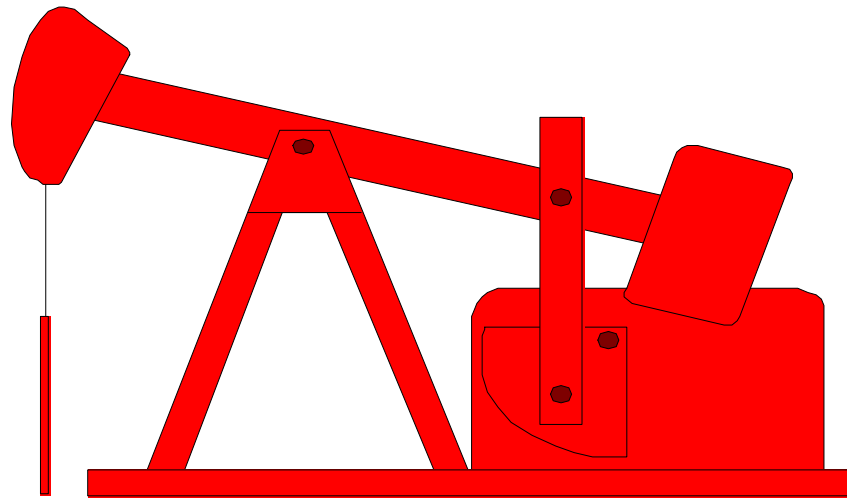


Kansas Corporation Commission

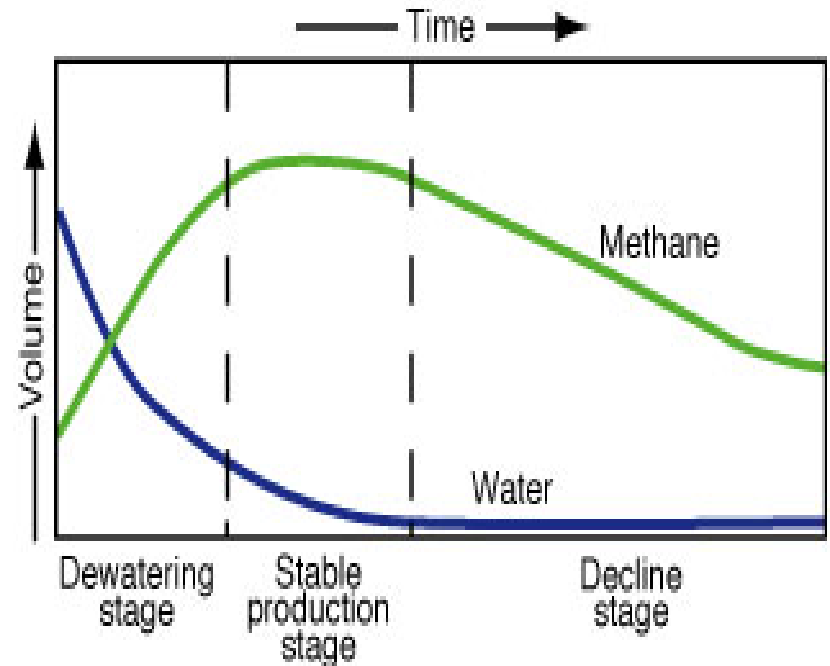
Proposed Regulatory Changes in Kansas Specific to CBM & Conventional Gas Wells and Production Operations in Kansas



Coal Bed Methane Wells

How they are different?

- **Generally Low Volume Wells**
- **Limited Thickness of Reservoirs**
- **Generally Low Reservoir Pressure**
- **Gas Exists at Coal / Cleat Face**
- **Susceptible to completion problems**
- **Variable Dewatering Stage**



K.A.R. 82-3-123 (Well bore; Commingling of Production)

“Current”

Governs when production from more than one common source of supply can be commingled, but does not specifically address CBM gas production.

“Proposed”

Wells producing only CBM gas would be exempt from this regulation. Commingling of conventional gas may be permitted by the Conservation Division, *Provided* no protest to the application has been filed. Protested applications will be set for hearing.

K.A.R. 82-3-304 (Tests of Gas Wells; Penalty)

“Current”

Generally requires an initial certified test to be submitted for each gas well, and thereafter, an annual test.

“Proposed”

Wells producing only CBM gas may be exempt from initial & annual testing requirements; an application for exemption must be filed.

K.A.R. 82-3-312 (Gas Allowables and Drilling Unit)

“Current”

The standard daily allowable for gas well is 50% of the well’s actual open flow potential; the minimum allowable under statewide general rules is 250 mcf/d.

“Proposed”

Coalbed natural gas wells, if exempt from testing requirements, are exempt from this allowable provision.

K.A.R. 82-3-314 **New Regulation**

(Venting and Flaring of Gas)

“Current”

No regulation to cover venting of gas other than casinghead gas. Statutory authority given to KCC in 2002.

“Proposed”

New regulation sets permitting and reporting standards for when coalbed natural gas or conventional natural gas maybe vented or flared

All gas vented or flared shall be done so in a manner designed to “prevent damage to property or injury to persons”

K.A.R. 82-3-208 (Venting and Flaring of Casinghead Gas)

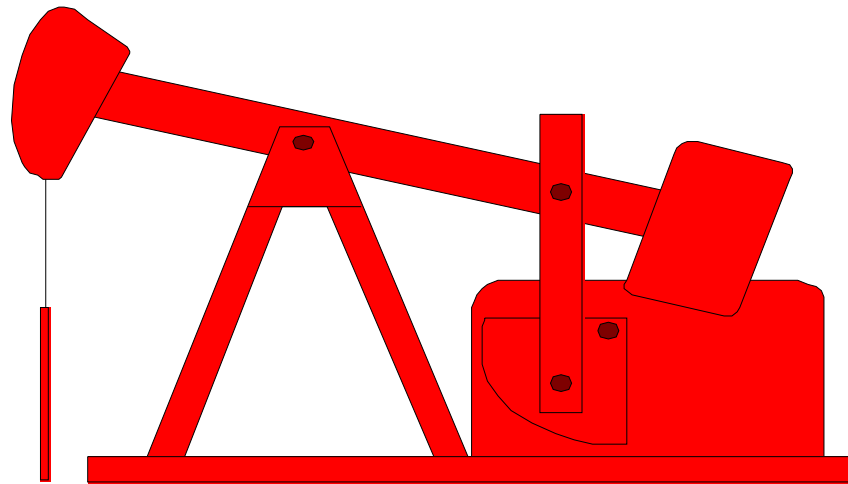
“Current”

Venting and flaring of casinghead gas is permitted upon filing of affidavit (<25mcf) or upon notice and hearing (>25mcf)

“Proposed”

Additional language added that clarifies duty of operator to measure or monitor all venting of casinghead gas and requires venting to be done in manner that will “prevent damage to property or injury to persons”

Kansas Corporation Commission Production Permitting Proposed Regulatory Changes



K.A.R. 82-3-108 (Well Location; Exception)

“Current”

Well location exceptions are allowed only by order of the Commission.

“Proposed”

A Well location exception may be permitted by the Conservation Division, *provided* no protest to the application has been filed. Protested applications will be set for hearing.

K.A.R. 82-3-123 (Well Bore; Commingling of Production)

“Current”

Commingling of production from more than one source of supply is allowed only by order of the Commission.

“Proposed”

Commingling may be permitted by the Conservation Division, *provided* no protest to the commingling application has been filed. Protested applications will be set for hearing.

K.A.R. 82-3-123a (Well Bore; Commingling of Fluids) – “Dump Flood Applications”

“Current”

Well bore commingling of fluids from more than one source of supply is allowed only by order of the Commission.

“Proposed”

Well bore commingling of fluids may be permitted by the Conservation Division, *provided* no protest to the commingling application has been filed. Protested applications will be set for hearing.

K.A.R. 82-3-138 (New Pool Application)

“Current”

“Proposed”

New Pool certificates may be issued only by the Commission.

New Pool certificates may be issued by the Conservation Division.

Pending Issues- Kansas

- **Seismic Regulations**
- **Regulations Addressing Plugging Responsibility**
- **Increases in complaint filings with regard to gas gathering operations**
- **Lease and Well Signage**
- **Lease / Well Inventory Data**
- **Financial Assurance and State Bonds**

Seismic Regulations



KGS

**Reduce plugging costs
for shallow shot holes
that are < 100' deep
& do not encounter
water and streamline
permitting process**

Lease and Well Signage

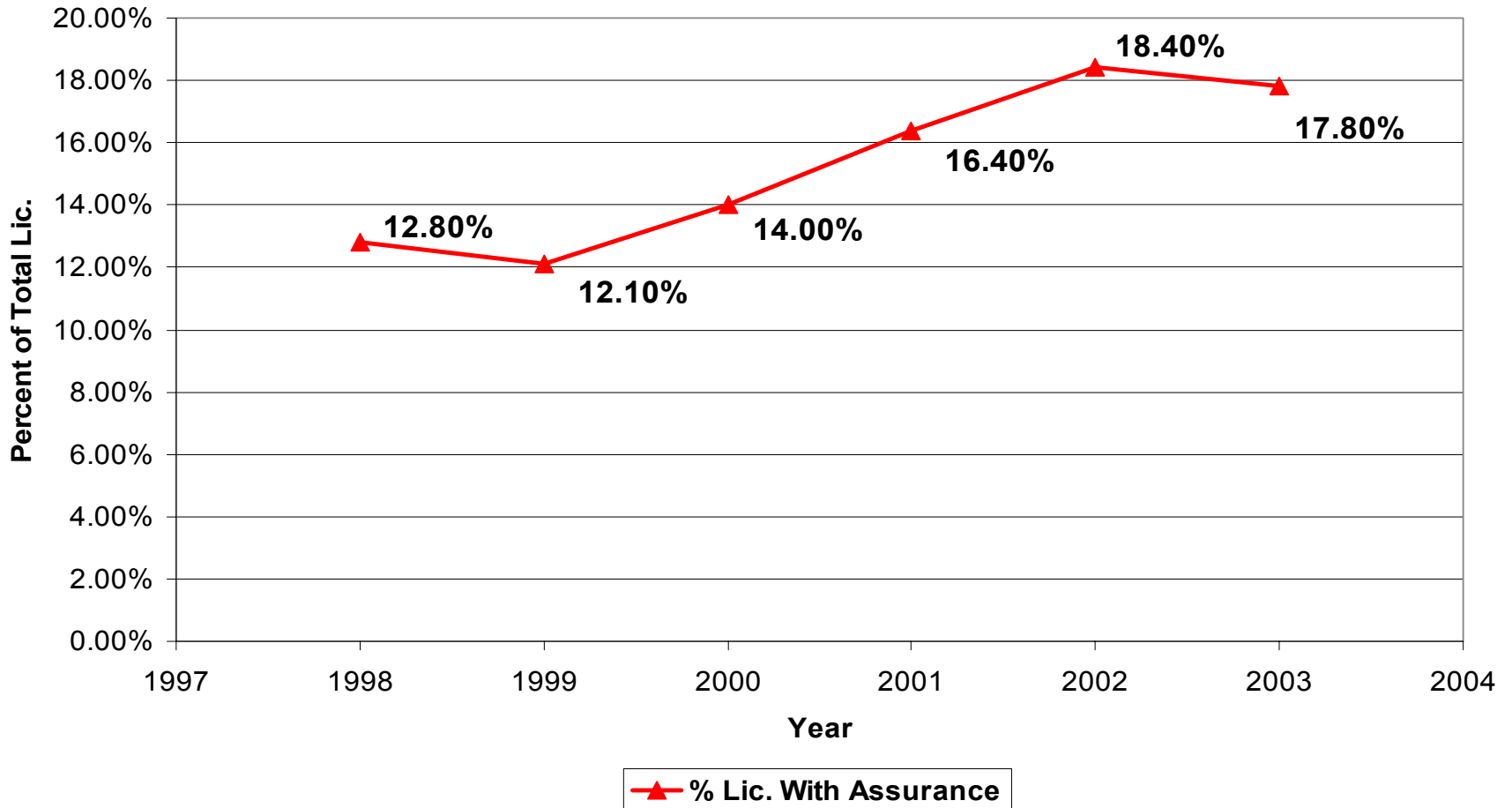
- Currently signage is required only on oil tanks, tank batteries, saltwater tanks, and trucks hauling oil, brine or sediment. Sign requires operator name & license number, lease name and location (S-T-R)
- Proposed would expand signage requirement to each well site. Sign would require operator name and license number, well name and number, location and emergency contact number

Operator Financial Responsibility Requirements

- Operators having an acceptable record of compliance with KCC rules and regulations over the proceeding 36 months may pay a **\$50** nonrefundable fee.
- Operators that have not been licensed for at least the proceeding 36 months or have not met the acceptable record of compliance requirement must furnish one of the following on an annual basis:
 1. A performance bond or letter of credit in the amount equal to \$.75 x the aggregate depth of all wells under his control.
 2. A blanket bond or letter of credit between **\$5000** and **\$30,000** based on the depth and number of wells operated.
 3. **A fee equal to 3% of the blanket bond required under 1 or 2.**
 4. A first lien on equipment equal to the bond requirement.
 5. Other financial assurance approved by the commission.

Financial Assurance Trends

% Lic. With Specific Assurance Posted



Other National & State Issues

- **New EPA SPCC Requirements**
- **Possible new reporting requirements on State's with UIC Primacy Programs**
- **NPDES moratorium for Exploration and Production Industry for permitting >1 acre and < 5 acre drill sites expires early in 2005**
- **Air Quality Permits for compressors and gas treatment facilities**
- **LEAF v. EPA (Hydraulic Fracturing) may have finally come to an end?????**

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