

MINUTES OF THE House SUB COMMITTEE ON EnergyThe meeting was called to order by Representative Keith Farrar at  
Vice- Chairperson8:00 a.m. on February 25, 1983 in room 521-S of the Capitol.

All members were present except:

Representatives Ben Foster and Darrel Webb (excused)

Committee staff present:

Ramon Powers, Research Department

Conferees appearing before the committee:

HB 2426 - Representative Robin Leach.  
Skeet Smith, Norman Hamm Company.  
Ed Peterson, Kansas Corporation Commission.  
Ned Vahldieck, The Kansas Power and Light Company.  
Don Willoughby, Northern Natural Gas Company.  
Don Schnacke, Kansas Independent Oil and Gas Association.  
Glenn Cogswell, Delhi Pipeline Corporation.

HB 2407 - Representative Keith Farrar.  
Ed Peterson, Kansas Corporation Commission.  
Don Willoughby, Northern Natural Gas Company.

HB 2426 - An act relating to natural gas pipelines; declaring portions thereof to be common carriers; providing for powers and duties of the state corporation commission.

Representative Robin Leach, sponsor of HB 2426, testified in support of the bill. He provided Subcommittee members with an illustration of how the bill might work if enacted. The example detailed how an individual could transport gas he owns to a point of use by utilizing part of a common carrier natural gas pipeline's capacity (see attachment 1).

Representative Leach introduced Skeet Smith, Norman Hamm Company, who provided further explanation of how HB 2426 might benefit individuals who own their own gas and need pipeline transportation facilities.

Ed Peterson, assistant general counsel for the Kansas Corporation Commission (KCC), testified in support of HB 2426. He said that at the present time, this is a fairly gray area, but the KCC should be allowed to come in and take some action. He noted that this bill would open up the market a bit.

Ned Vahldieck, The Kansas Power and Light Company, testified in opposition to HB 2426. He noted that, if the intent of the bill is to declare natural gas pipelines common carriers, thereby making part of their capacity available to individuals to transport their own gas, the concept, in theory, has appeal because it seems fair and simple. However, in practice, he thought that using a utility network to transport gas would be a complicated business and would raise some very real problems. He enumerated several problems the bill might create, and noted that enactment of the bill would require detailed records, cost operating problems, administrative potholes, and increased expenses (see attachment 2).

Don Willoughby, Northern Natural Gas Company, testified in opposition to HB 2426.

Don Schnacke, Kansas Independent Oil and Gas Association, testified in opposition to HB 2426.

Glenn Cogswell, Delhi Pipeline Corporation, testified in opposition to HB 2426. He said he believes the bill, if enacted: (1) violates the Commerce Clause of the U.S. Constitution; (2) it would constitute a taking without just compensation and in violation of due process, in that there

CONTINUATION SHEET

MINUTES OF THE House SUB COMMITTEE ON Energy,  
room 521-S, Statehouse, at 8:00 a.m./~~p.m.~~ on February 25, 1983

is nothing to limit the legislation to the 25% of pipeline capacity not being used; and, (3) the KCC could order the pipeline company to bear all costs of connecting uneconomic reserves with Kansas consumers paying the costs of such a connection (see attachment 3).

A brief question and answer period followed several of the presentations of testimony on HB 2426.

HB 2407 - An act concerning natural gas; relating to contracts between producers and pipeline companies.

Representative Keith Farrar, sponsor of HB 2407, spoke briefly about the intent of the bill which is to have a certified copy of all contracts for purchase, sale, production, or delivery of natural gas in the state between natural gas producers and natural gas pipeline companies filed with the KCC. He then asked Ed Peterson to answer questions about the proposed legislation.

Ed Peterson, assistant general counsel for the KCC, addressed some of the Subcommittee members' concerns regarding HB 2407. He noted that the KCC has most of the intrastate contracts on file. He said that persons can request contracts from the pipeline companies, but it doesn't mean that the companies will provide them.

Don Willoughby, Northern Natural Gas Company, testified that he is really not in favor of HB 2407, nor is he against it. He said, rather, that he thinks there is a question regarding if it is to apply to intra-state or interstate pipelines.

A brief question and answer period followed the presentations of testimony on HB 2407.

There being no further business to come before the Subcommittee, the meeting adjourned at 9:00 a.m.

The next meeting of the Subcommittee will be held March 1, 1983.

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Rep. Keith Farrar, Vice-chairman

HOUSE BILL 2426

INTERPRETATION OF HOW IT MIGHT WORK:

The natural gas producer enters into an agreement with a buyer, to provide a specified monthly amount of gas.

The producer, with the contract in hand and a performance bond issued to a common carrier pipeline in an amount of money to insure replacement cost of said monthly contract, shall contract with common carrier for transportation of said quantity of gas. The common carrier shall issue a credit for the contract quantity of gas, to the producer and buyer. At that time the producer shall pay the common carrier for transportation and metering fees.

The producer shall deliver to the common carriers pipeline, the specified quantity of gas, adjusted accordingly for any differences in b.t.u. quality; however, that replacement gas shall be replaced at the convenience of the common carrier.

EXAMPLE: Norman Hamm, owner of a natural gas well, enters into a contract, to supply 15 million cubic feet of gas per month, with Kansas Public Service.

Mr. Hamm presents the contract and a bond for \$90,000.00 dollars (assuming as 6.00 per 1000cf, as the pipeline value) to the common carrier pipeline. In exchange, the common carrier issues a credit for 15 million cubic feet to Mr. Hamm and Kansas Public Service. Mr. Hamm at this time pays the common carrier its fees for transportation and metering.

Mr. Hamm endorses the credit over to Kansas Public Service in exchange for whatever his interest might dictate.

Kansas Public Service uses the 15 million cubic feet credit to apply to its next immediate billing from the common carrier.

The common carrier notifies Mr. Hamm, at their convenience, of when to replace the 15 million cf of gas into their line.

## HOUSE BILL 2426

TESTIMONY OF NED A. VAHLDIECK  
VICE PRESIDENT-GAS OPERATIONS  
THE KANSAS POWER AND LIGHT COMPANY

HOUSE BILL 2426 IS INTENDED, AS WE UNDERSTAND IT, TO DECLARE NATURAL GAS PIPELINES COMMON CARRIERS, THEREBY MAKING PART OF THEIR CAPACITY AVAILABLE TO INDIVIDUALS TO TRANSPORT THEIR OWN GAS. IN THEORY, THIS CONCEPT HAS APPEAL BECAUSE IT SEEMS TO BE SIMPLE AND FAIR. THAT IS, ALLOW A CITIZEN TO TRANSPORT SOME GAS HE OWNS TO A PLACE HE CAN USE IT.

HOWEVER, IN PRACTICE, USING A UTILITY NETWORK TO TRANSPORT GAS IS A COMPLICATED BUSINESS AND WOULD RAISE SOME VERY REAL PROBLEMS. LET'S LOOK AT SOME OF THE THINGS THAT MUST BE CONSIDERED:

- GAS QUALITY PROVISIONS

ANY OUTSIDE GAS BROUGHT INTO KPL'S SYSTEM AND COMMINGLED WITH CUSTOMER GAS WOULD NECESSARILY HAVE TO MEET KPL'S GAS QUALITY STANDARDS. THIS USUALLY REQUIRES A DEHYDRATOR TO DRY THE GAS AND MANY TIMES, A DESULFURIZOR TO REMOVE HYDROGEN SULPHIDE.

- MINIMUM PRESSURE REQUIREMENTS

TO INJECT GAS INTO OUR MAIN LINE TRANSMISSION SYSTEM, COMPRESSORS ARE ALMOST ALWAYS REQUIRED TO SUSTAIN GAS FLOWS. COMPRESSORS ARE EXPENSIVE INSTALLATIONS AND REQUIRE REGULAR MAINTENANCE FOR RELIABLE SERVICE.

- MEASURING FACILITIES

METERS WITH ACCEPTABLE ACCURACY WOULD BE REQUIRED AT BOTH THE INJECTION POINT INTO THE SYSTEM AND AT THE REMOVAL POINT. THIS MUST BE READ REGULARLY AND MAINTAINED.

- HEATING VALUE

NATURAL GAS HEATING VALUES VARY CONSIDERABLY FROM AREA TO AREA IN THE STATE OF KANSAS. IN ORDER TO BE FAIR TO BOTH THE INDIVIDUAL AND THE TRANSPORTOR, A CALORIMETER OR SIMILAR HEATING VALUE MEASURING DEVICE WOULD BE NECESSARY AT THE INLET AND OUTLET FROM OUR SYSTEM. THIS IS ESSENTIAL TO INSURE THAT THE TRANSPORTATION CUSTOMER RECEIVED THE SAME NUMBER OF BTU'S THAT HE INJECTED INTO THE SYSTEM.

- GAS LINES

IN ALL CASES, UNDERGROUND PIPING AND MAIN LINE TAPS WOULD BE REQUIRED TO GET THE GAS INTO AND OUT OF KPL'S SYSTEM.

- LOAD FACTOR

A SINGLE WELL OR SMALL GROUP OF WELLS WOULD PRESUMABLY BE FEEDING GAS INTO OUR SYSTEM FOR TRANSPORTATION AT A HIGH LOAD FACTOR - - - THAT IS, A STEADY RATE. THE PRIVATE PARTY FOR WHOM WE WOULD BE TRANSPORTING WOULD HAVE TO USE GAS AT THIS SAME STEADY RATE. TO DO OTHERWISE (THAT IS, TO USE GAS AT VARYING RATES) WOULD MEAN THAT HE WAS USING KPL'S SYSTEM AS A STORAGE DEVICE. IF THIS BE THE CASE, SOME ADDITIONAL CHARGE WOULD HAVE TO BE MADE TO BE FAIR TO ALL PARTIES.

- AVAILABLE CAPACITY

AVAILABLE CAPACITY ON ANY PORTION OF KPL'S SYSTEM VARIES FROM DAY TO DAY AND VARIES FROM ONE PART OF THE SYSTEM TO ANOTHER. THIS TYPE OF FLEXIBILITY IS NECESSARY FOR THE DAY TO DAY OPERATIONS OF AN INTEGRATED SYSTEM AND EVEN WITH THE BEST OF INTENTIONS, IT

WOULD BE EXTREMELY DIFFICULT TO IDENTIFY ANY PORTION OF SUCH A SYSTEM AS BEING AVAILABLE TO OUTSIDERS WITHOUT CREATING OPERATIONAL DIFFICULTIES.

- PRIORITY OF SERVICE

ALL GAS SERVED TO KPL CUSTOMERS FALLS UNDER ONE OF NINE PRIORITIES OF SERVICE. ANY PRIVATE GAS BEING CARRIED IN KPL'S SYSTEM WOULD HAVE TO BE ASSIGNED A PRIORITY AND COORDINATED WITH THE BASIC PRIORITY SYSTEM. ADDITIONALLY, UNDER CURTAILMENT CONDITIONS, WHAT RIGHTS DOES THE PRIVATE PARTY HAVE FOR SERVICE FROM THE UTILITY THAT USUALLY SERVES HIM? WHAT RATE? DUAL FACILITIES?

- SERVICE FROM GATHERING LINES

UNDER THE PROPOSED LEGISLATION, AN INDIVIDUAL COULD DEMAND SERVICE FROM THE UTILITY FROM ONE OF ITS GATHERING LINES. MANY TIMES THE GAS IN THESE LINES IS OF SUB-DISTRIBUTION QUALITY BECAUSE IT IS UPSTREAM FROM A PROCESSING PLANT OR DEHYDRATOR. A UTILITY SHOULD NOT BE OBLIGED TO SERVE ANYONE FROM THIS TYPE OF LINE WITHOUT ALL APPROPRIATE PROTECTIONS AND CAVEATS CONCERNING GAS QUALITY.

KPL'S GAS SYSTEM IS A COMBINATION OF GATHERING LINES, TRANSMISSION LINES, DISTRIBUTION LINES AND VARIOUS APPURTENANCES THAT EXIST TO SERVE KPL'S CUSTOMERS. IT IS OBVIOUS THAT, IN ALL FAIRNESS, ANY ADDITIONAL COSTS CAUSED BY AN INTRUSION OF AN INDIVIDUAL ON THESE SYSTEMS WOULD HAVE TO BE BORNE BY THAT INDIVIDUAL AND THAT ANY SERVICE TO THIS INDIVIDUAL WOULD HAVE TO BE SUBSERVIENT TO THE NEEDS OF KPL'S CUSTOMERS.

IN SHORT, THIS KIND OF TRANSPORTATION ARRANGEMENT FOR AN INDIVIDUAL ON A SMALL SCALE BASIS HARDLY SEEMS WORTH THE TROUBLE - - AT LEAST, NOT ON KPL'S SYSTEM. IT WOULD UNQUESTIONABLY REQUIRE DETAILED RECORDS, COST OPERATING PROBLEMS, ADMINISTRATIVE POTHOLES, AND INCREASED EXPENSES.

FOR THESE REASONS AND FOR THE OVERWHELMING PRACTICAL PROBLEMS WE FORESEE, KPL CANNOT SUPPORT HOUSE BILL 2426.

TLB

TESTIMONY OF GLENN D. COGSWELL ON  
BEHALF OF DELHI PIPELINE CORPORATION  
BEFORE THE ENERGY SUBCOMMITTEE, HOUSE COMMITTEE ON ENERGY AND  
NATURAL RESOURCES IN OPPOSITION TO  
HOUSE BILL 2426, FEBRUARY 25, 1983

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My name is Glenn Cogswell. I am appearing here on behalf of Delhi Gas Pipeline Corporation, of Dallas, Texas. Delhi is an intrastate pipeline Company operating gathering lines in Kansas.

We do not object to reasonable regulation of common carrier pipelines to prevent abuses where producers can't get meaningful <sup>quantities</sup> ~~guarantee~~ of natural gas to market. We do not object to common carrier regulations to achieve that purpose. We do however find considerable objection when we view this proposed legislation.

First, we believe it violates the Commerce Clause of the U. S. Constitution in that the matter is preempted by Federal legislation and regulation under the Natural Gas Act, the Natural Gas Policy Act of 1978 and the regulations of the Federal Energy Regulatory Commission as to natural gas moving in interstate commerce.

Secondly, it's our position that this bill, if enacted would constitute a taking without just compensation and in violation of due process in that there is absolutely nothing here to limit the effect of the legislation to the 25% of capacity of the pipeline that is not being used.



There would be a regulatorily mandated price which on the face of this bill would not be required to compensate the pipeline company for it's investment.

Thirdly, the scope of the Commission's authority under Section 3(a)(1) where it is entirely possible for the Commission to order the pipeline company to bear the entire cost of connecting uneconomic reserves with the consumers of Kansas ultimately paying the costs of such a connection. All this being without regard to gas reserves and gas deliverability in relation to the miles of pipeline and facilities necessary to connect it.

Although we do not object to a reasonably regulatory structure to prevent abuses where a producer, having gas to market would be unable to get his gas to market, we do believe the scope of this bill is overly broad for effective common carrier regulation.

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