

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./~~p.m.~~ on Wednesday, January 11, 1984 in room 123-S of the Capitol.

All members were present except:

Senator Tom Rehorn (Excused)

Senator Ed Roitz (Excused)

Committee staff present:

Ramon Powers, Research Department

Rainey Gilliland, Research Department

Don Hayward, Revisor's Office

LaVonne Mumert, Secretary to the Committee

Conferees appearing before the committee:

Phil Dick, Commissioner, State Corporation Commission

The minutes of the January 10, 1984 meeting were approved.

Senator Feleciano moved that the Committee introduce a bill concerning certain positions in the Kansas Water Office (3 RS 1842). Senator Werts seconded the motion, and the motion carried.

Phil Dick discussed charts showing gas and oil production (Attachment 1). He pointed out the gas production for the last six months of 1983 represents a major turn-around in production levels. He said the increased production is due primarily to restructuring of the marketplace rather than increased demand. He explained that in order to retain the industrial market, the producers had to have a lower rolled-in price and so they took more of the low-priced Kansas gas. Mr. Dick went on to say that this has caused the producers to be subject to extensive litigation regarding take-or-pay contracts. He said, typically, take-or-prepay contracts provide that gas not taken must be paid for the first quarter of the following year. Mr. Dick discussed the petition InterNorth filed with the Federal Energy Regulatory Commission (FERC) seeking to shift the ad valorem taxes currently paid by the purchaser to the producer and royalty owner. The Commission is an intervenor in the case but there has been very little action in the matter. He emphasized that if this petition is granted, it will have a tremendous impact on Kansas. Mr. Dick briefly reviewed the acquisition of Gas Service Company by Kansas Power and Light Company. He summarized the events which led to the acquisition of Northwest Energy by Williams Brothers. He indicated the Commission had several items of concern in the matter: the payment made to the Allen Company for assignment of their option, substantial severance agreements with Northwest's management and the amount paid for the stock being considerably in excess of book value. There was also concern about the possibility of low-cost reserves being diverted to out-of-state interests. The Commission took no action to oppose the transaction. The Committee raised questions about whether FERC would allow the cost of the service contracts into the rate base. Mr. Dick agreed to provide some comparisons between the plants at Holcomb, St. Marys, Jeffrey, LaCygne and Wolf Creek, as requested by Senator Hess. Responding to a question from Senator Hess, Mr. Dick said the Construction-Work-In-Progress law of Kansas is discretionary with the Commission. He reviewed a listing of FERC Cases in Which KCC is an Active Party (Attachment 2). Responding to questions about the allowance for transportation charges for gas, Mr. Dick said that FERC tends to support averaging the transportation costs for the entire system. He was asked about take-or-prepayment clauses and told the Committee that the fuel adjustment clause does not include these prepayments. They are treated as assets until either the gas is taken or forfeited. Mr. Dick also explained the concept of net-back pricing. As an example, Northwest Energy sets a target price at the retail level which is the equivalent of No. 6 fuel oil. They deduct distribution costs and pipeline operation costs to arrive at a wellhead price that will allow them to sell gas at that target price at the burner tip. There was a discussion about gas prices being regulated by the market and the effect of the Natural Gas Price Act.

The meeting was adjourned at 9:02 a.m. by the Chairman. The next meeting of the Committee will be at 8:00 a.m. on January 12, 1984.

Senate Energy + Natural Resources

Jan. 11, 1984

<u>Name</u>	<u>Organization</u>
Patricia Gorham	KCC
Michael Yoh	KCC
Ed Reinert	KS League Women Voters
Joe Hodyu	Cities Service Oil & Gas Corp
CHARLES BELT	WICHITA CHAMBER OF COMMERCE
Jerome E. Jones	Hershberg Patten Jones & Roth
Jack Slaves	Panhandle Eastern
Richard D. Keady	KPL / Gas Service
Lon Stanton	NORTHERN NATURAL GAS
BILL PERDUE	KPL / GAS SERVICE
RANDAL LODER	SW KS IRRIGATION ASSOC.
Chip Wheelen	Legis. Policy Group
Dick Brewster	Standard Oil (Indiana)
Don Schnack	KLIOGA

TOTAL GAS PRODUCTION (MCF) BY CALENDAR YEAR, BY MONTH

	1978	1979	1980	1981	1982	1983
JANUARY	90,109,773	92,302,930	101,829,075	63,466,710	68,505,130	33,626,964
FEBRUARY	81,767,639	81,112,825	89,486,019	49,638,982	56,598,758	33,971,893
MARCH	78,442,117	76,058,135	80,547,655	57,965,359	39,070,345	26,775,909
APRIL	75,187,803	73,082,355	52,071,148	66,088,716	35,821,458	29,209,500
MAY	66,756,080	63,704,302	47,728,555	61,187,312	29,021,874	28,943,669
JUNE	61,034,419	54,370,592	48,437,079	66,161,910	22,974,759	24,083,928
JULY	66,092,208	56,618,532	54,576,967	51,610,057	32,890,088	39,556,413
AUGUST	62,816,136	56,824,341	55,058,272	48,369,783	32,535,247	38,350,333
SEPTEMBER	58,275,179	48,310,268	47,902,916	40,599,331	22,701,589	36,031,342
OCTOBER	65,800,748	46,007,667	45,338,296	42,223,599	23,374,816	36,174,062
NOVEMBER	72,874,638	73,201,187	45,653,635	41,443,403	30,932,669	38,109,138
DECEMBER	82,599,949	82,941,489	72,642,938	56,582,509	38,815,327	65,000,000 --*
TOTAL	861,756,689	804,534,623	741,272,555	645,337,671	433,242,060	429,833,151

* ESTIMATED TOTALS

Attch. 1

HUGOTON GAS PRODUCTION (MCF), BY MONTH, BY YEAR

	1978	1979	1980	1981	1982	1983	1984	1985
JANUARY				48,634,286	38,673,874	16,654,247		
FEBRUARY				38,815,222	30,673,126	11,914,785		
MARCH				35,880,620	20,003,199	12,829,056		
APRIL				28,545,805	19,343,574	14,677,509		
MAY				30,254,183	13,909,364	17,834,774		
JUNE				30,102,511	12,434,391	13,146,788		
JULY				33,640,343	13,209,953	15,980,383		
AUGUST				28,166,370	14,925,421	23,262,476		
SEPTEMBER				22,140,125	9,226,942	20,783,171		
OCTOBER				25,127,917	10,031,022	19,363,890		
NOVEMBER				21,497,161	14,976,437	28,579,238		
DECEMBER				30,553,496	16,728,570	45,500,000*		
TOTAL				373,358,149	214,135,903	240,526,317		

TOTAL PRODUCTION BY YEAR, 1977 TO 1982

1977	515,609,084
1978	557,038,994
1979	496,771,485
1980	417,699,964
1981	373,358,149
1982	214,135,903

*--ESTIMATED TOTALS

PANOMA COUNCIL GROVE GAS PRODUCTION (MCF), BY MONTH, BY YEAR

1978	1979	1980	1981	1982	1983	1984	1985
JANUARY	14,436,151	15,569,450	10,027,650	15,377,917	6,550,065		
FEBRUARY	15,749,112	16,906,150	9,181,933	12,213,801	5,506,458		
MARCH	12,696,110	13,932,744	6,217,161	5,726,955	3,873,190		
APRIL	10,943,072	9,130,086	5,988,747	4,379,865	3,321,532		
MAY	9,652,293	6,529,743	5,653,429	3,583,827	2,906,923		
JUNE	9,103,196	6,494,863	5,167,560	3,368,250	1,867,246		
JULY	8,429,118	7,687,830	5,217,379	3,588,144	3,515,386		
AUGUST	10,063,399	6,862,956	6,615,584	3,577,098	4,054,626		
SEPTEMBER	9,542,873	5,074,196	6,285,517	2,518,309	3,551,135		
OCTOBER	9,331,580	5,227,168	4,856,264	2,164,955	4,298,235		
NOVEMBER	12,979,823	8,905,130	4,347,623	3,514,576	7,388,239		
DECEMBER	14,479,518	7,986,583	8,472,590	5,898,904	9,750,000*		
TOTAL	137,286,275	110,306,899	78,031,437	65,912,601	56,583,035		

*--ESTIMATED TOTALS

Senate Energy & Natural Resources

Jan. 10, 1984

<u>Name</u>	<u>Organization</u>
Chip Wrecker	Ks Legis. Policy Group
Carol Zarley	Kansas Geological Survey
David W. Michel	Kansas Corp. Comm.
Jerry Comstock	KG&E
Don Schmucke	ICLOGA
Byron Oberke	E.C.P. & K.
Low Stanton	NORTHERN NATURAL GAS Co.
George A. Simas	Mobil

FERC CASES IN WHICH KCC IS AN ACTIVE PARTYA. NATURAL GAS1. NORTHWEST CENTRAL PIPELINE CORPORATION
(FORMERLY CITIES SERVICE GAS COMPANY)

<u>DOCKET No. (FILING DATE)</u>	<u>ISSUES</u>	<u>COMMENTS</u>
A. RP82-114 (6/20/82)	<ul style="list-style-type: none"> - RATE INCREASE REQUEST OF \$35.12 MILLION (15.94¢/Mcf) - RATE DESIGN ISSUES: 1) ZONE TRANSP. AVE. 2) <u>UNITED V. SEABOARD ALLOCATION</u> - REQUEST REDUCED BY \$12.13 MILLION (5.5¢/Mcf) (NET INCREASE = \$22.99 MILLION (APP. 11¢/Mcf)) 	<ul style="list-style-type: none"> - EFFECTIVE 12/23/82 SUBJECT TO REFUND - NEAR SETTLEMENT, SETTLEMENT NEGOTIATIONS BEGAN 10/7/82 <p><i>1/10 by settled 6¢ per mcf reduction 10 m. Increase</i></p>
B. TA83-1-43 (9/22/83)* (PGA 83-1)	<ul style="list-style-type: none"> - REQUEST TO INCREASE PGA BY 82.16¢/Mcf - KCC ALLEGED FRAUD, ABUSE, AND IMPRUDENT PURCHASING PRACTICES - KCC RAISED ISSUE OF PROPRIETY OF WYOMING V. HUGOTON PURCHASING PATTERNS 	<ul style="list-style-type: none"> - FERC GRANTED INCREASE BUT OPENED INVESTIGATION INTO PURCHASING PRACTICES - EFFECTIVE 10/23/82
C. RP83-42 (1/24/83)*	<ul style="list-style-type: none"> - COMPLAINT BY MIDWEST GAS USERS ASSOC. ALLEGING THAT CERTAIN GAS PURCHASE CONTRACTS IN WYOMING WERE ILLEGALLY AMENDED TO ALLOW PRICE INCREASE - ALLEGED DAMAGES = \$55 MILLION 	<ul style="list-style-type: none"> - NOW PART OF GENERAL INVESTIGATION OF PURCHASING PRACTICES - KCC PREPARING TO LITIGATE
D. TA83-2-43 (3/22/83)*	<ul style="list-style-type: none"> - COMPANY IMPLEMENTED NET-BACK-PRICING - REDUCED PGA BY APPROXIMATELY \$1.04/Mcf 	

*CONSOLIDATED INTO ONE CASE: DOCKET No. RP82-114

Atch. 2

- RP83-75 (4/22/83)*
- GENERAL RATE INCREASE REQUEST OF \$17.8 MILLION (8.87¢/Mcf)
 - INCLUDED REQUEST FOR \$33 MILLION TAKE-OR-PAY PREPAYMENTS
 - WITHDRAWN VOLUNTARILY ON 11/30/83
- F. RP83-98 (6/13/83)*
- REQUEST FOR GAS TRANSPORTATION RATE
 - REQUEST FOR 5.42¢/Mcf/100 MILES
 - TO BE AVAILABLE TO FORMER CUSTOMERS OR CUSTOMERS WHO ARE ABOUT TO LEAVE SYSTEM
 - TARGETS INDUSTRIAL CUSTOMERS.
- FERC STAFF ADVOCATES MUCH HIGHER RATE
- KCC CONCERNED ABOUT EQUITY TO CURRENT CUSTOMERS. 7¢ per 100
Set 1/9/84 17¢ gathering
- G. RP84-27 (11/30/83)
- GENERAL RATE INCREASE REQUEST OF \$37.2 MILLION (8.87¢/Mcf)
 - INCLUDED REQUEST FOR \$33 MILLION TAKE-OR-PAY PREPAYMENT TO RATE BASE
 - ADDITION OF \$97.6 MILLION TAKE-OR-PAY PREPAYMENT TO RATE BASE
 - INCREASE TO TRANSP. RATE
 - APPROPRIATE RATE TREATMENT OF TAKE-OR-PAY PENALTY
- SETTLEMENT NEGOTIATIONS BEGIN 3/30/84
- H. CP76-500*
- REQUEST TO ELIMINATE CERTIFICATE CONDITION ON RAWLINS-HESSTON LINE
 - CONDITION WOULD PENALIZE NWC FOR TRANSPORTING LESS GAS FROM WYOMING.
- I. RP 83-60 (3/8/83)
- KCC PETITION FOR JOINT BOARD
 - 1) TO RESOLVE GAS PURCHASE ISSUES THROUGH FED/STATE COOPERATIVE EFFORT
 - 2) ESTABLISH MECHANISM FOR TRANSITION TO PARTIAL DECONTROL AS PER NGPA
- FERC DENIED REQUEST ON 12/21/83

*CONSOLIDATED INTO ONE CASE: DOCKET No. RP82-114

RP83-85 (5/5/83)

- COMPLAINT BY NWC v. ARKLA
- PROTEST AGAINST ARKLA MINIMUM BILL WHICH OPERATES LIKE TAKE-OR-PAY
- COMPLAINT SEEKS ELIMINATION OR MODIFICATION OF MINIMUM BILL

- KCC SUPPORTS MODIFICATION OR ELIMINATION OF MINIMUM BILL

K. RP81-130

- COMPLAINT BY NWC v. TRANSWESTERN PIPELINE
RE: MINIMUM BILL
- SAME AS ARKLA

- KCC SUPPORTS MODIFICATION OF MINIMUM BILL
- SETTLEMENT WITH FULL RELIEF FOR NWC SUBMITTED TO FERC 8/83

2. NORTHERN NATURAL (INTERNORTH)

A. RP82-71 (7/82)

- CHALLENGE TO PURCHASING PRACTICES OF NORTHERN NATURAL

- KCC WILL FILE TESTIMONY DEMONSTRATING AVAILABILITY OF LOW-COST HUGOTON GAS AND IMPRUDENCE OF N.W. PURCHASING PRACTICES

B. RI-83-9-B

- WHETHER KANSAS AD VALOREM TAX IS PRODUCTION-RELATED, THEREFORE A RATEPAYER RESPONSIBILITY

3. PANHANDLE EASTERN PIPELINE COMPANY

A. RP 82-58

- GENERAL RATE INCREASE
- RATE DESIGN ISSUES
 - 1) ZONE TRANS. AVE.
 - 2) UNITED v. SEABOARD ALLOCATION
 - 3) CUSTOMER BILLING PRACTICES (ABUSE OF MONOPOLY POWER ALLEGATION)
- CREATION OF PANMARK, A GAS/BROKERAGE/MARKETING SUBSIDIARY

- SETTLEMENT ON COST OF SERVICE ISSUES SUBMITTED TO FERC 12/83
- HEARING ON RATE DESIGN ISSUES TO BEGIN 3/26/84.
- KCC WILL TESTIFY ON RATE DESIGN ISSUES

CP74-138

- WHETHER TRUNKLINE/PANHANDLE SHOULD CONTINUE IMPORTS OF ALGERIAN LNG

- IMPORTS SUSPENDED BY TRUNKLINE INDEFINITELY 12/83

4. K-N ENERGY, INC.

A. TA84-1-53 (9/30/83)

- REQUEST PGA INCREASE OF \$4.73 MILLION (19.18¢/Mcf)
- WHETHER INCREASE FROM MID-LA DECISION SHOULD FLOW THROUGH TO RATEPAYERS
- HOW MID-LA DECISION SHOULD BE IMPLEMENTED
- SEVERAL ALLEGED DEFICIENCIES IN FILING

- FERC APPROVED INCREASE SUBJECT TO REFUND (11/29/83)
- KCC PROTESTING MID-LA PASS-THROUGH

5. MISCELLANEOUS

A. RM82-26

- GENERAL INVESTIGATION INTO PROBLEMS IN GAS INDUSTRY

- KCC FILED WRITTEN COMMENTS URGING FERC TO ACT ON TAKE-OR-PAY AND INDEFINITE ESCALATOR CONTRACTS

B. RM83-96

- GENERAL INVESTIGATION
- SHOULD FERC ESTABLISH NATIONAL PRORATION SYSTEM?

- KCC STRONGLY OPPOSED NATIONAL PRORATIONING THROUGH
1) APPEARANCE BY COMMISSIONER DICK
2) WRITTEN COMMENTS

C. RM84-

- GENERAL INVESTIGATION INTO PROPER IMPLEMENTATION OF MID-LA DECISION

B. CTRIC

1. KGE

A. ER83-628 (7/15/93)

- GENERAL RATE INCREASE
- WOLF CREEK CWIP
- APPROPRIATE BILLING DETERMINANTS

B. ER82-257* (1/29/82)

ER82-412* (3/30/82)

- PROPER TREATMENT OF KEPCO AS A CUSTOMER
- GENERAL RATE INCREASE
- APPROPRIATE BILLING DETERMINANTS
- RATE DESIGN

- THESE CASES HAVE BEEN SETTLED
- REFUND \$171,000.00

2. KPL

ER83-418 (3/29/83)

- GENERAL RATE INCREASE (APPROX. \$9 MILLION)
- APPROPRIATE BILLING DETERMINANTS
- RATE DESIGN

- KCC HAS FILED TESTIMONY RE: RATE DESIGN ISSUE

3. MISCELLANEOUS

RM80-26

- GENERAL INVESTIGATION
- SHOULD ELECTRIC UTILITIES BE ALLOWED CWIP IN WHOLESALE RATE BASE
- FERC HAS APPROVED PARTIAL ALLOWANCE OF CWIP IN RATEBASE

- KCC HAS JOINED IN APPEAL OF FERC DECISION

*CONSOLIDATED