

MINUTES OF THE SENATE COMMITTEE ON TRANSPORTATION AND UTILITIES

The meeting was called to order by SENATOR ROBERT V. TALKINGTON at
Chairperson

9:00 a.m./p.m. on Thursday, March 1, 1984 in room 254-E of the Capitol.

All members were present except:

Senator Hein

Committee staff present:

Fred Carman, Ben Barrett, Rosalie Black

Conferees appearing before the committee:

SB 772 - Tom Hatten and Wayne Elmore; Dept. of Revenue; Steve Montgomery, KS Oil Marketers;

SB 773 - Bill Perdue, The Gas Service Co. and KP & L; Louis Stroup, KS Municipal Utilities; Don Low, KCC; Don Schnacke, KS Independent Oil and Gas Association; Ray Barmby, Fairfax Gas Co.; Wendall Putman, KS Pipeline Co.; Robert Anderson, Phillips Petroleum Co.; Blake McGuire, Sunflower Electric Cooperative; Larry Landrith, Coleman Company

The meeting was called to order by Senator Talkington, Chairman, to discuss SB 772 and SB 773.

SENATE BILL 772 - HEARING

Steve Montgomery explained that SB 772 increases the time limits for tax refund claims filed by distributors in the event of catastrophic losses of fuel. He asked that the Department of Revenue allow 60 days for reporting fuel losses rather than the current 10 days. (See Attachment 1.)

Tom Hatten and Wayne Elmore said the Department of Revenue approves extending reporting of fuel losses from 10 days to 60 days and the concept of modernizing existing provisions regarding the proof required of users when filing refunds for gasoline taxes.

SENATE BILL 773 - HEARING

Bill Perdue testified in support of SB 773 which would provide exclusive territorial rights for natural gas suppliers. He added that because the utility is required to serve the customer in modest homes using natural gas only for small heating appliances during winter months, the utility also should be certain it can serve the large industrial customers which use natural gas during the summer. (See Attachment 2.)

An amendment was offered by Louis Stroup regarding termination of service

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON TRANSPORTATION AND UTILITIES,
room 254-E, Statehouse, at 9:00 a.m./p.m. on March 1, 1983.

SENATE BILL 773 - HEARING (con't)

rights in annexed areas; certification to existing supplier or franchise holder. (See Attachment 3.)

Don Low indicated that while the KCC is not supporting SB 773, duplication of facilities is not in the public's best interest. He added that the commission prefers its decisions regarding natural gas suppliers to be on a case by case basis rather than through legislation.

Don Schnacke, Ray Barmby, Wendall Putman, Larry Landrith, Robert Anderson and Blake McGuire opposed SB 773 because the bill grants an exclusive, guaranteed monopoly forever to existing utilities in their assigned service areas, and is totally anti-competitive; it puts natural gas producers and all Kansas users of natural gas completely at the mercy of their state assigned exclusive retail supplier; Kansas producers will be limited in their ability to sell natural gas for use in Kansas; and in the case of industrial users, companies that are continuing to wrestle with a tough economic situation will have missed an opportunity for lower cost Kansas gas. (See Attachment 4.)

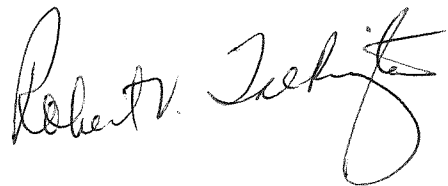
The committee received written testimony from Bob Storey representing Union Gas in support of SB 773. (See Attachment 5.)

SENATE BILL 688 - ACTION

Senator Kerr moved to amend SB 688 by striking language in Lines 20 and 21 to the word "any" and to conceptually adopt the amendment recommended by DOT to involve custom combines; seconded by Senator Meyers. The motion carried.

Senator Johnston moved that SB 688 be reported favorable for passage as amended; seconded by Senator Rehorn and passed.

The meeting adjourned at 9:55 a.m.



Please PRINT Name, Address, the organization you represent, and the Number of the Bill in which you are interested. Thank you.

3-1-84

NAME	ADDRESS	ORGANIZATION	BILL NO.
Steve McGowan	Topeka	KOMA	772
Charles Nicolay	Topeka	KOMA	772
Ray Miller	Atchison	Midwest Solvents	773
Subote Francis	Dorday		773
Wayne Elmore	Topeka	Revenue	772
Tom Hatten	TOPEKA	REV	772
Don Low	"	KCC	773
BILL DERDVE	"	KPL / GAS SERVICE	773
Louie Stroup Jr.	McPherson	KMU	773
Harold Shoop	Topeka	KEC	773
BLAKE MCGUIRE	HAYS	SUNFLOWER ELECTRIC	773
MARK CALCARA	GREAT BEND	NATURAL GAS SALES	773
GERALD BIEKER	HAYS	NATURAL GAS SALES CO	773
Robert C. Carls		Mid Cont Oil & Gas	
TREVA POTTER	TOPEKA	NORTHERN NAT. GAS	773
STEVE GUSTISON	LAWRENCE	Independent Oil Producer	773
Richard E. Byrd	@Hawa.		773
Joe Hodges	TULSA	CITIES SERVICE OIL & GAS CORP.	773
Nancy Kantola	Topeka	Kansas Co-op Council	772 & 773
WALTER DUNN	✓	EKOGA	773
BILL BRUNKEP	KCK.	OWENS CORNING FIBERGLAS	773
THOMAS SPEHAR	K.C.K.	"	773
Mrs Stucky	KCK	Chamber of Commerce	773
Larry Landrith	Exeter Co.	Wichita	773
PAT PATTON	K.C., KAN	KANSAS PIPELINE Co	773

Please PRINT Name, Address, the organization you represent, and the Number of the Bill in which you are interested. Thank you.

3-1-84

NAME	ADDRESS	ORGANIZATION	BILL NO.
MARK MAYFIELD	Kansas City	FARM LAND TRD.	773
James P. Zapawa	Kansas City	Wells, Thomas	773
RAY BARNBY	KANSAS CITY	FAIRFAX GAS Co	773
Pete McGill	Topeka	FAIRFAX GAS Co KANSAS PIPELINE Co	773
WENDELL PUTMAN	KANSAS CITY	KANSAS PIPELINE Co	773
Field Smith	Wichita	Slawson	773
DICK COMPTON	HAYS	MIDWEST ENERGY INC	773

TO: Senate Committee on Transportation
FROM: Steven C. Montgomery, Kansas Oil Marketers Association (KOMA)
RE: Testimony in Support of Senate Bill No. 772
DATE: March 1, 1984

Senate Bill No. 772 amends K.S.A. 79-3417, 79-3453 and 79-3456 of the Kansas Motor Fuel Tax Law. The bill amends these provisions pertaining to certain aspects of refund claims for motor fuel (gasoline) taxes and has two purposes:

1. Increase the time limits for tax refund claims filed by distributors in the event of catastrophic losses of fuel (Section 1); and
2. Modernize existing provisions regarding the proof required of users when filing refunds for motor fuel (gasoline) taxes when purchased from card and key pumps.

1. Refunds for Catastrophic Losses.

Whenever gasoline in the possession of a distributor on which the tax has been paid, is destroyed due to one of the causes listed in K.S.A. 79-3417, the distributor is entitled to a refund of the tax paid if:

1. the quantity of the loss is 100 gallons or more;
2. the distributor notifies the director of taxation of the loss within 10 days of the loss; and
3. Within 30 days after notifying the director of the loss, the distributor files an affidavit with the director on a form furnished by the director.

The amendment proposed in lines 31-32 of S.B. 772 increases the time limit imposed upon the distributor for notifying the director of the loss from 10

days to 60 days (step #2 above). In the event of a catastrophic loss, the distributor generally has many important concerns other than claiming a refund for motor fuel tax. Such concerns range from settling losses with insurance companies to reopening the business following the fire, explosion, flood etc. Often the distributor does not even realize that the time limit for these particular types of refunds differs from the time limits for other refunds of fuel tax (e.g., 1 year for off-road refunds in K.S.A. 79-3458.) When claims are filed after the deadline, the Department of Revenue denies the claim and the legislature usually must consider the matter when a claim is filed before the Claims Committee. The amendment proposed in Section 1 offers a more realistic and equitable approach to the handling of refunds for catastrophic losses.

2. Refunds for Card and Key Pump Purchases.

The use of card and key pumps is increasing throughout the state and the United States. It allows the user the flexibility to make fuel purchases at any time, rather than being restricted to hours when employees are on duty. These devices also allow the distributor to dispense fuel during hours which employees are not on duty. The card or key pump works in a manor similar to automated bank tellers. Each user has a card or a key which activates the fuel pump. At the end of the billing period, a statement of disbursements is sent to the user. The statement is similar to other credit card statements in that debits are shown for purchases and credits are shown for payments received during the billing period.

The card/key pump however, is a fairly recent technology and was not envisioned at the time the Kansas Motor Fuel Tax Laws were drafted. Such an omission creates problems with respect to claims for off-road gasoline tax refunds when the purchases are made from card/key pumps. In order to obtain tax refunds, each purchase should equal or exceed 40 gallons (K.S.A. 79-3453). However the statutory language has never been crystal clear. The amendment in Section 2 would clarify this requirement.

At the time a user submits a claim for refund, the user must attach invoices which demonstrate that the fuel tax has been paid. (K.S.A. 79-3456) However, the procedure outlined in the statute contemplates only the use of manually completed invoices. The amendments contained in Section 3 of S.B. 772 insert language controlling the invoices submitted by automated procedures, which procedures are approved by the director of taxation. In meetings with the Department of Revenue prior to the request for this legislation, the Department indicated support for legislation which would provide specifically for automated procedures, thereby recognizing this growing technology. The language in lines 102-108 contemplates that invoices would be completed in duplicate at the end of each billing period, with the user receiving the original and the distributor retaining a copy. When the user remits for the purchases, the subsequent invoice shall show the amount paid. When filing for a refund, the user will present the first invoice showing the purchase and the subsequent invoice showing the payments made. The claim form drafted by the Department of Revenue could contain an affidavit which clearly states that each separate purchase equals or exceeds 40 gallons.

The amendments contained in Sections 2 and 3 of S.B. 772 will update the statutory language to clearly allow for card/key purchases and may prove to curb some refund abuses of the Kansas Motor Fuel Tax Laws.

TESTIMONY OF WILLIAM L. PERDUE
ON BEHALF OF THE KANSAS POWER AND LIGHT COMPANY
AND THE GAS SERVICE COMPANY

HEARINGS ON SENATE BILL 773 BEFORE
SENATE TRANSPORTATION AND UTILITIES COMMITTEE

MARCH 1, 1984

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

I APPEAR HERE TODAY ON BEHALF OF BOTH THE KANSAS POWER AND LIGHT COMPANY AND GAS SERVICE COMPANY IN SUPPORT OF SB 773, WHICH WOULD PROVIDE EXCLUSIVE TERRITORIAL RIGHTS FOR NATURAL GAS SUPPLIERS, AND WOULD MINIMIZE THE COST OF SERVICE THAT MUST BE PAID BY THEIR CUSTOMERS.

THE ROLE OF A UTILITY, AS YOU ALL KNOW, IS A VERY COMPLEX AND DEMANDING ONE. WHEN A UTILITY IS CERTIFIED TO SERVE A GIVEN AREA OF KANSAS, BE IT ONE SMALL COMMUNITY OR A VAST AREA OF OUR STATE, THAT UTILITY IS CHARGED WITH ASSUMING WHAT IS KNOWN AS "UTILITY RESPONSIBILITY." IN OTHER WORDS, THE UTILITY MUST PROVIDE ITS SERVICE, OR SERVICES, TO ANY AND ALL CUSTOMERS IN THAT CERTIFIED AREA WHO DESIRE TO RECEIVE THE SERVICE. AND, THAT MEANS ALL CUSTOMERS, FROM THE SMALLEST RESIDENTIAL USER TO THE LARGEST INDUSTRIAL CUSTOMER.

BUT, IF THE UTILITY IS CHARGED WITH SERVING EVERY CITIZEN, EVERY BUSINESS, EVERY INDUSTRY, IN THAT AREA, NO MATTER HOW COSTLY OR UNPROFITABLE PROVIDING THAT SERVICE MAY BE, THEN THE UTILITY ALSO SHOULD BE ASSURED IT WILL BE ALLOWED TO SERVE ALL THE CUSTOMERS IN THE AREA. BECAUSE THE UTILITY IS REQUIRED TO SERVE

THE CUSTOMER IN THE MODEST HOME WHO USES NATURAL GAS ONLY FOR SMALL HEATING APPLIANCES DURING THE WINTER MONTHS, THE UTILITY ALSO SHOULD BE CERTAIN IT CAN SERVE THE LARGE INDUSTRIAL CUSTOMERS WHICH USE NATURAL GAS DURING THE SUMMER.

LET ME EXPLAIN WHY THAT IS IMPORTANT. WHEN A UTILITY BEGINS SERVICE INTO AN AREA, IT MUST UNDERTAKE CERTAIN RESPONSIBILITIES. THE UTILITY MUST SECURE ENOUGH NATURAL GAS TO MEET ALL THE NEEDS OF ALL ITS CUSTOMERS, WHENEVER THEY WANT SERVICE. IT MUST BUILD THE MILES AND MILES OF PIPELINE NECESSARY TO PROVIDE THAT SERVICE, AND IT MUST INSTALL ALL THE EQUIPMENT NECESSARY TO MOVE THE GAS THROUGH THOSE PIPELINES AND INTO THE HOMES AND OFFICES AND FACTORIES IN THE AREA.

ALL OF THE COSTS OF CONSTRUCTION, OPERATION AND MAINTENANCE OF THE ENTIRE SYSTEM EXIST, WHETHER THE SYSTEM SERVES ONLY SMALL RESIDENTIAL USERS, OR WHETHER THE SYSTEM ALSO IS CONNECTED TO THE LARGE INDUSTRIAL CUSTOMERS.

ULTIMATELY, THE CUSTOMERS OF THE UTILITY MUST PAY FOR ALL OF THE COSTS OF OPERATING THE SYSTEM. THE FIXED COSTS REMAIN SUBSTANTIALLY THE SAME, REGARDLESS OF THE TYPE OR NUMBER OF CUSTOMERS SERVED.

RESIDENTIAL CUSTOMERS USE MOST OF THEIR NATURAL GAS DURING THE WINTER HEATING SEASON, BUT DURING THE REST OF THE YEAR THE OPERATING AND MAINTENANCE COSTS OF THE SYSTEM CONTINUE. CONVERSELY, MOST LARGE INDUSTRIAL CUSTOMERS MAKE USE OF THE SYSTEM ON A FAIRLY CONSISTENT LEVEL THROUGHOUT THE YEAR.

BECAUSE NATURAL GAS SERVICE RATES, INCLUDING THE COSTS OF OPERATING THE SYSTEM, ARE BASED ON THE AMOUNT OF GAS USED, IF A

UTILITY SERVED ONLY SMALL RESIDENTIAL USERS, THE COST OF SERVICE WOULD BE SO HIGH FEW CUSTOMERS COULD AFFORD TO PAY FOR IT. BUT, IF A UTILITY ALSO SERVES ALL THE LARGE INDUSTRIAL USERS, IT REDUCES THE SHARE OF THE FIXED COSTS WHICH MUST BE BORNE BY THE RESIDENTIAL USER, AND ACTUALLY REDUCES THE RESIDENTIAL USER'S BILL.

UNDER CURRENT LAW IN KANSAS, IT MAY BE POSSIBLE FOR OTHER UTILITIES OR NON-UTILITIES TO COME INTO AN AREA AND, ON A SELECTIVE BASIS, ATTEMPT TO PIRATE AWAY THE LARGE INDUSTRIAL CUSTOMERS WHOSE USE OF GAS DURING THE SUMMER MAKES POSSIBLE THE FACILITIES THAT ARE NEEDED TO SERVE RESIDENTIAL CUSTOMERS DURING THE HEATING MONTHS AT A REASONABLE PRICE.

WE REALIZE THAT EVEN THOUGH NATURAL GAS RATES IN KANSAS ARE AMONG THE LOWEST IN THE UNITED STATES, MANY OF OUR CUSTOMERS STILL BELIEVE THEY ARE PAYING TOO MUCH FOR GAS SERVICE. BUT, IF OTHERS WITHOUT UTILITY RESPONSIBILITY ARE ALLOWED TO SELECTIVELY PIRATE AWAY THE INDUSTRIAL CUSTOMERS, LEAVING THE CERTIFIED UTILITIES WITH THE RESPONSIBILITY OF SERVING ONLY LESS PROFITABLE CUSTOMERS, THEN THE RATES WE WOULD BE FORCED TO CHARGE TO PROVIDE NATURAL GAS TO HOMES THROUGHOUT KANSAS WOULD INCREASE DRAMATICALLY.

WITHOUT THE BENEFITS CREATED THROUGH PROVIDING SERVICE TO LARGE INDUSTRIAL USERS, NATURAL GAS UTILITY RATES WOULD INCREASE BEYOND THE REACH OF MANY KANSANS.

SB 773 IS NOT A NEW IDEA. THE 1976 SESSION OF THE KANSAS LEGISLATURE, IN ITS WISDOM, PASSED AN ALMOST IDENTICAL BILL PERTAINING TO ELECTRIC POWER SUPPLIERS. THAT BILL, AS ENACTED, IS NOW KSA 66-1170.

I BELIEVE ALL KANSAS ELECTRIC UTILITIES WILL AGREE THIS LAW

HAS WORKED WELL TO THE BENEFIT OF ALL POWER SUPPLIERS, BUT, MORE IMPORTANTLY, TO THE BENEFIT OF THE ELECTRIC CUSTOMERS IN KANSAS.

THERE ARE VERY REAL AND PRESSING REASONS FOR CHARGING NATURAL GAS SUPPLIERS WITH UTILITY RESPONSIBILITY. BUT, IF OTHERS ARE ALLOWED TO GO UP AND DOWN THE STREETS OF THE CITIES WE SERVE, PICKING OFF THE PLUMS AS THEY GO, THAT CAN ONLY RESULT IN HIGHER GAS RATES FOR KANSANS, THEN INTRODUCE LEGISLATION THAT WILL RELEASE KANSAS' GAS UTILITIES FROM UTILITY RESPONSIBILITY, TOO.

I URGE YOU TO REPORT SB 773 FAVORABLE FOR PASSAGE.

0178 Sec. 8. K.S.A. 66-131a is hereby amended to read as follows:
0179 66-131a. Every municipally owned or operated electric or gas
0180 utility, and every electric or gas utility operating wholly and
0181 solely within the legal boundaries of any municipality and
0182 within three (3) miles of any municipal boundary, shall be
0183 deemed a "public utility" as defined in K.S.A. 66-104 and
0184 amendments thereto, and sections 1 to 5, inclusive, and amend-
0185 ments thereto for the purposes therein stated and, for the pur-
0186 pose of filing tariffs and rules and regulations restricting con-
0187 nections or attachments to their systems of residential,
0188 commercial or industrial structures with respect to such heat loss
0189 standards and energy efficiency ratios for air-conditioners and
0190 heat pumps as the state corporation commission shall from time
0191 to time adopt.

New Sec. 9. Termination of service rights in annexed areas; certification to existing supplier or franchise holder. All rights of a natural gas supplier to provide natural gas service in an area annexed by a city shall terminate one hundred eighty (180) days from the date of annexation, unless said gas supplier is then holding a valid franchise for services in said area granted by the annexing city. Said period of one hundred eighty (180) days shall be extended to two hundred ten (210) days from the date of annexation if a franchise is granted to said natural gas supplier pursuant to referendum conducted according to applicable franchise laws of the state of Kansas within said period of two hundred ten (210) days. In the event service rights are terminated pursuant to this section, the commission shall certify such annexed area as a single certified territory to the supplier holding a franchise for or then providing natural gas service in the city immediately prior to the annexation.

New Sec. 10.

0192 ~~Sec. 9.~~ K.S.A. 66-104, 66-131 and 66-131a are hereby re-
0193 pealed.

New Sec. 11.

0194 Sec. 10. This act shall take effect and be in force from and
0195 after its publication in the statute book.



KANSAS INDEPENDENT OIL & GAS ASSOCIATION

500 BROADWAY PLAZA • WICHITA, KANSAS 67202 • (316) 263-7297

TO: Senate Transportation and Utilities Committee

RE: SB 773
Certified Territories
for Natural Gas Sales
Hearing 3/1/84

We are appearing in opposition to SB 773 for a number of reasons:

- 1) We many times appear on bills that proposed what we believe the KCC has authority to do presently. In my review of KCC statutes I find no prohibition of the KCC to establish territories within which natural gas suppliers would have the exclusive right to furnish gas service to all customers within that certified territory, if the KCC felt it was in the public interest to do so.
- 2) We are concerned about the future markets for Kansas natural gas. Although Kansas is 5th in the nation as a producer of natural gas, we continue to sell our gas at the lowest price in the nation. (Average inter-state sales in Kansas is at \$1.15/mcf - the next is Texas at \$2.47/mcf - See DOE/EIA report attached). SB 773 would only compound the problem if not make it impossible to market cheap Kansas gas to Kansas markets. The seller could only deal exclusively with the certificated utility.
- 3) The plight of the Kansas natural gas producer -- particularly the intra-state producer, is compounded by the highest production taxes in the nation (7% in Oklahoma vs. at least 14% in Kansas and higher) and with price and contract prohibitions imposed by the 1979 & 1983 legislatures. Shutting out the opportunity for Kansas gas producers who may have un-dedicated or shut-in gas, or newly discovered gas for sale to a Kansas market, at a competitive price, only compounds the problems to this class of Kansas natural gas producers. Again, the result is he can only sell exclusively to the certificated utility.
- 4) The natural gas industry is continually changing. The market before 1978 was tight. The NGPA of 1978 loosened the market and produced an abundance of gas. The worldwide recession has caused a temporary surplus. Congress is seriously considering the de-control of natural gas and let the market forces work.

- 5) The Congress in its deliberations in both the House Commerce and Energy Committee and the Senate Energy Committee, and on the Senate floor, as late as last November, have proposed schemes of broadening, not limiting, the natural gas market potentiality, rather than continue the present near monopoly that a few pipelines enjoy in delivering natural gas. They have proposed a new scheme entitled "contract carriage of natural gas" in making available the access to the pipelines by producers and the end-users in the open marketplace. 40% of the House bill and 25% of the Senate-Administration bill is dedicated to contract carriage provisions. SB 773 would be a prohibition to the spirit of contract carriage, if local distributions are not covered. SB 773 is a proposal that would move Kansas and this industry in the opposite direction and against the tide of probably what is going to happen by action of the Congress.

One last comment, and this arose from a member of your Committee, concerning the effect of a competitive sale, that to a customer where the existing utility may complain it is burdened by take-or-pay provisions.

One purpose of contract carriage is to open the marketplace and force competition and lower prices. Take-or-pay provisions exist in a very low percentage of all contracts. Many are being re-negotiated downward now. Refunds to consumers are being paid as a result. A utility simply would be forced to re-negotiate downward those contracts it felt were placing them in a non-competitive atmosphere. Producers have to go along -- as the pipeline in many areas is the only one to sell their gas.

Donald P. Schnacke

The interstate natural gas sales levels for the 10 largest gas producing States are provided in Table 4. States whose revenues would benefit from decontrol in the interstate market are Texas, New Mexico, and Kansas. Those States with significant levels of high-cost gas, such as Oklahoma, Wyoming, and Mississippi (with this category of gas representing 15, 30, and 52 percent of the gas produced in their respective States) would be affected by the falling price levels. Not only might such a situation portend a decrease in natural gas production in these States, but might also result in a decrease in exploration and development activity and loss of valuable tax revenues.

Table 4. Interstate Sales Levels for the 10 Largest Producing States: Projected Quantities and Price Levels for Late 1982 to Early 1983^a
(Quantities in Billion Cubic Feet, Prices in Dollars per Mcf)

State Name	Old Gas ^b		New Gas ^c		High-Cost Gas ^d		Miscellaneous ^e		Total	
	Sales Quantity	Average Price	Sales Quantity	Average Price	Sales Quantity	Average Price	Sales Quantity	Average Price	Sales Quantity	Average Price
Louisiana	2,717	1.53	1,627	3.26	328	8.08	36	2.55	4,709	2.60
Texas	1,239	1.27	1,089	3.37	117	6.53	22	4.38	2,468	2.47
New Mexico	421	1.36	407	3.43	49	5.93	f	NA	876	2.57
Oklahoma	230	1.02	352	3.24	105	8.23	19	3.34	706	3.27
Kansas	256	0.73	50	2.90	4	5.33	2	2.65	313	1.15
Wyoming	87	1.21	113	3.59	88	6.49	1	3.36	288	3.72
Colorado	41	1.62	87	3.23	23	5.89	3	2.27	155	3.17
Mississippi	21	1.76	38	3.35	86	6.83	3	3.08	148	5.14
West Virginia	28	1.03	77	3.16	12	6.09	f	NA	117	2.96
Pennsylvania	3	1.46	42	3.01	12	5.52	f	NA	58	3.43
All Others States ^g	93	1.18	204	3.30	81	6.31	5	1.45	383	3.20
Total Projected Sales ^h	5,136	1.38	4,087	3.31	907	7.22	91	3.19	10,221	2.69

^aIncludes only data for PGA filings with an effective date falling between July 1, 1982, and December 31, 1982.

^bOld gas includes natural gas reported under NGPA categories 104 and 106.

^cNew gas includes natural gas reported under NGPA categories 102, 103, 108, and 109.

^dHigh-cost includes natural gas reported under NGPA category 107.

^eMiscellaneous includes natural gas reported under NGPA section 105 and gas not identified as to NGPA category.

^fNo data reported.

^gIncludes Alabama, Arkansas, Arizona, Florida, Illinois, Indiana, Kentucky, Maryland, Missouri, Montana, Nebraska, Nevada, New York, Ohio, Tennessee, Utah, Virginia, and unidentified sources of gas.

^hTotals may not sum due to independent rounding.

NA - Not applicable.

Note: California and Michigan are not represented because natural gas from these States does not enter the interstate market.

Source: Purchased Gas Adjustment (PGA) filings of the 20 major interstate natural gas pipeline companies with the Federal Energy Regulatory Commission (FERC). See Appendix B for details.

Interstate production constitutes the majority of sales in many States (see Table 5). These States will, of course, be affected by altered market conditions under decontrol.

TESTIMONY

of

RAY BARMBY

CHAIRMAN OF THE BOARD

FAIRFAX GAS COMPANY

on

Senate Bill No. 773

Transportation and Utilities Committee

March 1, 1984

My name is Ray Barmby, and I am Chairman of the Board of Directors of Fairfax Gas Company located in Kansas City, Kansas. Fairfax Gas Company has been in operation for approximately four months, has spent several thousand dollars on sales, engineering and surveying activities, and plans to spend additional sums in 1984 to install the necessary delivery systems for natural gas distribution and sales. Several million feet of Kansas natural gas has been contracted for purchase by FGC that will be delivered to Kansas customers.

The Bill grants an exclusive, guaranteed monopoly forever to existing utilities in their assigned service areas, and is totally anti-competitive. Senate Bill No. 773 puts natural gas producers and all Kansas users of natural gas completely at the mercy of their State assigned "exclusive" retail supplier. Kansas producers will be limited in their ability to sell natural gas for use in Kansas.

The adoption of this Bill would send a clear, negative signal to those companies which are looking at either expanding or locating plants in Kansas. This Bill says straight out, you'll pay what your State assigned supplier charges you for gas, or you'll buy no gas in Kansas. This Bill says straight out that Kansas will not allow competitive forces to work and companies will not be allowed to make energy arrangements that could reduce their natural gas costs.

Enactment of Senate Bill No. 773 eliminates totally new and expanded markets for Kansas producers of natural gas. Enactment of this Bill says to producers, you sell your gas to the "exclusive" suppliers at the price they're willing to pay, or you leave the natural gas in the ground, because the State won't allow you to sell to other potential marketers or directly to end users. Poten-

tially important markets are lost to natural gas producers, who have already experienced difficult markets in recent years that have led to shut-in gas and lagging gas development.

Further, if Senate Bill No. 773 is adopted, it will put Kansas singularly apart from, or at the very least, dramatically in conflict with the rest of the United States in natural gas policy. All over the United States, the states and federal government are encouraging competitive forces to impact on the development, transportation, and sale of natural gas. In Kansas, the guaranteed total monopoly provided for in this Bill kills forever all free market forces.

As proponents of the Bill argue, the Bill does eliminate disputes among suppliers -- by eliminating all competitors but one monopolist. This approach serves to kill all competitive negotiations between suppliers and purchasers as well. There will be no such thing as a negotiated price for natural gas in Kansas. At a time when all Kansans are struggling with issues related to expensive electricity, this Committee should not tell Kansans that they are to be at the mercy of an "exclusive" supplier of natural gas.

I respectfully request this Committee kill Senate Bill No. 773, in recognition that such monopolistic practices are not in the best interests of the citizens of Kansas. Fairfax Gas Company asks no preferential treatment, only the right to compete, and attempt to bring lower price gas to Kansans.

Testimony
on
SENATE BILL NO. 773
TRANSPORTATION AND UTILITIES COMMITTEE

Wendell Putman
President
Kansas Pipeline Company
March 1, 1984

My name is Wendell Putman. I am President of Kansas Pipeline Company of Kansas City, Kansas. My company is in the process of purchasing pipelines in the eastern third of Kansas with the express intent of entering the natural gas business. We will provide an immediate outlet for Kansas natural gas that is either shut in or undeveloped along the pipeline route, we will transport the commodity and we will market to either local distribution companies or to natural gas users. In developing this project and in preparing for safe and efficient operation, we have expended in excess of a half million dollars and are scheduled to expend several million dollars in the near future to begin operations.

By way of background, when Phillips Petroleum Company closed its refinery in Kansas City, Kansas, it placed the affiliated pipelines for sale through an open public bid solicitation. Kansas Pipeline Company was selected as winning bidder on a portion of the lines in eastern Kansas. The remaining Phillips lines in Kansas were purchased by other companies, opening new natural gas markets for producers and purchasers in the entire Eastern half of the State of Kansas.

As an active buyer of natural gas, Kansas Pipeline Company will cause Kansas gas that is now shut in for lack of market to be produced. Our active natural gas buying activities will also prompt Kansans to drill for and produce Kansas gas that otherwise would remain untapped.

Efficient, low-cost transportation through our intra-state pipeline will provide natural gas to local distribution companies and to natural gas users at prices lower than presently available. Thus, Kansas gas will be used to benefit Kansas users.

Every business is dependent upon its ability to market a product; when market alternatives are eliminated, or become highly restricted, the business cannot survive. A business being developed cannot develop.

Senate Bill No. 773, however, is far more wide-reaching than just preventing one company from operating a business.

1. First, natural gas producers in Kansas that have shut-in gas will have missed an opportunity for a market.

2. Second, natural gas consumers in Kansas, whether residential, commercial, or industrial, will have missed an opportunity for a competitive supply of natural gas.

3. Third, and in the case of industrial users, companies that are continuing to wrestle with a tough economic situation will have missed an opportunity for lower-cost Kansas gas. Existing jobs can be in jeopardy and employers can be slower to return layed-off workers to the work force.

4. In the final analysis, the state of Kansas loses in a big way.

Kansas will lose severance tax because Kansas gas cannot develop to its potential if market alternatives are restricted. Kansas will lose jobs: some in the natural gas industry with ongoing market-imposed restrictions on drilling and production; some in industries that depend upon natural gas and are influenced by its cost.

And Kansas will lose industries, existing and new. Economic development in Kansas will be slowed. To say to commercial and industrial users of natural gas that they will not, at any time in the future, be able to purchase natural gas from competing suppliers

will stifle growth. Industries will read Senate Bill No. 773 to say that Kansas will place them for all time, at the mercy of a single, state assigned supplier. Many of these same commercial and industrial users have multiple gas suppliers in facilities outside of Kansas, and fully appreciate the benefits of a competitive natural gas supply.

As they look for opportunities to expand the multiple supplier concept, they will be forced to look to neighboring states for plant locations. Companies with operations in several states will have a clear cut choice of where to look when it becomes necessary to close a facility. This means loss of jobs in Kansas, loss of economic strength, and loss of tax revenues.

With a long history of oil and gas production in Kansas, the state is characterized by a large number of existing pipelines in place. These pipelines are valuable resources to Kansas and can play an important role in further development of Kansas natural gas reserves. With unrealistic restrictions by the State of Kansas with respect to developing natural gas reserves and selling at retail in Kansas, unused pipelines will likely remain empty in the ground, and of no economic value. Notice should be taken that the Kansas Corporation Commission, in its most recent Gas Service Company Decision, found that Gas Service Company did not even bid on the Phillips lines in Kansas.

Separately a large amount of Kansas farm and ranch land is irrigated. Senate Bill No. 773 would act to greatly restrict the right of irrigators to purchase at retail localized supplies of gas for irrigation needs.

The State of Kansas should not be in the position of saying on behalf of existing natural gas utilities that such companies are forever guaranteed the exclusive right to sell natural gas at retail in specified parts of Kansas. Competition has always been the manner this country has chosen as the best route to provide the highest quality products at the lowest prices. Senate Bill No. 773 hurts all segments of Kansas life, except those natural gas utilities that would be granted monopoly status.

Senate Bill No. 773 is bad for Kansas. Kansas Pipeline Company wants to be on record as being opposed to the proposed Bill and asks that the Transportation and Utilities Committee reject the measure as one not worthy of consideration by the Kansas Senate.

February 29, 1984

Robert A. Anderson
P.O. Box 7
Lawyers Bldg.
Ottawa, Ks. 66067

Dear Bob:

Phillips Petroleum Company opposes SB 773. The bill creates geographical business monopolies. We do not believe monopolies are in the best interest of the Kansas consumer. Restricting free market systems only invites abuses of power and further need for regulatory control.

To illustrate this point, let me briefly describe a current example of how this bill could be detrimental. The closing of Phillips' Kansas City Refinery in the Fall of 1982, also eliminated the need for our crude oil pipeline going into the Kansas City area and a small gas gathering network in eastern Kansas. For quite some time the company has been trying to sell the pipeline system. We have had a number of offers. As a result, we are presently closing the sale with a group of business entrepreneurs that plan to convert the crude oil pipeline into a gas transmission line.

I don't know the details but obviously this group believes it can provide a natural gas source into the Kansas City area with a competitive edge. The added ability to transmit this gas provides many economic alternatives and opportunities for potential customers in the Kansas City area as well as potential sellers of shut-in gas along the pipeline's corridor. The result is a healthy new market potential that did not exist previously.

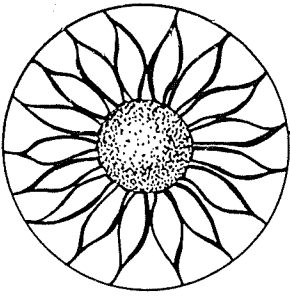
SB 773 would effectively prevent such creative business opportunities. That's not good for Kansas and certainly not good for your constituents.

I hope this information is useful. Express it to others, if appropriate. I apologize for not being able to attend this committee meeting.

Sincerely,

Sr. State Affairs Rep.
Phillips Petroleum Co.

WFD/cc



SUNFLOWER ELECTRIC COOPERATIVE, INC.

P.O. Box 980 • Hays State Bank Building • Hays, Kansas 67601 • (913) 628-2845

March 1, 1984

Re: Senate House Bill No. 773

Gentlemen:

On behalf of Sunflower Electric Cooperative, Inc., a user of natural gas, and The Natural Gas Sales Company, Inc., a subsidiary of Sunflower Electric Cooperative, Inc., and a supplier of natural gas, we would like to respond to House Bill No. 773. In review of the legislative proposal, it appears from our perspective quite ironic that the end results of this bill will be contrary to accomplishments sought and the purposes stated. Implicit in the stated public policy is an effort by the legislature to provide natural gas to the ultimate user at the most economic price. This is to be accomplished by insuring there is not unnecessary duplication of existing gas service facilities. However, in our estimation, the legislation will result in just the opposite.

One of the major industries in the State of Kansas is the exploration and development of gas reserves. As a result, every effort should be made to encourage its development and growth to the benefit of the land and royalty owner, the ultimate end user and all those who handle the traffic of such gas in between.

The passage of the proposed senate bill will result in providing the present natural gas suppliers exclusive control over the sale of all natural gas to be produced and redelivered within the state.

With certificated suppliers eliminating or denying access to markets, the oil and gas industry will cease discovery of one of our vital resources and prices will rise due to a lack of supply. In the alternative, producers will sell one of Kansas' least expensive resources outside the state for the benefit of others. Forced sales of gas outside the State of Kansas no doubt will definitely place producers at a negotiating disadvantage with outside concerns. A producer faced with no in-state market will be compelled to either capitulate on price to outside buyers or shut in its wells until markets improve. Neither is an acceptable alternative.

If our understanding of the bill is correct, a noncertificated gas supplier will be able to sell to a certificated supplier, who then in turn will make the sale to the ultimate consumer. Such a system will increase the number of middlemen, and thereby increase the cost of gas to the ultimate consumer. Prices will be dictated by those who have the certificate, thus supressing the selling price of gas to the landowner and producer, and increasing the purchase price to the ultimate user.

Hopefully, this esteemed body will reconsider the legislative proposal and the serious consequences which will result. From our view point, the bill attempts to remedy one problem, and in the process creates three more, all of which is to the detriment of the general public.

Respectively submitted,

SUNFLOWER ELECTRIC COOPERATIVE, INC.
and THE NATURAL GAS SALES COMPANY, INC.

SUNFLOWER ELECTRIC COOPERATIVE, INC., P.O. BOX 980, HAYS, KANSAS 67601

March 1, 1984

Senate Transportation and Utilities Committee
State House
Topeka, Kansas 66612

Mr. Chairman:
Members of the Committee:

I am Bill Abbott, Public Affairs Manager for the Boeing Military Airplane Co. in Wichita.

I am appearing today in opposition to S.B. 773.

Boeing is one of seven companies that own the Kansas Industrial Energy Supply Company. This is an association of corporate gas users who have associated themselves together for the purpose of assuring our uninterrupted supply of natural gas at the most reasonable price. The other companies in the association are: Beech Aircraft Co., Cessna Aircraft Co., The Coleman Co., Dubraque Packing Co., Excel Corporation and Gates Learjet.

This association evolved in 1976 when these companies were notified by their gas supplier that they could not be guaranteed gas to operate their plants. KIES owns a gathering systems, a compressing stations and purchases gas from independent operators and suppliers.

Our interperptations of the languages in new sections I thru 5 would prohibit us from expanding our facilities, add new companies to the association or contract for new sources of gas.

The Boeing Company has spent over 540 millions of dollars in capital improvements at the Wichita Plant in the past 5 years and we have announced plans for an additional 500 million dollar expansion during the next 4 years. Our requirements for gas will increase accordingly and we are concerned that language in S.B. 773 will prohibit us from expanding our gas company to meet the needs.

The other six companies associated with KIES have the same concerns that I have expressed and join Boeing in opposition to S.B. 773.

Mr. Chairman I respectfully request that S.B. 773 not be passed or that it be ammended to allow KIES to expand our facilities to meet the requirements of the member companies.

Respectfully,



William T. Abbott

TESTIMONY IN SUPPORT OF SENATE BILL 773
BEFORE THE SENATE TRANSPORTATION AND UTILITIES COMMITTEE
PRESENTED BY BOB W. STOREY
REPRESENTING UNION GAS SYSTEM, INC.

MEMBERS OF THE COMMITTEE:

I am Bob W. Storey of Topeka, Kansas, and I am appearing today on behalf of Union Gas System, Inc. in support of Senate Bill 773.

Union Gas System, Inc. is a certificated utility of the Kansas Corporation Commission and operates under the Kansas Statutes Annotated and the rules and regulations of the KCC.

Union Gas System, Inc. has served the consumers in the state of Kansas since the early 1920's, and is presently certificated to serve southeast Kansas and portions of Johnson, Wyandotte, and Douglas Counties in northeast Kansas.

Senate Bill 773 would solidify the territory in which Union now serves, guaranteeing that this utility would be able to continue its operation in those areas of Kansas which it now serves.

Union is an investor-owned utility. In order to raise capital for its operation, it has to be in a position to show a favorable rate of return to attract investors to purchase its stock on the open market. Union has a substantial investment in its equipment and in the business it has developed over a long period of years. In order to serve the citizens of the state of Kansas whom it now serves, it must be in a financial position to

insure that it is capable of serving those who demand its service in its certificated area. Also, it needs to be in a position to offer affordable rates to the consumers. Of course, neither of these two positions is possible if in fact Union is not protected in the territory it now serves.

As Union has expanded its territory over the years it has made substantial investments. These include equipment such as transmission lines and meters. It also has attempted to purchase local production of gas in those areas, in order not only to serve the consumer but to purchase gas that is available from the local producers. This, of course, in turn helps everybody in the community. If Union were not protected in its territory, then the revenue derived from the operation would be split among two or three utilities. That would result in additional rising cost to consumers, because of the inability of any one utility to operate efficiently, and be able to sell its stock on the open market and to make a profit.

At the present time, Union is regulated by the Kansas Corporation Commission, the same as other certificated utilities. In order to raise its rates it has to file an application before said Commission and go in and prove that the company is not making a fair rate of return, and that in order to attract investors' capital it must be authorized to increase its rates. This is a very prestigious procedure which has worked well over the years, and we believe that Union is offering excellent service to its customers at this time. We do not believe we would be able to afford the same service at the same cost if

another utility were authorized to operate in the same territory in which Union now operates.

We are not talking about the forming of a monopoly at this point. We are really talking about insuring that the consumers have the best possible service for the lowest possible cost. I believe the committee would agree with us that this is not always possible in nonregulated areas. As stated above, utilities are very well regulated by the State of Kansas through the Kansas Corporation Commission. It has been proven over the years that the existence of a regulated utility in a given area is more desirable than complete open competition. This, of course, is not always true in many areas for many other types of business. The utility business is unlike other types of business, since it is a service to the consumers; and it has become more and more in focus with the public because of the rising utility costs during the past few years.

In view of the above, Union Gas System, Inc. would respectfully request the committee to report Senate Bill 773 back to the full Senate with the recommendation that it be passed.

Thank you for the opportunity to speak on behalf of this legislation.

Respectfully submitted,

BOB W. STOREY