Approved April 20, 1983
Date

MINUTES OF THE House COMMITTEE ON Energy and Natural Resources.

The meeting was called to order by Representative David J. Heinemann at
Chairperson

3:30 xxm./p.m. on February 17, 1983 in room 519-S of the Capitol.

All members were present except:

Representatives Ron Fox and Ken Grotewiel (excused)

Committee staff present:

Ramon Powers, Research Department
Theresa Kiernan, Revisor of Statutes' Office
La Nelle Frey, Secretary to the Committee

Conferees appearing before the committee:

Representative Fred Weaver.
Stephen Holsteen, Governor's Aide.
Donald Schnacke, Kansas Independent Oil and Gas Association.
George Sims, Mobil Oil Corporation.

Representative Edgar Moore made a motion that the bill concerning the Johnson county park and recreation district relating to powers and duties of the park board be introduced as a committee bill and that it be referred back to the committee for hearing and action. Representative Ben Foster seconded the motion. The motion was unanimously passed.

HB 2152 - An act concerning natural gas; providing for the establishment of a maximum price thereof; prescribing duties for the state corporation commission relating thereto.

Representative Fred Weaver, key sponsor of HB 2152, spoke in support of the proposed legislation. He said the bill would provide a one-year moratorium on intrastate natural gas prices, and upon expiration of the moratorium, the Kansas Corporation Commission would be authorized to set intrastate natural gas prices, not to exceed levels set by the federal Natural Gas Policy Act or the Kansas Natural Gas Price Protection Act. He stated that passage of this bill would be an important step in controlling natural gas costs (see attachment 1).

Stephen Holsteen, an aide to Governor Carlin, testified in support of HB 2152. He elaborated on specific issues addressed in the bill and emphasized that this bill was one of the most substantial steps that Kansas legislators could take to help alleviate the impact of rising gas prices. He also provided committee members with estimated dollar-savings for some of the cities in Kansas which would result from enactment of HB 2152 (see attachment 2).

Donald Schnacke, Kansas Independent Oil and Gas Association, testified in opposition to HB 2152. He said that passage of HB 2152 would result in continued shortages of Kansas-produced natural gas and would cause increased dependence on out-of-state higher priced natural gas, effecting higher prices for Kansas consumers. He drew committee members' attention to Section Four of the bill which he considered to be the heart of the bill and the proposed policy that lead his organization to their general objection of the bill. He noted that natural gas production trends in Kansas are disturbing to his organization, in that, intent-to-drill filings had dropped considerably in 1982 and gas production had continued to decline as illustrated in information attached to his testimony (see attachment 3).

George Sims, Mobil Oil Corporation, testified in opposition to HB 2152. He said there might be temporary benefits by the price control of natural gas contained in this bill, but he thought the proposed legislation would adversely affect gas production in Kansas.

A brief discussion period followed each of the presentations of testimony on HB 2152.

CONTINUATION SHEET

MINUTES OF THE House COMMITTEE ON Energy and Natural Resources,

room 519-S, Statehouse, at 3:30 ~~a.m.~~/p.m. on February 17, 1983.

There being no further business to come before the committee, the meeting adjourned at 4:10 p.m.

The next meeting of the committee will be held February 21, 1983.

Rep. David J. Heinemann, Chairman

Date February 17, 1983

GUESTS

HOUSE ENERGY AND NATURAL RESOURCES COMMITTEE

NAME	ADDRESS	ORGANIZATION
Linda Terrill	Administrative Aide to Rep. Fred Weaver	
Ed Reinert	Topeka	KS League Women Voter KS Sierra Club
Steve Holstein	Topeka	Gov. Off.
Ed Peterson	"	KCC
Jan Johnson	Topeka	Budget Division
Amos Kramer	"	KPC
David Nichel	"	KCC
[illegible] Smith	Wichita	Slawson Co
[illegible] Adams	Hugoton	Mobil
Don Willoughby	Topeka	InterNorth, Inc.
Dale Satterthwaite	"	The Gas Service Co
Dale Bunten	Hays	K.W.A.
Larry Panning	Ellinwood	K.W.A.
Eulalia M Lewis	Topeka	Private Citizen
Calvin Cink	Baldwin City	Private Citizen
Jill Wolters	Topeka	Legis. Intern for Rep. Hayden

17 in attendance

FRED L. WEAVER
MINORITY LEADER
ROOM 327-S, CAPITOL BLDG.
TOPEKA, KS 66612
(913) 296-7651

STATE OF KANSAS

TOPEKA

HOUSE OF
REPRESENTATIVES

REPRESENTATIVE FIRST DISTRICT
CHEROKEE COUNTY
RR NO. 1
BAXTER SPRINGS, KS 66713

February 17, 1983

TESTIMONY ON HB 2152 BEFORE ENERGY AND NATURAL RESOURCES

Mr. Chairman, and members of the committee. Thank you for this opportunity to speak in behalf of HB 2152. I believe this bill to be a very important step in our efforts to control natural gas utility costs.

The Kansas Price Protection Act is projected to save Kansans $138 million through 1985. This act allows for graduated natural gas price increases at a lesser rate than provided for at the federal level for gas under contract on April 20, 1977.

HB 2152 is more than an extension of this act. This bill provides for a one year moratorium on gas prices for all gas currently under contract. In this sense, HB 2152 supercedes the Kansas Price Protection Act. After the moratorium expires, the Kansas Corporation Commission, under HB 2152, will have the authority to set intrastate natural gas prices. They can raise prices but they would be limited to not exceeding levels set by the federal Natural Gas Act. I believe that the recent U.S. Supreme Court decision was clear in that states have the authority to regulate intrastate natural gas prices. Passage of HB 2152 will save $100 million.

STATE OF KANSAS

OFFICE OF THE GOVERNOR
State Capitol
Topeka 66612

John Carlin *Governor*

Testimony To
House Energy and Natural Resources
By
Stephen E. Holsteen
February 17, 1983

Mr. Chairman, Members of the Committee:

I am here as a representative of Governor John Carlin to comment on House Bill No. 2152.

HB 2152 would create the Kansas Natural Gas Price Control Act of 1983. The bill would freeze the price of intrastate natural gas at the price on the introduction date of this act and would impose a moratorium of at least one year on any future price increases for natural gas. The bill would apply to all contracts entered into before the effective date of this act for the sale at the wellhead of intrastate gas.

Future contracts would be exempted to provide incentive for further exploration, but HB 2152 would cover contracts entered into since April 20, 1977, which currently are not subject to state price controls. The bill would confer authority on the Kansas Corporation Commission to review prices one year after the effective date of this act, and annually thereafter, to determine the extent, if any, intrastate gas prices may be allowed to increase. However, in no event would the KCC be allowed to raise the price in excess of the prices set by the federal Natural Gas Policy Act (NGPA) or the Kansas Natural Gas Price Protection Act (PPA).

The State has authority to establish this price ceiling for intrastate gas under Section 602 of the NGPA. As you are aware, this authority was exercised to a limited degree in the passage of the PPA in 1979 which restricted the operation of indefinite price escalator clauses in intrastae gas contracts. That Authority was recently upheld by the U.S. Supreme Court Case, Energy Reserves versus Kansas Power and Light, opinion issued January 24, 1983. By passing HB 2152, the State would take one step beyond PPA -- placing a freeze on intrastate gas prices -- while staying within the legal limits for state action proscribed by Section 602 of the NGPA.

You, as Legislators, are keenly aware of the harsh impact rising energy costs are having on the Kansas residential and industrial gas users. The past two winters have brought these problems into sharp focus. Something must be done to relieve this pressure on Kansas consumers -- particularly the poor and elderly.

The many bills which have been introduced in the Kansas Legislature during this Session to try to control the harsh impact of natural gas prices is just one indication of the seriousness of the problem which we are all trying to combat.

It has been conservatively estimated that the Kansas Gas Price Control Act would provide for a total savings of nearly $100 million through 1985. Some of the major cities benefitting from HB 2152 and the amount of their savings is as follows:

Abilene	$ 962,500
Clay Center	1,039,000
Concordia	693,000
Great Bend	1,848,000
Hutchinson	3,850
Junction City	1,463,000
Manhattan	3,234,000
McPherson	1,001,000
Pratt	1,540,000
Russell	1,155,000
Salina	3,465,000
Wamego	462,000

In addition to these savings, electrical customers, KG&E, KP&L and numerous municipal utilities will realize substantial savings because many Kansas utilities burn intrastate natural gas as fuel. The savings for KG&E alone is estimated to be $18,190,800.

In closing, I would like to point out that although HB 2152 will not affect every Kansas energy consumer, it is a start. In fact, it is one of the most substantial steps that you, as Kansas Legislators, can take to help alleviate the impact of rising gas prices. Something needs to be done now. House Bill No. 2152 is an important piece of legislation, and I strongly urge your favorable action.

Estimated Impacts of Natural Gas Price Moratorium

	1983	1984	1985	Total
Projected Savings For KP&L	6,050,000	12,650.000	19,800,000	38,500,000
Abilene Savings	151,250	316,250	495,000	962,500
Clay Center Savings	163,350	341,550	534,600	1,039,500
Concordia Savings	108,900	227,700	356,400	693,000
Great Bend Savings	290,400	607,200	950,400	1,848,000
Hutchinson Savings	600	1,265	1,980	3,850
Junction City Savings	229,900	480,700	752,400	1,463,000
Manhattan Savings	508,200	1,062,600	1,663,200	3,234,000
McPherson Savings	157,300	328,900	514,800	1,001,000
Pratt Savings	242,000	506,000	792,000	1,540,000
Russell Savings	181,500	379,500	594,000	1,155,000
Salina Savings	554,500	1,138,500	1,782,000	3,465,000
Wamego Savings	72,600	151,800	237,600	462,000
TOTAL	2,650,505	5,541,965	8,674,380	16,866,850

Estimated Impacts of Natural Gas Price Moratorium

	Total	Residential	Commercial	Industrial
ABILENE		44%	26.5%	29.5%
1983	151,250	66,550	40,081	44,619
1984	316,250	139,150	83,806	93,294
1985	495,000	217,800	131,175	146,025
Total	962,500	423,500	255,063	283,938
# Customers	3,033	2,647	381	5
CLAY CENTER		31.3%	14.0%	54.7%
1983	163,350	51,129	22,869	89,352
1984	341,550	106,905	47,817	186,828
1985	534,600	167,330	74,844	292,426
Total	1,039,500	325,364	145,530	568,607
# Customers	2,379	2,081	286	12
CONCORDIA		58.3%	34.2%	7.5%
1983	108,900	63,489	37,244	8,168
1984	227,700	132,749	77,873	17,078
1985	356,400	207,781	121,889	26,730
Total	693,000	404,019	237,006	51,975
# Customers	2,921	2,556	360	5
GREAT BEND		52.7%	36.4%	10.9%
1983	290,400	153,041	105,706	31,654
1984	607,200	319,994	221,021	66,185
1985	950,400	500,861	345,946	103,594
Total	1,848,000	973,896	672,672	201,432
# Customers	7,475	6,511	956	8
HUTCHINSON		56%	44%	--00--
1983	605	339	266	--00--
1984	1,265	708	557	--00--
1985	1,980	1,109	871	--00--
Total	3,850	2,156	1,694	--00--
# Customers	8	7	1	--00--

	Total	Residential	Commercial	Industrial
JUNCTION CITY		67.5%	29.8%	2.7%
1983	229,900	155,183	68,510	6,207
1984	480,700	324,473	143,249	12,979
1985	752,400	507,870	224,215	20,315
Total	1,463,000	987,525	435,974	39,501
# Customers	7,566	6,816	738	12
MANHATTAN		45.1%	22.2%	32.7%
1983	508,200	229,198	112,820	166,181
1984	1,062,600	479,233	235,897	347,470
1985	1,663,200	750,103	369,230	543,866
Total	3,234,000	1,458,534	717,948	1,057,518
# Customers	11,186	10,225	950	11
McPHERSON		65.7%	34.4%	--00--
1983	157,300	103,346	53,954	--00--
1984	328,900	216,087	112,813	--00--
1985	514,800	338,224	176,576	--00--
Total	1,001,000	657,657	343,343	--00--
# Customers	4,679	4,196	483	--00--
PRATT		27.8%	12.9%	59.3%
1983	242,000	67,276	31,218	143,506
1984	506,000	140,668	65,274	300,058
1985	792,000	220,176	102,168	469,656
Total	1,540,000	428,120	198,660	913,220
# Customers	3,064	2,705	354	5
RUSSELL		30.5%	16.3%	53.2%
1983	181,500	55,358	29,585	96,558
1984	379,500	115,748	61,859	201,894
1985	594,000	181,170	96,822	316,008
Total	1,155,000	352,275	188,265	614,460
# Customers	2,734	2,380	351	3

	Total	Residential	Commercial	Industrial
SALINA		62.4%	30.5%	7.1%
1983	544,500	339,768	166,073	38,660
1984	1,138,500	710,424	347,243	80,834
1985	1,782,000	1,111,968	543,510	126,522
Total	3,465,000	2,162,160	1,056,825	246,015
# Customers	16,662	15,161	1,452	49
WAMEGO		39.4%	13.6%	47.0%
1983	72,600	28,604	9,874	34,122
1984	151,800	59,809	20,645	71,346
1985	237,600	93,614	32,314	111,672
Total	462,000	182,028	62,832	217,140
# Customers	1,426	1,286	137	3

KGE EFFECT

(A) 22.962 BCF purchased by KG&E from KGS
24,672 BCF Total Sales by KGS
93% = KG&E portion of KGS sales

(B) 93% of KGS savings is KG&E savings
.93 * $19,560,000 = $18,190,800

(C) Wichita is 54.3% of KG&E market
.543 * $18,190,800 = $9,877,600

Pittsburg is 3.2% of KG&E market
.032 * $18,190,800 = $582,106

(D)

	Total	Residential	Commercial	Industrial
WICHITA		37.9%	59.9%	2.2%
	11,037,172	3,743,610	5,916,682	217,307
# Customers		123,455	35	
PITTSBURG		41.4%	57.5%	1.1%
	650,441	240,992	334,711	6,403
		9,708	1,215	

KIOGA
KANSAS INDEPENDENT OIL & GAS ASSOCIATION
500 BROADWAY PLAZA • WICHITA, KANSAS 67202 • (316) 263-7297

February 17, 1983
Attachment 3/2-17-83
House Energy and Natural Resources

To: House Energy & Natural Resources Committee

Re: HB 2152 Maximum Price of Natural Gas

HB 2152 is an attempt to extend the Kansas Natural Gas Price Protection Act (KNGPPA). We think in the long run, that Act and the policy proposed in HB 2152, will result in continued shortages of Kansas produced natural gas and a continued increase dependence on out of state higher priced natural gas. The result is and will be higher prices for consumers of Kansas.

First we comment on Section 2, which is a preamble to the bill.

(1) Admits the NGPA of 1978 is working in increasing supply. Prior to the passage of NGPA there were shortages throughout the nation. In Kansas there were 22 small Kansas communities that were denied extended services.

(2) HB 2152 would extend jurisdiction over probably the cheapest natural gas in America, produced in Kansas. This gas is already restricted by the KNGPPA. HB 2152 would not offer relief to approximately 90% of Kansans served by Northwest Central, Panhandle and others served by inter-state pipelines.

(3) We do not agree with this statement. The KNGPPA has held the price of Kansas gas far below the inter-state market.

(4) We have not seen evidence of "economic and social dislocation resulting in an economic emergency". We are aware of public utility assistance programs, such as LIEAP, that are providing assistance to citizens who are unable to pay utility bills.

Section 4 of HB 2152 is the heart of the bill. It would freeze prices within contracts entered into before January 20, 1983 to a maximum price paid on that date and without any limitation to a so called emergency. (P. 9 ERG vs. KPL)

It is this proposed policy that leads us to our general objection to this bill, and we hope will be of concern to you.

In 1980, we ran a survey of Kansas natural gas producers to reflect their attitudes and concerns arising from the passage of the KNGPPA in 1979. Seventy producers responded. The results of the survey reflected hostility, frustration and a desire to divert what has normally been considered intra-state gas to inter-state markets when possible. There are Kansas producers today who have company policies not to drill where they would have to sell to an intra-state pipeline because of the passage of the KNGPPA and the threat of what the Legislature might do further, like the passage of legislation proposal in HB 2152.

ATTACHMENT 3

The trends in Kansas are disturbing to us and should be to this committee. Intent to drill filings dropped considerably in 1982 from 20,551 (1981) to 14,524 (1982). Gas production continues in a sharp decline in Kansas. (See Chart and Graph). Our rotary drilling rig count has dropped from 224 to 119 or 47% off. In Southeast Kansas the truck mounted rigs are largely idle-reportedly one in ten are operating.

We believe the issue presented by HB 2152 is very serious and much is at stake for the Kansas economy. The interference of government in the market place; restricting contract obligations, freezing prices, favoring one class of consumers over another, is an will continue to have serious consequences for our state.

There is a strong ray of hope up ahead we would like to share with you. There is currently an effort to address the natural gas pricing dilemma in the Congress and its being seriously considered. (See Attached Clipping)

In the meantime, we oppose HB 2152 and urge you to not report it favorably.

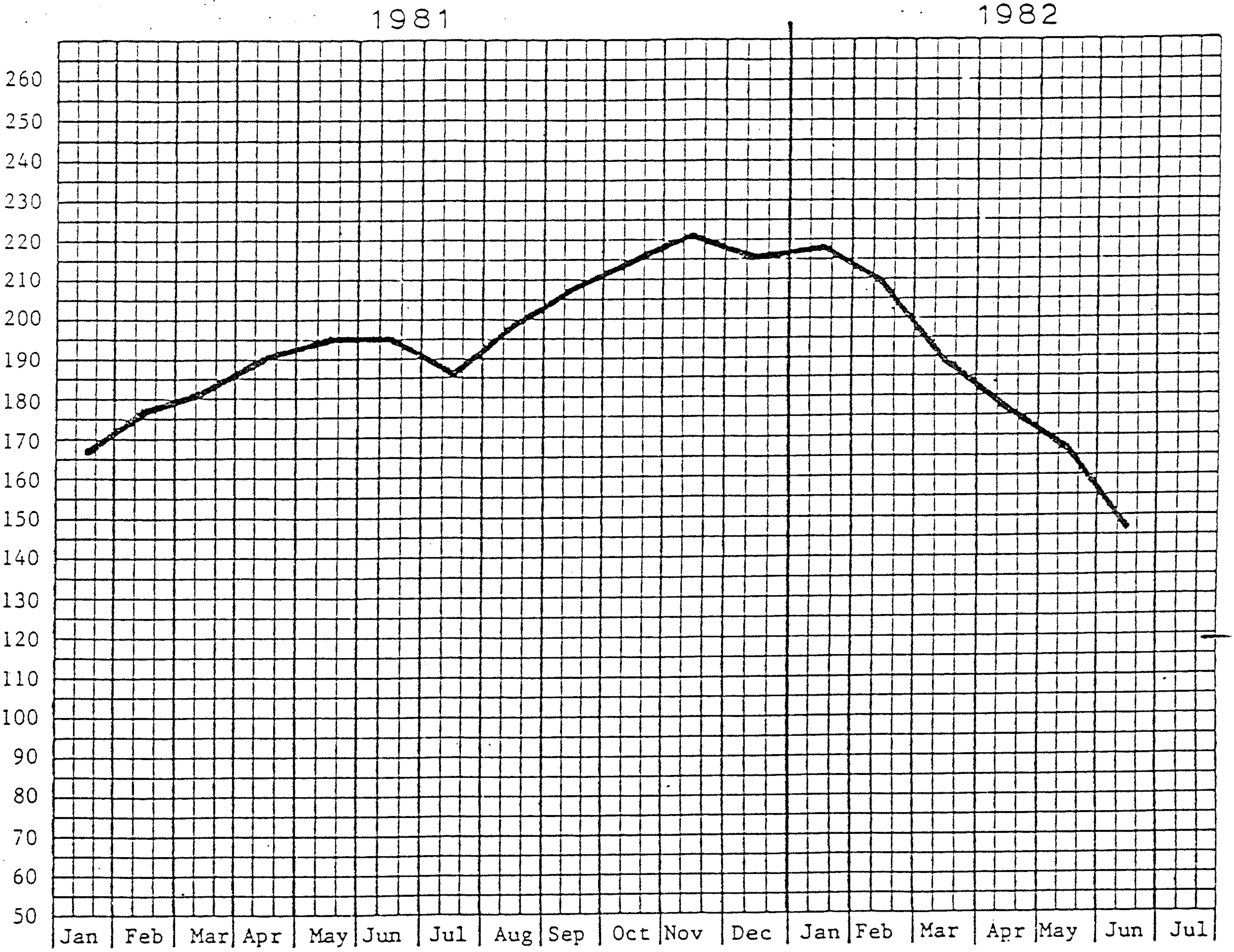
Donald P. Schnacke

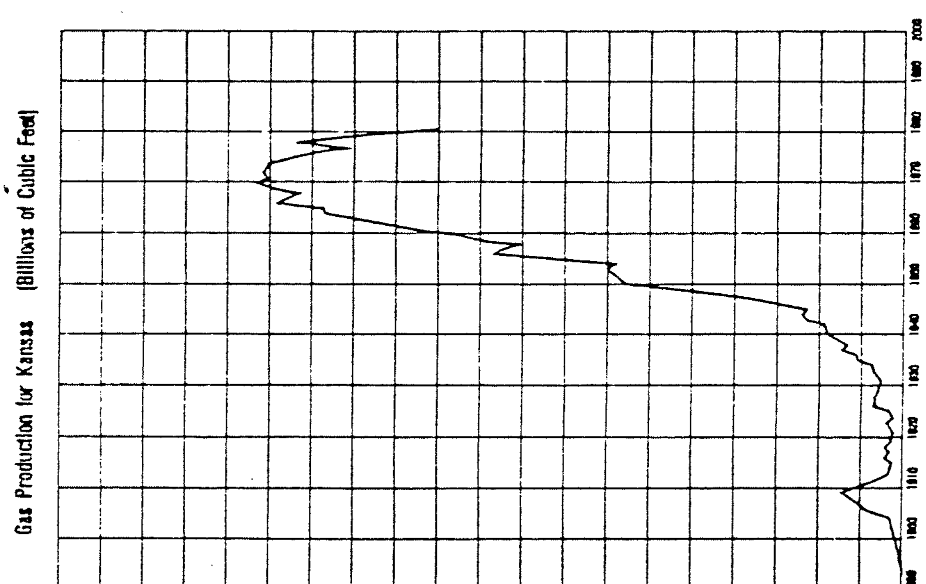
NATURAL GAS PRODUCTION

HUGOTON FIELD AND STATE TOTALS

(1)	(2) Hugoton Field Production (MCF)	(3) Total Kansas Production (MCF)
1963	556,067,168	773,373,504
1964	567,981,458	810,069,686
1965	574,014,829	808,788,878
1966	608,766,800	856,421,989
1967	628,749,488	881,138,736
1968	595,454,070	848,380,950
1969	641,659,770	888,038,529
1970	652,062,194	909,413,281
1971	650,026,539	894,450,803
1972	652,773,807	898,618,234
1973	639,087,182	902,189,763
1974	640,672,818	894,307,867
1975	594,355,629	850,786,261
1976	565,998,996	836,205,709
1977	515,516,082	787,916,974
1978	556,952,720	862,099,086
1979	496,771,481	804,534,623
1980	417,699,964	741,272,555
1981	370,546,552	645,337,671
1982	214,135,903	433,242,060

ACTIVE ROTARY RIGS IN KANSAS





WASHINGTON WATCH By S. Lawrence Paulson

Hodel Has Ingenious, Politically Salable Gas Decontrol Proposal

INGENIOUS may be too mild a term to apply to the natural gas bill that Energy Secretary Donald Paul Hodel is circulating on Capitol Hill.

Contrary to some reports, the proposal would achieve total deregulation of natural gas prices by Jan. 1, 1985. But by focusing on contracts and the principle of achieving competition at the burner tip, the drafters have come up with a plan that is without question politically salable.

Supporters of the bill, without engaging in hyperbole or subterfuge, can make the case that it will help consumers as well as producers and other segments of the gas industry. In short, it is the very sort of innovative solution that some decontrol backers have been insisting is the only possible way out of the current market tangle.

The proposal still must gain good reviews from leading energy experts and political leaders in Congress, and President Reagan still must make the decision to go forward with the bill.

But the early signs are good. Energy and Commerce Committee Chairman John Dingell, D-Mich., reportedly termed the plan one of the most innovative proposals he has encountered during his congressional career.

Here are the major elements of the administration's proposal:

- As of the date of enactment, any new contract may be signed and may operate by its terms.
- Any contract may be renegotiated and may operate by its new terms.
- The volume-weighted average of the price in all new and renegotiated contrats, for the most recent month with available data, is called the gas cap.
- Pending renegotiation, prices for all regulated gas are the lower of the Natural Gas Policy Act price ceiling or the gas cap.
- On Jan. 1, 1985, for any contract that has not been renegotiated, either party may exercise a market-out, in which case the purchaser must carry gas for the seller to any other purchaser at an incentive rate.
- All gas would be decontrolled from the non-price regulations of the Natural Gas Act and the NGPA on Jan. 1, 1985, or on renegotiation, if sooner.
- Section 122 of the NGPA, which gives the president or Congress the power to reimpose controls, would be repealed.
- The Fuel Use Act and incremental pricing would be repealed.
- All buyers would have equal access to offshore and interstate gas.
- The latest gas cap would be considered a federally approved rate for area rate clauses.
- Purchasers would be able to reduce all take-or-pay contracts to 70 percent of deliverability.
- If the take-or-pay option is exercised, the seller can abrogate the contract and sell gas elsewhere, in which case the buyer must transport the gas at an incentive rate.
- The option to reduce takes expires on Jan. 1, 1986.
- All escalator clauses of all types in pre-enactment contracts are limited until Jan. 1, 1986 by the gas cap.
- Through Jan. 1, 1986, an interstate pipeline may not immediately pass through purchased gas costs above its last pre-enactment level plus inflation. Any additional cost must be approved by the Federal Energy Regulatory Commission after a public proceeding with appropriate standards.
- FERC, on application, can require a pipeline with available capacity to carry gas under contract between producer and purchaser at an incentive rate.
- No pipeline may take gas from its own production or from an affiliate at a rate higher than its rate of take for any less expensive gas.
- Prices for currently deregulated (section 107) gas that are above the gas cap are frozen until or unless the cap rises above them.

Strategists realize that opposition from interstate pipelines could represent the greatest threat to the bill's passage. They stress that major changes in the provisions related to pipelines would destroy the carefully crafted set of checks and balances created by the bill.

What these strategists hope is that the pro-producer aspects of the plan will outweigh pipelines' objections, and lead Texas, Louisiana and Oklahoma legislators to embrace the bill enthusiastically.

There is no question that an extensive selling job still has to be done. But observers stress that Hodel has favorably impressed lawmakers from both parties and most political stripes during his first weeks as energy secretary.

If anyone can sell this natural gas bill, they say, it is Hodel.

* * *

ADDING fuel to the gas pricing debate is a recent report from the General Accounting Office that studies the pricing aspects of various gas decontrol options.

While the report does not look into any plans even close to the administration's proposal, it does reach a conclusion that could help counter arguments that current NGPA provisions are all that are standing between consumers and financial disaster.

The report says that, when economics and market forces are considered, there appears to be little difference between the option of letting the NGPA run its course and decontrolling all wellhead gas prices in 1983.

"The results of GAO's economic analysis showed little difference in gas prices, production, producer revenues or consumer costs between NGPA or price decontrol in 1983 due to market prices alone," the report says.

"Gas prices are approaching those necessary to clear the market and there is little economic justification for extraordinary price increases either in 1983 under total price decontrol or in 1985 under current law.

"Prices under price decontrol in 1983 would increase 18 percent in that year, while under NGPA, the increases would be 13 percent in 1985 (the first year of partial decontrol under NGPA). For comparison, average wellhead prices under NGPA have increased at approximately 21 percent per year since 1978."

The report says contract provisions that would boost the price of gas above market-clearing levels would be a problem under total decontrol, but keeping the NGPA controls would also create a problem — the cushion of old gas that could give interstate pipelines a competitive advantage over intrastate pipelines beginning in 1985.