yield strength (SMYS). If stress level is unknown, operator shall determine according to applicable provisions in subpart C of 49 CFR 192, or use the MAOP limitation that applies to non-metallic lines (> 125 psig). For lines greater than 12.75”, up to and including 16”, which do not contain any buildings intended for human occupancy or other impacted site within a class location unit or potential impact radius, operator may treat as a Type D line.

- **Type D:** Any gathering line greater than 12.75” outside diameter, with MAOP less than 20% SMYS or MAOP equal to or less than 125 psig.

We have also been working to get PHMSA to recognize Recommended Continued on page 28
Includes regionally competitive rates and reliable electric service. The bill requires the study to be completed in two parts. The first part was completed in early January 2020 and examined the effectiveness of current Kansas ratemaking practices and examined options available to the Kansas Corporation Commission (KCC) and the Kansas Legislature to affect Kansas retail electricity prices to become regionally competitive while providing the best practicable combination of price, quality, and service. London Economics International (LEI) was the firm selected to complete the first part of the study. LEI released their 324-page study in early January 2020. KIOGA has been and continues reviewing the full report and will remain engaged in discussions and next steps during the 2020 legislative session on ways Kansas can improve energy costs for Kansas oil and gas producers. The second part of the study will be completed by July 1, 2020 and will look at how Kansas’ electric rates affect the state’s economy.

Other Issues – Several more issues could emerge during the 2020 Kansas Legislative Session. In the past, some have tried to advance proposals to change oil and gas tax structures with schemes that expose oil and gas operations to higher tax rates. KIOGA will stay vigilant identifying and preparing for additional emerging issues.

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What is our Energy Future?

Opinion editorial written by KIOGA President Edward Cross that appeared in media across Kansas and elsewhere in January/February 2020

Debate continues across the country on our nation’s energy future. What is our best energy policy going forward?

Few doubt that energy has improved lives and enabled human progress. Yet one of the biggest challenges facing the world is the polarized debate over the future of energy. Facts and economics are too often replaced with assertions and emotions. Discussion about fossil fuels and alternative energy sources often degenerate into a battle to delegitimize the other side. This is a recipe for inaction. And it keeps billions of people trapped in energy poverty.

Even during periods when much of the world suffers economic stagnation, most of us would agree that we still have a very high standard of living. Compared to previous generations, we are wealthier, healthier, have better technology, more mobility, and many more opportunities for a better life.

Several factors contribute to a higher standard of living, but one of the most important is access to reliable and inexpensive energy. Affordable energy is essential for almost every aspect of our modern lives. Affordable energy is needed to run the hospitals and laboratories that improve our health. Affordable energy is required to deliver electricity to our homes and put fuel in our vehicles. And it supports the millions of jobs associated with all of these things.

Concerns About Carbon - In general, the most affordable forms of energy come from fossil fuels, such as oil, natural gas, and coal. Compared to these energy sources, alternative fuels such as solar and wind power are considerably more expensive and less reliable.

Burning fossil fuels to generate electricity or provide power necessarily releases carbon dioxide (CO2) into the atmosphere. Carbon dioxide is a gas we exhale every time we breathe. Erupting volcanoes, decaying trees, wildfires, and the animals on which we rely for food all emit CO2. This by-product, which is essential for plant life and an unavoidable aspect of human life, is at the center of today’s climate change controversies.

According to the U.S. Energy Information Administration (EIA), the U.S. emitted 23% fewer energy-related carbon emissions in 2015 than 2005. And the latest Short-Term Energy Outlook (STEO) released by EIA in January 2020 showed energy-related carbon emissions decreased 2.1% in 2019 and are projected to decrease 2% in 2020 and 1.5% in 2021. The EIA projects energy-related carbon emissions in 2050 will be 4% below their 2018 value. This downward trend is occurring even as U.S. oil and natural gas production grows dramatically. The U.S. oil and gas industry has proven that over the long-term, we can lead the world in energy production and environmental stewardship.

Those who believe that increased CO2 emissions inevitably lead to global warming believe this change is directly attributable to the widespread use of fossil fuels. Because they believe further warming will have catastrophic effects, they have waged a war on carbon for many years. They advocate restricting carbon-based fuels in favor of subsidized alternative energy and encourage policymakers to make fossil fuels more expensive in hopes of discouraging their use.

Beware of Crocodile Tears - All too often state and federal proposals to tax carbon directly or launch new carbon tax schemes have much more to do with raising revenue than helping our environment. For those who prefer higher taxation to spending cuts, having an entirely new source of revenue is appealing. However, taxing carbon only takes more resources from the private sector to support swelling state and federal government.

A recent study analyzed probable effects of a U.S. carbon tax that starts at $20 per ton and then rises 4% per year, which is in line with some recent proposals. The study suggested that such a tax would decrease household consumption, due to the increased cost of goods.
The average household would have to pay 40% more for natural gas, 13% more for electricity, and more than 20 cents per gallon extra for gasoline. Costs would rise even more in subsequent years.

Price hikes like these can only mean lower standards of living and less opportunity. Families that spend a bigger portion of their household income on transportation, utilities and household goods are hurt, not helped, by carbon tax schemes that make traditional forms of energy more expensive.

Fossil Fuels are needed throughout the world to lift people up, which is different than a philosophy of embracing a zero-emissions world. Over 80% of the energy that the peoples of the world use to survive come from fossil fuels, because that is the cheapest, most plentiful, most reliable source ever developed. More than a billion people around the world face challenges for adequate food, clean water and protection from heat and cold due to a lack of access to energy. Anyone who cares about our environment and climate recognize that cheap, plentiful, reliable energy is essential.

**A Better Way** - As the oil and gas industry has shown, there is a better way. Just a few years ago, no one would have imagined the U.S. could increase production of oil and natural gas while cutting greenhouse gas emissions, which are now near 25-year lows. By focusing on more efficient use of energy, it is possible to lower emissions without imposing even more environmental restrictions. An American energy policy that values innovation over regulation can turn energy policy challenges into great opportunities for economic growth and energy security. This approach is not just good business, it’s good stewardship and a much better strategy for improving the quality of life for all.
Practices (RP) governing the end-points of production and gathering. PHMSA had proposed to eliminate RP-80, which has been the RP that PHMSA has used in the past that defines gathering by function, not line diameter. However, at industry’s urging, PHMSA is now proposing to retain and update RP-80, contingent upon progress by the industry-led group to update RP-80. While it is impossible to develop a version of RP-80 that regulators, industry, and the public would all find to be perfect, the current proposal retains much of the function definition as to what constitutes gathering, which is vitally important for KIOGA members.
Membership in KIOGA gives you:

- A united Voice in Topeka & Washington
- Access to legislative & business information
- A Way to build public understanding
- A stronger industry voice
- Access to industry publications

Become a member today
Pass the newsletter to non-members
Help us grow our network in the oil and gas industry

Kansas Department of Revenue
Property Valuation Division
Appraisal Courses

Introductory Level Courses

February 3-5, 2020               Hays, KS
February 17-19, 2020            Topeka, KS

Advanced Level Courses

February 5-7, 2020               Hays, KS
February 19-21, 2020            Topeka, KS

Oil & Gas Appraisal Guide Seminar

February 25-26, 2020            Topeka, KS

For more information and registration, go online to the Kansas Customer Service Center at www.ksrevenue.org to the Kansas Customer Service Center (KCSC) and click on the Customer Service Center “Register Now” link in the upper right-hand corner.
The battles are far from over and KIOGA will continue to take the positions of small independent oil and gas producers directly to those in Congress. KIOGA has established a forward-looking presence with key federal Republican and Democrat policymakers. We are in a good position to defend on tax provisions and energy policy going forward. We have been engaged in every stage of the process and are recognized in Washington as an advocate for the small onshore independent oil and gas industry. Many key policymakers look to us for credible information on tax and energy policy issues. We will continue to provide credible information and not decrease our efforts.

We cannot be silent with Congress,” said Edward Cross, KIOGA President. “We must voice our concerns. We have made a number of new friends, both Republican and Democrat, in Congress. But we must stay vigilant in voicing our concerns and educating policymakers, media, and the public on the issues. Going forward, we truly have something to build upon and can be proud of the bipartisan support we have developed for the oil and gas industry.”

Going forward, we will likely have to fight to justify percentage depletion, which is arguably the most important federal tax provision we have. KIOGA has prepared for these battles and have built significant positive relationships with several key Republican and Democrat policymakers in Congress. KIOGA continually meets with key federal policymakers. Face-to-face meetings are crucial to keep our interests protected.

KIOGA will be working hard with Republicans and Democrats to make sure there is no doubt about the depth of industry opposition to eliminating critical oil and gas tax provisions like percentage depletion and IDCs. Two members of the Kansas Congressional delegation serve on critical tax committees. Senator Pat Roberts (R-KS) serves on the Senate Finance Committee and Congressman Ron Estes (R-KS) serves on the House Ways & Means Committee. KIOGA stays in continual contact with all members of our congressional delegation and will be keeping them informed and alerted to the importance of critical oil and gas tax provisions.

Senator Pat Roberts (R-KS)

Congressman Ron Estes (R-KS)
Lesli has been an invaluable resource to my company by finding ways to reduce costs and helping us stay current with ever-changing regulations.
—Doug Evans, DE Explorations, Inc.—

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Mineral Tax Exemption
Property Tax Exemption
Tier II Reporting/SPCC Plan Management

Lesli Baker • Office: (913) 837-4100 • Fax: (913) 837-2241
Email • lesli@dbdcoil.com • Website www.dbdcoil.com

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KIOGA
The Voice of the Kansas Independent Petroleum Industry
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Duffy Elected Chair of KCC

KIOGA has been busy in the weeks and months leading up to the 2020 Kansas legislative session. Several KIOGA members have participated in regulatory meetings focusing on issues important to the independent oil and gas industry.

Governor Forming Arbuckle Study Workgroup – In November 2019, KIOGA President Edward Cross met with Governor Kelly and her Chief of Staff to discuss the injection well/seismic activity issue. Governor Kelly has been approached by the Kansas Water Authority and encouraged to form a workgroup led by the Kansas Water Authority to “study the Arbuckle”. Governor Kelly wants the Kansas Water Office to facilitate the study with the workgroup consisting of representatives from the Kansas Corporation Commission (KCC), Kansas Department of Health & Environment (KDHE), Kansas Geological Survey, Kansas Wildlife & Parks, Kansas Department of Commerce, KIOGA, Class I injection well operators, and a public stakeholder. Earl Lewis, Acting Director of the Kansas Water Office, contacted KIOGA and asked for three individuals to participate as KIOGA representatives on the workgroup. As of this writing, the workgroup consists of 16 people including three KIOGA representatives. KIOGA representatives are Dana Wreath of Berexco LLC, Ken White of White Exploration, Inc. and Dylan Klauss of Vess Oil Corporation.

While the workgroup is still coming together, Governor Kelly hopes the workgroup could come up with a study plan by September 1, 2020 and then establish a time table for completing the study. The Governor and her Chief of Staff asked Cross for his thoughts on the issue and the workgroup. Cross said that KIOGA takes the issue of injection wells/seismic concerns very seriously and continually works to find fact-based scientific solutions. Cross explained that the real issue is that any injection well (Class I or Class II) drilled into and injecting into the granite wash or even the Reagan Sand formation in high seismic risk areas increases risk for seismic activity. Cross told the Governor and her staff that the Reagan Sandstone formation was a basal sandstone formation that lies directly on Precambrian basement rocks and as such can be markedly influenced by the underlying basement. Cross provided the Governor and her staff several information pieces we (KIOGA) developed (Facts About Induced Seismicity, Seismicity & Injection Wells in Kansas, Seismic Activity in Kansas, and KCC developed map of locations of recent earthquake epicenters and Class I and Class II wells).

As far as the workgroup, Cross said KIOGA would be helpful by ensuring any study is correct, scientifically-based, and limited in scope to the site-specific features of the areas in question. Cross also suggested a good first step would be a more complete sharing of injection well data from the KDHE. Governor Kelly said she understands that there is a serious lack of data sharing. Governor Kelly said she was appreciative that KIOGA provided helpful information and she would look to us for credible information on energy issues going forward.

Duffy Elected Chair of the KCC

Susan Duffy was elected chair of the Kansas Corporation Commission (KCC) on January 16th. Duffy will lead the three-member utility regulatory commission that includes Dwight Keen and Shari Feist-Albrecht. Duffy succeeds Dwight Keen as chair. Duffy, appointed by Governor Laura Kelly, is in a four-year term that expires in 2023.

Prior to her appointment to the KCC, Duffy served as General Manager for the Topeka Metropolitan Transit Authority for six years. However, the bulk of Duffy’s career has been in state government. Duffy served in several senior management positions in Kansas state government including Executive Director and Chief Financial Officer of the Kansas Corporation Commission; Director of Administration for the Kansas Historical Society, Fiscal Controller and Director of Research for the Kansas Department of Revenue; and Senior Budget Analyst in the Governor’s Budget Office. Duffy was also a fiscal analyst for the non-partisan Kansas Legislative Research Department and responsible for the analysis of Medicaid and social service budgets.
On January 16th, Ryan Hoffman (KCC Oil & Gas Conservation Division Director), made an informational presentation to the Kansas House Energy Committee discussing seismic activity. Hoffman said the KCC was zeroing in on Hutchinson, Reno County, and Rooks County areas where a number of seismic events have recently been recorded. Hoffman unveiled a map of the Reno County area that depicted earthquake epicenters and locations of both Class I and Class II injection wells. The map clearly showed the nearest Class II injection well (wells used to inject fluid associated with oil and natural gas production) was about 6 miles away from the earthquake epicenters while the location of high-volume Class I injections wells (wells used to inject hazardous and non-hazardous industrial and municipal wastewater) were very near if not right on top of the earthquake epicenters. Hoffman also explained the KCC model of regulatory response to seismic activity as a proven record of success. He demonstrated that the KCC regulatory response to seismic events in south-central Kansas in the past resulted in a significant reduction in seismic activity.
KIOGA Engaged in Addressing Energy Policy Challenges

The U.S. economy reached its longest period of expansion in U.S. history in the third quarter of 2019. The U.S. economy expanded 2.6% since the 2016 elections, beating market expectations, and expanded at a 2.3% pace in 2019. However, threat of recession and slowdown in the world economy has fueled fears of an economic slowdown in 2020 causing some expectations of growth in 2020 to be 1.9% and this could reduce oil demand. However, should the U.S. and global economy expand more than projected, crude oil demand would increase putting pressure on global crude oil stocks and upward pressure on prices.

Energy Policy – In the 1970s, many experts forecasted a permanent energy shortage in the U.S. Fast-forward to today and we see the U.S. is the top producer of oil and natural gas in the world. Technological developments and efficiency gains have resulted in U.S. oil production doubling since 2011. The U.S. is projected to become energy independent in 2020. U.S. oil production is now projected to grow another 50% over the next decade. The energy shortage predicted in the 1970s has not come true. In reality, we did not have an energy shortage in the 1970s, but had a shortage of imagination and loss of confidence in our ability to innovate.

The United States turned into a net oil exporter in September 2019, breaking 75 years of continued dependence on foreign oil and marking a pivotal moment toward energy independence. The U.S. exported 89,000 barrels a day more than it imported in September 2019, marking the first full month as a net exporter of crude and petroleum products since the government began in 1949. The shift to net exports is the dramatic result of an unprecedented boom in American oil production. The power of OPEC has been diminished, undercutting one of the major geopolitical forces of the last half century.

While the net exports show decreasing reliance on imports, the U.S. still continues to buy heavy crude oil from other nations to meet the needs of its refineries. It also buys refined products when they are available for a lower cost. The U.S. position as a net exporter serves to remind how the oil industry can deliver surprises that upend global oil prices, production, and trade flows.

Soaring output from oil producing regions across the U.S. has been the main driver of the transition. But many oil and gas producers see a decline in production growth next year, while some Democratic presidential candidates have called for a ban on hydraulic fracturing (HF).

Without HF, studies by IHS Global Insight indicate 50% of America’s oil wells and 33% of America’s natural gas wells would be closed. Domestic oil production would be slashed by 183,000 barrels per day and domestic natural gas production would be slashed by 245 billion cubic feet per day. By 2025, our nation’s real GDP would be lowered by $7.1 trillion, $1.9 trillion in state and local tax revenue would be lost, $3.7 trillion in household income would be lost and more than 19 million jobs would be lost, including 10,000-14,000 Kansas jobs.

A ban on HF would also damage America’s standing in the world. We would surrender our status as a global energy superpower and weaken our national security as we become more reliant on foreign sources of energy.

In the days of the Jimmy Carter Administration and even the Ronald
Reagan Administration, we would have longed for this day. Now we scarcely notice it at all.

In its Short-Term Energy Outlook released in December 2019, the EIA flagged the turnaround and forecast total net exports of crude and products of 750,000 barrels a day in 2020, compared with average net imports of 520,000 barrels a day this year.

The U.S. is only months away from achieving energy independence. This is a very big deal, not just rich in symbolism but marking a major and tangible benefit to the US economy. It’s the end of an era that began with the oil crises of the 1970s. Middle Eastern nations can no longer use their vast supplies of oil as a political weapon on the world stage.

**Energy Policy Challenges**

![National Energy Policy](image)

The U.S. currently has a better, more sensible approach to energy development than any other country in the world, both short-term and long-term. Where government policy has been absent, free markets have filled the void with great success.

Just a few years ago, no one would have imagined the U.S. could increase production of oil and natural gas while cutting greenhouse gas emissions, which are now near 25-year lows. The oil and gas industry has proven that over the long-term, it is possible lead in energy production and environmental stewardship. By focusing on more efficient use of energy, it is possible to lower emissions without imposing a carbon tax or even more environmental restrictions. An American energy policy that values innovation over regulation can turn energy policy challenges into great opportunities for economic growth and energy security. This approach is not just good business, it’s good stewardship and a much better strategy for improving the quality of life for all.

Energy prices affect all corners of the economy, and keeping up with demand is essential for maintaining a high standard of living. Thankfully, that doesn’t require abandoning efforts to protect the environment. The key is to avoid placing unnecessary political or legal obstacles in the way of innovation and expansion. Let America’s entrepreneurs continue modernizing our energy technology as they work to meet growing demand. That’s a prescription for economic prosperity and a cleaner environment.

America’s newfound status as a global energy superpower has created economic opportunities and a cleaner environment here at home as well as stability around the world. The oil and gas industry is leading the way in finding new and better ways to produce and use energy. In order to harness our abundant natural resources and spur innovation, we need elected officials who support forward-looking policies.

Few doubt that energy has improved lives and enabled human progress. Yet one of the biggest challenges facing the world is the polarized debate over the future of energy. Facts and economics are too often replaced with assertions and emotions. Discussions about fossil fuels and alternative energy sources often degenerate into a battle to delegitimize the other side. This is a recipe for inaction. And it keeps billions of people trapped in energy poverty. Almost 40% of humanity, or three billion people, have access to only rudimentary forms of energy and a very low standard living. The world expects and deserves better.

**Green New Deal** – In February 2019, U.S. Representative Alexandria Ocasio-Cortez (D-NY) and U.S. Senator Ed Markey (D-MA) introduced the nonbinding Green New Deal (GND) resolution that called for a 10-year national mobilization to exorcise carbon from the U.S. economy. The plan called for generating 100% of power from renewables and removing greenhouse gas emissions from manufacturing and transportation. Members of both parties have called the idea unrealistic. The GND is the far-left’s wish list dressed up to look like serious policy. The philosophies and ideas behind this textbook socialism are not just foolish. They’re dangerous.

Facts debunk GND ideas. Many scientists, policymakers from both parties, and common sense have discredited the dingbat ideas proposed in the GND. Climate science conventional wisdom is flawed, relies on alarmist scenarios, and exaggerates economic impacts. The GND will fail for many reasons. One is that the people pushing it seem oblivious to the needs of low-income families, who would be directly hurt by the plan.

The whole idea behind the GND is to take fossil fuels away from the people. And the bureaucrats are nowhere near
The study suggests that such a tax would decrease household consumption, due to the increased cost of goods. The average household would have to pay 40% more for natural gas, 13% more for electricity, and more than 20 cents per gallon extra for gasoline. Costs would rise even more in subsequent years.

Price hikes like these can only mean lower standards of living and less opportunity. Families that spend a bigger portion of their household income on transportation, utilities and household goods are hurt, not helped, by carbon tax schemes that make traditional forms of energy more expensive.

Recently, several major integrated companies who were once powerful skeptics of global warming are now supporting a carbon tax. Many of these major integrated oil and gas companies are European-based companies. Europe has recently imposed a carbon tax on products produced in countries that don’t have a carbon tax. These European-based companies want to see the U.S. adopt a similar carbon tax. In addition, these major integrated companies clearly see a carbon tax as a measure to stifle competition. Major integrated companies can pass along tax increases to consumers while small companies that are not integrated from production through product do not have the ability to pass along tax increases.

The power to tax involves the power to destroy, and never more so than in the case of a carbon tax. That’s because unlike other taxes, a carbon tax is designed to tax away the base on which it is levied.

U.S. Doesn’t Need a Carbon Tax

– Even if the U.S. imposed some kind of carbon tax, it would not make a difference to global climate. In 2018, U.S. carbon emissions were around 5,100 billion metric tons from all sources, an almost 20% drop below emissions in 2007. While U.S. greenhouse gas emissions have been falling in recent years, world carbon emissions keep increasing by an average of more than 300 gigatons each year for the last decade, driven primarily by China’s and India’s increasing demand for energy. Together, these two countries now account for one-third of world carbon emissions. China and India are not going to impose a carbon tax on themselves. Doing so would increase their energy costs and reduce their economic growth. Neither will Russia, nor countries in the Middle East, nor developing nations whose primary concern is improving the economic well-being of their citizens.

In October 2019, climate activists touted a carbon tax-dividend scheme, under which they promise ‘the vast majority of Americans will be economic winners.’ The plan sounds too good to be true because it is. In reality, such a tax would cripple the economy and set off trade wars with the rest of the world that would dwarf our current dispute with China. And to top it off, the proposal would have no measurable impact on global climate. The winners of the tax-and-dividend scheme, setting aside virtually every foreign power with which we compete economically, will be those who don’t use much energy, such as individuals living in large cities, and those with the financial means to take advantage of the myriad subsidies offered for electric vehicles, solar panels,
and so on. The biggest losers will be everyone else, especially the millions of rural Americans, the same individuals who produce most of the energy we use, grow the food we eat, and manufacture many of the goods we purchase.

**Emissions** - The Trump administration and the 116th Congress has an opportunity to reset the harmful energy policies of the last administration. According to EPA Greenhouse Gas (GHG) reporting data, oil and gas methane emissions account for only 1.22% of total U.S. GHG emissions. The EPA found that U.S. GHG emissions fell 2.7% from 2017 to 2018. This downward trend is occurring even as U.S. oil and natural gas production grows dramatically.

The EPA also found that methane emissions from hydraulic fracturing fell 81% between 2012-2014. Methane emissions from the oil and gas sector declined by 8% last year, marking the 6th consecutive year of decline.

The fact is our nation’s 21st century oil and gas renaissance has made domestically produced oil and gas economical and abundant. This market-driven success has helped our nation to achieve significant emission reductions. The U.S. emitted 23% fewer energy-related carbon emissions in 2015 than 2005. The oil and gas industry played a significant role in reducing U.S. greenhouse gas emissions by over 20% over the last decade.

The latest Energy Information Administration (EIA) data (2019) show natural gas is responsible for 2.8 billion metric tons of carbon dioxide emission reductions since 2005. That represents 61% of overall power sector reductions during that time-frame and 57% more than reductions attributable to renewables.

In the latest report (January 14, 2020) from the Energy Information Administration (EIA), U.S. carbon emissions are the lowest they have been in nearly seven decades. The EIA reports energy-related carbon emissions dropped 2.1% in 2019 and are projected to drop 2% in 2020 and 1.9% in 2021. Even more interesting is the fact that U.S. carbon emissions dropped while emissions from energy consumption for the rest of world increased by 1.6%. The U.S. emitted 15.6 metric tons of CO2 per person in 1950. After rising for decades, it has declined in recent years to 15.8 metric tons per person in 2017, the lowest measured levels in 67 years. European emissions rose 2.5% and Chinese emissions rose 1.6% along with Hong Kong’s 7% surge.

The men and women of the oil and gas industry reject the stale mindset of last century’s thinking peddled by some that oil and gas production and environmental stewardship are not compatible.
Oil & Gas Appraisal Guide Issued

Oil Price Bulletin & Natural Gas MAF Adjusted

The Kansas Department of Revenue Property Valuation Division (PVD) will be issuing their 2020 Oil & Gas Appraisal Guide, Crude Oil Price Bulletin, and Natural Gas Marketing Adjustment Factor (MAF) soon. As of this writing, the PVD had not yet issued the Guide, price bulletin, or MAF. KIOGA will post the Guide, price bulletin, and MAF on our website as soon as the PVD issues them and we will send the information to membership in a KIOGA Express email blast. Several KIOGA members met with PVD officials on January 29th to discuss crude oil and natural gas pricing issues including Richard Koll (KIOGA Ad Valorem Tax Committee Chairman), Andrea Krauss (KIOGA Federal & State Tax Committee Chair), Dave Dayvault, David Bleakley (KIOGA Chairman) and Edward Cross (KIOGA President). Also, Steve Dillard (KIOGA Natural Gas Committee Chairman) researched and provided some invaluable information the KIOGA team used in our discussions.
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