

MINUTES OF THE SENATE COMMITTEE ON UTILITIES.

The meeting was called to order by Chairperson Pat Ranson at 1:30 p.m. on March 12, 1998 in Room 531-N of the Capitol.

All members were present except:
Sens. Hensley, Salisbury 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:
John Cita, Chief of Economic Policy, Corporation Commission
Mike Eichenberg, President and CEO, Mountain Energy

Others attending: See attached list

Sen. Ranson called the committee's attention to the agenda, which has been revised, to add next Tuesday as a time to hear and act upon the senate bill assigned to the committee yesterday. She also acknowledged that the Kansas Corporation Commission has a number of employees attending the meeting today.

Sen. Ranson announced the committee will continue with presentations on natural gas pricing. She then introduced John Cita. He announced he had numbers regarding threshold levels previously discussed in committee. He gave the following information: Kansas Gas Service threshold level is 6,000 mcf's in their K system (Kansas City and Wichita) and 3,000 mcf's on their main system (central Kansas), with 1,050 transport only customers; UtiliCorp's threshold is 500 mcf's, with 1,500 transport customers; United Cities's threshold is 3,000, with approximately 170 transport customers only; Midwest Energy's threshold is 500 mcf's, with 40 customers; KN Energy makes transport service available to commercial and industrial customers, with approximately 3,000 being served; Greeley's threshold is 4,000 mcf's; number of customers is unknown. He added that there are 120 different owners of natural gas in the state.

Mr. Cita continued by offering additional information to the committee regarding natural gas pricing (Attachment 1). He stated the wholesale of natural gas is highly competitive and discussed market shares, which are shown in the table on Pages 8 and 9. He stated there are positive and negative price spikes and explained the graph on Page 11 and the reasons for the negative spike from 1994-96 and the positive spike which followed in 1997. He explained the reasons for increased prices have to do with cold weather in November, 1996, depleted storage below comfort levels, and the fact that companies did not have adequate amounts in storage. They purchased gas in January, 1997; however, he stated he does not know why prices elevated in January of 1997. He then asked Bill Eliason (Western Resources) for input regarding the market. Mr. Eliason explained depleted storage of gas below the comfort levels, and stated the price of natural gas is market driven and the perceived market effects the price of gas.

Sen. Ranson then introduced Mike Eichenberg, who explained his company is an energy service provider to 400 customers, and they have been doing business in the state for 11 years (Attachment 2). He explained the market is driven by simple basics, that of supply and demand. He explained the role of the utility is to transport natural gas, while his company's role is to make sure customers have a supply of the commodity. He referred to the Kansas City Star articles, which had previously been distributed to the committee, and stated the price is driven by the NYMEX; that the traders are out to make money; that the result of high prices last winter was that Enron was suspected of shortages, which drove the price up. He discussed hedging, which is a tool and should be utilized to avoid spikes in the price of natural gas. He believes that hedging is prudent to protect customers from high prices. He discussed storage as a means to use for keeping prices low, as well as negotiating storage and transportation contracts. Mr. Eichenberg discussed deregulation of natural gas and stated the role of the utility must be defined. He believes the utility is best able to handle distribution. He also stated the advantage of unbundling is to stabilize prices and to shift the risk of price to companies who want to take the risk and to those who will promote good business practices. He concluded

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON UTILITIES, Room 531- -N, Statehouse, at 1:30 p.m. on March 12, 1998.

by saying that natural gas is a volatile commodity because there are not enough players; that with hedging, prices will stabilize and then the risks will be borne by marketers.

Sen. Barone asked Mr. Eichenberg, since he is an advocate of hedging, because it takes the volatility out of the price, if there are times when the result is that it costs the consumers more; and Mr. Eichenberg agreed that there are times when this can increase the cost to consumers and continued by enumerating some of the risks. He continued by discussing costs and the levels of production, which are effected by whether production is off- shore, which is more costly, than on- shore production. He also stated some of the larger producers are combining their function with the marketing function, which gives them a greater opportunity to make profits.

Sen. Ranson then asked what it is his company does and how it interacts. Mr. Eichenberg answered that Mountain Energy is a re-saler; that they purchase spot gas, and re-sale it for a profit. He stated they utilize hedging and pricing capabilities, which weren't available to utilities until recently, and buy at a fixed price. He then gave examples of two school districts in Johnson County and emphasized the school districts buy at a fixed price, so they know the cost; that the difference is in the timing as to when the contracts are signed. Sen. Ranson then asked what his company uses for delivery, and Mr. Eichenberg responded that the utility delivers the gas for them, at a guaranteed delivery price.

Sen. Steffes asked questions regarding coal, where it comes from and why no fluctuations, and Mr. Eichenberg answered that the coal contracts are long term, usually 20-year contracts; that the utility has to contract for transportation and has to guarantee delivery. He added that the marketer and utility operate differently. Sen. Barone then asked if his company has considered offering services to residential customers; how big a consumer would have to be that his company would approach. He answered that the residential customer would not be benefitted; that they would like to be able to offer services to the residential customers. He went on to state that he believes in the future we will see the consolidation of utilities to bring about a shift in high prices to someone besides the consumer. Sen. Ranson referred to retail wheeling in the electrical utilities and divestiture and stated the Legislature could force deregulation, if it wanted. Mr. Eichenberg answered that he believes full competition will happen on its own, which will force utilities into more efficient operation.

Sen. Ranson announced that Sen. Morris has a Resolution to explain to the committee (Attachment 3), which calls for a hearing on the contract, known as P-0802. Sen. Morris made a motion the Resolution be introduced, and it was seconded by Sen. Clark; the motion passed.

Sen. Ranson announced the distribution of a gas bill (Attachment 4), which shows costs of taxes and other charges. Sen. Lee then asked questions regarding the PGA Report.

Meeting adjourned at 2:30.

The next meeting is scheduled for March 16, 1998.

SENATE UTILITIES COMMITTEE GUEST LIST

DATE: MARCH 12, 1998

NAME	REPRESENTING
TOM DAY	KCC
GLENN SMITH	KCC
JANET BUCHANAN	KCC
JOHN CITA	KCC
J.C. LONJ	UTILICORP
PAUL DIETZ	KCC
STEVE JOHNSON	Kansas Gas Service
Rod Donovan	KANSAS GAS Marketing
GUANDA CAFER	KCC
DAVE DITTMORE	KCC
William Eliason	Kansas Gas Service
Dick Carter, Jr.	ENRON
Amy Holthaus	Western Resource
Tom Deches	McCall & Asso.
Diane Gjerstad	USD 259 - Wichita Public Schools
Amy A. Campbell	Midwest Energy Inc

Attach. 1
John C. ...

Briefing by the Staff of the
Kansas Corporation Commission
Before the Senate Committee on Utilities
March 12, 1998

The Pricing of Natural Gas

SUMMARY COMMENTS of the KCC Staff

Currently the price of natural gas is set by a highly competitive marketplace. The natural gas market is national in scope. Indeed, sales by individual gas producing companies are relatively small compared to the total marketplace. There is no evidence of any significant concentration of market power.¹ (See Table 1.) Given the degree of actual competition in the gas market, it is reasonable to conclude that the natural gas market is well functioning.

From 1938 to 1978 the price of natural gas was fully regulated by the federal government under the provisions of the Natural Gas Act. Under the Natural Gas Policy Act of 1978, the federal government began to deregulate the gas market, completing that effort in 1985. Thus, in 1985 government regulation of the price of gas was replaced by market regulation, that is, by the discipline of the marketplace.

The gas industry makes considerable use of regional price indices. It is important to understand that all price indices are based strictly upon extensive market surveys. These surveys (of representative market participants) are conducted as a means of **reporting** on regional market conditions. In other words, the price indices provide a summary of price information for a specific regional market. Those companies that publish price indices play no role in the determination of reported prices. Their only role is to **report** the price(s) revealed by their survey effort.

Finally, there has been some concern over the role of the gas futures market and its influence on the price of gas. It is the opinion of the KCC Staff that the existence of the gas futures market generally tends to **decrease** gas price volatility.² However, under certain conditions futures trading may increase volatility.³ Staff is of the opinion that the natural gas futures contract is well designed and that the gas futures market

¹See the article by W. Trapmann and J. Todar, *Natural Gas Residential Pricing Developments During the 1996-97 Winter*, EIA, Natural Gas Monthly, August 1997.

²There are now three separate futures markets: the NYMEX offer two futures contracts - Henry Hub and Alberta, the KCBT offers a single contract - Waha Basin.

³To emphasize, on average futures trading generally reduces price volatility.

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would be difficult to manipulate.⁴

Concerning the spot market for gas, the demand is very sensitive to weather conditions. It is also quite sensitive to gas storage levels, especially actual versus planned storage. Given the relatively limited availability of gas during the winter months, when winter demand increases it is not uncommon for relatively large price increases to result.

The Pricing of Natural Gas: Background and Basic Discussion

In order to understand how the so-called burner-tip price of natural gas is determined, it is necessary to examine all the operational functions that are performed to deliver gas to the end-user. It is also necessary to examine how each of the functions is priced. In this section we describe five basic functions performed by the gas industry and how each is currently priced.

Delivery of natural gas to the final consumer requires several functions:

1. Production (at the wellhead, preceded by exploration and drilling)
2. Gathering (- wellhead gas is gathered-up through a network gathering pipe)
3. Processing (- wellhead gas contains liquids that are usually removed at a processing plant, the resulting gas is referred to as dry gas)
 - 4A. Transportation (by a network of mainly interstate pipelines)
 - 4B. Storage (- some gas is placed to storage facilities to be withdrawn during periods of high demand)
5. Distribution (to final consumer through the local distribution company (LDC))

For gas to be delivered to the final consumer these functions must be coordinated. Such coordination falls under the general heading of vertical integration. That integration is achieved in a decentralized, market-oriented fashion.

Pricing By Function

1. Production

The price of wellhead gas is set by an unregulated, highly competitive market. There are numerous regional (or locational) markets, some are referred to as "market centers." Research has shown regional gas prices are significantly correlated (or co-integrated) and, therefore, generally move in the same direction. (See articles by De Vany and Walls.⁵) The high correlation of regional gas prices provides evidence that

⁴ Futures contracts that are suspected of being manipulated tend not to survive. They are either redesigned or not offered for exchange.

⁵ Staff can make available.

the natural gas market is a **national market**. (The null hypothesis that the gas market is national in scope has not been rejected.) In recent years, relatively larger amounts of natural gas have been imported. Imports from Canada continue to increase relative to domestic production. (See Table.) Indeed, with sizable imports from Canada and Mexico, and the potential for importing liquified natural gas (LNG) from all over the world (but mainly Africa (Algeria) and South America (Venezuela)), the natural gas market may well be characterized as **global** in scope.

Some History on Wellhead Pricing

By the provisions of the Natural Gas Act of 1938 (NGA) wellhead prices were under the complete control of the federal government. Starting with the Natural Gas Policy Act of 1978 (NGPA) the federal government began to deregulate wellhead prices.⁶ Complete deregulation of the wellhead market was essentially complete by 1985.⁷ Thus, since 1985, the price of natural gas has been completely subject to the discipline of competitive market forces.

Summary Point: the price of natural gas is determined by a highly competitive, national marketplace.

2. *Gathering*

With the implementation of FERC Order 636, gathering rates are subject to the oversight of State agencies. Various forms of oversight are allowed.

3. *Gas Processing*

The processing of gas involves the extraction of various liquids, namely water and higher order hydrocarbons. The hydrocarbons are sold at market rates. Gas processing is largely unregulated.

4A. *Pipeline Capacity (Transportation)*

The FERC maintains jurisdiction over the prices charged by interstate pipelines. For the most part, pipeline tariffs are based on cost of service. In certain settings, the FERC allows pipeline to charge 'market-based rates.' Such rates are allowed in those markets where several pipelines are available to serve the needs of consumers.

⁶The were a number of reasons Congress sought to deregulate: fear of future shortages, concern that the price of gas was artificially low and, consequently, that consumption might be excessive, distortion of investment decisions in the areas of exploration and drilling, high administrative cost, and the lack of a clear rationale for regulating wellhead production in the first place. For instance, wellhead production is not a natural monopoly function.

⁷ After 1978 and before 1985, 'new gas' was sold at a market price while 'old gas' continued to be sold at a government regulated rate.

Furthermore, market-based rates, as well as negotiated rates, are capped by 'recourse rates.' The later are essentially equivalent to cost of service rates. In summary, the FERC has not deregulated pipeline rates. The FERC allows pipelines some flexibility in pricing their capacity. However, as a general rule, pipeline rates are set at or below the traditional cost of service level (on average).

Some History on the Pricing of Pipeline Capacity

As a result of FERC Orders 436, 500, and 636, the pipeline industry has undergone a 'restructuring.' This restructuring induced two significant changes in the operation of interstate pipelines. The FERC regulated pipelines now operate as common carriers, and are not permitted to operate as gas merchants. In other words, by restructuring, pipelines are required to provide open access to their networks and offer capacity on an unbundled basis. However, the FERC has maintained its oversight of interstate pipeline capacity tariffs - pipeline rates have not been deregulated.

4B. Storage Capacity

The FERC maintains oversight of gas storage rates. It is the understanding of the KCC Staff that the FERC allows market-based storage rates.

5. Local Distribution Services

The tariffs of LDCs are subject to the oversight of state regulatory agencies. The consensus view is that the distribution function is a natural monopoly function. Therefore, distribution rates (margins and other charges, such as customer and demand charges) should continue being subject to agency regulation. Furthermore, the gas and transport purchase **decisions** of LDCs is subject to the oversight of the KCC. Again, the price of gas is set in the marketplace while pipeline tariffs are subject to FERC oversight. The KCC does intervene in interstate pipeline (namely, WNG, KNI and KPC) cases filed with the FERC. The KCC also reviews gas purchase contracts.

Conclusion

The price of natural gas is determined by market forces. The price of transporting gas, from a gas market center to the final consumer, through a network of (mainly) interstate pipelines and finally through the distribution system of the LDC, is regulated by government agencies. For residential consumers, based on the national, annual average, of the final delivered price of gas, approximately 30% covers the cost of gas, the remainder covers the cost of various transportation (e.g., pipeline and distribution) services.

Volatility of the Natural Gas Price

The gas market tends to produce a highly volatile price. Price volatility tends to

be greater during the winter months as opposed to summer. The demand for gas during the winter is very sensitive to (expected and actual) changes in the weather. Cold snaps can result in large increases in demand. Winter demand is also sensitive to the level of gas in storage relative to expected or historic storage levels. When actual gas in storage falls below the planned levels, concerns over being shorthanded are heightened. Finally, over the near term, the amount of gas that gas be produced and delivered is limited. Consequently, during the winter the supply of gas is price inelastic. And therefore, weather induced changes in demand tend to result in a relatively large change in price.

The Role of Prices

It is important to keep in mind the role price information plays for both buyers and sellers. To say the obvious, consumers dislike high prices, but not so for producers. When consumers see a high price level for natural gas, this is a signal to consume less (or alternatively, save the gas for future consumption) and reconsider the economics of investing in conservation measures, such as: insulation, updating the furnace and other gas using appliances, weatherstripping, etc. High prices provide an incentive to improve efficiency of gas use - painful as those high prices may be. For producers, high prices provide a stronger incentive to invest in exploration and drilling activities. Thus, high prices provide the motivation in ensure the availability of gas in the future. Needless to say, if availability has been 'ensured,' the less likely shortages will be. Shortages, or simply the prospects of curtailed use, are perhaps more distressing to consumers than high prices. [High prices serve to ward off shortages.] Relative low prices have the opposite effect: the incentive to conserve is reduced, similarly with the incentive to explore and drill. (See the graph on oil rig counts.)

Price Indices

What is a gas price index? It is simply a reported **market price** for a specific region or location. In short, an index price is a regional price report.

Gas is bought and sold at thousands of different locations across the country. Nearly 95% of the nation's total gas production takes place in eighteen different states. For the year 1996, Texas lead the way, followed in order by Louisiana, Oklahoma, New Mexico, Kansas and Wyoming. (See Table 1.)

Imagine you are LDC interested in buying wholesale gas. It might be very useful to know the price of gas in Texas, or Kansas, or Wyoming, or any other region. Where can a potential buyer turn to get that information? The answer is: regional market price reports, that is, price indices. For example, by checking the El Paso Natural gas Co. , Permian Basin Index, one obtains a market price for gas sold in New Mexico. The Kern River Gas Transmission Co. Index offers the market price for gas being sold in Wyoming, the Northern Natural Gas Co. , Ventura, Iowa offers a price for gas traded in Iowa. Natural gas price indices provide potential (and actual) buyers and sellers with

market price information specific to various locations - from the Rocky Mountains to Appalachia, from the Canadian border to Texas. Price indices are little more than price reports.

Each month McGraw-Hill publishes a report entitled *Inside FERC's Gas Market Report*. Therein nearly 50 different regional price indices are reported. For each index, that is, for a specific regional market, McGraw-Hill performs a broad-based **sampling** of actual market activity. Per each index, a large number of market participants are **surveyed**. The sample participants are very representative of the marketplace - both buyers and sellers, both large and small are sampled. Producers, marketers, LDCs and end-users are all sampled, and in reasonable, well-balanced proportions. Per each index, prices stemming from **hundreds** of final transactions are solicited by and reported to McGraw-Hill. The number of locational price reports varies by the level of market activity. During winter months because there are more transactions, the number of reported transactions is likewise larger. In summary, Staff believes the sampling and survey methods used by McGraw-Hill are well designed and most reasonable. Staff has had discussions with the chief editor of the *Inside FERC's Gas Market Report*, and it is Staff's understanding that McGraw-Hill welcomes the opportunity address any questions regarding its sampling and survey methodologies.

Actual index numbers are based upon an assessment of various statistics derived from the sample data. For example, per a specific sample, the median, mode, simple mean, volume-weighted mean are examined. Typically these statistics are close in value. In performing this assessment, further attention is given to that price level (i.e., statistic) supported by the largest amount of "deal making." That is, that price where market activity is deepest. Again, the reported index number is based upon this assessment process, consequently, the reported price is generally equivalent to or very close to one or more of the sample statistics.

It is important to note that the reported index price is based entirely upon a sample of market prices. Prices are not set by an index. Rather, prices are set in regional markets. The price indices merely serve as a vehicle by which those prices can be reported. The publishers of price indices provide a means to enhance **transparency** of regional gas prices. In short, the index prices are simply a summary of market price information .

The Natural Gas Futures Market

The NYMEX offered traders an opportunity to trade a natural gas futures contract starting in April 1990. As evidenced by the level of trading activity, the NYMEX gas contract has been extremely popular. The delivery point for the New York Mercantile Exchange (NYMEX) contract is the Henry Hub located on the Sabine Pipeline in central Louisiana.

It may be worth noting that futures contracts have been traded in the United States since 1858. [The Chicago Board of Trade offered a corn contract starting that

year.] The question of whether futures markets tend to increase or decrease price volatility is an old question, indeed it has been around since about 1858. This question has attracted a great deal of attention, especially from members of the academic community. There exists a large body of literature on this issue. Conditions under which the existence of a futures market either increases or decreases price volatility have been identified. A consensus view has emerged in recent years. The consensus view is: futures markets tend, on average, to **decrease** price volatility.

How can this be explained? Futures market provide a means to improve the informational content of prices. The greater the informational content, the more accurately a price reflects the true social value of the commodity. This serves to make prices more robust and, thus, less sensitive to marginal information. This has the effect of reducing price volatility. By analogy, election results based on a 100% voter turnout (thereby containing the maximal amount information input from voters) tend to be more stable, over time, than elections based on 30% voter turnout.

It is worth noting that speculators are indifferent between increasing and decreasing price - profit can be made with both. The most successful speculators are those that are most efficient at processing relevant information. It is by this efficient processing of information that prices are injected with meaningful information content, consequently, making for a more robust price.

TABLE 1

Producer Market Shares

The figures provide relative market shares (of the national market) for the top five producing companies in 1996.

<u>Company</u>	<u>Domestic Production (TCF)</u>	<u>Market Share(%)</u>
Amoco	0.891	4.14
Exxon	0.809	3.76
Chevron	0.682	3.17
Shell Oil	0.644	3.00
Texaco	0.605	<u>2.81</u>
		16.89

Staff estimates that the top 10 producing companies supply about one third of the total market. According to the EIA, there are over 23,000 natural gas operators in the United States.

By virtually any measure the natural gas market appears to be very competitive.

Market Shares in Kansas

For the year 1997, based strictly on Kansas natural gas production, Staff has estimated the market shares of the top ten producers in Kansas.

<u>Company</u>	<u>Market Share(%)</u>
Mobil	19.6
Amoco	19.2
Anadarko	14.3
Oxy USA	12.7
Mesa	9.8
Helmerich	3.0
Plains Petro.	2.7
Vastar Res.	2.0
Hugoton Energy	1.6
Kan. Nat. Gas	1.4

TABLE 1 (cont.)

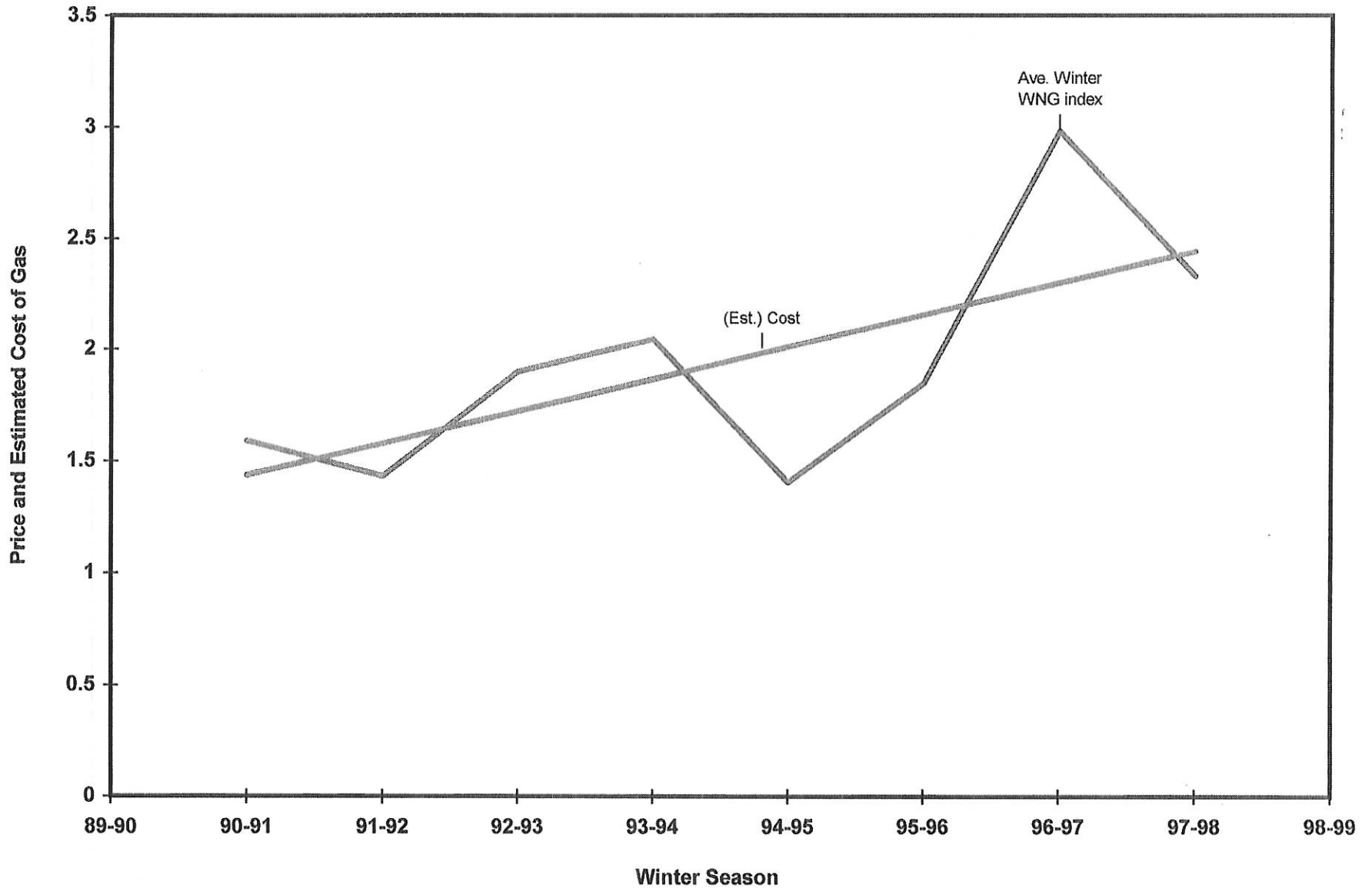
Kansas Versus the Other Major Natural Gas Producing States

The (marketed) production figures presented are for the year 1996, units are MCF.

1.	Texas	4,858,951
2.	Louisiana	3,948,366
3.	Oklahoma	1,293,773
4.	New Mexico	1,177,550
5.	Kansas	535,146
6.	Wyoming	500,846
7.	Colorado	421,640
8.	Alabama	395,968
9.	Alaska	354,742
10.	California	212,538
11.	Michigan	196,059
12.	Utah	185,633
13.	Mississippi	77,262
14.	North Dakota	37,034
15.	Montana	36,874
16.	Florida	4,489
17.	Oregon	1,090
18.	Other States	608,576

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History of the *Inside Ferc's* WNG Index and Natural Gas Costs



A-2

Natural Gas Presentation

By: Michael Eichenberg of Mountain Energy Corporation
President and Chief Executive Officer

The Role of the Utility

- Distribution
- Procurement
- Administration

Types of Service

- Distribution Only
- Distribution – Administration
- Procurement – Residential
- Procurement Residential / Small Commercial
- Total Procurement Except Large Industrial
- Full Service

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Assets

- Long Term Supply Contracts
- Long Term Transportation Contracts
- Distribution Systems
- Information Systems
- Trained Personnel

Price Risk – Who Has It ?

- Procurement Practices
- Storage
- Indexes
- NYMEX
- Basis
- Hedging

Why Competition

- Shift risk from the consumer to the marketer
- Promotes efficient business practices

ISSUES

- Utility Asset Base
- Financial Strength of Marketers
- Risk Management
- Consumer Education

Sen. MORRIS
A-3

Whereas, the Kansas Corporation has reviewed and made certain determinations with respect to a natural gas contract, which has been identified as the P-0802 contract;

Whereas, the Kansas Corporation Commission made certain determinations in its Order of March 12, 1979, in Docket No. 113,421-U, where it found that the P-0802 contract was not used and useful for the purpose of providing natural gas service to retail customers in Kansas;

Whereas, the Kansas Corporation Commission found as follows: "Furthermore, we are unconvinced that this contract relationship of Applicant with its wholly owned subsidiary has been maintained strictly at 'arms length'. We are particularly concerned that Applicant appears to have sacrificed benefits of considerable importance by the amendments negotiated subsequent to the original contract." (Order of March 12, 1979 at para. 41, page 28).

Whereas, Kansas ratepayers made contributions to develop oil and gas leases in the Bowdoin Field in Montana, which were ultimately made the subject of the P-0802 contract;

Whereas, the P-0802 contract was made the subject of a corporate spin off, wherein utility stockholders were given one share of stock in the company that retained the P-0802 contract for each share of utility stock that was owned by the utility share owner;

Whereas, ratepayers received no benefits from the spin off;

Whereas, the P-0802 contract was renegotiated as the spin off was occurring in a transaction which was not at arm's length and which did not permit the ability to market out of the contract in the event that the price under the contract was not compatible with current market conditions;

Whereas, the price of the P-0802 contract is well above current market prices;

Whereas, parties to a Kansas Corporation Commission docket (Docket No. 96-KNNG-700-TAR) entered into a settlement agreement to postpone a determination of the prudence of the P-0802 contract until after September 30, 1999, in exchange for rate relief which was to be effective through 1999. However, in accepting the agreement, the Commission went ahead and determined that there was evidence to support that the contract was prudent, even though the docket was not established for the purpose of determining the prudence of the P-0802 contract and such determination was at odds with earlier rulings by the Commission concerning the P-0802 contract. Moreover, the Commission order had the effect of undermining the settlement agreement of the parties in Docket No. 96-KNNG-700-TAR.

Whereas, on December 19, 1996, some 200 ratepayers appeared before the Kansas Corporation Commission to request a prudence review of the P-0802 contract;

Whereas, in a subsequent docket (Docket No. 97-KNNG-523-GIG), the Kansas Corporation Commission agreed to investigate the assignment of the contract as part of the gas realignment

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that was ordered by the Federal Energy Regulatory Commission to determine if the assignment was proper, but the Commission refused to include the issue of the P-0802 contract's prudence, even though such a review would impact on the contract's assignment;

Be it resolved by the House of Representatives of the State of Kansas [the Senate of the State of Kansas]: That the Kansas Corporation Commission be urged to postpone its current proceedings in Docket No. 97-KNNG-523-GIG until such time that the prudence of all transactions involving the P-0802 contract can be independently determined or after September 30, 1999; and

Be it further resolved: That the Kansas Corporation Commission be directed to do an investigation of all aspects of the P-0802 contract, including the earlier decision of the Commission which established that the contract was not required for utility service in Kansas and was not negotiated in an arm's length transaction.

TY	FROM	TO	DAYS	PREVIOUS	PRESENT	KWH/MCF	FACTOR
ELE	02-02-98	03-04-98	30	61569	62280	711	.00000
GAS	02-02-98	03-04-98	30	00845	00863	18	93410

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SVC TYP	CUSTOMER CHARGE	ENERGY CHARGE	COG CHARGE	FRANCHISE FEE	SALES TAX	COUNTY TAX	CITY TAX	CURRENT CHARGE
ELE	4.00	41.15	.00	1.35	.00	.12	.47	47.09
GAS	6.20	25.64	70.81	3.08	.00	.26	1.06	107.05

Previous Balance
 Payments Received ** THANK YOU
 Balance Forward
 Total Current Charges

185.59
 185.59CR
 .00
 154.14

Acct Nbr: 2250870843

COMPARATIVE USE INFORMATION						AMOUNT DUE	
PERIOD	DAYS	KWH	KWH/DAY	MCF	MCF/DAY	By Apr 2, 1998	\$
CURRENT	30	711	23.7	18	.600	AMOUNT DUE	
LAST YEAR	32	938	29.3	18	.563	With Late Charge	\$ 157.22
						By Apr 2, 1998	\$ 154.14

***** WHEN PAYING IN PERSON, PLEASE BRING ENTIRE STATEMENT *****
***** IF MAILING, PLEASE RETURN THIS PORTION. THANK YOU! *****

Energy Charge

The charge reflects the cost of all kilowatthours (KWH) of electricity used during the billing period.

Capacity Charge

Certain customers are billed on rates that provide for a capacity charge. Capacity is measured in kilowatts (KW) with a special meter that registers the maximum use of electricity during the billing month. The kilowatts registered are used to calculate a billing capacity, which in turn is multiplied by the capacity charge rate to reflect the total capacity for the billing period.

Natural Gas Customers

Energy Charge

In Kansas - The charge reflects the cost of maintaining and operating the Company's natural gas delivery system.
 In Oklahoma - The charge reflects base costs of natural gas used during the billing period as well as the cost of maintaining and operating the Company's natural gas delivery system.

MCF or CCF

Natural gas is sold on a volumetric (cubic feet) basis.
 MCF - Abbreviation for 1,000 cubic feet
 CCF - Abbreviation for 100 cubic feet

COG - Cost of Gas (COG)

The Cost of Gas (COG) represents the costs incurred by the Company to purchase natural gas from suppliers and to pay related transportation charges necessary to provide natural gas to its customers. The COG charge is decreased or increased monthly to take into account changes in the costs which the Company must pay its suppliers and transporters of natural gas.

PGA - Purchased Gas Adjustment (PGA)

The PGA is based on price changes for gas purchased from our suppliers. The PGA will increase or decrease whenever the average cost of gas to the Company is increased or decreased.

Customer Charge

The customer charge is the amount customers pay to partially recover fixed costs associated with providing electricity and natural gas to customers. These fixed costs include bill processing, mailing expenses, meter reading, metering equipment, maintenance on equipment used to provide utility service such as meters, regulators, service lines, etc., and customer service personnel available to answer customer inquiries.

Rate Information

Rate descriptions and costs are available upon request.

Project DESERVE

This program helps the elderly and disabled pay emergency energy-related costs. All contributions of Project DESERVE are given to qualified families. If you add \$2, \$3, or \$5 to your payment, it will go directly to help someone in your area.

IMPORTANT MESSAGE - If you smell gas in or around your home, at work, or at the street, go to a telephone located away from the potential gas leak and call us immediately!

Printed on recycled paper.

Senate Utilities
 3-12-98
 Attach. 4