

MINUTES OF THE Senate COMMITTEE ON Energy and Natural Resources

The meeting was called to order by Senator Charlie L. Angell at
Chairperson

8:00 a.m. ~~XXXX~~ on Monday, February 28, 1983 in room 123-S of the Capitol.

All members were present except:
Senator Fred Kerr (Excused)
Senator Ed Roitz (Excused)

Committee staff present:
Ramon Powers, Research Department
Don Hayward, Revisor's Office
LaVonne Mumert, Secretary to the Committee

Conferees appearing before the committee:
Senator Roy Ehrlich
Senator Leroy Hayden
Senator Jack Steineger

The minutes of the February 25, 1983 meeting were approved.

S.B. 125 - Regulation of natural gas common source of supply

Senator Ehrlich explained this bill would include common sources of supply in which the average open flow of all the producing wells is less than 750,000 cubic feet per day. It would then not be necessary for wells in this category to petition to be included since they would automatically be in.

S.B. 248 - Flaring of natural gas permitted, when

Senator Ehrlich explained there is sometimes a problem with not being able to flare long enough because there is only a certain length of time to test the well and put it on the pumps before a fine is levied. This bill would enable the Kansas Corporation Commission to write rules and regulations allowing for more flexibility.

S.B. 161 - Natural gas for irrigation

Senator Hayden said this bill would provide that a producing company cannot declare an existing contract for natural gas for irrigation purposes null and void upon a transfer of the ownership.

S.B. 162 - Natural gas price for first sales to agricultural users

Senator Hayden explained this bill would provide for a set price for first sales of natural gas to agricultural users.

S.B. 167 - Access to natural gas by agricultural users

Senator Hayden said this bill makes provisions for access to natural gas by agricultural users. He said the percent of natural gas being used for agricultural purposes has not increased, but there is simply less gas being produced.

Senator Hayden answered questions from Committee members. He emphasized the importance of agriculture and the availability of natural gas in the economic structure of Kansas. He pointed out these bills could possibly tie in very well with the direction Congress may take in relationship to natural gas deregulation. The Committee requested staff to provide a definition of "first sale" referred to in S.B. 162.

S.B. 23 - Natural gas pipelines declared common carriers

Senator Steineger read his written testimony (Attachment 1). S.B. 23 responds to the problem producers have selling gas to the pipeline companies. There is a problem with take-or-pay contracts. With the current situation, pipeline companies have no interest in new gas. S.B. 23 provides if a pipeline has excess capacity, a gas producer would be able to get an order from the Kansas Corporation Commission requiring the pipeline to transport that producer's gas. This would stimulate production of Kansas gas, particularly from new wells, and producers could make direct sales. It would bring down the price of natural gas for

Unless specifically noted, the individual remarks recorded herein have not been transcribed verbatim. Individual remarks as reported herein have not been submitted to the individuals appearing before the committee for editing or corrections.

CONTINUATION SHEET

MINUTES OF THE Senate COMMITTEE ON Energy and Natural Resources,

room 123-S, Statehouse, at 8:00 a.m./~~noon~~ on Monday, February 28, 1983

Kansas producers and would improve the utilization of pipelines. This bill provides that the unused capacity of any natural gas pipeline would become a common carrier. This would apply to pipelines that have operated at less than 75% for at least two years. Senator Steineger suggested amending the bill to provide the two year time period be immediately prior to January 3, 1983 to avoid pipelines filling up occasionally to avoid the provisions of the bill. Interstate gas does not lose its intrastate characteristics simply because it is transported through an interstate line from one part of the state to another. Senator Steineger said the bill would bring down prices for the consumer, would be good for producers and would be good for royalty owners.

The meeting was adjourned at 8:57 a.m. by the Chairman. The next meeting of the Committee will be at 7:30 a.m. on Tuesday, March 1, 1983.

Senate Energy + Natural Resources

Feb. 28, 1983

Name

Organization

Sam Hayden

Tim Hagemann

George Smith

LC CASE

Don Schmitt

Robert C. Anderson

Nawel Shoaf

Alan D. Cogswell

Jan Johnson

Ed Reinert

Jali Cleary

Beth Wilkin

L.P.G.

mobel

MOBIL

KSOON

McClintock

KSC

Northwest Central ^{Chk} Supplies

Budget Division

Ks League Women Voters

Ks Sierra Club

WIKW

S. Soets

REMARKS BY SENATE MINORITY LEADER JACK STEINEGER
S.B. 23, FEBRUARY 28, 1983

I APPRECIATE THIS OPPORTUNITY TO TESTIFY ONCE MORE ON A BILL AFFECTING THE PRICE OF NATURAL GAS SOLD TO KANSAS CONSUMERS. BEFORE EXPLAINING THE SPECIFIC PROVISIONS OF THE BILL, PERHAPS A LITTLE BACKGROUND INFORMATION WOULD BE USEFUL.

SENATE BILL 23 IS VERY SIMILAR TO A BILL INTRODUCED IN 1977 IN THE KANSAS HOUSE OF REPRESENTATIVES AT THE URGING OF THE OIL AND GAS INDUSTRY. IN FACT, MR. DON SCHNACKE OF THE KANSAS INDEPENDENT OIL AND GAS ASSOCIATION CAME UP WITH THE 75% CAPACITY FIGURE IN THE ORIGINAL BILL AFTER REVIEWING DATA ON PIPELINE CAPACITY AT THE KANSAS CORPORATION COMMISSION.

SENATE BILL 23 WAS INTRODUCED IN DIRECT RESPONSE TO A NUMBER OF COMPLAINTS FROM KANSAS GAS PRODUCERS. THEY HAVE NATURAL GAS---MUCH OF ^{IT} SELLING FOR THREE DOLLARS AND LESS PER MCF---BUT THE PIPELINE COMPANIES WON'T BUY IT. THIS IS DUE, IN PART, TO THE FACT THAT MANY GAS PIPELINES SUPPLYING GAS TO KANSAS HAVE ENTERED INTO LONG-TERM "TAKE OR PAY" CONTRACTS WHICH REQUIRE THEM TO BUY EXPENSIVE OUT-OF-STATE GAS WHILE CURTAILING PURCHASES FROM KANSAS PRODUCERS. WHEN THEY AREN'T BUYING HUGOTON GAS ALREADY UNDER CONTRACT A LESS THAN A DOLLAR, IT'S OBVIOUS THEY AREN'T INTERESTED IN BUYING GAS FROM NEW WELLS, REGARDLESS OF HOW CHEAP IT MIGHT BE.

Atch. 1

LET ME GIVE YOU AN EXAMPLE OF WHAT I'M TALKING ABOUT. IN A LETTER FROM A WICHITA ATTORNEY WHO REPRESENTS OIL AND GAS CLIENTS, HE WROTE, AND I QUOTE:

"AS A MATTER OF FACT, I HAVE A CLIENT WITH A 5 1/2 MILLION CUBIC FEET PER DAY WELL WITHIN ROCK THROWING DISTANCE OF AN INTERSTATE CARRIER. FOR 6 MONTHS IT HAS REFUSED TO ALLOW A "HOOK UP" FOR 1/4TH THE PRICE IT IS PAYING OKLAHOMANS FOR GAS IN THE SAME LINE EVEN THOUGH OTHER WELLS ARE DRAINING OUR CLIENT'S RESERVOIR."

I DON'T THINK THIS KIND OF SITUATION IS UNUSUAL. THE SAME COMPLAINT IS HEARD REGULARLY AT BOTH THE FEDERAL ENERGY REGULATORY COMMISSION AND THE KANSAS CORPORATION COMMISSION.

SENATE BILL 23 TAKES A DIRECT APPROACH TO THIS PROBLEM. IF A PIPELINE HAS EXCESS CAPACITY---CAPACITY THAT'S NOT BEING USED---A GAS PRODUCER COULD GET AN ORDER FROM THE KANSAS CORPORATION COMMISSION REQUIRING THE PIPELINE TO TRANSPORT THE PRODUCER'S GAS. THIS WOULD HAVE SEVERAL BENEFICIAL IMPACTS.

FIRST, IT WOULD STIMULATE THE PRODUCTION OF KANSAS GAS, PARTICULARLY FROM "NEW" WELLS. THE CURRENT CEILING ON "NEW" GAS IS ABOUT THREE DOLLARS AND TWENTY CENTS AN MCF---MUCH LESS THAN THE EXPENSIVE "TAKE OR PAY" GAS BEING SOLD TO KANSANS.

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PRODUCERS WOULD BE GIVEN DIRECT ACCESS TO THE KANSAS MARKETPLACE. INSTEAD OF HAVING ONE CLIENT--THE PIPELINE COMPANY--WHICH WON'T BUY THE GAS, PRODUCERS COULD APPROACH LARGE INDUSTRIAL USERS, CITIES, OR OTHER LARGE USERS---AND MAKE DIRECT SALES.

SECOND, IT SHOULD BRING DOWN THE PRICE OF NATURAL GAS FOR KANSAS CONSUMERS. INSTEAD OF BURNING "TAKE OR PAY" GAS PRICED IN THE SEVEN DOLLAR RANGE, GAS USERS WOULD GET "NEW" GAS FROM IN-STATE PRODUCERS AT LESS THAN HALF THE PRICE.

FINALLY, IT WOULD IMPROVE THE UTILIZATION OF PIPELINE CAPACITY. THE MORE GAS THAT'S PUMPED THROUGH A PIPELINE, THE MORE EFFICIENT THE OPERATION.

SOMETIMES I THINK IT'S AN INTERESTING WORLD WE LIVE IN WHEN WE TALK ABOUT NATURAL GAS PRICES. ON ONE HAND, GAS PIPELINE COMPANIES TELL US THAT BOTH FERC AND THE KCC REQUIRE THE COMPANIES TO PROVIDE THE LOWEST POSSIBLE RATES FOR CONSUMERS. HENCE, THEY OPPOSE THE SEVERANCE TAX ON GAS WHICH WOULD BE PASSED ALONG TO USERS.

ON THE OTHER, THEY'VE INDICATED THEIR OPPOSITION TO THIS BILL. WHEN THEY TESTIFY LATER IN THE WEEK, IT WILL BE INTERESTING TO SEE HOW FAR THEIR COMMITMENT TO "LOW RATES" ACTUALLY EXTENDS. GIVEN THEIR "LOW RATE" MANDATE, I WOULD THINK THESE COMPANIES WOULD WANT TO CHANGE THEIR POSITION AND SUPPORT THIS BILL.

AS FOR THE BILL ITSELF, IT DECLARES THE UNUSED CAPACITY OF ANY NATURAL GAS PIPELINE OPERATING IN KANSAS TO BE A COMMON CARRIER. THE PIPELINE COMPANY, IN TURN, WOULD THEN BE REQUIRED TO MAKE THE UNUSED CAPACITY AVAILABLE TO ANYONE WANTING TO CONTRACT TO USE THE UNUSED CAPACITY. AS DRAFTED, THE BILL WOULD APPLY ONLY TO PIPELINES WHO HAVE BEEN OPERATING AT LESS THAN 75 PERCENT OF THEIR DESIGN CAPACITY FOR MORE THAN TWO CONSECUTIVE YEARS.

WHEN WE DRAFTED THIS PROVISION, WE BELIEVED IT WOULD GET THE JOB DONE. SINCE THEN, WE HAVE BEEN CONTACTED BY ONE PIPELINE COMPANY, INTERNORTH, WHICH INDICATED IT WOULD FILL UP ITS LINES EVERY NOW AND THEN SO THE UNUSED CAPACITY COULD NOT BE DECLARED A COMMON CARRIER. TO AVOID THIS RESULT, PERHAPS THE COMMITTEE SHOULD CONSIDER AMENDING THE BILL TO PROVIDE THAT THE TWO YEAR PERIOD BE "IMMEDIATELY PRIOR TO JANUARY 3, 1983"---THE DATE THE BILL WAS INTRODUCED. THEN THIS UNFORTUNATE RESULT CAN BE AVOIDED.

PRIOR TO ANY CONTRACT FOR THE CAPACITY BECOMING EFFECTIVE, THE CONTRACT WOULD BE REVIEWED BY THE CORPORATION COMMISSION. IN CASES WHERE THE PRODUCER AND THE PIPELINE COULD NOT REACH AGREEMENT, THE COMMISSION WOULD BE EMPOWERED TO ESTABLISH THE TERMS AND CONDITIONS OF THE CONTRACT. THE COMMISSION ALSO WOULD HAVE FULL AUTHORITY TO CONSIDER THE GAS QUALITY, PRESSURE, METERING, AND SO FORTH---SO THESE KIND OF PROBLEMS COULD BE WORKED OUT.

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I'M SURE YOU'LL ALSO BE HEARING THE USUAL CONSTITUTIONAL OBJECTIONS BEING RAISED BY THE PIPELINE COMPANIES. WHEN REPRESENTATIVES OF THE CORPORATION COMMISSION TESTIFY LATER IN THE WEEK, THEY WILL ADDRESS THE CONSTITUTIONAL QUESTION DIRECTLY. I WOULD SAY, HOWEVER, THAT SEVERAL FERC DECISIONS SEEM TO INDICATE THAT INTRASTATE GAS DOESN'T LOSE ITS INTRASTATE CHARACTERISTICS SIMPLY BECAUSE IT'S TRANSPORTED THROUGH AN INTERSTATE LINE FROM ONE PART OF A STATE TO ANOTHER---AND KANSAS CLEARLY HAS THE AUTHORITY TO REGULATE INTRASTATE GAS.

IN CLOSING, LET ME MAKE A FEW OBSERVATIONS ABOUT OUR CURRENT NATURAL GAS SITUATION. WE ALL KNOW THE PROBLEMS CAUSED KANSANS BY HIGH GAS PRICES. WE ALSO KNOW THE PROBLEMS CAUSED GAS PRODUCERS BY INTERSTATE PIPELINE COMPANIES WHO DENY PRODUCERS ACCESS TO THE MARKETPLACE. I THINK THIS BILL HAS A LOT OF MERIT. IT'S GOOD FOR CONSUMERS. IT WOULD BRING PRICES DOWN.

IT'S ALSO GOOD FOR PRODUCERS AND ROYALTY OWNERS. IT'S A SIMPLE FACT THAT THE BEST GAS WELL IN KANSAS DOESN'T MAKE A PENNY FOR EITHER PRODUCERS OR ROYALTY OWNERS UNTIL THE GAS IS PRODUCED. IF WE COULD BREAK THE STRANGLEHOLD OF THE PIPELINES, EVERYONE--- PRODUCERS, CONSUMERS, ROYALTY OWNERS---WOULD BENEFIT.

THANK YOU VERY MUCH.