Approved: March 18, 1998
Date

MINUTES OF THE SENATE COMMITTEE ON UTILITIES.

The meeting was called to order by Chairperson Pat Ranson at 1:30 p.m. on March 11, 1998 in Room 531-N of the Capitol.

All members were present except:
Sen. Hensley was excused

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

Conferees appearing before the committee:
Larry Headley, Director, Rates & Regulations for Neb./Ks., UtiliCorp United (representing Peoples Natural Gas)
Steve Johnson, Executive Director - Corporate Relations, Kansas Gas Service

Others attending: See attached list

Sen. Ranson asked committee members to look over the Minutes of the Meeting for March 5, 1998 (Attachment 1) and if there are additions and corrections, and there were none. Sen. Barone made a motion the Minutes be approved, and it was seconded by Sen. Steffes; the Minutes were approved.

Sen. Ranson then called the committees' attention to an article, which has been distributed to them, from the Kansas City Star, entitled, "Gas plan seeks to end winter's financial bite", dated February 28, 1998.

Sen. Ranson announced the committee will hear information on natural gas pricing and will hear from two speakers and asked that members hold questions until after the presentations. She then introduced Steve Johnson, who gave some history on his new company, Kansas Gas Service, and told of recent projects and issues and options offered by his company (Attachment 2). She introduced Larry Headley, who told of the changes since the 1930's, described Peoples' trends, programs they offer and the benefits (Attachment 3). He pointed out that in some states residential customers are deregulated and that Nebraska offers residential customers a choice of suppliers and explained pricing options from his outline (No. IV). He stated the importance of the educational process and the benefits (No. V of his outline).

Sen. Ranson then opened the meeting to questions, but stated that she wanted to clarify several points. She asked both speakers questions regarding the threshold level for their companies to open options to customers for purchasing gas. Mr. Headley clarified that options are available to small commercial and industrial at the 500 mcf per year (the average residential is 100 mcf per year); and it is also available to a large volume classification, who use over 5,000 mcf, i.e., such as schools, colleges, etc. As outlined in his remarks, Mr. Johnson confirmed that options will be available to customers who use over 6,000 mcf per year, with additional pricing/hedge programs available, if approved by the Kansas Corporation Commission. Sen. Ranson then asked John Cita, from the Corporation Commission, if the Commission has policy/rules prohibiting options (deregulation) available to customers, and if so the threshold level. Mr. Cita replied he did not know if there were any rulings in Kansas designating the levels, classifications or options (deregulation) available to customers. Mr. Headley pointed out the program is based on classification of customers and stated they are attempting to determine how much choice customers want. Sen. Ranson then asked if there is a choice of suppliers to customers in Wichita. Mr. Headley answered there is dual certification in Wichita, which is an exception in Kansas. Mr. Cita confirmed there is dual certification in Sedgwick County and some options are offered in Douglas County, but are limited.

Sen. Lee stated she had several questions for the speakers. She asked both the speakers if there is any incentive to save on cost and pass it along to customers. Mr. Headley answered that the 1997 spikes in price was a big incentive and one way to eliminate spikes is to use hedging. They also discussed using the index and if there is manipulation. Mr. Headley explained they use the index, and they are aware the way gas is priced is the way they have to charge their customers. He reminded the committee the index is an estimate and cannot be predicted. He also discussed who determines PGA's and the reconciliation at the end of the month as well as at the end of the year. Sen. Lee stated the importance to residential customers of having the opportunity to purchase gas as cheap as possible and asked Mr. Headley how long it will be before his company will be able to offer deregulation (choices) to residential customers. Mr. Headley answered it will be at least a couple of years.

Mr. Johnson stated his company's incentive to keep gas prices low is their customers. He described the situation in 1997 when gas spikes occurred and the number of calls received from unhappy customers; that their intent is to keep gas prices as low as possible. He went on to explain the index and hedging techniques. He stated gas is bought in the field via long-term contracts based on the index; that the price of gas in the field is driven by demand for gas in the Northeast, i.e., Detroit, Chicago, etc. Disparity of distance comes into play and they have to have some standard, and thereby use the index. Sen. Lee also asked Mr. Johnson if he is concerned with the futures market, and he answered he is not; that they are ready to address manipulation.

Sen. Steffes discussed with Mr. Johnson the price of oil and if it is directly related to natural gas prices, and Sen. Barone asked Mr. Jonson questions regarding the "weather proof" plan. Mr. Johnson explained the plan is based on hedging on the weather and gave as an example - if a customer pays $600 per year, the monthly charge would be $50 per month for gas service. If total service charges at the end of the year totaled $700, the company would lose $100; if the annual service charge is $500, the customer would lose. He stated it is a risk taken by both the customer and the company. He added it is a test plan and the largest pilot program being underwritten by the test program sponsors. Sen. Barone also asked how they picked the territory being offered the plan, and Mr. Johnson answered it is being offered in the western part of their system which has a good mix of customers; it will be offered to 100,000 of their 600,000 customers in the state. He anticipated it will be offered by late summer and implemented by September or October. Sen. Morris asked questions regarding closing local customer service offices, and Mr. Headley answered he realized the drawbacks, but that the company felt it was necessary financially.

Sen. Ranson asked the speakers if there is anything to stop full competition in selling natural gas - is there a law or regulation which prohibits that? Both Mr. Headley and Mr. Johnson answered there is no prohibition against it. She referred to Mr. Cita, and he indicated there is no federal or state law which would prohibit that. Sen. Ranson emphasized there is nothing stopping the deregulation of natural gas to legally to occur; that it is possible to consider a bill to mandate full competition, but the companies could voluntarily do that now; that allowing full competition to residential customers could happen soon. Mr. Johnson answered that his company is close to opening up competition for residential customers.

Sen. Ranson announced the committee will hear from a gas marketer tomorrow.

Meeting adjourned at 2:30.

The next meeting is scheduled for March 12, 1998.

SENATE UTILITIES COMMITTEE GUEST LIST

DATE: MARCH 11, 1998

NAME	REPRESENTING
JC Long	Util. Corp United
Whitney Damron	Kansas Gas Service
Steve Johnson	Kansas Gas Service
LARRY HEADLEY	UTILICORP UNITED
Heather Randall	Whitney Damron, PA
Leslie Kaufman	KS Farm Bureau
Ron Gaches	McGill & Asso.
Dick Carter J.	ENRON
Janet Buchanan	Kansas Corporation Comm.
John Cita	Kansas Corporation Comm

Attach. I

Approved: MARCH 11, 1998
Date

MINUTES OF THE SENATE COMMITTEE ON UTILITIES.

The meeting was called to order by Chairperson Pat Ranson at 1:30 p.m. on March 5, 1998 in Room 531-N of the Capitol.

All members were present except:
Sens. Hensley and Pugh were excused

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

Conferees appearing before the committee:
Earnest Lehman, Western Resources

Others attending: See attached list

Sen.Ranson called the committee's attention to two Wall Street Journal articles which have been distributed to them: "(Cheap) Power to the People", dated January 2, 1998 and "Enron to Supply Power to Schools in California Deal", dated February 25, 1998. Sen. Ranson also asked for copies of another article to be distributed to members entitled, "Restructuring - Ballot Initiative to Repeal Mass. Restructuring Law Gets Go-Ahead", from Electric Utility Week, dated March 2, 1998. Copies were furnished by KEC and KEPCO.

She then called member's attention to Minutes of the Meeting, which were distributed to them last week. They are for the following dates: February 16, 17, 18, 19, 23 and 24. Sen. Clark made a motion the Minutes of those meetings be approved, and it was seconded by Sen. Lee; the Minutes were approved (Attachment 1).

Sen. Brownlee stated she has two articles which she wants to distribute to members of the committee, but she does not have copies with her. She stated she will distribute them to each individual member of the committee.

Sen. Ranson then called on Lynne Holt to review the status of Retail Wheeling in other states. Ms. Holt referred to two documents: One entitled "States with Restructuring Laws and Commission Orders" (Attachment 2) and the other is an article from the Public Utilities Fortnightly, "Enron's Battle with Peco", dated March 1, 1998. Ms. Holt stated there are two ways restructuring can be implemented, that is by legislation and by Commission Orders. She also stated that restructuring activity has appeared to slow down and some states have modified their policy on implementation. Ms. Holt then reviewed the status of the states with the committee and stated there are two other states, which are not listed in her document, that need to be looked at because of recent activity toward restructuring - they are Connecticut and Virginia. She briefly commented on the two states and discussed states listed in her matrix.

Sen. Barone asked Ms. Holt if she knew the economic impact of mandated divestiture, and Ms. Holt answered she hasn't researched that but could get the information for him. Sen. Ranson commented that some generation assets may be 2 1/2 to 5 times book value. The committee continued by discussing divestiture and how that comes into play on the value of assets and stranded costs. Sen. Steffes stated that control is worth a lot more: that owning 51% of all shares is worth more than owning 100 shares, because one is at the mercy of the marketplace. Ms. Holt stated she will look at reports dealing with divestiture and report to the committee.

Ms. Holt stated another area which needs to be monitored is litigation and where it is coming from. She gave statistics from several states and commented that consumer groups have filed suit in several states and in others, implementation and commission Orders as well as utilities are the basis for litigation.

Sen. Ranson introduced Earnest Lehman, who gave an update on the status of deregulation legislation in Missouri (Attachment 3). He stated that the Missouri legislature is set to adjourn in mid-May and that no action is expected on legislation this session. The committee discussed the pilot program with Utilicorp and McDonald's and who was solicited to bid and the number of bidders. Mr. Lehman stated that it required Missouri PSC approval, and it would also require Corporation Commission approval in Kansas.

Sen. Ranson went over the agenda for next week and stated it appears a House Resolution, relating to electrical deregulation, will be assigned to the committee soon.

Meeting adjourned at 2:30. Next meeting will be March 9, 1998

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.

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Attach 2

KANSAS GAS SERVICE

A DIVISION OF ONEOK, INC.

TO: Senator Pat Ranson, Chair
And Members Of The
Senate Committee on Utilities

FROM: Steve Johnson (913) 319-8604
Executive Director - Corporate Relations
Kansas Gas Service

RE: Natural Gas Pricing

DATE: March 11, 1998

Good afternoon Madam Chair Ranson and Members of the Senate Committee on Utilities:

My name is Steve Johnson, Executive Director of Corporate Relations for Kansas Gas Service, and I am pleased to be invited before your Committee this afternoon to present comments on natural gas pricing and other natural gas issues. First of all, I would like to provide you with some background information on Kansas Gas Service.

Kansas Gas Service is a relatively new company which is the result of the alliance between Western Resources of Topeka, Kansas and ONEOK, Inc., of Tulsa, Oklahoma. Effective December 1, 1997, Kansas Gas Service became the natural gas distribution company for customers formerly served by KPL and KGE.

Our corporate offices are located in Overland Park, but we have offices and facilities located throughout Kansas.

We presently serve the natural gas needs of 625,000 customers in the state and 35,000 in Oklahoma and employ 1,350 people in Kansas.

As noted previously in my comments, I am the Executive Director for Corporate Relations for Kansas Gas Service. My responsibilities include internal and external communications with employees and the media, both state and federal governmental relations, rates and regulations, our relationships with the Kansas Corporation Commission and budgets, forecasting, and business analysis. I have been in the gas and electric utility business in Kansas for the last 23 years. I report directly to our president, Mr. Eugene Dubay.

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Kansas Gas Service has been very busy since our creation in December of 1997. As you can imagine, most of our employees are continuing in the same jobs they have had for many years, such as welders, customer service representatives, service people, engineers, and managers. Others have begun new jobs and are dealing with different responsibilities, beginning a new adventure. The Alliance with Western is quite unique due to the many areas where services are still shared between the companies such as meter reading, meter changes, phone center operations, and billing.

You may be familiar with some of our recent projects and issues which have been discussed in the news and at the KCC:

> We filed for approval by the KCC, a natural gas pricing / hedge program which will allow the use of futures and the options markets to be able to cap the price the Company pays for its supply of gas in the coldest months, thus reducing the price volatility that caused unexpectedly high bills for consumers last winter. This test which applies to most of our Kansas customers was approved by the KCC on February 27th to operate for the next 13 months.
>
> We are also preparing a filing to offer to customers in the western part of our system. We have tentatively named it the "Weather Proof" Bill. Customers will be given an option to sign up for level billing each month with no "true-up" at the end of a 12-month contract period. We hope to be able to begin this test program later this summer.
>
> We are beginning to address the possibility of unbundling being offered to another group of customers. Today, customers who use over 6,000 mcf in one year can transport their gas requirements after purchasing their own gas from marketers or producers in the field. Approximately 800 of our largest customers use this option today. If we were to open this up to customers who use 3,000 mcf or greater in one year, we would potentially add another 1,000 customers to this program. Ultimately if we "opened up" this option to all but the residential customer base, we could potentially have 65,000 customers involved.

This last point leads me to a few comments about the pricing of natural gas and why we feel these options are necessary.

In Kansas, for the majority of our customers, we purchase gas on long-term contracts from such entities as Amoco, Oxy, and KN. We also purchase gas on the spot market from entities such as WESCO, PanEnergy, Noram, ONEOK, and many other smaller producers. This gas is then transported through major pipelines such as Williams, Panhandle, and the Mid Continent Market Center (our old KPL intrastate pipeline), to various Town Border Stations reaching the 341 towns and cities we serve in Kansas. From that point, the physical responsibility for the gas becomes ours and we distribute the gas to our customer's burner tip.

Restructuring of the gas market would not significantly change the physical requirements to move gas from the wellhead to the burner tip but it will greatly affect the pricing of the various components of the customer's bill. A very important component of the residential customer's bill is his desire to have gas at sufficient quantities to heat their home in the winter. The large customer who transports gas today and those who potentially could use this option have accepted the risks associated with a lower price and the possibility of not receiving gas on demand. In other words, the transporter has traded a comfortable, ready supply of gas for a lower price. Kansas Gas Service is continuing to help these customers reach their goal and would embrace the competition that is inherent in this option. However, the practicality and cost savings the transporting, more sophisticated customer enjoys, probably would not be as dramatic for the residential customer due to their need for gas on demand and their inability to be interrupted in times of highest use. Therefore, their price may not be reduced significantly because of the capacity, storage, and reserves that must be procured to serve him gas as needed. We will continue to purchase gas on long-term contract or on the spot market at competitive prices, yet the prices charged by the pipeline to provide capacity and storage must still be borne by the remaining customers such as residential and small commercial consumers.

Finally, I would like to compare the prices we pay for natural gas in Kansas to other areas of the Country. According to a recent survey from the AGA, the price of gas in the Midwest is almost 23% lower than comparable usage levels in the Northeast and 28% lower than representative companies on the west coast. I realize we can only compare our situations to our past experiences, yet I think this gives us another indication why the customer choice option is being more heavily promoted elsewhere.

On behalf of Kansas Gas Service, I thank you again for your time this afternoon. I would be pleased to respond to any questions you might have at this time.

A- 3

Kansas Senate Utilities Committee

March 11, 1998

Peoples Energy Choices

I. Evolution of Change

- 1930 - 1986 Heavy Regulation, bundled sales
- 1986 FERC Order 436, open access to interstate p/l's
- 1992 FERC Order 636, interstate p/l's exit the merchant function

II. Current Gas Utility Trends

- Residential unbundling
- Pilot projects
- "Customers" demand choice

III. Reality Check

- Pilot projects have limited value
- Survey results
- Quantum leap from unbundling commercial/industrial markets

IV. Peoples' Choice Program

- Small volume markets are open to full competition
- Residential customers have pricing options
  - Traditional bundled sales service
  - Fixed price
  - Capped Index price

V. Benefits of the Peoples Choice

- Initiates the customer education process
- Allows residential customers to "experiment" with choice, while avoiding telemarketers
- Provides regulators and utility a benchmark of interest level without major investment
- Allows utility to prepare for the next wave of administrative detail

Larry W. Headley, Utilicorp United Inc.
Director, Regulatory Services
(402) 221-2023

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