Approved 2-5-85
Date

MINUTES OF THE Senate COMMITTEE ON Energy and Natural Resources.

The meeting was called to order by Senator Merrill Werts, Chairperson, at

8:00 a.m./~~p.m.~~ on January 30, 1985 in room 123-S of the Capitol.

All members were present except:

Committee staff present:
Ramon Powers - Research Department
Don Hayward - Revisor's Office
Nancy Jones - Committee Secretary

Conferees appearing before the committee:
Kenneth Williams, Director, Office of Pipeline & Producer Regulation, Federal Energy Regulatory Commission.

On motion of Senator Thiessen with second by Senator Daniels, minutes of the January 17, 1985 and January 22, 1985 meetings were approved.

Chairman Werts introduced Kenneth Williams, Director, Office of Pipeline and Producer Regulation of the Federal Energy Regulatory Commission who gave a presentation on natural gas.

Contemporaneous with the passage of the Natural Gas Policy Act, there was a significant increase in gas deliverability which followed rapidly rising gas prices, which than meant higher costs to pipeline companies that transport the gas. Pipelines experienced a good bit of load loss which in part was due to customer fuel switching for the first time. Fuel switching occured where alternate sources of energy were more economical and this was a significant event since natural gas had been the primary source of energy for many years. From this it was learned that even captive customers are demand elastic and will cut back on consumption or seek alternative sources of energy as prices rise. This will also avoid dependence on one source of energy. This has had an important impact upon industry in general and particularly the pipeline industry which has suffered a substantial loss of loads. As a consequence, pipelines have reacted in a number of ways, making tough decisions by implementing cut-back policies, bringing supply and demand more into balance, exercising market-outs, and even forfeitures. All sorts of discount rates and promotional rates have been seen also. Special marketing programs are being used with one objective being an attempt by pipelines to balance supply and demand through release of high cost gas by producers who agree to take-or-pay relief for the pipeline company. At the same time the market is able to take advantage of the increased supply of gas and get it at a lower cost than for alternate fuels.

We are now in a transition period where the industry has found itself with a surplus of natural gas deliverability. Prices are very close to alternate fuel prices. Partial deregulation as of January 1, 1985 has compounded the supply glut problem so that now producers and pipelines are faced with the need to react in terms of renegotiating contracts: waiving contractual provisions in the short term and pondering what to do in the longer term. As a result of deregulation, consumers have benefited, with pipelines caught in the middle and producers likely not benefiting in today's market. A waiting period of six months is needed to see how this will shake out for all concerned.

Chairman Werts pointed out to Mr. Williams that six members of this committee are new and might have only limited understanding of the Natural Gas Policy Act. The Chairman asked if all wells drilled since 1977 are now deregulated to which Mr. Williams responded that the term new well means any well the surface drilling of which began on or after February 19, 1977 or if the depth was increased as specified. Congress attempted to establish categories of gas for wells drilled after February 19, 1977, that were drilled on new spacing units, drilled at greater depths or drilled beyond two and one-half miles of a marker well.

Senator Hayden asked if lower prices would reduce the incentive for drilling. Mr. Williams feels that, especially with IRS incentives there will be new exploration with stabilization of the market and natural gas should find a way to a greater part of the market over the years even though customers adopt fuel switching practices.

With about half the natural gas production deregulated as of January 1,1985, under the Natural Gas Policy Act, Chairman Werts asked when will the balance of production be deregulated. Mr. Williams said it will not be deregulated formally but that it will happen through depletion with the old gas being gradually replaced by new production and other categories of gas.

Mr. Williams was asked to tell the committee what has happened since the U.S. Fuel Use Act went on the books which proscribed certain uses of natural gas. He stated that it no longer serves a purpose, if it ever did, but that it is almost impossible to get a consensus on natural gas legislation. Even though there probably is general agreement the Fuel Use Act should be repealed, it's not clear how it can be accomplished as riders would be attached to the repealer which could create more problems.

Senator Martin asked what the pricing level was on gas that was deregulated, and Mr. Williams said the Section 102 gas in December, 1984, was roughly $3.85. Section 103 gas was $2.95 and under Section 107(c)5 it was $5.90 with the Section 103 regulated price being nearest today's market price. Senator Hayden asked if the consumer is currently getting a better value from gas than electricity to which Mr. Williams said natural gas has made its rapid price rise only in the last ten years.

Mr. Williams also noted that new drilling does not solve anything unless the gas can be marketed and an infill drilling program by itself is not going to do anything without a market for the gas. In new contracts, market-out clauses are being included, which means that if a buyer finds that the price under the contract puts it in a situation where it is not competitive with the market, it can opt out under the contract. Also the seller can market-out if he can arrange a better deal. Flexibility with new contracts may allow buyers to take more of the lower priced gas and improve their situation in the market. Senator Thiessen asked if the increase in the supply of natural gas increased the efforts of some in trying to capture the better customers and Mr. Williams answered in the affirmative. He also noted that Kansas gas is probably among the lowest priced of any of the major producing areas.

The meeting was adjourned by the Chairman at 9:00 a.m. The next meeting of the Committee will be at 8:00 a.m. on January 31, 1985.

1-30-85

Guest List

Ed. Reinert	KS League Women Voters	
Jeff Kennedy	Kansas Corporation Commission	
JAMES DOBER	GAS Pipeline SAFETY - KCC	
DENNIS E LLOYD	GAS PIPELINE SAFETY - KCC	
Dan McKee	Gas Pipeline Safety - KCC	
Bill Dausses	Phillips Petroleum Co	
George a Sims	Mobil	
Richard C. Byrd	QOCC. Ottawa, Kans	
WAlter DUNN	EKOGA Topeka, KS	
Mary Ann Bumgarner	Senator Burke - intern	
Kevin Robertson	KPL/GSC TOPEKA	
Dana Gorman	Kansas Corporation Comm.	
George A. Dugger	KS Dept. on Aging	Topeka
Shirley Domer	Energy Research Center	Univ. of KS
Richard H. Howard	Panhandle Eastern	KC, Mo.
Richard D. Kready	KPL/Gas Service	Topeka
Chip Wheelen	Legis. Policy Group	"
Rob Hodges	KCCI	Topeka