

1st Quarter 2020



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Save the Dates!

EKOGA Mid-Year Meeting - May 7, 2020
Flint Oaks, Fall River KS

EKOGA Legislative BBQ - August 2020
(Date and location to be determined)

EKOGA 63rd Annual Meeting & Tradeshow - Sept. 15-16, 2020
Prairie Band Casino & Resort, Mayetta KS





1st Quarter 2020

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Cover Photo Rural Johnson County

The Eastern Kansas Oil and Gas Association is a unified voice representing the unique interests of Eastern Kansas oil and gas producers, service companies, suppliers and royalty owners before the state government in Topeka on matters involving oil and gas regulations, taxes, safety standards, environmental concerns and other energy related issues.



Message from the President

Chris McGown

McGown Drilling, Inc.

“I love winning man, I %&\$@# love winning! You know what I’m saying? It’s like, better than losing!”
–Bull Durham

We all love to win, and writing an article the morning after the Chiefs’ Super Bowl LIV victory makes it more pertinent. What a wonderful win for the players, the coaches, the franchise, and the fans. The KC metro economy will also benefit – imagine the local economic impact from an increased demand for tickets, memorabilia, \$12 beers, and one heck of contract extension for #15!

Besides Super Bowl victories, and let’s hope we don’t have to wait another 50 years, another winning economic driver for the Kansas economy is our oil and natural gas industry – Kansas Strong’s #GetTheFacts campaign quantifies our economic impacts as:

1. Supporting over 118,000 jobs state wide;
2. \$1.4 Billion in state and local tax revenue; and
3. \$3.0 Billion in family income;

and our industry is out there supporting the economy all day, every day, not just on Sundays and not just when we have the best quarterback in the game. Last year, I estimated that landowner royalties from Eastern Kansas oil production in 2018 were conservatively worth over \$25 Million.

We might sound redundant or boastful, but we need to parrot these statistics and any other industry good news at every opportunity. The state legislature is currently in session. Last week, the House Appropriations Committee invited EKOGA to give a presentation on our industry. Chris Haas presented to the committee and used the opportunity to emphasize our role in our local economies as providers of good paying jobs and stewards of our community; when it comes to providing good jobs that do not require formal higher education, our industry is unmatched. Legislators, local politicians, local newspaper editors, rotary club, stay-at-home moms, etc., everyone needs to know the good we do. Thanks to Chris for speaking on behalf of our organization!

The following day a number of our members attended the annual Oil & Gas Day at the Capitol where we were able to interact with a number of legislators. Much like the general populace they represent, many legislators are unfamiliar with our industry and its importance. While in session, legislators have many

Chris McGown, McGown Drilling, Inc.
620.224.7406 chris.mcgown@gmail.com

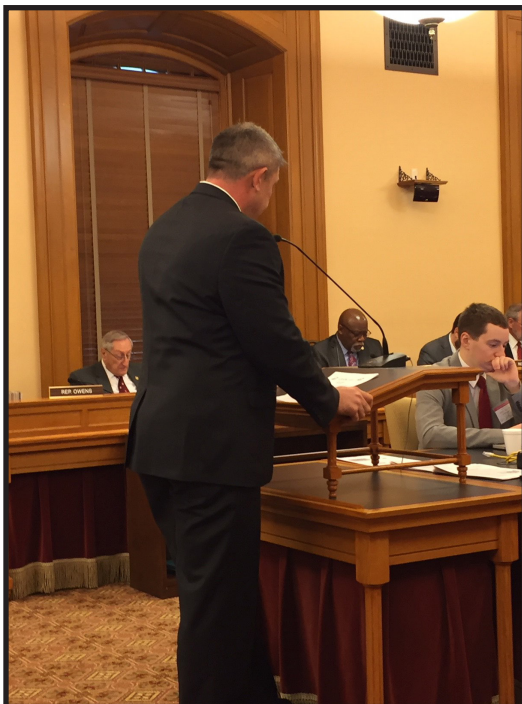
issues on their plate and little time to familiarize themselves with industry intricacies. A few minutes of face-to-face time to promote ourselves is extremely valuable. Thanks to Tom and KIOGA for their work to organize the event to promote our industry. Also, please take the time to thank Tom and his team for the work they do on our behalf in Topeka, Tom is playing injured right now, but is doing a fantastic job for us.

This time of the year winning is difficult and it can seem like it takes considerable effort to not go backwards, and this winter is no different; the mud is unrelenting, our market is being ravaged by an illness that sounds like an Acapulco hangover, and we have political headwinds that thrive on misinformation. It all adds up to a slow several weeks in my office.

However, the Chiefs' victory was not without struggles either, turnovers and the 49ers' strong run game had the Chiefs on the ropes. The Chiefs were victorious because they did not overreact and stuck to their game plan – let their playmakers make plays – and Mahomes did not disappoint. We too, will persevere through the current adversity by sticking to our daily game plan of producing the low cost oil and natural gas that powers our Kansas economy, by keeping our overhead low and drilling the best locations. Eventually the overreaction in the market will correct, the sun and wind will dry up the mud, our message will resonate, and we too will be on the winning path.

I hope that next quarter I am writing with better news, better weather, an update on the passage of legislation on abandoned well plugging, and maybe a bull market. As always, please feel free to contact me with any issues you are facing.

Thank you to Chris Haas, C3 Oil for updating the House Appropriations Committee on the state of our industry.



Chris Haas, C3 Oil before the House Appropriations Committee.



Randy Trimble, EKOGA Legislative Chair and Chris Haas, EKOGA Membership Chair with Representative Troy Waymaster.



Executive Director's Report

Tom Palace

Legislative Update

The Eastern Kansas Oil and Gas Association along with KIOGA and the Kansas Petroleum Council hosted the 14th Annual Oil and Gas Legislative Breakfast at the State Capitol. EKOGA members showed up ready to work meeting with legislators in a casual manner talking about the industry.

We saw a strong legislative turnout as well. Almost 100 legislators showed up for the breakfast as well as staff members.

We want to thank our sponsors of the event; **Utah Oil – Brad Leach, MacLaskey Oil Field Services – Sean Maclaskey, CVR Refining- Chad Arnold.** Your financial support is most appreciated.

Prior to the legislative breakfast EKOGA member Chris Haas testified before the House Appropriations Committee. Chris highlighted the challenges facing EKOGA members and offered a State of the Industry Report regarding the Oil and Gas Industry.

As we move through the legislative process the Kansas Corporation Commission introduced three legislative proposals recently that EKOGA will support. EKOGA President Chris McGown will testify before the House Appropriations Committee on February 13.

KCC Bills:

HB2534

Fund Merger

- a. Seeking the combination of the two existing plugging funds.
 - I. Well Plugging and Site Remediation Fund – for wells drilled prior to July 1, 1996.
 - II. Well Plugging Assurance Fund- for wells drilled on or after July 1, 1996.
 - (i) The Well Plugging Assurance fund is rarely used.
 - (ii) Changes to the process for qualified bidders has increased the number of plugging contractors available to plug projects in Western Kansas. The contract for Central Kansas is currently open and the Eastern Kansas Contract will be out for bid in 2020.

Tom Palace, EKOGA Executive Director
620.431.1020 tom@ekoga.org

- III. Combining the funds reduces the transfer from the Conservation Division Fee Fund account.
 - (i) Retains Federal Royalty revenue and assurance revenue.
 - (ii) Will provide approximately \$7.5M for plugging abandoned wells.

HB 2535

KDHE separation

- a. Rescinds or revokes a law from the 1980's that related to joint management of the oil and gas regulatory program between the KCC and KDHE.
- b. Subsequent legislation has provided exclusive jurisdiction to the KCC to regulate the oil and gas industry making the existing statute obsolete and unnecessary.

HB 2536

Abandoned Well Plugging Responsibility

- a. Attempting to clarify issues surrounding interpretation of KSA 55-179.
- b. Creates six specific categories/reasons as to how a person can be responsible for plugging an abandoned well.

Abandoned Well Plugging Reimbursement

- a. Provides the KCC with the authority to draft regulations to establish a program where anyone can apply in advance to be reimbursed for a portion of the costs of plugging an abandoned well for which they are not responsible to plug.
- b. KCC will work with Oil and Gas Advisory to draft regulations creating this program.

HB 2534 and **HB 2536** address the statewide private and public abandoned oil and gas well plugging and remediation efforts and providing KCC with the resources to accomplish environmental results.

Also testifying before the committee along with McGown will be KCC Commissioner Dwight Keen and KIOGA Chairman David Bleakley.

Abortion Bill in House and Senate

The Senate recently passed 28-12 to the House a resolution that will hand the Legislature sole authority to regulate abortion in Kansas if it passes the House and is approved by a majority of voters at a low-turnout primary election Aug. 4. The debate was long and emotional.

Senate President Susan Wagle, R-Wichita, said that the resolution overturns the Kansas Supreme Court's April decision that women have a personal right protected by the state constitution to have abortions. She said the decision unfairly removes protections from the unborn.

Governor Laura Kelly said she wants the House to reject the Senate-passed resolution that would place on the Aug. 4 ballot a proposal to amend the Kansas Constitution that would allow lawmakers to regulate abortion.

As of this writing the House also debated the resolution and had 80 votes to forward the bill to final action, with just 63 needed, but it will take 84 votes (2/3rds) to pass the resolution.

Continued on page 19



Regulatory Update

Rob Eberhart
Bobcat Oilfield Service, Inc.

KOLAR Updates

U3C Injection reports on KOLAR are due by March 1st, 2020. If you have multiple wells that you need to report, I suggest that you download all your wells in a excel spreadsheet. This is done by hovering over the KCC Forms tab then clicking on the U3C Annual Report – by file upload (for many wells). Once you have your wells in excel it is very simple to add your monthly volumes and pressures. This is the easiest way to report since you can cover all your injection wells with one upload. Something to remember when you download is that plugged wells will not be in the list. You will still have to provide a report for each of those wells for the months they were active. These can be easily missed if you don't remember to report those wells that were plugged during the year since they are not included in the download.

The Operator Management module is the best new tool that has been added to KOLAR in many years. If you have not used it yet, I suggest you login and hover over the management tab then click on Operator Management link. Within this area, you can find out what wells you have that are coming due for MIT's as wells as many other requirements like U3C's and ACO1's. I suggest clicking on Wells with Future Requirements then click on Required by. This will give you a to do list for the wells that need reporting starting with the ones that are due first.

Testing of the new KOLAR MIT has begun. Several EKOGA members have suggested improvements that will be communicated about this new process. We will be meeting with District 3 staff and others from the KCC soon to fine tune this process.

Abandoned Well Plugging Update

District 3 is actively working on several fee fund projects in Eastern Kansas. They have four projects that will be awarded soon. Several EKOGA board members have been working very closely with the district and the KCC in Wichita to streamline this process and accelerate the process of plugging abandoned wells.

Mechanical Integrity Tests

District 3 has 343 MIT's that are due within the first quarter of 2020. The district is mailing lists out to operators twice a year with the wells that are coming due for MIT's. Another way to find out what you have coming up is to login to KOLAR and use the Operators Management module mentioned above.

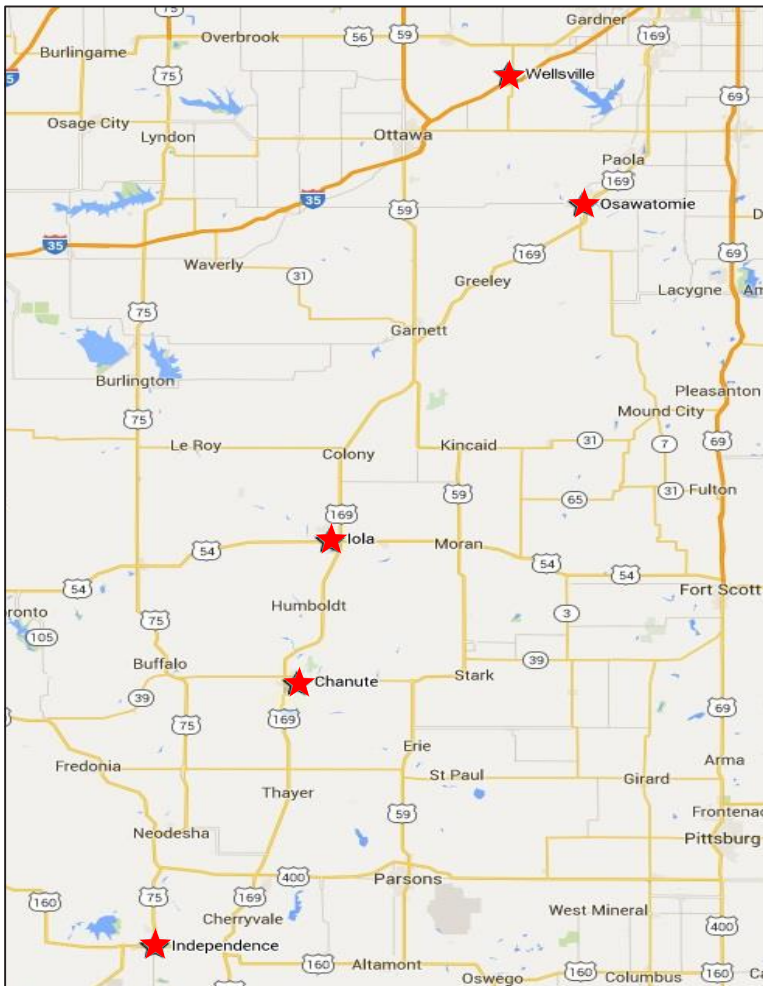
Continued on page 19

*Rob Eberhart, Bobcat Oilfield Service, Inc.
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2020 Kansas Oil & Gas Day



Once again EKOGA joined forces with KIOGA to host the 2020 Kansas Oil & Gas Day on January 29. The weather was much better than last year and the turn out for breakfast was a good mix of legislators and those from the Kansas oil and gas industry.

Topics discussed with legislators included HB2534-combining the well plugging and site remediation fund and the well plugging assurance fund; HB2535-rescinds or revokes a law from the 1980's that related to joint management of the oil and gas regulatory program between the KCC and KDHE, subsequent legislation has provided exclusive jurisdiction to the KCC to regulate the oil and gas industry making the existing statute obsolete and unnecessary; and HB2536-abandoned well plugging responsibility and reimbursement. Industry members also talked with legislators about the state of the industry.



Thank you to everyone who joined us for the 2020 Kansas Oil & Gas Day. Talking face to face with legislators helps them understand our industry and the day to day issues we encounter.



Kansas Oil & Gas Day
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But What About All The Subsidies?

***Warren Martin, Executive Director
Kansas Strong***

As I travel the state, one of the most common questions I'm asked by opponents is, "Why didn't you talk about all the subsidies the oil & natural gas industry gets?" I then ask, "What subsidies?"

Subsidies by definition are: "a sum of money granted by the government or a public body to assist an industry or business so that the price of a commodity or service may remain low or competitive" (dictionary.com). I haven't met a producer to date that gets a check from the government to do the great work they do.

However, the political definition of subsidies has been extended to include not only money granted, but also tax concessions, such as exemptions, credits, or deferrals. This standard means anyone or any entity that files taxes is "subsidized" to some degree! That is ridiculous!

There is no doubt that every company in every industry, if the CFO has a brain, will take advantage of every tax advantage available to them to benefit the company. However, the question remains does the oil and natural gas industry have a tax advantage that would legitimately constitute it being dubbed a subsidized industry?

The answer is, NO!

If you look at the top industries' average earnings from 2016 through 2019 (Q2), the energy sector comes in 12th. Real Estate comes in #1, followed by IT, Financials, Communication Services, Utilities, and then the S&P (according to Standard & Poor's S&P 500 Index Earnings). Energy is only half of the earnings of its nearest competitor Consumer Staples.

However, when you switch over to the tax bracket, the opposite is true. While the Energy sector is 12th in earnings, it is 2nd by effective tax rate. While Utilities came in 5th on earnings, they are 13th on the list of effective tax rates at 8.5%. Compare that to the Energy tax rate of 29% (Bloomberg Terminal).

The vast majority of alternative electrical production additions (wind and solar) are established in the Utilities sector. In addition, they often are provided with tax deferral opportunities to get them off the ground.

If you hold that oil & natural gas are subsidized, then you have to acknowledge that every industry in US is subsidized! Otherwise, you must conclude the obvious; the oil and natural gas industry is one of the highest taxed industries in the country. And yet, we still help keep America moving forward!



**Mid Year Meeting Registration
May 7, 2020
Flint Oak
2639 Quail
Fall River, KS 67047**

The schedule hasn't been finalized. A board meeting will be held at 9:00 a.m. and will conclude by 9:30 a.m. We have tentatively scheduled the educational sessions to start 9:30 a.m. and conclude by 2 p.m. This year we are adding dinner after the reception for those wishing to extend their networking time!

The transportation division of KCC will be at the Mid-year to talk about DOT compliance. They will be there to answer any questions, as well. Other topics are still being finalized and we will release those as soon as we can. We are planning on a full day of education, fun, and networking.

Shells (100--12 gauge shells) will be provided to the first 40 shooters registered.

ATTENDEE INFORMATION Please fill out one form for each person

Name: _____ Phone: _____ Fax: _____
 Company: _____ Address: _____
 Email: _____ City: _____ State: _____ Zip: _____

Tuesday Meetings/Lunch only \$100

Activity/Reception/Dinner \$100 (Please mark which activity you would like to participate in.)

Sporting Clays** 5 Stand** Skeet or Trap** Fishing* Walking Trails

Registration Total: \$ _____

*Fishing-must bring own poles/tackle
 **Shoot-Flint Oak has limited guns available for rental. Please contact them for pricing.

▶▶▶▶▶ PLEASE SEE BACK OF FORM FOR SPONSORSHIP OPPORTUNITIES ◀◀◀◀◀

Registration Total: \$ _____
(from above)

Sponsorship Total: \$ _____
(from sponsorship form)

Total Amount Due: \$ _____
(Registration+Sponsorship)

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EKOGA
PO Box 678
Topeka, KS 66601-0678
 3. Fax: (785)354-4374
 Registration Deadline: **04/24/2019**

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*Sponsorship and hotel information on the next page.



Mid-Year Meeting Sponsorship Opportunities

Please select the sponsorship level at which you wish to participate.

All levels will have their company name on signage at the event, slideshow presentation, on the EKOGA website and 2nd quarter newsletter.

_____ **Reception Sponsor - \$2,000**

Ten minute spot during the reception of Mid-Year Meeting to promote your company's products or services.

_____ **Lunch Sponsor - \$1,500**

Five minute spot during lunch portion of Mid-Year Meeting to promote your company's products or services.

_____ **Platinum Sponsorship - \$1,000**

_____ **Gold Sponsorship - \$750**

_____ **Silver Sponsorship - \$500**

_____ **Bronze Sponsorship - \$250**

_____ **Clay Shoot Sponsorship - \$150**

_____ **Ammunition Sponsorship - \$1000**

Sponsorship Total: \$_____

SPONSORSHIP CONTACT INFORMATION

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Company *(as you wish it to appear on signage/program)* : _____

Address: _____ City: _____ State: _____ Zip: _____

Email: _____

*Please include your payment information on the front side of this form.

**This is a one day conference, however Flint Oak does have hotel rooms.
If you prefer to stay the night at Flint Oak, call them to reserve your room.**

Flint Oak

2639 Quail

Fall River, KS 67047

Room Rate: Lodge (2 Queen Beds) \$90

***For more information on the 2020 EKOGA Mid Year Meeting
call (620-431-1020) or email (ekoga@ekoga.org) the EKOGA office.***



Keith's Corner
Keith Brock
Anderson & Byrd, LLP

How to Protect Your Lease During Hard Times

Once a lease is extended beyond its primary term through the production of oil or gas, the lease remains valid so long as it “produces in paying quantities.” In Kansas the term paying quantities simply means that revenue attributed to the working interest must exceed direct operating expenses over a “reasonable period of time” (i.e. over a judicially selected accounting period based upon the facts of each case). Therefore, there is no bright line rule as to whether a producing lease is held by production. Since the continuing validity of an oil and gas lease hinges on whether it “produces in paying quantities” the depressed oil and natural gas prices and corresponding decrease in the revenue attributed to the working interest causes concern that some leases may not be “producing in paying quantities” in the current price environment. I am often asked to explain the effect current oil and natural gas prices have upon the determination of “paying quantities” and what an operator can do to protect their lease during times of low hydrocarbon prices.

There is both a pure legal answer and also a practical answer to all problems and at times those two answers differ. Do not misconstrue this statement to conclude that I am advocating for something that is not legal, instead I am simply emphasizing that just because you may have the legal right to do something does not mean it is a good idea to exercise those rights. As you may have guessed there is both a practical answer and a legal answer when determining the effect current hydrocarbon prices have on “paying quantity.” In this instance, the answer to the pure legal question is complicated and depends on a number of considerations including the judicially selected accounting period. This is one of those problems where the practical answer is typically the best one.

Most cases do not begin as paying quantities challenges. Instead, most cases originate over surface use issues, failure to accommodate, etc. For example, the landowner meets with an attorney because the operator has driven across their yard/field/pasture, failed to close gates, failed to clean up spills, stored excess equipment on their property, left trash and debris on their property, interfered with their use of natural gas for domestic purposes, did not repair ruts, had a pumper who hunted on their property, or otherwise refused some request that the landowner felt was reasonable. The issue of paying quantities is typically raised by the attorney as a way of either obtaining sufficient leverage to curtail the complained of activity, or to force the operator off of the property in order to stop the behavior at issue. As with anything there are exceptions which cannot be avoided, however most of these cases can be avoided if the landowner is not forced to visit an attorney in order to pursue damages or to stop certain actions.

Thus, as a practical matter an operator can avoid certain attacks against the validity of their lease by maintaining good relationships with their landowners; i.e. be sure your pumpers close all gates, pick up

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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Lesli has a Bachelor's degree in Business and is a 3rd generation operator in Eastern Kansas . Lesli is an EKOGA board member and a member of KIOGA.

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Executive Director's Report continued from page 7

Governor Announces Executive Order to Move Energy Office out of KCC

On January 30, 2020 Governor Laura Kelly submitted Executive Reorganization Order No. 46 to the Kansas Legislature along with this message to the Senate.

Effective July 1, 2020, this reorganization moves the Energy Office out of the Kansas Corporation Commission and establishes it as a separate, independent entity. This reorganization will preserve the Energy Office's existing programs while expanding its scope to include energy planning, policy development, and stakeholder outreach. None of the Energy Office's current responsibilities, duties, or functions will be abolished.

I am committed to unlocking the potential of Kansas' diverse energy landscape. The first step toward a comprehensive energy plan is building an infrastructure for energy policy discussions. An independent Energy Office will provide that infrastructure and facilitate an inclusive, data-driven vision for the energy future of our state.

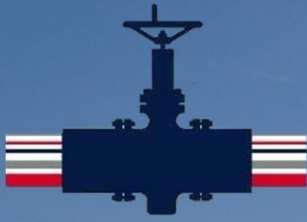
I look forward to working with the Senate to build on Kansas' nation-leading successes in renewable energy and energy efficiency, and together we can chart a path to a sustainable and balanced energy future.

The Order did not indicate the person who would lead the newly created Kansas Energy Office.

Regulatory Update continued from page 8

District 3 Staffing

The district is currently recruiting for 2 Environmental Compliance & Regulatory Specialist (ECRS) positions. One for Chautauqua, Elk and Montgomery counties and another for Coffey, Greenwood, Lyon, Osage and Wabaunsee counties. These positions are directly related to the retirement of UIC Coordinator Larry Marchant in January and the pending retirement of Mike Heffern, ECRS in June. Duane Sims is now the UIC Coordinator for District 3.



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Keith's Corner continued from page 16

trash, follow through with commitments made to the landowner, carefully choose routes when forced to leave the lease roads, etc. There are of course those people who cannot be appeased and in those cases conflict is inevitable. However, I have never had a landowner come in to my office and say "I really like my operator, they run a clean lease, take care of the property and do their best to accommodate me when I ask; now, how I can cancel their lease?"

I know that this is not the advice many of you had hoped for, but this is the best and cheapest advice I can give on this subject. I often compare myself to a mechanic in that I offer preventative maintenance as well as major repairs. I consider this advice to be preventative maintenance; as it can prevent most paying quantities challenges before they occur. After all, if the validity of your lease is never attacked the lease can never be determined to have ceased producing in paying quantities.

DISCLAIMER: *This article does not constitute legal advice and no attorney client relationship is intended or implied.*

Cook Pump Company



Cook Pump Company

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Chad Anderes is leading Ascent Midstream's Kansas Operation as the **SR Director of Crude Oil Supply**. Chad has **3 decades** of **Crude Oil Marketing** experience in **Eastern Kansas** and has seen **great success helping producers** through operational challenges and adverse market conditions. He is leading a **customer focused** purchasing operation that creates a more **efficient** and **transparent** marketing experience for the Eastern Kansas Crude Oil Producer. **Call Chad today.**



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