

Approved: April 11, 1997  
Date

## MINUTES OF THE JOINT SENATE AND HOUSE COMMITTEES ON UTILITIES.

The meeting was called to order by Chairperson Pat Ranson at 12:30 p.m. on March 18, 1997 in Room 313-S of the Capitol.

All members were present except:

Sens. Clark, Hensley, Morris, Salisbury and Steffes were excused

Committee staff present: Lynne Holt, Legislative Research Department  
Fred Carman, Revisor of Statutes  
Jeanne Eudaley, Committee Secretary

Conferees appearing before the committee:

Steve Kitchen, Executive Vice-President and CFO, Western Resources  
Bill Eliason, Vice-President, Gas Marketing, Western Resources  
Dave Dittmore, Deputy Director, Utilities Division, Kansas Corporation Commission  
Walker Hendrix, Consumer Counsel, Citizens Utility Rate Board (CURB)

Others attending: See attached list

Chairperson Ranson introduced Steve Kitchen and stated he would explain Western Resources' billing procedures and recent errors. Mr. Kitchen showed slides (Attachment 1), explaining billing procedures and referred to a hand-held meter reader, which he passed around to the committee. He explained there are three areas where Western Resources have made errors. They are: 1) meter reading errors; 2) gas franchise fee errors; and 3) incorrect cost of gas errors. He reviewed each error and outlined solutions and corrective actions which Western Resources is taking. Mr. Kitchen also told of establishing a Customer Council, consisting of the following:

Representatives of KCC, CURB, and Western Resources  
Outside billing system expert

These people will review customer billing practices and develop recommendations to improve billing practices; Western Resources stated they are willing to consider pro-rated billing.

Mr. Kitchen then introduced Bill Eliason, who continued showing the slides, and outlined gas purchasing procedures, first by stating Western Resources believes reliability is a high priority as well as the economical pricing of gas. He continued by pointing out mechanisms to maintain stable gas costs for customers and explained the long and short term purchases as well as gas storage and competitive bidding. He also explained that Western Resources has unbundled the purchasing from the transmission of gas, and stated they were proud that almost all of the natural gas used by Western Resources comes from the Hugoton field. He pointed out the elements which dictate the cost of gas and that it is tied to supply and demand.

Chairperson Ranson then introduced Dave Dittmore, who read a KCC news release (Attachment 2) stating their selection of Price Waterhouse as independent auditor to review Western Resources' billing procedures. Mr. Dittmore continued by describing review procedures, where records are audited by a staff analyst on a monthly basis. They also analyze billing errors.

Sen. Ranson then introduced Walker Hendrix, who outlined in his testimony (Attachment 3) the three reasons for high gas prices and recommended the Corporation Commission look at PGA mechanisms for commodities and stated the utilities should bear more risk.

Committee members questioned participants, and Sen. Barone asked Mr. Kitchen if Western Resources experienced a windfall from the billing errors. Mr. Kitchen replied that it is a pass-through to the supplier for them, and there is no economic incentive in the errors we have been discussing. Others questioned the reaction of customers to the errors, and Mr. Kitchen stated they have sampled the 3,800 customers with billing errors, and 80% of them agreed the problem was handled appropriately. Sen. Jones told of constituent complaints and asked Mr. Kitchen if the lady in Johnson County, who made the initial inquiry, had not been persistent if the problem would have been discovered. Mr. Kitchen replied they may not have discovered the problem; that they are not infallible and that they do not want to damage customer confidence.

Sen. Ranson then asked the Corporation Commission if they would have found the problem, and Mr. Dittmore answered they probably would not have found it. She also asked if anyone lost his/her job because of the errors. Mr. Kitchen answered that Western Resources has disciplined some employees involved with the errors. Sen. Ranson also asked the Corporation Commission if anything can be done when a situation occurs as this one and errors are not found. Mr. Dittmore answered he did not know; Mr. Heinemann, General Counsel for the Corporation Commission, answered he was not sure; that he would have to look at

CONTINUATION SHEET

MINUTES OF THE JOINT SENATE AND HOUSE COMMITTEES ON UTILITIES, Room 313--S  
Statehouse, at 12:30 p.m. on March 18, 1997.

personnel policy; that they want to make sure errors do not happen again, but that nothing has been done yet. Mr. Walker stated penalties can be assessed in a civil action in district court and the penalties are pretty steep.

Sen. Ranson and Rep. Myers thanked Western Resources for appearing before the committees and the other participants.

Meeting adjourned at 1:40.

The next meeting is scheduled for March 19, 1997.

JOINT SENATE AND HOUSE UTILITIES COMMITTEE  
GUEST LIST

DATE: 3-18-97

NAME	REPRESENTING
Juliane Maslow	AG office
Paul Shelby	EJA
Doug Swain	OJA
DAVID TANNEN	KS BAR ASSN
Dodie Lacey	KS Children's Service League
Susan M. Baker	Hein + Weir
David Sherman	Attorney General
Kelly Leigh	ACG
JARED MAATH	At
Margan Howerton	KBI
Kyle Smith	KBI
Debra Bernweis	AIUSA
STEVE KARRICK	A.G.
Nancy Lindberg	AG
Scott Cullen	Ind.
Lisa Bryder	KS NOW
Ben Zimmerman	LWV
Jim Clark	KCOAA
Kristin Baker	ACLU







Western Resources®

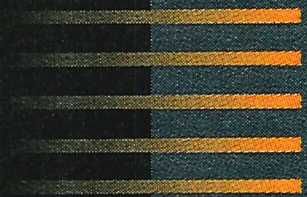


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Power Cooperative, Inc.**  
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*Send to W.R. Utilities  
3-18-97  
A.T.T. 1*

# AGENDA

- *How customers are billed*
- *Billing issues*
  - Meter Reading Issues
  - Topeka Franchise Fee
  - Cost of Gas Issue
- *Solutions for the future*
- *Gas purchasing practices*



1-2

# HOW CUSTOMERS ARE BILLED

## Perspective

- **WR has 650,000 natural gas customers; 600,000 electric customers**
  - 10 million bills generated annually
- **Customer accounts are divided into 21 billing cycles**
  - billing cycles provide level work flow
  - tariff specifies 26 to 35 day window for reading meters
- **Approximately 43,000 meters read daily**





# HOW CUSTOMERS ARE BILLED

## *Evolution of Meter Reading*

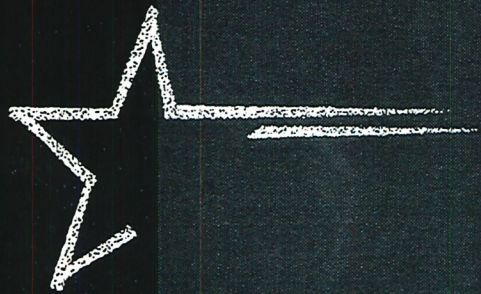
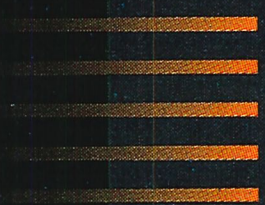
- Customer would read meter and send postcard to utility
- Employees read meters manually
- Hand-held electronic device
- Eventually entire process will be automated



# HOW CUSTOMERS ARE BILLED

## Billing Process

- Data from hand-held electronic units is uploaded to billing system
  - reads must pass “common sense” test
  - customer usage validated
  - bills are calculated, printed and mailed



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# HOW CUSTOMERS ARE BILLED

## Billing Process continued

- **Billing validation**

- daily revenue accounting tests  
each tariff, each rate change
- monthly Internal Audit tests  
each tariff, each rate change



# BILLING ISSUES

## Meter Reading Errors

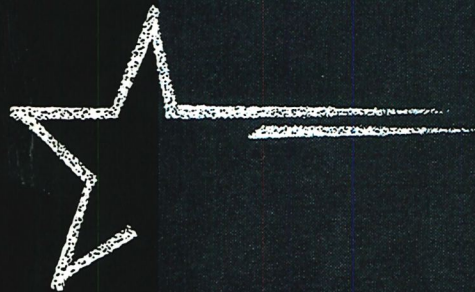
- What happened
  - approximately 3,800 customers' meters were read late
  - nobody reported late reads to billing department
- Consequences
  - billing system calculated bills based on a correct read date
  - some customers were over charged for cost of gas



# BILLING ISSUES

## Meter Reading Errors

- **Corrective actions**
  - affected customers informed by phone and letter
  - credits issued to correct bills
- **Solutions**
  - adhere to meter reading schedule
  - alarms in system now stop billing process for long-read bills

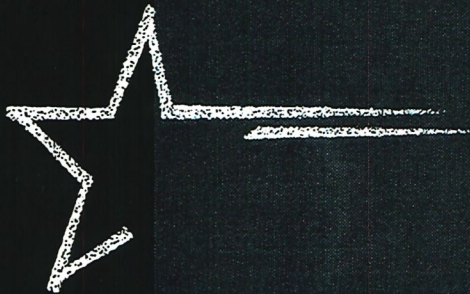


8-1

# BILLING ISSUES

## Topeka Gas Franchise Fee

- What happened
  - failed to implement reduced franchise rate effective 1/1/97
- Consequences
  - some customers over charged for Topeka franchise fee



# BILLING ISSUES

## Topeka Gas Franchise Fee

- **Corrective actions**
  - customers informed by bill insert
  - credits issued to correct bills
- **Solution**
  - all tax rate changes reviewed by Internal Audit and Operations

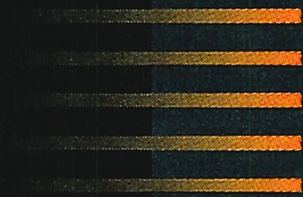


# BILLING ISSUES

## *Cost of Gas issue*

- **What happened**

- incorrect Cost of Gas applied on customers' natural gas bill



07-11-1



# BILLING ISSUES

## Cost of Gas issue

- How it happened
  - meters read in 21 different cycles
  - cycles 20 and 21 read last of each month
  - some cycle 20 and 21 meters read during cycle 1 read period
  - some cycle 1 meters read during cycle 20 and 21 read period
- Consequences
  - some customers over billed for cost of gas
  - some customers under billed for cost of gas



1-12-11

# BILLING ISSUES

## Cost of Gas issue

- **Corrective actions**
  - WR is checking 23 million bills during past three years
  - credits will be issued to correct bills
  - if error is in customer's favor, WR will not back-bill
- **Solution**
  - adhere to meter reading schedule
  - billing system alarms



1-13  
1-13

# SOLUTIONS FOR THE FUTURE

## *Customer Council*

- **comprised of KCC, CURB and WR**
- **outside billing system expert**
- **reviewing WR customer billing practices**
- **develop recommendations to improve WR billing practices**
- **we are willing to consider pro-rated billing**



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# SOLUTIONS FOR THE FUTURE

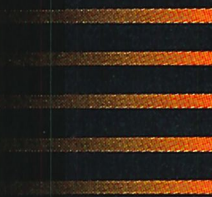
*Western Resources is committed*  
*to doing what our customers*  
*want us to do:*

- accurate customer bills
- verifiable customer bills
- understandable customer bills



# GAS PURCHASING PRACTICES

## Buying natural gas

- 
- WR purchases natural gas from more than 100 producers and marketers
  - Reliability is high priority



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# GAS PURCHASING PRACTICES

## Buying natural gas

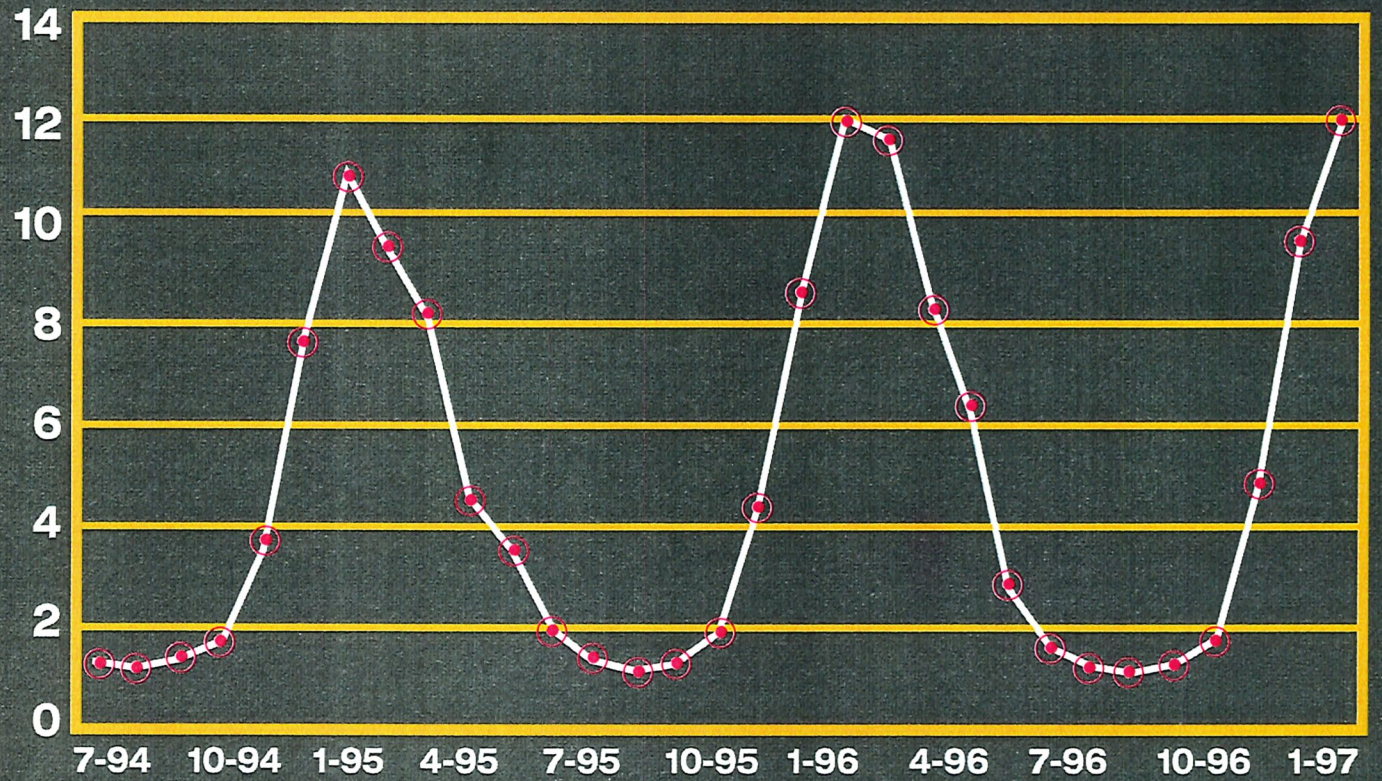
- WR employs several mechanisms to maintain stable gas costs for customers
  - competitive bids on all gas purchases
  - long term contracts utilize monthly market pricing mechanism
  - spot (short term) purchases when cost effective
  - gas storage used to reduce cost as well as increase reliability
  - competitive transmission pipelines serve large markets



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# MONTHLY SALES

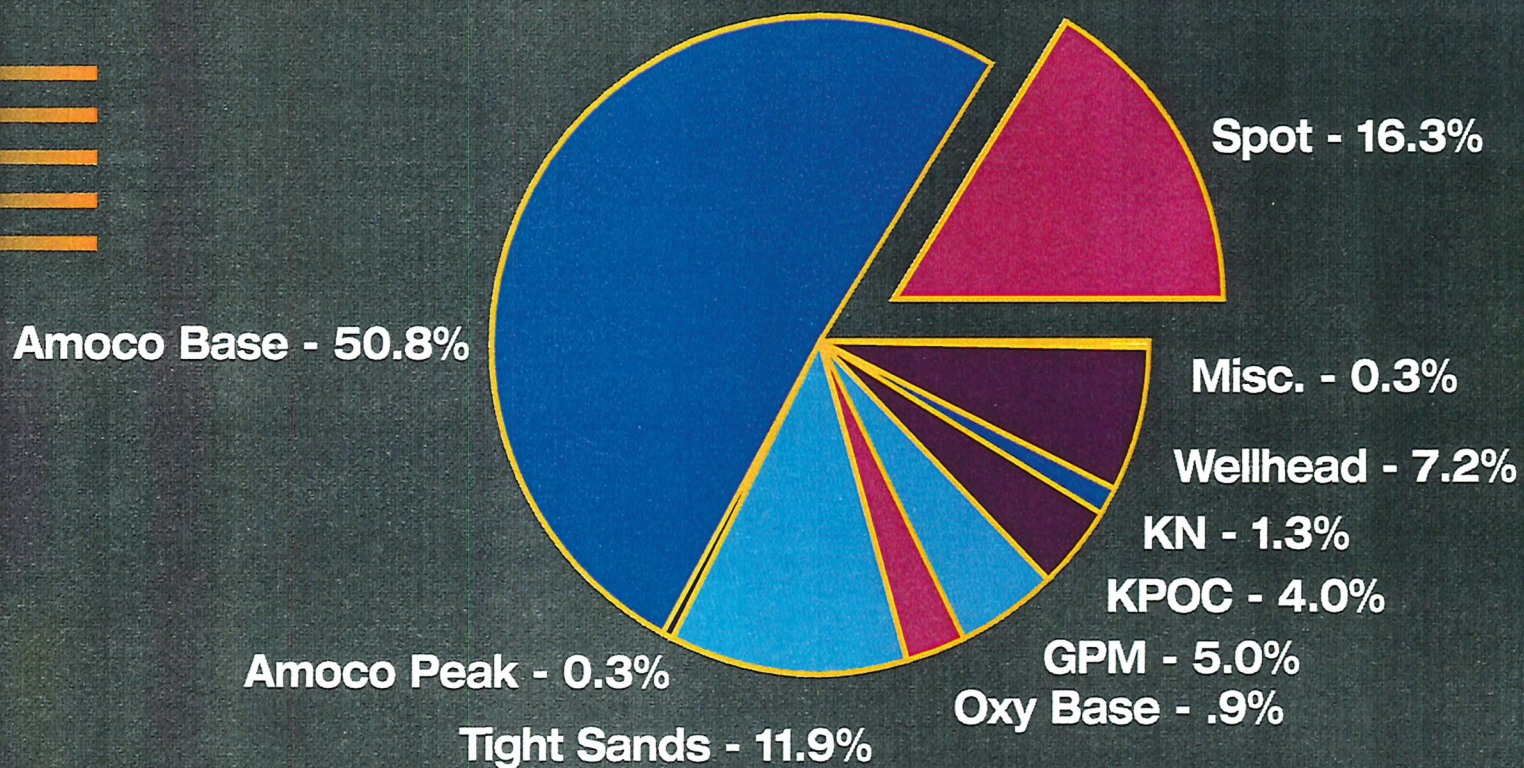
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# TOTAL SYSTEM SUPPLY

**1996**





# GAS PURCHASING PRACTICES

## *Cost of Gas mechanism*

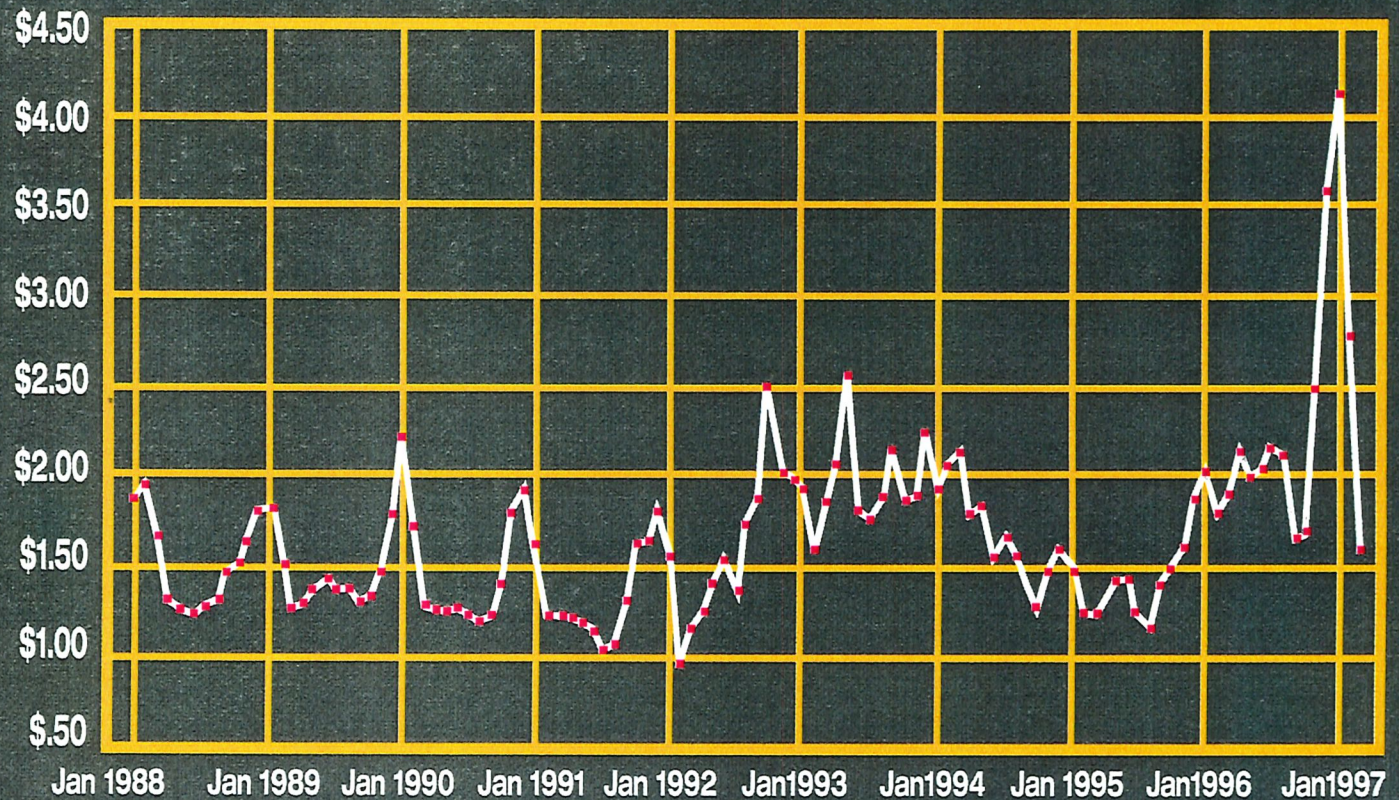
- **Cost of Gas component of bill comprised of three primary elements**
  - gas transmission cost
  - gas storage cost
  - projection of 12-month gas cost updated monthly
- **Cost of Gas is a pass-through -- WR makes no profit on the sale of gas**



1-20  
8-1-1

# SPOT MARKET INDEX

## Five Pipeline Average



6/1

12-1

Attach. 2



# KCC News Release

For more information contact:

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Release No. 96-06

## **KCC selects Price Waterhouse to review Western Resources' billing procedures**

TOPEKA, Kansas, March 18, 1997 -- The Kansas Corporation Commission today announced the selection of Price Waterhouse as an independent auditor to review Western Resources' billing procedures.

Price Waterhouse will provide a comprehensive audit of Western Resources' billing practices and system. In addition, Price Waterhouse will make recommendations to assure future compliance with Commission billing practices and bill accuracy.

The audit of the company's billing system is the result of billing errors associated with the cost of gas factor on natural gas bills discovered last month by the Commission.

"All parties involved are eager to determine the full extent of the billing errors and to implement procedure and system changes to assure accurate and understandable bills for consumers," said Tim McKee, KCC Chair.

The selection of the independent auditor, Price Waterhouse, by the KCC resulted from a cooperative effort of the KCC, Western Resources and CURB (Citizens' Utility Ratepayer Board).

- kcc -

Senate Utilities  
3-18-97  
Att. 2

BILL GRAVES  
FRANK WEIMER  
DONNA KIDD  
A.W. DIRKS  
LAVON KRUCKENBERG  
GENE MERRY  
WALKER HENDRIX

GOVERNOR  
CHAIRMAN  
VICE-CHAIR  
MEMBER  
MEMBER  
MEMBER  
CONSUMER COUNSEL



# Citizens' Utility Ratepayer Board

1500 Southwest Arrowhead Road  
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## BEFORE THE JOINT UTILITIES COMMITTEES

PRESENTATION BY WALKER HENDRIX, CONSUMER COUNSEL  
THE CITIZENS' UTILITY RATEPAYER BOARD

### BILLING PRACTICES

The longer than usual winter has given rise to a higher commodity price for natural gas futures. This, in turn, has caused the price of natural gas, which is indexed to the Mercantile Exchange, to rise precipitously. High customer bills have caused customers to more closely examine their bills. Based on a number of mistakes which were identified by the customers of KPL Gas Service, a division of Western Resources, CURB brought a complaint against Western Resources to have their billing errors rectified by refunds and appropriate changes to their billing procedures. Western has agreed to an expansive audit of their billing system and is making and will continue to make refunds of any overcharges.

Three factors caused the price of gas to increase to historically high levels. The three factors are low inventory levels, trading of electricity derivatives (deregulation) and an early winter (not necessarily a colder than usual winter). The increase in gas prices was identified by CURB on December 19, 1996, when it issued a press release to notify customers of forthcoming higher prices. CURB noted volatile trading of natural gas futures on the New York Mercantile Exchange (NYMEX). At the time, January futures prices jumped to an all time high of \$4.56 per million British thermal units and February prices topped off at a high of \$3.92 per MMBTU.

Unlike prior years, futures prices for natural gas did not decline as much during the summer months as had been expected. Gas purchasers delayed buying gas to place into storage

*Senate Utilities  
3-18-97  
Att. 3*

in anticipation of some leveling off of natural gas prices. In September 1996, the price finally declined, but many purchasers failed to put as much gas in storage for fear of having to absorb the cost of large inventory stocks. Some estimates suggested that inventory stocks were down as much as 10%. Inventory shortfalls were also accompanied by the first futures contracts for electricity. Derivative transactions where natural gas futures were swapped for electricity futures may have created some pressure on the upward price of natural gas.

Despite the high cost of natural gas, the old regulatory structure which permits utilities like Western to flow through its cost of gas under a Purchased Gas Adjustment (or Cost of Gas Adjustment) were left in place. Because the PGA mechanism in Kansas provides little incentive to change procurement practices, the price of gas was allowed to flow through to customers. Additionally, because most utilities do not have enough storage to avoid making spot market purchases in the colder winter months (December, January and February), the utilities were forced to go into the market and pay for gas at the prices which peaked in the middle of December 1996. Knowing that there would be no penalty for making these purchases and the price would be flowed through to customers under the PGA, the utilities made no change in their procurement practices.

There have been extensive discussions about modifying the PGA mechanism to place some of the risk of the utility procurement practices on to the utilities, rather than merely allowing them to flow through 100% of gas costs in every situation. An investigation of procurement practices and the type of contract provisions which are tied to commodity indexes need to be examined. Also, some consideration should be given to the practice of hedging prices with involvement in the commodity markets. However, there will always be room for second guessing utilities on the purchase of commodity futures in the event that they lock in at prices higher than the market price at the time they take delivery of the gas. But, if current trends prevail and movement continues to more competitive markets, utilities will have to be involved in commodity trading to protect customers against volatile prices during periods of short supply.

In addition to investigating billing practices, the Commission should open up a docket to investigate PGA mechanisms. The Commission should also have the authority to retain more employees for reviewing the procurement practices of natural gas utilities in the state.