Approved: MARCH 24, 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 16, 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:
David Banks, Energy Manager, Wichita Public Schools
Jeanne Hernandez, Auditor, City of Wichita

Others attending: See attached list

Sen. Ranson announced the committee will continue hearing information regarding natural gas pricing. She introduced David Banks, who provided information on a pilot program for transporting natural gas to sites of USD 259 (Attachment 1). Members of the committee then questioned Mr. Banks on the program. Sen. Lee stated she understood minimal requirements had to be met, and she asked who set those. Mr. Banks answered the minimum requirements are established by negotiations with the local utility and approved by the KCC. Sen. Lee then asked questions regarding adjusting rates, and if the KCC adjusted those rates. Glenn Smith, of the KCC, answered those rates are adjusted down; and that the minimum is 6,000 mcf (1,500 per month). Mr. Banks also responded to a question regarding transportation and indicated they have to transport a set amount of gas or the rates go up. Sen. Clark questioned the amount of savings realized for the school district by participating in the pilot program, and Mr. Banks stated the approximate figures are a savings of $120,000 for approximately 42 buildings; that the school district estimates they are paying approximately $4.00 per mcf, which includes transport charges, taxes and fees. Mr. Banks also confirmed that under the Large Volume Transport tariff (LVTK), the charge is $3.13 per mcf for those buildings.

Sen. Ranson questioned Mr. Banks regarding rates and stated that the school district could be paying three rates for the use of natural gas. Mr. Banks continued by explaining that not all buildings are in the pilot program, since the maximum usage is 6,000 mcf's; that they have dropped smaller, elementary schools from the LVTK and moved them to the pilot program. Sen. Ranson asked which companies the school district is contracting with, and Mr. Banks stated they have no regular transport contracts with Kansas Gas Service, but contract with UtiliCorp United which covers 32 buildings under the General Service Tariff. They then discussed the meter fees the school district pays, which was raised from $32.50 to $175.00 per month, and Sen. Ranson asked questions regarding the lease of meters. Mr. Banks stated the meters are leased from Kansas Gas Service and are paid on a monthly basis. Mr. Smith confirmed the increase in meter fees was approved by the KCC and was part of the realignment of the rate structure. Sen. Ranson referred to Mr. Banks' statement on the conservation and cost containment efforts of USD 259, which have amounted to a $2 million savings per year. The down side is that the school district has lowered their volume, consequently, they will not be eligible to participate in the program, unless they wastefully burn off enough natural gas to qualify for the program. Sen. Barone asked if the school district has offered to pay for the gas and not burn it off; Mr. Banks stated the school district's contract is to qualify for the tariff minimum; that they have offered to pay for the gas, which they have not used, in order to qualify for the program. He stated both the local utility company and the KCC have answered they cannot do that. He continued by stating he is ashamed to waste this natural resource to be eligible to continue participation in the program, and Sen. Ranson made the statement it appears both the KCC and utility company are advocating wasting natural resources.

Sen. Ranson then introduced Jeanne Hernandez, who presented information (Attachment 2) regarding the impact of the loss of revenue for the City of Wichita. Committee members discussed with Ms. Hernandez having an equal, or consistent, rates for access to utilities, instead of the 5% of gross receipts being accessed. She referred to the graph on Page 2 of her presentation and pointed out that there is a $1.81 per line access fee for phone service and that the cable service is based on gross receipts; that the water franchise fee is by rate class. Sen. Barone discussed charging a flat fee, and Sen Ranson stated that the solution may be to charge by usage, not by gross receipts. She referred to the Retail Wheeling Task Force Report and stated that is why the committee is looking at tax issues, because when one thing is changed, it upsets others. She stated that if an independent marketer sells natural gas to a customer in the Wichita area, there are no franchise fees paid into the city.

Meeting adjourned at 2:20. Next meeting will be March 17, 1998

SENATE UTILITIES COMMITTEE GUEST LIST

DATE: MARCH 16, 1998

NAME	REPRESENTING
Mike Taylor	City of Wichita
Jeanne Hernandez	City of Wichita
Merlin Roehm	USD 259
[illegible]	USD 259
Diane Gjerstad	USD 259
J. [illegible]	UtiliCorp United
[illegible]	KCC
Steve Johnson	Kansas Gas Service
WALKER HENDRIX	CURB
Larrie Ann Brown	KS Govt Consulting
[illegible]	McGill & Assn.
Amy A. Campbell	Midwest Energy, Inc.
William Eliason	Ks Gas Service
John Cita	KCC
Whitney Damron	KS Gas Service

Attach. I

WICHITA
PUBLIC SCHOOLS

Energy Management/Education

Telephone *- (316) 833-2004*
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Senate Utilities Committee
Senator Ranson, Chair

Report on:
Unified School District No. 259 Gas Transportation Pilot Program
March 16, 1998

David Banks
Energy Manager
Wichita Public Schools

Madame Chair, Members of the Committee:

In January of 1996, the Wichita Public Schools and KGE (d.b.a. Kansas Gas Service, after merger with OneOK), came to agreement on a pilot program for transporting natural gas to existing sites of USD 259. This program excluded sites currently under a transport contract, or those being served by other natural gas utilities. This agreement was the result of a series of meetings and discussions to resolve transport eligibility problems manifested as a result of USD 259's conservation efforts and unseasonably mild winter weather.

As consumption of natural gas at the district's sites dropped, USD 259 was forced to burn natural gas needlessly in order to meet the consumption minimums set forth in existing tariffs. This was purely an economic issue. By needlessly burning several hundred dollars of natural gas during the right time, the district was able to keep marginal sites eligible for transport service, retaining favorable pricing which saved thousands of dollars annually. For example, at the Lawrence/ Mayberry campus it was necessary to wastefully burn $600.00 worth of natural gas in order to maintain transport eligibility, saving over $6,000.00 annually.

Following are the details and highlights of our transport gas pilot program:

- There are forty-three district sites participating in the pilot program with an annual aggregate natural gas consumption of approximately 80,000 MCF.

- USD 259 is permitted to aggregate the usage of all meter points within the district's boundaries and receive transportation services from KGS, notwithstanding the fact that individual meter points do not qualify for such service. This allows USD 259 to transport to forty-three district sites, which otherwise would not meet the minimum usage requirements for transport services.

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- Nominations for all sites are aggregated, providing greater flexibility and control during periods of daily balancing.

- USD 259 receives a single, aggregated, itemized bill for all accounts in the pilot program. Payment is made utilizing electronic transfer technology, and is due within five working days of the billing date.

- USD 259 is responsible for reading all meters on the first business day of the month, (or daily during periods of daily balancing or curtailment), and accurately reporting the usage at all meter points to KGS. KGS is responsible to verify meter reads at least once per year.

- Electronic communication/metering equipment will be installed at mutually agreed upon locations (not exceeding five per year) for the purposes of monitoring, billing, and/or research. The cost borne by USD 259 not to exceed $4,500.00 per year, and said electronic equipment will remain the property of KGS.

- USD 259 realizes an annual savings of approximately $120,000.00 when comparing the cost of transport gas delivered on site with the average rate being charged under general service tariff by the two available utilities serving the district's geographic region.

- This pilot program is to remain in place until June 1, 1999, as long as it is satisfactory with all parties, or until such time as all USD 259's accounts are eligible for transportation service under tariffs adopted and approved by the KCC.

I would like to conclude at the same place that I started more than four years ago. Due to the conservation and cost containment efforts of USD 259, which have reduced our projected utility expenditures by more than $2,000,000.00 per year (combined natural gas, water/ sewer, and electricity), and the relatively mild weather of December, January, and February, at least two USD 259 sites, currently transporting natural gas under the LVTK tariff rate, will most likely not meet tariff minimums. The consequence is these sites will have to burn natural gas needlessly to continue to receive a preferential rate, or suffer an economic increase approaching $10,000.00 annually.

After having repeatedly been informed by local utility representatives of their intent to significantly reduce or eliminate tariff minimums, I look forward to a time when those words are not just rhetoric. Squandering natural resources or forfeiting economic resources is a poor choice for financially embattled consumers who chose to accept the risks and additional workload inherent with transportation of natural gas.

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City of Wichita
Presentation for Senate Utility Committee
Natural Gas Franchises
March 16, 1998

Jeanne Hernandez

I. BACKGROUND

As a result of changes in federal natural gas policy in the late 1980s, it became possible for large volume customers to buy natural gas from suppliers other than local distribution companies (franchised entities) and to use the local distribution companies (LDC) to deliver the gas from the transmission pipelines to their facilities. These customers purchase their natural gas on the open market from other suppliers or from corporate relatives of the franchised entities and arrange for the local distribution company to transport gas. Customers who transport gas are charged a fee by the local distribution company for this service separately from the purchased natural gas.

The City of Wichita currently has two franchises which were negotiated in 1982 (before deregulation) and expire September 7, 2002. The current franchises are with Peoples Natural Gas and Kansas Gas Service (assigned from Kansas Power & Light). The franchise grants the gas utilities the following:

> *"right, privilege and franchise to construct, maintain, extend and operate in, through and along the present and future streets, alleys and public places of the city...its mains, pipes, boxes, reducing and regulating stations, laterals, conduits and service extensions...for the purposes of supplying gas....."*

Franchise holders are required to pay adequate compensation for the franchise. Wichita's' franchise fee is an amount equal to 5% of gross receipts from the sale of gas to consumers located within the City.

Issues:

(Similar issues are anticipated with electric retail wheeling.)

a. The City is not receiving compensation for the use of the right of way for the sale of gas from the independent sellers.

b. The City is not receiving compensation from the sale of transportation services by the LDC.

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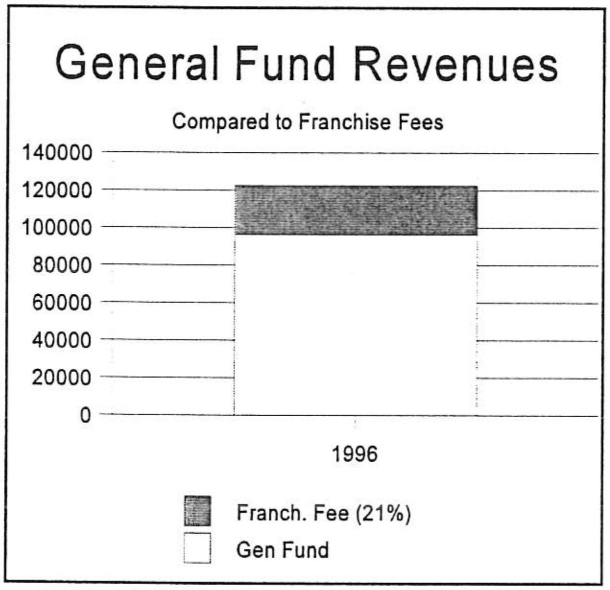
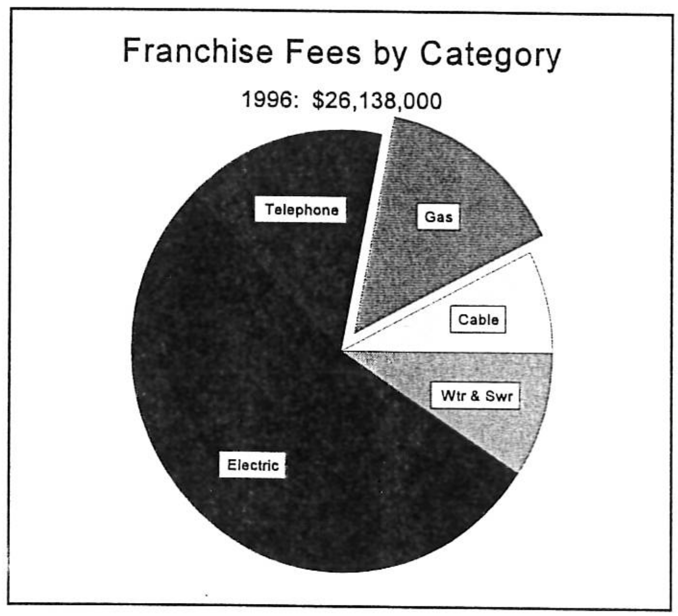
II. IMPACT ON WICHITA.

In 1996, the independent auditors estimated a loss of $120,000 each year in transportation revenues and R.W. Beck increased this estimate to $800,000 which includes both transportation and deregulated gas being excluded from the franchise fee gross receipts base. Since this time, more industrial customers have educated themselves and are purchasing deregulated gas -- increasing the amount of loss every year.



General Fund revenues totaled $122.4 million in 1996. Franchise fees totaled $26.1 million which represents 21% of the City's funding for general operations.

In 1996, Wichita collected $3.8 million in franchise fees from the two natural gas franchises. **When residential gas is deregulated the City is at risk of loosing this entire amount**. The largest component of franchise fees is electric: the City collected $14.0 million in 1996. The natural gas deregulation will set a precedent for the electric industry. The City has a stake in both industries.



III. APPROACH TO RESOLVE THE PROBLEM.

1 In 1996, the City of Wichita considered a Natural Gas Transportation Ordinance which was a 5% franchise fee or occupation tax on the sale, distribution or transportation of natural gas. This ordinance applied to entities not covered by a current franchise and would have been a unilateral implementation.

Problems:

a. Potential for a high non-compliance rate due to inability to monitor, identify and collect fees from individual gas marketing companies located throughout nation.
b. The Occupation Tax has a high administrative cost to the City.
c. Would not recover the $120,000 transportation from the current franchise holders.

2. In cooperation with both franchised LDCs, a volumetric ordinance has been proposed and is currently being negotiated. The volumetric concept was proposed initially by the City; however, during the process the LDCs have contributed to an improved methodology. These negotiations are in process under the following conditions:

- voluntary, since ordinance does not expire until 2002;
- final ordinance may not competitively burden one franchise over the other;
- agreement to extend the term in exchange for updated engineering provisions in ordinance;
- reinstates the franchise fee to original intent--all uses of right-of-way need to pay for privilege.

Positive Outcomes.

- Easily measured and administered;
- restores the inequities between customer class and energy competitors;
- eliminates the present unintended loopholes.

IV. VOLUMETRIC RATE.

1. Calculation. The Volumetric Rate was calculated using the following formula:

1996 Franchise Fees:		XXXXX MCFs
Divided by		
Volume (MCF) distributed in 1996 (non transport):	$	XXXXX
Equals	$	.XX/MCF

Note: The City of Wichita completed a franchise audit in 1996 of franchise ordinances and had information on volume, by customer class, distributed through the pipelines

Issues. There are a number of issues that remain outstanding in arriving at a volumetric rate.

a. The "5% of Gross Receipts" rate had hidden inequities. Because the industrial customer paid less per MCF in gas, the gross receipts franchise fee was lower than the residential customer's franchise fee paid. A volumetric fee would eliminate these hidden inequities, each customer class pays the same.

b. A volumetric rate, as calculated above, is equivalent to a 5% of gross receipts on a regulated basis.

c. As a result of b., above, a dual compensation package has been proposed.

   1. Continue the 5% of gross receipts on the bundled sales;
   2. A volumetric rate on the unbundled sales based one of the following indexes:

      - The NYMEX futures prices of gas;
      - The spot price of gas as published by the Federal Energy Regulatory Commission (FERC).
      - Other??