Approved: Carl Dean Holmes
Date 2-17-99

MINUTES OF THE HOUSE COMMITTEE ON UTILITIES.

The meeting was called to order by Chairperson Rep. Carl Holmes at 9:06 a.m. on February 2, 1999 in Room 522-S of the Capitol.

All members were present except:

Committee staff present: Lynne Holt, Legislative Research Department
Mary Torrence, Revisor of Statutes
Jo Cook-Whitmore, Committee Secretary

Conferees appearing before the committee:

Others attending: See Attached List

The Chairman distributed copies of an article that appeared in the Wichita Eagle that he had made reference to during Monday's proceedings. He pointed out the statement on page two, top line "proposal calls for KPL Division to bear the cost of the gas turbine generators." (Attachment 1)

The Chair asked for bill introductions and stated that tomorrow is our deadline. Rep. Sloan asked for a committee bill that would "eliminate the KCC's need to approve or to disapprove affiliate transactions by utilities and to approve or disapprove proposed acquisitions of foreign holdings. Currently, the Commission doesn't turn them down, but there is an expense to the utility companies to do the filing and the paperwork and the Commission staff has requirements to look at the material. Both parties agree that that is no longer really necessary." The Chair then recognized Nancy Lindberg, Assistant toAttorney General Carla Stovall. Attorney General Stovall's request is for a bill on "cramming". "Cramming" is the addition of supplemental telecommunications services to a consumer's phone bill without their express authorization. (Attachment 2).

Rep. Sloan moved that the committee introduce both bills. The motion was seconded by Rep. Johnson. Motion carried.

Chairman Holmes welcomed Lynne Holt, Legislative Research, to the podium. Ms. Holt distributed copies of the Southwest Power Pool map as requested by the committee (Attachment 3). Ms. Holt then presented her program entitled "Natural Gas Small Volume Customer Choice Issues.". (Attachments 4, 5, 6 & 7) The presentation was concluded with responses to questions from the committee.

The Chair introduced Glenn Smith, Chief of Natural Gas Operations of the Kansas Corporation Commission who presented "Natural Gas Transportation in Kansas by Local Distribution Companies (LDC)" (Attachment 8). He concluded his presentation by responding to questions from the committee.

Rep. Dreher moved that the minutes of the January 27 meeting be approved. Rep. Kuether seconded the motion. Motion carried.

Meeting adjourned at 10:37 a.m.

Next meeting is Wednesday, February 3 at 9:00 a.m.

# HOUSE UTILITIES COMMITTEE GUEST LIST

DATE: February 2, 1999

| NAME | REPRESENTING |
|---|---|
| Joe Dick | BPUKCK |
| Glenn Smith | KCC |
| Rob Hodges | KTIA |
| George Barbee | Barbee & Associates |
| WALKER HENDRIX | CURB |
| J.C. LONG | UtiliCorp United |
| Helen Norris | Kansas Farm Bureau |
| [illegible] Stephens | Ks. Farm Bureau |
| DOUG LAWRENCE | KEC |
| Joe Thompson | Farm Bureau |
| Brad Burke | Western Resources |
| Ron Gaches | McGill, Gaches & Asso. |
| Heinemann | Kcc |
| Darlene [illegible] | Centralia Ks. Farm Bureau |
| Donna Dates | Kansas Farm Bureau |

# HOUSE UTILITIES COMMITTEE GUEST LIST

DATE: ______________________

| NAME | REPRESENTING |
| --- | --- |
| Howard Huck | Ks. Farm Bureau |
| Nancy Lindberg | Atty Gen |
| Whitney Damron | Kansas Gas Service |
| ED SCHAUB | WESTERN RESOURCES |
| Doug Smith | SWKROA |
| TOM DAY | KCC |
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Updated **THURSDAY** January 28, 1999

**Local**

# Western Resources wants to boost power

## KCC hearing will examine company's plans to build new generating capacity at KGE's Colwich power plant.

**By Bob Cox**
*The Wichita Eagle*

After running short of electricity during the critical summer months last year, Western Resources Inc. wants to build additional power-generating units at its Gordon Evans Energy Center in Colwich.

The new generators would be an insurance policy of sorts, to be operated during periods of peak electricity demand or when other generators are shut down for repairs or maintenance.

"We're estimating that they will probably operate for less than 10 percent of the year," said Suzanne Coin, spokeswoman for KGE, the Wichita-based subsidiary of Western.

The Kansas Corporation Commission will hold a public hearing tonight on Western's application for a permit to build the additional generators. That hearing, at 7 p.m. at the Sedgwick County Extension Education Center, 7001 W. 21st, is a preliminary step in Western getting KCC approval for its plan.

The proposal calls for building three gas-powered generators that would produce about 300 megawatts of electricity, or about 6 percent of Western's existing generation capacity.

The hearing may be relatively free of fireworks, unlike the Jan. 4 proceeding on Western's proposal to acquire Kansas City Power & Light Co. No one has officially objected to the plan.

But as the proposal to build new generating capacity is further reviewed by the KCC in technical hearings scheduled for March, electricity users seem likely to pose some questions for the regulators and the utility company to answer.

There are ties between the proposal to build the new generating plants and other issues before the KCC, such as the merger with KCPL and an ongoing investigation of last summer's power shortages.

One of those questions, given the controversy over the disparity between the price Western's KGE customers pay for electricity and the lower charges paid by KPL customers, is who will pay the estimated $133.5 million cost of the new power-generating project.

HOUSE UTILITIES

DATE: February 2, 1999

ATTACHMENT 1

Western's proposal calls for its KPL division to bear the cost.

"We expect it to have no impact on rates for KGE customers because the capacity cost is going to be added to the KPL books," Coin said.

Does that mean the cost of the plant will show up in KPL rates?

"At some point in time, it very well may be," she said.

The bulk of the generation capacity of the new plants would be owned by KPL, Coin said, but power could be sold to KGE for delivery to its customers.

Some of those customers say there are issues they will ask the KCC to address during the upcoming technical hearings.

Terry Keller, Boeing Wichita's manager of utility resources, said it's valid to ask whether Western's customers should be required to pay all the cost of the new generating plants, or just a portion.

KPL and KGE ratepayers, Keller said, have through their electrical bills paid all the costs of building Western's older generating plants. Yet Western is now selling large chunks of electrical power at wholesale prices to utilities in Missouri and Oklahoma.

"Give us the power out of plants that are already paid for, and give the power out of the new plants to the people in Missouri and Oklahoma," Keller said.

Selling bulk power to other utilities helps Western lower the cost of electricity charged its retail customers, Coin said, since it allows the utility to use generating capacity that would otherwise not be operated much of the time.

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**Bob Cox writes about business. He can be reached at 268-6424 or by e-mail at bcoxwichitaeagle.com.**

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State of Kansas
Office of the Attorney General
301 S.W. 10th Avenue, Topeka 66612-1597

CARLA J. STOVALL
ATTORNEY GENERAL

MAIN PHONE: (785) 296-2215
FAX: 296-6296
TTY: 291-3767

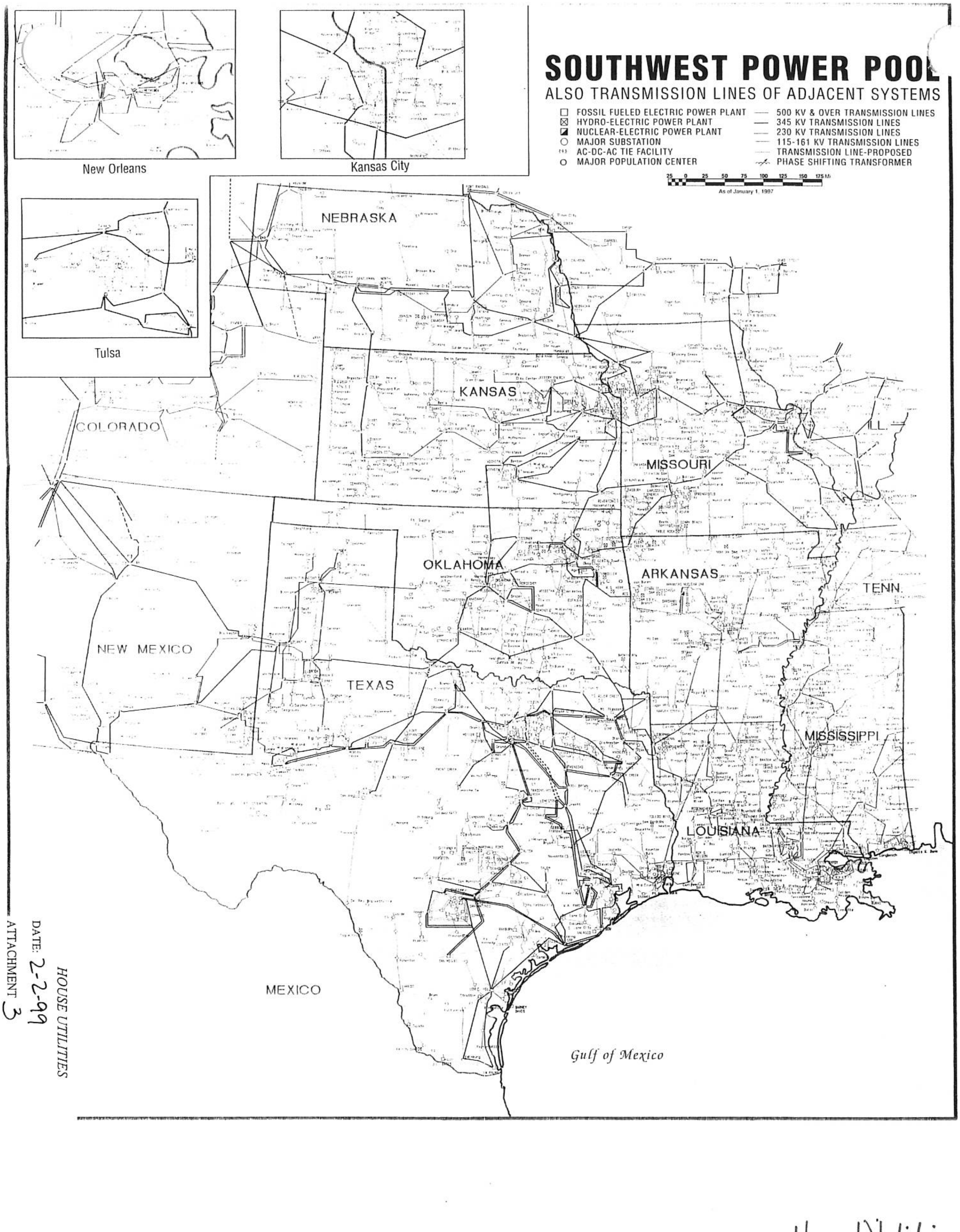
**TO:** **House Utilities Committee**
**FROM:** **Attorney General Carla Stovall**
**RE:** **Bill Introductions**
**DATE:** **February 2, 1999**

Cramming:

The proposed amendments to the slamming law (K.S.A. 50-6,103) would do the following:

(1) prohibit a supplier from adding "supplemental telecommunications services" to a consumer's phone bill without their express authorization (cramming);
(2) prohibit a supplier from billing or collecting on charges for switching of long distance services or adding supplemental telecommunications services when the supplier knew, or had reason to know, the consumer had not given express authorization;
(3) prohibit a supplier from using deceptive, misleading or confusing tactics in soliciting the addition of supplemental telecommunications services;
(4) broadens the language of who can violate the statute by adding that any "supplier" who engages in slamming or cramming is subject to a civil penalty of $5,000 to $20,000 for each violation.

*HOUSE UTILITIES*
DATE: 2-2-99
ATTACHMENT 2




HOUSE UTILITIES
DATE: 2-2-99
ATTACHMENT 3

House Utilities
2-2-99
Attachment 3

## NATURAL GAS SMALL-VOLUME CUSTOMER CHOICE ISSUES

TO: HOUSE AND SENATE UTILITIES COMMITTEES
February 2, 1999
Lynne Holt, Kansas Legislative Research Department

## #2– Presentation Outline

- Background information on movement toward restructuring of natural gas industry
- Brief profile of small-volume customer choice programs in the United States
- Overview of different parties' expectations concerning customer choice programs
- Summary of select major components of customer choice policy initiatives
- Differences in natural gas and electric industries – factors to consider in formulating small-volume customer choice programs

## #3 — Outline of Energy Policy

Time Line of Energy Policy Adoption

- 1997 Federal Energy Regulatory Commission (FERC) Order 889 (electric)
- 1997 FERC Order 888 (electric)
- 1992 FERC Order 636 (gas)
- 1992 Energy Policy Act
- 1990 Clean Air Act Amendments
- 1989 Natural Gas Wellhead Decontrol Act
- 1987 FERC Order 500 (gas)
- 1985 FERC Order 436 (gas)
- 1984 FERC Order 380 (gas)
- 1978 Natural Gas Policy Act

## #4 — FERC ORDER 436

Required interstate pipelines to offer open-access transportation to local distribution companies (LDCs) and natural gas end-users.

- Open-access transportation ended the monopoly interstate pipelines previously enjoyed with respect to the transportation and sale of natural gas.
- End-users could now purchase natural gas at the well-head and transport the gas to market areas.

HOUSE UTILITIES

DATE: 2-2-99

ATTACHMENT 4

## #5 — FERC Order 636

**Required interstate pipelines to:**

- eliminate tariffs that offered bundled sales service (costs of all services are reflected in one rate, which is charged to all customers)
- restructure their transportation service to provide more flexible delivery service and delivery points for natural gas users.

## #6— Impact of FERC 636

- Flexible delivery point contracts — possibility of more competition between gas marketers and LDCs for natural gas sales
- Need for LDCs and other transportation customers to have their supplies and usage in balance on a daily basis.

## #7 — State Profile – Retail Choice

- Forty-three gas utilities in 16 states currently have customer choice programs for either, or both, residential and small commercial natural gas customers
- In addition, gas utilities in 11 other states and Washington, D.C., are considering customer choice programs (Source: General Accounting Office (GAO) Report, December 1998)

## #8— State Profile - GAO Survey of 34 Residential Customer Choice Programs Offered by Gas Utilities

Information as of July 31, 1998 (See Table 1)

- 31 programs in 16 states
- 15,151,525 eligible participants
- 552,909 actual participants
- 3.6 percent rate of participation
- Largest participation in Pennsylvania; programs in Ohio, Michigan, and Maryland had a large percentage of total participation nationwide
- Nebraska's KN Energy Choice Program – 70 percent of eligible customers selected a supplier

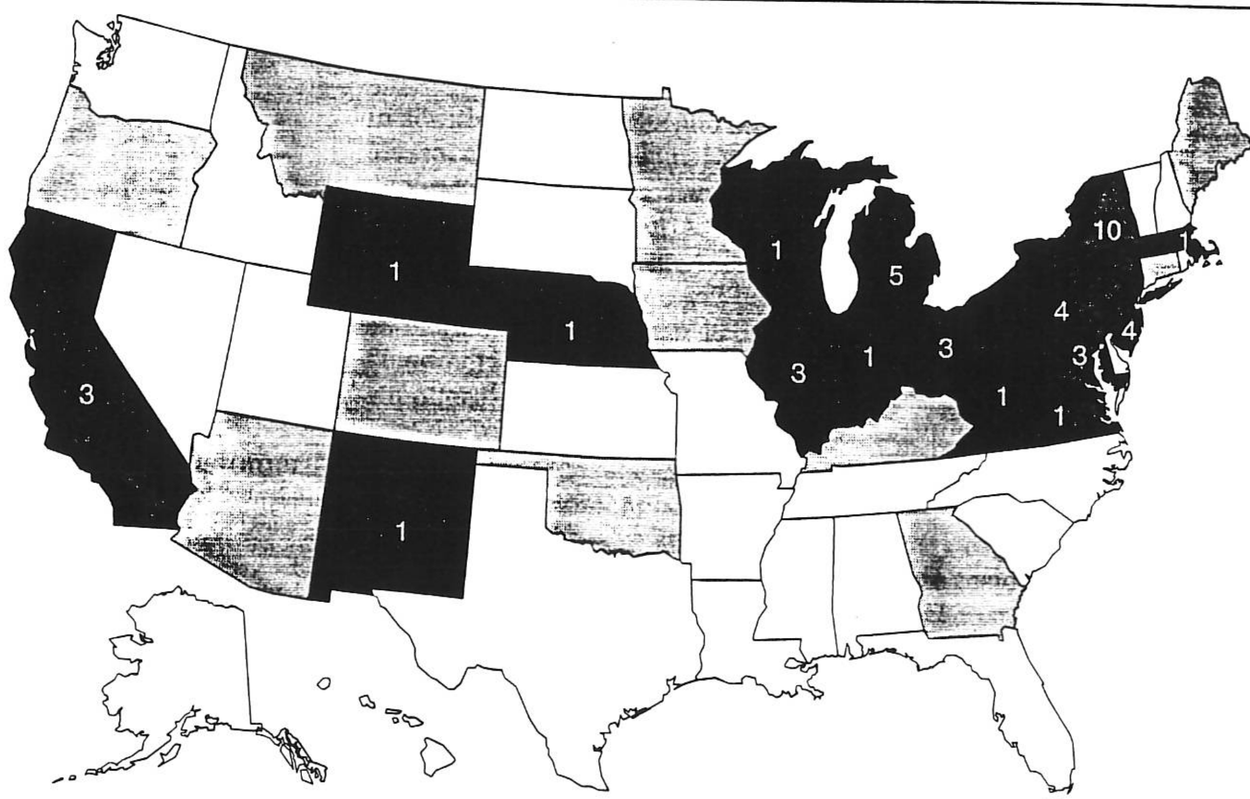
**Table 1: Overview of Residential Customer Choice Programs in the United States**

| State | Number of programs | Eligible participants | Participants | Percent participation[a] |
|---|---|---|---|---|
| California | 3 | 8,494,185 | 44,088 | 0.5 |
| Illinois | 1 | 10,081 | 1,705 | 16.9 |
| Indiana | 1 | 83,000 | 3,258 | 3.9 |
| Maryland | 3 | 640,000 | 44,900 | 7.0 |
| Massachusetts | 1 | 83,000 | 23,100 | 27.8 |
| Michigan | 3 | 145,000 | 33,903 | 23.4 |
| Nebraska | 1 | 82,000 | 57,400 | 70.0 |
| New Jersey | 1 | 350,000 | 22,000 | 6.3 |
| New Mexico | 1 | 380,000 | 0 | 0 |
| New York | 9 | 3,336,762 | 17,888 | 0.5 |
| Ohio | 3 | 656,000 | 98,485 | 15.0 |
| Pennsylvania | 4 | 847,001 | 194,439 | 23.0 |
| Virginia | 1 | 23,500 | 4,243 | 18.1 |
| Wisconsin | 1 | 10,996 | 1,500 | 13.6 |
| Wyoming | 1 | 10,000 | 6,000 | 60.0 |
| **Total** | **34** | **15,151,525** | **552,909** | **3.6** |

Note: Estimates of the number of participants in residential customer choice programs are based on information we received from 38 gas utilities. Most utilities provided us with estimates based on information that was current as of July 31, 1998. Reporting dates for other utilities varied between Mar. 31, 1998, and Oct. 1, 1998. (See table I.1 in app. I for the reporting dates of utilities included in this table.)

[a]The percent of participation was calculated by dividing the number of residential customers that have chosen gas marketers by the number of eligible participants in a customer choice program.

**Figure 2: Small-Volume Natural Gas Customer Choice Programs in the United States**




☐ States not considering or beginning small-volume customer choice programs.
☐ States considering or beginning small-volume customer choice programs (includes District of Columbia).
■ States with small-volume customer choice programs under way as of July 31, 1998.

Notes: Numbers indicate the number of active small-volume customer choice programs--both residential and small commercial--in each state. See Table 1 for the number of participants and

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(Source: General Accounting Office,
December [illegible])

# RESIDENTIAL PILOT PROGRAMS AND UNBUNDLING INITIATIVES

| STATE | COMPANY | POTENTIAL # OF HOMES | POTENTIAL DEMAND (Bcf) | IN-SERVICE DATE | PENDING OR COMPLETED GOVERNMENT ACTION* |
|---|---|---|---|---|---|
| Arizona | | | | | Commission Docket |
| California | Pacific Gas & Electric | 3,454,000 | 190.9 | 3/98 | CPUC Rulings Issued, |
| | San Diego Gas & Electric | 68,000 | 3.6 | 8/91 | State Law Delays Res. |
| | Southern California Gas | 455,000 | 24.0 | In-Service | Choice Until 2000 |
| Dist. of Columbia | Washington Gas | 3,000 | .4 | 1/99 | |
| Colorado | Public Service of Colorado | | | | PUC Hearings Held |
| Connecticut | | | | | PUC Hearings Held |
| Georgia | Statewide | 1,538,000 | 127.7 | 11/98 | State Law Passed |
| Illinois | Central Illinois Light Company | 10,000 | 1.5 | 10/96 | ICC Hearing |
| | Nicor Gas | 80,000 | 12.0 | 1999 | |
| | Peoples Gas Light & Coke | 20,000 | 7.0 | 11/97 | |
| Indiana | Northern Indiana Public Svce. | 50,000 | 6.1 | 05/98 | URC Study Completed |
| Iowa | Statewide | 770,000 | 87.8 | 2/99 | IUB Rulemaking |
| | MidAmerican Energy | 875 | .1 | 11/95-10/96 | |
| Kentucky | | | | | Proposed Legislation |
| Maine | Northern Utilities | 15,000 | 1.0 | 11/99 | PUC inquiry |
| Maryland | Baltimore Gas & Electric | 25,000 | 2.5 | 11/97 | PSC Recommendations |
| | Columbia Gas | 10,000 | 1.0 | 11/96 | Issued |
| | Washington Gas | 100,000 | 10.0 | 11/96 | |
| Massachusetts | Bay State Gas | 83,000 | 8.0 | 11/96 | Unbundling Collaborative |
| | Boston Gas | 479,000 | 46.0 | 11/97-2000 | Workshops |
| Michigan | Battle Creek Gas | 1,000 | .1 | 04/97 | PSC Hearings Being Held |
| | Consumers Energy | 300,000 | 42.8 | 04/98 | |
| | Michigan Consolidated Gas | 1,078,000 | 162.0 | 04/97 | |
| | SEMCO Energy | 23,500 | 3.8 | 04/99 | |
| Minnesota | | | | | PUC Working Groups |
| Montana | Great Falls Gas | 22,600 | 2.4 | 09/99 | State Law, PSC Proceeding |
| | Montana Power | 120,000 | 13.0 | Winter 1999 | |
| Nebraska | KN Energy | 100,000 | 22.0 | 6/98 | Localities Regulate Utilities |
| New Jersey | Elizabethtown Gas | 10,000 | 1.0 | 11/97 | State Energy Plan & |
| | New Jersey Natural Gas | 350,000 | 36.3 | 04/97 | BPU Order Issued |
| | Public Service Electric & Gas | 300,000 | 30.5 | 06/97 | |
| | South Jersey Gas | 25,500 | 2.0 | 08/97 | |
| New Mexico | Public Ser. of New Mexico | 361,000 | 28.5 | 12/97 | |
| New York | Statewide | 4,048,000 | 404.8 | In-Service | PSC Regulations Issued |
| Ohio | Cincinnati Gas & Electric | 360,000 | 30.0 | 10/97 | State Law Passed |
| | Columbia Gas of Ohio | 1,150,000 | 143.8 | 04/97 | |
| | Dayton Power & Light | 25,000 | 3.1 | 11/98 | |
| | East Ohio Gas | 1,034,000 | 129.3 | 04/98 | |
| Oklahoma | Oklahoma Natural Gas | 670,000 | 59.0 | 05/98 | Proposed Rulemaking |
| Oregon | | | | | OPUC Stated Objectives |
| Pennsylvania | Columbia Gas | 142,000 | 16.3 | 11/96 | Pending Legislation |
| | Equitable Gas | 249,000 | 28.6 | 04/98 | |
| | National Fuel Gas Dist. Co. | 200,000 | 23.2 | 09/97 | |
| | Peoples Natural Gas Co. | 315,000 | 36.2 | 04/97 | |
| Virginia | Columbia Gas of Virginia | 26,000 | 2.5 | 12/97 | |
| | Washington Gas | 58,000 | 5.6 | 7/98 | |
| West Virginia | Mountaineer Gas Co. | 185,000 | 19.6 | In-Service | |
| Wisconsin | Wisconsin Gas | 2,500 | .3 | 11/96 | PSC Report |
| Wyoming | KN Energy | 10,000 | .9 | 06/96 | PSC Study Completed |
| | Questar Gas | 19,000 | 1.9 | 1999 | |
| **TOTAL** | | 18,344,975 | 1,779.1 | | |

* In most cases, regulatory approval is needed for utilities to offer residential transportation services

NOTE: The information in this table and study is based on published reports and is updated periodically. If you have additional information or corrections, please contact Bruce McDowell at AGA (703/841-8494 or e-mail bmcdowell@aga.com).

4-4

(Source: American Gas Association, November 25, 1998)

## #9 — State Profile -Residential Pilot Programs and Unbundling Initiatives

- **In most cases, state regulatory approval has been needed for retail choice initiatives**
- **Georgia, Montana, and Ohio enacted legislation**
- **A 1998 California law delayed residential choice until 2000**

## #10 — Various Perspectives

- **Small-volume customers**
  - Want to save money
  - Need sufficient information to make educated decisions
- **Gas marketers or suppliers**
  - Need to earn a profit
    - Rules governing customer participation, aggregation, access to capacity, treatment of LDC affiliates, reliability requirements, and cost of natural gas can affect entry

## #11 — Various Perspectives

- **Local Distribution Companies (LDCs)**
  - Concerned about stranded costs and marketers' reliability to deliver gas and their adherence to codes of conduct
- **Regulators (KCC)**
  - Concerned about reliability of service and preferential treatment for affiliates

## #12 — Select Major Issues For Retail Customer Choice Programs

- **Unbundling**
- **Obligation to Serve**
- **Supplier of Last Resort**
- **Treatment of LDC's upstream capacity**
- **Stranded Cost Recovery**
- **Aggregation Thresholds and Requirements**
- **Market Power**
- **Consumer Information**
- **Universal Service and Disconnection**

## #13 — Unbundling

**Separation of services instead of bundling or packaging them at a set price**

- Usually refers to the purchase of natural gas for resale (merchant function)
- Could also refer to other services, such as arranging transportation, arranging storage, balancing services, providing financial instruments to "hedge," meter reading, billing, and maintenance contracts
- Policy questions — Should the LDC be required to exit merchant function? If yes, under what conditions?

## #14 — Obligation to Serve

**Who has obligation to serve if supplier fails to do so?**

- LDC?
- Marketer/Supplier?
- Customer? Caveat emptor!

## #15 – Upstream Capacity

- Upstream capacity refers to production and transportation of gas before it reaches the LDC's individual distribution pipelines (or city gates).
- To guarantee the availability of interstate pipeline space (or capacity) necessary for the delivery of their gas, LDCs currently reserve capacity through negotiated contracts.

## #16 — Stranded Cost Recovery

- Costs arising from long-term contracts for pipeline capacity that the LDC may not be able to recover in a competitive marketplace.
- Other transitional costs include: modification of computerized billing system; initial customer education programs; charges or credits associated with time lag in gas cost recovery calculations.
- Policy question — How should prudently incurred stranded costs be recovered?

## #17 — Treatment of LDC's Upstream Capacity – Policy Options

- **Policy questions:**
  - How should LDCs treat their unneeded and unused capacity if firm customers switch to alternative suppliers?
  - How will third-party suppliers be assured access to enough capacity to serve their customers' loads?
- **Options:**
  - LDC should continue contracting for and managing firm pipeline capacity.
  - LDC should restructure obligations and turn management over to a third-party supplier.

## #18 — Aggregation Thresholds and Requirements

- **Determination of a threshold measured by minimum units of gas and/or number of customers required for and aggregator to participate in small-volume customer choice program**
- **Threshold requirements could affect supplier participation**

## #19 — Market Power

- **Potential for a company to exert market dominance through acquisition of most of the capacity needed to serve a market area**
- **Affiliated or other marketer might exert undue control of market**
- **Options:**
  - Formulation of codes of conduct
  - Development of monitoring mechanisms

## #20 — Consumer Information

**Should a consumer education effort be required? If yes,**

- **Who should undertake that initiative and pay for it?**
- **How should information be disseminated?**
- **Should a comparison of suppliers' plans be developed for small-volume customers? (See Ohio's Apples to Apples information sheet.)**

4-7

PUCO

# APPLES TO APPLES

## NATURAL GAS RATE PLANS FOR RESIDENTIAL CUSTOMERS

MARCH 25, 1998

8-7

Average annual cost estimates for the fixed rate plans are based on average household usage of 1100 CCF** for the past twelve months (individual use varies). Average annual cost estimates for plans offering a percentage off Columbia Gas of Ohio's (CGO) GCR are based on CGO's GCR for the past four quarters. Actual savings could be lower or higher than the estimates provided as CGO's GCR is adjusted quarterly throughout the coming year. Marketers may offer new fixed rate plans at any time and variable rates are subject to change. For questions concerning this data, please contact the Public Utilities Commission of Ohio's hotline at 1-800-686-PUCO (7826) or 1-800-686-1570 for TTY-TDD hearing impaired.

| MARKETER | PRICE OPTIONS | TERMS OF CONTRACT Duration | AVERAGE ANNUAL COST* |
|---|---|---|---|
| COLUMBIA GAS OF OHIO | Current Gas Plan | - | $744.50 |
| COLUMBIA ENERGY SERVICES (888)224-6622 | Fixed at $.348 per Ccf | one year | $ 702.71 |
| COMMONWEALTH ENERGY (800)928-0636 | a) 10% less than the total monthly Columbia Gas of Ohio bill<br>b) Fixed at $.335 per Ccf | one year<br>one year | $670.05<br>$668.96 |
| CONSTELLATION ENERGY (888)232-7267 | Fixed at $.380 per Ccf | one year | $740.11 |
| ENRON (888)913-6766 | 20% lower than Columbia Gas of Ohio's expected gas cost | one year | $679.20 |
| FSG ENERGY SERVICES (888)367-4493 | a) Variable Rate<br>b) Fixed rate for Winter and Variable for Summer | 6 months<br>6-12 months | $661.42***<br>Can not determine |
| INTERSTATE GAS SUPPLY (800)280-4474 | Fixed at $.332 per Ccf | one year | $683.87 |
| KEYSPAN ENERGY SERVICES (888)539-7726 | Fixed at $.340 per Ccf | one year | $693.22 |
| MIAMI VALLEY RESOURCES (800)431-8723 | a) Fixed at $.340 per Ccf<br>b) Variable Rate | one year<br>monthly | $693.22<br>Can not determine |
| STAND ENERGY CORP. (800)598-2046 | Variable but no more than $.370 per Ccf | one year | $693.92*** |
| UNITED GAS MANAGEMENT (888)427-4872 | Fixed at $.353 per Ccf | one year | $708.66 |
| VOLUNTEER ENERGY CORP. (800)860-3674 | ----- Offer Currently Unavailable ----- | - | - |

* Includes monthly service and distribution charges paid to CGO, cost of gas paid to marketer and applicable taxes.

** CCF stands for 100 cubic feet of natural gas and GCR stands for Columbia Gas of Ohio's Gas Cost Recovery. The GCR is adjusted quarterly to reflect Columbia Gas of Ohio's actual gas cost. The current CGO GCR is $.36724 per Ccf.

*** Calculations based on historical rates from April 1, 1997 to present.

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## #21 — Universal Service and Disconnection

- **Should the supplier of last resort assume responsibility for customers who cannot pay their bills?**
- **Should a separate surcharge be imposed for such costs on all customers' bills or should the charge continue to be included in the LDC's distribution rates?**

## #22 — Differences Between Electric and Natural Gas Industries – Factors to Consider in Formulating Small -Volume Customer Choice Programs

- **Pricing of commodity**
- **Storage of commodity**
- **Ownership — organizational structure**
- **Nature of competition**

## #23 —Differences Between Electric and Natural Gas Industries – Factors to Consider in Formulating Small-Volume Customer Choice Programs (Continued)

- **Regulatory Jurisdiction**
- **Interdependence**

## Conclusion

The success of unbundling is a matter of customer economics, not political pronouncements. Regulators and legislators can mandate open access, utilities can create unbundled tariffs, but if customers cannot save money or non-regulated marketers cannot profit by selling either the commodity or new services, unbundling will proceed very slowly. (Porter Bennett, "Consumer Choice in Natural Gas: A Hard Look at Savings," *Public Utilities Fortnightly*, October 1, 1998)

01/29/99

HOUSE UTILITIES
DATE: 2-2-99
ATTACHMENT 5

**KANSAS GAS SERVICE COMPANY, A DIVISION OF ONEOK, INC.**
**U.S. RESIDENTIAL CUSTOMER CHOICE PROGRAMS BY STATE**

| | | | | ISSUES | | | |
|---|---|---|---|---|---|---|---|
| **STATE & COMPANY** | **TYPE OF PROGRAM** | **CUSTOMER** | **RELIABILITY &** | **PRICING** | **CODES OF CONDUCT** | **STRANDED COSTS** | **OBLIGATION TO SERVE (OTS)** |
| **ALABAMA** | Nothing | | | | | | |
| **ALASKA** | Nothing | | | | | | |
| **ARIZONA** Southwest Gas | See attachment on Individual State Initiatives | | | | | | |
| **ARKANSAS** | Nothing | | | | | | |
| **CALIFORNIA** Pacific Gas & Electric Co. | The Core Aggregation Transportation (CAT) Program began 2/1/91 and was revised in 1995. In 8/96, PG&E also filed the "Gas Accord", a program designed to bring increased 'competition and customer choice to PG&E's customers. It began 3/1/98 and will be in effect through the year 2000. | Up to 10% of all residential and small commercial customers are eligible for the CAT program. A minimum aggregated volume of 250,000 therms per group per year is required as well as a one-year commitment from customers that sign up. As part of the Gas Accord, PG&E lifted the 10% cap and lowered the 250,000 therms to 120,000. | PG&E will be responsible for maintaining the distribution lines and ensuring safe delivery of gas to customers and will also continue to respond to safety calls, read the meters and offer appliance care service. | The rates for transporting gas on PGE's transmission system will be unbundled from rates for moving gas on PGE's distribution system. This will allow customers to pay for only the systems that they use. Also, PGE, and not its customers, will now be fully responsible for earning sufficient revenues from its transportation services to cover the costs of its transmission pipelines. | All third-party suppliers contract with PG&E and have met their credit standards. They also agree to a code of conduct which requires them to assure reliable delivery of gas supplies, maintain credit information with PGE and customers, and provide PGE notice in the event they want to discontinue service to a customer. | Under the Gas Accord Settlement, PG&E's gas transmission & storage services is unbundled from its distribution & PG&E's shareholders will be at risk for recovery of all transmission costs. Second, PG&E's role in procuring gas supplies will be reduced and negotiations will continue between PG&E and California gas producers for the mutual release of supply contracts. Third, all major outstanding gas regulatory proceedings are resolved and PG&E's shareholders have agreed to absorb almost $300 million in costs to settle existing cases, and to discontinue appeals on cases already decided by the CPUC. | PG&E will be the SOLR. PG&E is authorized to assess penalties and collect costs from a supplier if that supplier fails to provide for the gas needs of its customers. PG&E will serve as a back-up supplier supplier in the event a supplier fails to arrange for adequate gas supplies. |
| San Diego Gas & Electric | Core Gas Aggregation Transportation Program (CAT) began 8/1/91 for residential and small customers. | Participation is currently limited to 10% of SDG&E's daily core demand. A minimum aggregated volume of 250,000 therms per year per group is required and a one-year commitment. | Same as PG&E. | | | | SDG&E is the SOLR. The Company will continue to provide gas to core customers who do not join a CAT group, and will serve customers abandoned by their aggregator. |
| Southern California Gas | Core Gas Aggregation Transportation Program (CAT) began 8/1/91 for residential and small customers. | Participation is currently limited to 10% of SoCALGAS's daily core demand. A minimum aggregated volume of 250,000 therms per year per group is required and a one- year commitment. Currently, participation is approximately 4.5%. | Same as PG&E. | | | | |
| **COLORADO** KN Energy Public Service of CO UtiliCorp United | See attachment on Individual State Initiatives | | | | | | |
| **CONNECTICUT** Connecticut Natural Gas Yankee Gas | See attachment on Individual State Initiatives | | | | | | |
| **WASHINGTON D.C.** Washington Gas | Received approval to implement a two-year pilot program. Enrollment was from 10/1/98 through 11/30/98 with first deliveries starting 1/1/99.<br><br>A choice program for 260 large commercial customers became effective 4/1/98. | Up to 3,000 customers can participate on a first-come, first-served basis. They sign a one-year contract. Marketers who participate in the program must sign up least 300 customers. | | | | | Washington Gas would be the SOLR. |
| **DELAWARE** | Nothing | | | | | | |
| **FLORIDA** Peoples Gas | See attachment on Individual State Initiatives | | | | | | |

# KANSAS GAS SERVICE COMPANY, A DIVISION OF ONEOK, INC.
## U.S. RESIDENTIAL CUSTOMER CHOICE PROGRAMS BY STATE

| | | | | ISSUES | | | |
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| **STATE & COMPANY** | **TYPE OF PROGRAM** | **CUSTOMER** | **RELIABILITY &** | **PRICING** | **CODES OF CONDUCT** | **STRANDED COSTS** | **OBLIGATION TO SERVE (OTS)** |
| **GEORGIA** Atlanta Gas Light Co. | A pilot program was approved 10/6/98. Phase 1 began 11/1/98 where customers can choose a marketer or stay with AGLC. In Phase 2, AGLC will stop selling gas directly to customers once an area has been deemed competitive by the Georgia PSC. Eventually, AGLC will not sell gas to any customer. | More than 1.4 million customers of AGLC can participate. As of the end of 10/98, 16,000 customers had enrolled. | AGLC will continue to maintain the company-owned pipes & meters, provide gas delivery service, and will respond to gas emergencies after an area is deemed competitive. | | | AGLC proposes to compute stranded costs at the time assets are no longer used by AGLC. The company will identify the assets and the portion of nonmitigaeable stranded costs and then file to recover such costs at the time they become known. A System Transition Cost Tracker (STCT) was developed to track such costs. | Eventually, when AGLC is out of the merchant function, the SOLR will be Marketers. During the transition, AGLC will allocate its firm distribution capacity and storage assets to Marketer's according to each one's share of the firm market. |
| **HAWAII** | Nothing | | | | | | |
| **IDAHO** | Nothing | | | | | | |
| **ILLINOIS** Central Illinois Light Co | In June 1996, the Illinois Commerce Commission approved a five-year pilot program called "Therm Quest" whereby residential customers are allowed to choose an alternate gas supplier. The program began October 1, 1996. | 10,000 residential customers are eligible to participate. | | Aggregators are responsible for any applicable imbalances as well as critical-day penalties. They are charged $6.00/therm for any delivery shortfalls on a critical-day and $.06/therm for any excess deliveries on a critical day. | | | |
| Nicor Gas (Northern Illinois Gas) | On October 8, 1997, the Illinois Commission approved a three-year pilot program called "Customer Select". The program will be in effect from 5/1/98 through 4/30/01. | Eligibility: Year 1- All commercial, industrial, and centrally metered multi-family residences up to 20,000 customers can participate. Year 2 - All remaining commercial & industrial customers. Participation limits will be re-evaluated. Year 3- Any remaining commercial & industrial customers. Single-family residential customers can participate up to 10,000. | Nicor Gas will continue its distribution system operating responsibilities. This includes daily balancing, system storage and a portion of responsibilities for design day conditions. | Each supplier will pay an Initial Supplier Application Charge of $2,000, a Monthly Group Charge of $200 per group, a Monthly Per Account Charge of $3.00, and a $10.00 Supplier Switching Charge. There is also a Gas Supply Charge, Firm Delivery Charge, a Critical Day Non-Performance Charge for under and over deliveries, and Cash-out Charges. | Suppliers are required to sign a Supplier Aggregation Agreement with Nicor Gas and abide by all the terms of the agreement including adhering to certain standards of conduct and satisfying credit standards. | | Nicor Gas will be the SOLR. Customers may switch back to sales service with Nicor at any time during the program without incurring any fees. Also, upon 15 days notice, any customer who is 60 days or more in arrears for payment of services rendered by the Supplier, may be returned to Nicor Gas at the Supplier's request. |
| Peoples Gas Light & Coke | A two-year pilot program for small commercial, industrial and larger residential customers began 11/1/97 and will go through 10/31/99. | A total of 20,000 customers are eligible to participate. | | | | | |
| **INDIANA** Northern Indiana Public Svc. | The Indiana Utility Regulatory Commission approved a two-year pilot program on 10/8/97 that gives residential and small commercial customers the ability to choose an alternative gas supplier. South Bend, IN was selected as the pilot site. Additionally, the plan calls for all customers to have the ability to choose another supplier over the next seven years. | Enrollment ended January 1998 with only 3,200 residential customers signed up. NIPSCO offered the program to an additional 32,000 customers during the summer of 1998 and may extend the pilot to include the Fort Wayne area in 1999. If successful, the program could be expanded to 150,000 residential and 3,000 commercial & industrial customers. | NIPSCO will continue to deliver natural gas safely and reliably. NIPSCO will also continue to respond to gas emergencies, provide 24-hour customer service and the design, installation and maintenance of the pipeline system. | The plan calls for a gas cost incentive mechanism that will be subject to annual review, a series of new delivery service options and sales service options, & NIPSCO's pledge not to increase base distribution rates. | | | NIPSCO will be the SOLR through the term of the settlement. |

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| **IOWA**<br>MidAmerican Energy | Conducted a one-year pilot program beginning November 1995 in the town of Rock Valley. The pilot ended November 1996 and MidAmerican Energy elected not to extend the program. | Approximately 875 residential and 80 commercial and industrial customers were eligible and over 82% actually participated. | | Marketers used innovative pricing structures to attract customers such as offering a fixed price for gas plus $75 in annual savings, free long-distance service and a five-minute shopping spree in a supermarket. | | | The issues of OTS and SOLR need to be addressed. During the program. MidAmerican Energy made up any shortfalls. |
| **KANSAS**<br>Kansas Gas Service | See attachment on Individual State Initiatives | | | | | | |
| **KENTUCKY** | See attachment on Individual State Initiatives | | | | | | |
| **LOUISIANA** | Nothing | | | | | | |
| **MAINE**<br>Northern Utilities | See attachment on Individual State Initiatives | | | | | | |
| **MARYLAND**<br>Baltimore Gas & Electric | Customer enrollment began 8/1/97 and the two-year pilot program started 11/1/97. The second year enrollment began 7/1/98 and the enrollment cap of 50,000 customers was reached by 9/98. | Currently 50,000 residential customers are participating. | | | | All customers pay a customer class specific stranded cost surcharge. | Transportation customers must contract for service and utilities can establish contingency plans, fees, penalty charges, etc., in order to minimize their role as the SOLR, and can recover the costs of providing such a service from those who request it. |
| Columbia Gas of Maryland | Customer enrollment began the Fall of 1996 and service started 11/1/96. The second year started 11/1/97 and will continue for 1998 through 1999. Enrollment cap was 10,000 customers. | As of 4/98, 3,040 residential customers had signed up. | | | | Columbia offered marketers a choice between taking assigned interstate pipeline capacity of paying a bundled standby charge. The FT pipeline capacity was based on the annual average demand of the customer group. Released capacity stays with the customer. Storage capacity was not released. | See BG&E |
| Washington Gas Light (Maryland) | 2- year pilot ended 9/1/98 and "regular" program enrollment is now open with a cap of 100,000 customers. | Currently 21,000 residential customers have enrolled. | | | | All customers pay a customer class specific stranded cost surcharge. The residential sales service have a price cap which limits the annual amount they pay toward stranded cost recovery. | See BG&E |
| **MASSACHUSETTS**<br>Bay State Gas Co. | The "Pioneer Valley Customer Choice", a two-year residential pilot program began 11/1/96. Bay State expanded the pilot to include all residential and small business customers in its Western Massachusetts service area and small business customers in its Southeastern service | Up to 10,000 residential customers were eligible to participate. Almost 6,500 enrolled in the program. In the expanded program, all 83,000 residential and 6,000 small business customers in western Massachusetts were eligible, and 10,000 small business customers in southeastern Massachusetts. | | Bay State reported that customers in the initial pilot program saved between 5% and 18% on their annual gas bill. | | | |
| Boston Gas Co. | Boston Gas Co. filed a proposal with the Massachusetts DPU in 5/96 to offer choice to all its commercial, industrial, and residential customers by 11/97 and fully exit the merchant function by the year 2000. Phase 1 examined the unbundling of the company's rates, disposition of upstream capacity, the appropriate transportation terms/conditions to use for the company's 40,000 commercial and industrial customers and balancing services. Phase 2 includes the unbundling of residential services, the company's exit proposal and permanent resolution of upstream capacity contracts and downstream assets. | Boston Gas has approximately 40,000 commercial/industrial customers and over 490,000 residential customers who will be eligible to participate. | | | | Under the Company's capacity release program, marketers that have aggregated 100 Mcf per day of load will be assigned a pro rata share of the company's resource portfolio. As customers migrate from marketer to marketer, capacity follows them. Final resolution of capacity will be discussed in Phase II. In unbundling its rates, the company was allowed to allocate a portion of its local LNG and propane facilities used to maintain system integrity to transportation rates. | |

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| **MICHIGAN**<br>Battle Creek Gas | In 4/97, Battle Creek offered residential and small commercial customers a choice of gas suppliers through its "Option Plus" program. | Up to 1,000 residential and small commercial customers were eligible to participate. | | | | | |
| Consumers Energy Co. | A three- year pilot program began 4/1/98. It was open to residential and commercial customers with an enrollment cap of 100,000 customers per year for a total of 300,000 customers by the year 2000. | | | Gas commodity cost is frozen at \$2.8364/Mcf. Monthly customer charge and gas distribution rate will be frozen. An earnings sharing mechanism will provide for refunds to customers if the company's actual gas utility earnings exceed certain predetermined levels. | | | |
| Michigan Consolidated Gas | A three-year pilot program called "MichCon Select" will begin January 1, 1999. (This program is modeled after the company's current two-year 'pilot program in Grand Rapids). | Up to 225,000 residential customers are eligible over the three-year period. | MichCon will continue to deliver gas through existing pipeline and respond to all gas emergencies. | A 7% reduction in the purchased gas cost component of MichCon's rates was approved for customers who continue to buy gas from MichCon. | | | |
| SEMCO Energy Gas Co. | The Michigan PUC approved a residential customer choice program for SEMCO to begin April 1999 for a period of three years. | The program is open to residential customers with an enrollment cap of 7,000 customers per year for a total of 21,000 customers by year 2001. | | Gas commodity cost is frozen at \$2.99/Mcf. Monthly customer charge and gas distribution rate will remain the same. Customers will be required to pay a fixed balancing recovery charge of \$.25/Mcf. Also, effective 4/99, a three-year moratorium on distribution rates is approved and a proposed income sharing mechanism is adopted for 1999, 2000, & 2001. | | | Utility is SOLR. |
| **MINNESOTA**<br>Minnegasco | See attachment on Individual State Initiatives | | | | | | |
| **MISSISSIPPI** | Nothing | | | | | | |
| **MISSOURI**<br>Missouri Gas Energy | See attachment on Individual State Initiatives | | | | | | |
| **MONTANA**<br>Montana Power Company | On 8/11/98, the Montana PUC approved a Settlement Agreement allowing Montana Power Company to implement a customer choice pilot program for residential and small general service customers beginning 11/2/98 or sooner if possible. (MPC is coordinating the start of the program with their new billing system conversion.) | Participation is open to all customers using less than 5,000 dkt/ year. No volume restrictions will be used to limit the initial size of the customer choice program, however Montana Power will retain the discretion to request the PUC to limit or to stop conversion if problems develop and it becomes administratively unfeasible to continue. | | | | Based on the estimated annual load of each aggregation pool, the Company will allocate a specific portion of on-system transmission capacity, storage capacity and storage deliverability. The supplier will be obligated to accept these allocations as a prerequisite to becoming an active participant of the program. These capacities and deliverabilities are tied to each individual customer. Should the customer select a different aggregator or return to core sales, the associated capacities and deliverabilities with that load will follow. | MPC will retain the obligation to serve all core customers. Because of this, all allocated storage capacity is subscribed and aggregators will have two options to gain access to the core storage inventory during the first winter heating season. One, they can begin the program with storage balances of zero and carry a negative storage imbalance until 6/30/99, or aggregators may purchase storage gas from the core supply function during the 1998/1999 heating season only. |
| **NEBRASKA**<br>KN Energy | KN Energy proposed a customer choice program, "Choice Gas". to begin 6/98. Community officials must repeal stipulations requiring bundled services before the plan can go into effect. | As of 3/98, 165 of 180 communities approved the program. | | | | | |
| **NEVADA** | Nothing | | | | | | |
| **NEW HAMPSHIRE** | Nothing | | | | | | |

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| **NEW JERSEY**<br>Elizabethtown Gas | On Feb. 3, 1997, Elizabethtown Gas Co. filed a two-year residential pilot program and requested approval by 6/1/97. The program, Elizabethtown Plus, was scheduled to start 11/1/97. | The program is being offered to 10,000 customers ( 5,000 each year on a first-come, first-served basis) in seven communities. The program is optional. | | | | | |
| New Jersey Natural Gas | New Jersey Natural Gas filed its "Natural Solutions" pilot program on 7/16/96 and received approval on 1/22/97. The residential and small commercial program is designed to provide all of its customers with a range of choices for their natural gas needs. | 1) All residential customers, up to 20,000 over a two-year period, was offered a fixed price option at a set unit price for gas in advance. 2) An additional 30,000 residential customers will be able to buy gas from an approved marketer. 3) Other unbundled services will be provided to small commercial customers. As of 7/98, 11,730 customers had enrolled. | | | | | |
| Public Svc. Electric & Gas | PSE&G's proposed "SelectGas" program was approved 3/12/97 and scheduled to run through June 1998. In the spring of 1998, PSE&G filed to expand the program. As of 7/98, the BPU had taken no action. | The program will allow 60,000 - 65,000 residential customers in Bloomfield, Piscataway, Pennsauken, and Westampton to buy gas from alternative suppliers. If expanded, another 300,000 can enroll. | | | | | |
| South Jersey Gas | A one-year residential pilot program was approved and transportation service was expected to begin 9/97. | 13,000 residential customers are eligible to participate. In 6/98, the BPU approved South Jersey's request to expand the program to 12,500 additional customers. | | | | | |
| **NEW MEXICO**<br>Public Service Co. of NM | In July 1997, PNM filed a customer choice program with the PUC. It was approved the next month with deliveries starting in 12/97 and ending 8/31/98. In 7/98, an order approving a supplemental stipulation was granted and the program was extended indefinitely. | 400,000 customers were offered the program. Three suppliers were certified to participate with Enron being the only one to serve residential load. Less than 300 residential customers participated in the first year and in 8/98, Enron withdrew from the residential program. | | | | | |
| **NEW YORK**<br>Brooklyn Union Gas Co. | Began providing unbundled services 5/1/96 to core customers. For the next three years, transportation can be limited to 5% each year so that the program can be managed effectively. | As of 10/98, 22,927 customers were participating and 31 active marketers approved to sell gas directly to customers. | Reliability of service and operational integrity will be handled through the market-place working within PSC guidelines, imposition of penalties, or with PSC regulations. | | | The PSC will allow gas utilities to require that customers converting to transportation take associated pipeline capacity for a three-year period or until the pipeline contract expires, whichever comes first. The amount of capacity released will be no less than the customer's historical average daily usage during the peak month. Released capacity should be priced at the gas utility's weighted average capacity cost. Capacity released to a marketer will stay with the customer if the customer desires to switch to a new marketer or return to sales service. In 11/98, the PSC issued an order prohibiting utilities from assigning pipeline capacity to customers that switch to third-party marketers starting 4/1/99. By 2/1/99, utilities are required to file tariffs that address stranded costs recovery. | All utilities in the state of New York will still have the OTS residential customers if a marketer does not deliver the appropriate amount of gas. A study by New York's PSC had identified OTS and SOLR issues and options to handle these issues including marketers picking up these services or gas utilities continuing these services with costs spread among all marketers.<br>In 9/97, the PSC staff issued a paper for comment that called for state gas utilities to exit the merchant function during a five-year transition period. In 10/98, the PSC adopted staffs recommendation to force utilities out of the merchant function over the next three to seven years. Until then, utilities will continue to be the SOLR. |
| ConEd of New York | | As of 10/98, Con Edison had 14,414 small volume customers participate in their customer choice program. | See Brooklyn Union. | | | See Brooklyn Union. | See Brooklyn Union. |

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| Long Island Lighting Co. | LILCO Natural Choice program allows all gas customers to select their own supplier. Residential customers may join together into buyer groups with a combined annual load of 5,000 Dth. | As of 10/98, LILCO had 4,324 customers participating. | See Brooklyn Union. | Customers will be billed by marketers for the commodity service and by LILCO for all other services. Also, LILCO will provide a balancing service to customers at no extra charge. | | See Brooklyn Union. | See Brooklyn Union. |
| National Fuel Gas Distributio | In 1996, the PSC approved plans to allow residential and small business customers an option to choose their own gas supplier. | As of 9/98, National Fuel had 5,905 customers participating. | Regardless of a customer's choice of supplier, National Fuel will continue to ensure safe and reliable delivery of the gas. | | | National Fuel Gas Distribution provides sales customers converting to transportation the option of either contracting for standby service or accepting an assignment of a negotiated share of National Fuel's upstream interstate pipeline transportation capacity and storage capacity. This allows customers converting to have access to upstream pipeline and storage capacity while limiting remaining sales customers exposure to stranded costs. | See Brooklyn Union |
| New York State Electric & G | New York State Electric & Gas' program provides unbundled and rebundled services for core and non-core customers. | As of 9/98, NYSEG had 858 customers participating. | | | | | |
| Niagara Mohawk Power Co. | Niagara Mohawk's "Supplier Select" program gives all customers, without any size restrictions, the freedom to choose their gas supplier. | All 500,000+ sales customers are eligible for the program. As of 10/98. the program had approximately 3,101 small-volume customers participating. | | | | | |
| **NORTH CAROLINA** | Nothing | | | | | | |
| **NORTH DAKOTA** | Nothing | | | | | | |
| **OHIO**<br>Cincinnati Gas & Electric | Cincinnati Gas & Electric received approval for a residential aggregation / transportation program that would allow customers to choose an alternative gas supplier. The program was effective 12/1/97. CG&E's program is now available to all customers in its entire service 'territory. Participation is still voluntary. | As of 4/98, approximately 9,500 residential customers was enrolled in the program. By the end of 9/98, 23,076 residential and 4,011 small commercial customers were participating. | | | All utilities in Ohio offering a customer choice program have uniform tariffs that cover partici-pating marketers' promotional activities and their relationships with customers. Each company's tariff is designed to accomplish the same purpose which is to: 1) ensure that marketers give customers enough basic informa-tion to make informed choices, 2) prohibit marketers from engaging in misleading, deceptive, or other anti-consumer activities, 3) provide customers a dispute resolution process and 4) place a duty on marketers to comply with the operational provisions of the tariffs. | Marketers were offered a choice between two capacity assignment options; 1) CG&E offered the assignment of upstream pipeline capacity, including storage. Each supplier would receive a pro rata 'share of capacity on each pipeline with whom CG&E has firm transportation and/or storage contracts. The remaining option allows suppliers to secure their own upstream pipeline capacity necessary to meet the peak day requirements of their customers. Suppliers choosing this option retain the right to reserve any released capacity (at full contract demand rate) which may be offered by CG&E. Marketers failing to select storage capacity are required to pay balancing fees. | |

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| Columbia Gas of Ohio | Columbia Gas of Ohio received approval for its Customer CHOICE program in 1/97. Service under the program began in 4/97. After one year, on 3/31/98, COH filed with the PUC to expand the program. The expansion was approved. | The program was initially offered to customers in the Toledo area, but after 1 year, was expanded to include all of Columbia's service territory. By 4/1/98, 50,506 residential and 5,343 commercial customers were signed up for the program, with marketers offering a wide variety of pricing. By August 1998, 33 marketers had been certified to serve the expanded program. At the end of September 1998, 152,238 residential & 10,374 small commercial customers had signed up for the program. | | | See Cincinnati Gas & Electric | During the first year of the program, any stranded costs that resulted from marketers contracting for their own capacity or imbalances in the recovering excise taxes, were recovered through a rider on all customers. In 1/98, the PUC approved Columbia's stranded cost settlement which allows Columbia a chance to recover its stranded costs over a 4 year period through voluntary capacity assignment revenues, daily balancing fees, interstate pipeline refunds, and part of Columbia's off-system revenue. Columbia will be responsible for stranded costs not covered by these measures (about 11% of all those costs), and cannot raise its base rates before 2000. | |
| Dayton Power & Light | Dayton Power & Light filed a pilot program in 3/98 which would allow up to 25,000 small commercial and residential customers to choose their gas supplier. The pilot was scheduled to begin 11/1/98. | Participation is open to all Miami County customers that use less than 50 Mcf per month. | | | See Cincinnati Gas & Electric | Suppliers must take assignment of DP&L's firm interstate capacity from customers leaving DP&L's sale service, but could re-release this capacity. | |
| East Ohio Gas | East Ohio Gas began the initial phase of its "Energy Choice" program on 11/1/97. The pilot will last for 18 months with the option to extend if the program is successful over the first 12 months. | Approximately 173,000 residential, commercial and industrial customers in ten counties are eligible. If the program is extended, all 1.2 million customers will be able to participate. As of 3/98, 33,465 residential and 2,329 non-residential customers are in the program. | | | See Cincinnati Gas & Electric | East Ohio requires suppliers to accept pro rata assignment of interstate pipeline transportation and storage capacity reserved by East Ohio. The assignments are based on peak day requirements of the customers served by the marketer and the relative percentage of each capacity resource East Ohio has reserved to meet the projected requirements less the resources needed for operational balancing requirements. Using this formula, about 80% of the Company's reserved capacity is assigned a marketer on a per customer basis. | |
| **OKLAHOMA**<br>Oklahoma Natural Gas | See attachment on Individual State Initiatives | | | | | | |
| **OREGON** | See attachment on Individual State Initiatives | | | | | | |
| **PENNSYLVANIA**<br>Columbia Gas | In 8/96, Columbia Gas received approval to begin the state's first residential gas supplier choice program in Allegheny and Washington counties. The initial two-year program will be used to measure both customer and marketer interest. In 7/98, the PUC gave approval to expand the program to include five more counties, two in western Pennsylvania and three in south-central Pennsylvania. With the expansion, 70% of the company's total customers will be able to choose their own supplier. | As of 12/97, 37,000 customers was enrolled in the program. In 4/98, Columbia petitioned the PUC for approval to expand the program to five more counties. An additional 250,000 residential customers would be eligible for the customer choice program. | | | | Columbia is offering marketers a choice between taking assigned interstate pipeline capacity of paying a bundled standby charge. The FT pipeline capacity assigned will be 80% of the customer group's average daily demand and will be assigned at maximum rates to assure no stranded costs or cost shifting. Released capacity will stay with the customer but will be assigned to the marketer. Columbia will continue to serve customers on a critical day even if the supplier fails to deliver supplies. The penalty to the supplier is $30/Mcf, plus payment of the pro rata share of all other charges incurred by Columbia as a result of the supplier's non-compliance, including any pipeline penalties. | |

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| Equitable Gas | On 10/25/95, Equitable Gas filed a petition with the PUC to establish a two-year pilot program for all classes of customers in the Borough of Pleasant Hills in Allegheny county. The PUC approved the program in 9/96 and the program began 11/1/96. On 2/28/97, the Company filed a proposal to give all customers, large and small, the ability to choose their own gas supplier and the PUC approved Equitable's expanded program on 12/4/97. | | | | | Equitable's program include three new delivery service rate schedules, Firm Delivery Service (FDS), General Delivery Service (GDS) and Daily Delivery Service (DDS). FDS is for those customers who require or desire the upstream services. FDS will always be backed up with the Company's firm standby service or with an allocated share of the capacity that is currently used to serve firm customers. This service is the key to the Company's program because it addresses two of the primary concerns related to it: reliability of service and stranded costs. | |
| National Fuel Gas Distributio | On 4/2/97, National Fuel filed a proposal for a customer choice pilot program called Energy Select. Residential and small commercial customers are eligible to participate. The pilot, which began 9/97, will be for an 18 month period. | During the first phase of the pilot, approximately 15,600 customers participated. (19,300 were eligible.) | | | | | |
| Peoples Natural Gas Co. | On 2/25/97, Peoples announced that all of its 346,200 customers (317,000 residential) will be able to choose their own supplier or continue buying gas from the utility. This option is not a pilot program, rather it is a marketing campaign to make customers aware of their options. After an initial sign-up period starting 4/1/97, deliveries under this option started 6/97. The focus of the program is on priority-one customers which are residential and essential human need commercial customers (hospitals, nursing home apartments, etc.). | Peoples Energy, a sister company of Peoples Natural Gas, signed up more than 35,000 participants. | | | | Peoples is making available to suppliers the same portfolio of gas delivery capability that Peoples would use to serve the same end-users through a bundled retail service tariff. In exchange for the payment of gas delivery capacity, through Peoples standby charge, suppliers will receive, on behalf of their customers, a pro rate share of upstream pipeline and off-system storage capacity. The supplier will also be allocated a pro rata share of on-system storage and local gas. | Peoples will continue to offer retail service as an option for customers. The priority-one customers who switch to another supplier are required to take standby service, so Peoples will act as the SOLR. |
| **Rhode Island**<br>Providence Gas Company | Providence has a three-phase plan to offer its customer's a choice of supplier. In 6/96, the first phase went into effect offering extra large customers gas supplier options. Phase two began 10/1/97, offering medium & large commercial and industrial a choice. Finally, the plan includes a commitment by the Company of offer small businesses and residential customers the opportunity to choose within the next two years. | | | | | | |
| **SOUTH CAROLINA** | Nothing | | | | | | |
| **SOUTH DAKOTA** | Nothing | | | | | | |
| **TENNESSEE** | Nothing | | | | | | |
| **TEXAS**<br>Southern Union Gas Co. | See attachment on Individual State Initiatives | | | | | | |
| **UTAH** | Nothing | | | | | | |
| **VERMONT** | Nothing | | | | | | |

# KANSAS GAS SERVICE COMPANY, A DIVISION OF ONEOK, INC.
## U.S. RESIDENTIAL CUSTOMER CHOICE PROGRAMS BY STATE

| | | | | ISSUES | | | |
|---|---|---|---|---|---|---|---|
| **STATE & COMPANY** | **TYPE OF PROGRAM** | **CUSTOMER** | **RELIABILITY &** | **PRICING** | **CODES OF CONDUCT** | **STRANDED COSTS** | **OBLIGATION TO SERVE (OTS)** |
| **VIRGINIA**<br>Columbia Gas of Virginia | On 5/9/97, Columbia filed a rate case which included a customer choice program and a performance based rate design. On 10/1/97 the SCC approved the program. It is a two-year pilot program open to customers in Northern Virginia. If successful, the program could be expanded to include all of Columbia's 165,000 customers statewide. | As of 8/98, out of 26,500 eligible customers, approximately 5,107 were signed up for the program. | | | | Columbia will only be offering firm transportation, and not storage, to marketers. The marketer must deliver gas "on a firm basis", and must pay 12 month firm transportation demand charges for each Mcf not delivered. Capacity assignment is optional, but capacity is scarce, and marketers may need to accept assignment of Columbia. The gas utility is proposing that stranded cost be recovered from both participating and non-participating customers, which could amount to $0.02/Mcf. | |
| Washington Gas | Washington Gas received approval for a two-year customer choice pilot program for residential and commercial customers. Enrollment began 10/1/98 with gas supply services to start 1/1/99. A major objective of the pilot is to familiarize customers with some of the decisions they will encounter as the effects of the restructured gas industry reach local consumers. | Approximately 29,000 residential and 2,000 commercial customers are eligible to participate in the first year. This represents about 10% of WG's Virginia base. In year two, WG will offer choice to 20% of the customers in each category. | Washington Gas will continue to be responsible for meter reading, safety-related services and the reliable delivery of gas through its local delivery system. | | | The company has proposed to recover stranded costs through a gas supply realignment charge imposed on marketers. Washington Gas provides voluntary capacity assignment in this program. | |
| **WASHINGTON** | See attachment on Individual State Initiatives | | | | | | |
| **WEST VIRGINIA**<br>Mountaineer Gas Co. | See attachment on Individual State Initiatives | | | | | | |
| **WISCONSIN**<br>Wisconsin Gas | Wisconsin Gas received approval in 6/96 on its "GasAdvantage Program". It's a two-year pilot program for residential and commercial customers. The program began 11/96. Customers that enrolled are committed to the pilot for a one-year period. | Approximately 1,000 residential customers (out of 9,600) are eligible and 1,200 commercial customers. Participation is limited to those customers that are "current" with respect to payments to Wisconsin Gas. | | | Standards of business conduct are agreed to before marketers are allowed to participate. Standards include such items as defined credit standards based on the potential financial exposure to the company from a failure to satisfy delivery obligations. Marketers must also agree to abide by the Wisconsin Direct Marketing Association Code of Professional Ethics, a voluntary code establishing the terms of how telemarketing should be conducted. | Wisconsin Gas is not requiring marketers to take assignment of upstream pipeline capacity, however assignment at maximum rates is available. If capacity is assigned, it will follow the customer. Unassigned capacity will be sold in the secondary market and any unrecovered capacity costs will be recovered through the PGA mechanism and as a surcharge to pilot customers. This is to ensure the costs are recovered from both pilot and non-pilot customers. | Wisconsin Gas will back up any failure on the part of the supplier to deliver service during the pilot. (Note: Wisconsin Gas proposed complete deregulation of the gas merchant function in a white paper to the Wisconsin Public Utility Institute. The company would like the PUC to phase in this restructuring over a five-year time frame. Wisconsin Gas, which wants to speed up the customer choice process will be facing pipeline contract renewals and a new pipeline project over the next five years). |
| **WYOMING**<br>KN Energy | The Wyoming PSC approved KN Energy's "Choice Gas Service Program" on 2/19/96 which will provide unbundled gas service for more than 9,000 residential and 1,300 commercial customers in 10 communities in Wyoming. The program began 6/96 and was extended for a second year in 4/97. | Out of the 10,300 customers eligible to participate, approximately 5,700 signed up for the program. | | | | Marketers serving residential customers are required to take a portion of KN's interstate pipeline capacity. Capacity cannot be released and it ultimately stays with the customer. Imbalances are cashed out daily. A standby service charge is incorporated into the residential transportation customer's rate. If a marketer doesn't meet his delivery obligation on a critical day, KN will provide the gas and will impose a penalty of a monthly index price plus $.20/Dth or actual costs, whatever is higher. Suppliers are able to own storage volumes in KN's storage fields, although they will be required to inject and withdraw volumes based on KN's schedule.<br>KN increased its monthly customer charge for all classes by $1 to recover administrative costs of the program. | |

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## KANSAS GAS SERVICE COMPANY, A DIVISION OF ONEOK, INC.
## U.S. RESIDENTIAL CUSTOMER CHOICE PROGRAMS BY STATE

| | | | | ISSUES | | | |
|---|---|---|---|---|---|---|---|
| STATE & COMPANY | TYPE OF PROGRAM | CUSTOMER | RELIABILITY & | PRICING | CODES OF CONDUCT | STRANDED COSTS | OBLIGATION TO SERVE (OTS) |
| Questar Gas | In the spring of 1998, the PSC approved Questar's customer choice plan allowing its 25,000 residential and small commercial customers choice of a gas supplier. The utility expects the plan to be implemented in 1999. | | | | | | Questar would be the SOLR. |

# Individual State Initiatives

**Arizona:** As part of a rate case settlement, Southwest Gas has agreed to support an unbundling initiative in Arizona. Two marketers that intervened were successful in requesting the opening of a docket that would allow residential and small commercial customers the ability to choose their supplier. The settlement, approved by the Arizona Corporation Commission in August 1997, calls for a generic unbundling proceeding by the commission.

**Colorado:** The Colorado PUC held a hearing on March 6, 1997, to review and discuss the processes and issues surrounding customer choice options for natural gas supply. After the hearing, the PUC wrote a letter to the Colorado Senate President requesting the legislature grant the PUC authority to permit gas utilities to unbundle. In August 1997, the PUC proposed a tentative unbundling structure for utilities in the state and requested comments from interested parties. KN Energy, Public Service of Colorado, and UtiliCorp United all spoke in favor of unbundling with some proposing timetables with unbundling occurring around 2000. Enron Capital and Trade Resources Corp. urged the PUC to implement unbundling quickly, with all customers being able to choose their supplier by Sept. 1, 1998. In early 1998, the Colorado General Assembly considered a bill (HB 98-1400) that would have allowed: 1) utilities to voluntarily file unbundling plans, 2) utilities to recover costs associated with implementing choice programs and 3) the PUC to adopt and implement rules pertaining to unbundling procedures. The House Business Affairs and Labor Committee voted to indefinitely postpone consideration of the bill in early April 1998.

**Connecticut:** The Connecticut Department of Public Utility Control opened an unbundling docket in 1997. The DPUC held meetings in late 1997 and early 1998 to discuss resolution of issues to allow the development of efficient unbundled retail natural gas services. Southern Connecticut Gas commented that it desires to get out of the merchant function as quickly as possible. Connecticut Natural Gas spoke in favor of proceeding with caution towards customer choice. In the summer of 1998, the DPUC issued a draft study on industrial and large commercial customer transportation programs. The issue of residential choice programs will probably not be considered for at least another year, according to the DPUC.

**Florida:** The Florida Public Service Commission staff proposed an unbundling model tariff for gas utilities in October 1997. The tariff set a general framework for utility-provided services )transportation, standby/backup), balancing, aggregation, curtailment, and capacity assignment. Only 8 gas distributors and 2 marketers responded to the proposal. Due to the lack of response from non-utilities, in September 1998 the PSC substituted a rulemaking that would lower minimum volumes required for industrial and commercial customers to qualify for transportation tariffs. Given the low load profile of the Florida residential customer, customer choice is not expected to be extended tot he residential level in the foreseeable future.

**Kansas:** In 1997, legislation was introduced in the Kansas Legislature to support gas competition, however, the bill never got out of Committee. The Kansas Corporation Commission is currently considering a filing by Kansas Gas Service Company to make gas transportation service available to a greater number of small commercial customers and schools. The filing also includes a proposal rate restructuring to being the customer education process needed for retail unbundling by separating distribution costs from gas costs. (KCC Docket No. 99-KGSG-822-TAR).

**Kentucky:** In July 1997, the Kentucky Public Service Commission issued "Natural Gas Unbundling in Kentucky: Exploring the Next Step Toward Customer Choice", which summarized comments from local gas utilities, consumer groups, and marketers. In August 1997, the PSC hosted an informal meeting on unbundling. The gas utilities spoke in favor of unbundling, but warned that issues such as obligation to serve and security of supply need to be addressed. In early 1998, the PSC released draft unbundling legislation but had not decided whether to introduce it into the current legislature session. The bill would change the laws regulating public utilities to allow customer choice for retail gas customers.

**Maine:** In May 1997, Maine's Public Utilities Commission initiated an inquiry regarding gas utility unbundling. The PUC requested input on services to be unbundled, obligation to serve, customer rights, and metering. Maine's natural gas market is expected to expand, served by proposed pipelines expansions and an LNG facility. In February 1998, the PUC closed its inquiry, deciding that utilities should be allowed to offer bundled services. The PUC concluded that the natural gas distribution industry is not sufficiently developed and potential expansion would be discouraged by forcing utilities out of the merchant function. On April 15, 1997, Northern Utilities filed a proposal to unbundle rates for



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all of its customers and also allow daily metered commercial and industrial customers to choose their own gas supplier. Northern requested PUC approval by November 1998.

**Minnesota:** In August 1997, Enron Capital and Trade Resources and other groups petitioned the Minnesota PUC to establish rules and regulations that would provide suppler choice to all customers by 2003. After receiving comments, on October 28, 1997, the PUC rejected the petition, stating that not enough evidence of consumer benefit was available. The PUC did call for the formation of working groups to investigate unbundling issues.

**Missouri:** In 1996, the Missouri Public Service Commission initiated roundtable discussions regarding significant gas industry restructuring issues. Currently, the state has not issued any Commission orders or legislation requiring residential retail access at this time. A new public education campaign sponsored by Missouri Gas Energy and the Consumer Energy Council of America Research Foundation, Missouri SmartChoice: Partners for Energy Education, has been implemented. The campaign was created to meet the need for consumer education in Missouri.

**Oklahoma:** In February 1997, the OCC solicited proposals on gas deregulation. Technical conferences were held to clarify and further explain the various issues. On 9/17/97, the OCC staff issued proposed rules regarding unbundling for local utilities. The proposal called for all natural gas services to be unbundled and be provided and priced on a separate and individual basis. All gas utilities would be required to submit an unbundling plan by 7/1/98 (Class A utilities) or by 7/1/2000 (Class B,C,or D utilities). The OCC Commissioners rejected this initial draft and on 1/21/98, the OCC released a new draft rulemaking. The draft requires that all utilities submit a plan that unbundles functions upstream of the city gate. The rules permit utilities to seek stranded cost recovery and the rules also set forth a goal of unbundled retail services by 10/1/99. On 1/28/98, the OCC approved this latest draft, and sent it to the governor and legislature for approval.

In February 1998, Oklahoma Natural Gas (ONG) and ONG Transmission filed an application with the OCC to set in motion the process of unbundling. The first phase would allow industrial and large commercial customers to choose their gas supplier. ONG will bring choice to very small commercial and residential customers in the following phase. On 3/24/97, ONG filed with the OCC details of its "Natural Choice" plan that, if approved, will ultimately offer all of its customers the ability to select a gas supplier. In June 1997, ONG temporarily withdrew its application for an unbundling program because comments received by the OCC indicated that many parties preferred that the OCC develop regulations prior to approving ONG's unbundling program. ONG filed its upstream unbundling application with the OCC in Spring 1998, which included a competitive bidding process or upstream services. The application also requested that customers be charged a flat monthly fee for distribution services, with gas costs billed separately based on consumption. The flat rate would be based on customer class, and includes a discount for low-income residential customers. In the summer on 1998, the OCC passed an interim order requiring ONG to solicit competitive bids for upstream services in time for the 1998-99 winter heating season. OCC appealed the order to the Oklahoma Supreme Court, stating that the order exceeds the OCC's jurisdiction, represents an invasion of internal management direction, as well as other flaws.

**Oregon:** In its 1997 objectives, the Office of Public Utility Commission decided to "implement direct access pilot programs to examine implications associated with unbundling utility services and rates for electricity and natural gas." The commission will work with utilities and other stakeholders to develop pilot programs and will evaluate the success of these programs. The commission and gas utilities are discussing residential choice programs.

**Texas:** Southern Union has proposed offering its customers in the El Paso area a variety of options for gas acquisitions, including purchasing from third parties. Other options are traditional utility service, partial hedging of prices, and allowing the city government to purchase gas for its citizens. If the city declines to purchase gas on its own and approves the other options, El Paso area customers could then choose from the other three options.

**Washington:** In February 1998, the Washington Utilities and Transportation Commission announced its intent to issue retail choice policy statements and opened a docket on unbundling both gas and electric utilities, but did not announce intentions to require utilities to unbundle. The commission also required Puget Sound Energy to file cost of service studies and methodologies regarding a potential unbundling of gas and electric retail operations as a condition of Puget Sound Power & Light's merging with Washington Natural Gas. Workshops were scheduled with a goal of submitting a report to the Legislature by the end of April 1998.



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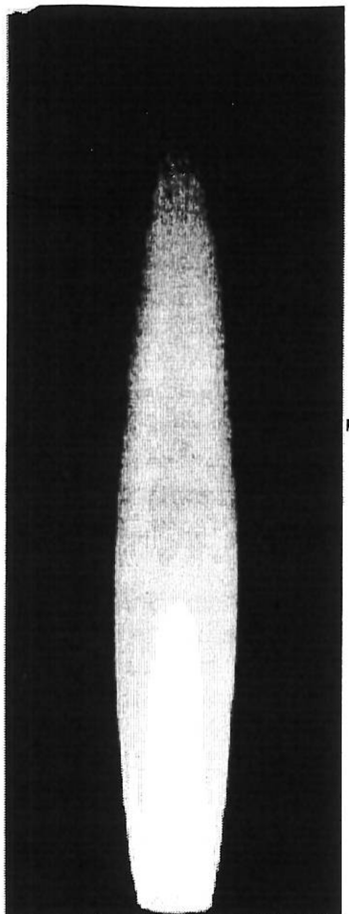
**West Virginia:** Mountaineer Gas Company provides a general transportation service which is available to all of Mountaineer's customers taking service under sales rate schedules. This service is provided on an open access, nondiscriminatory basis pursuant to regulations promulgated by the PSC. During the twelve months ended 6/30/97, Mountaineer transported more than 38 million Dth of customer owned-gas, including some residential volumes. Customers accessing the transportation service must install telemetering equipment, or pay a standby charge. The firm transportation service rate also includes transportation charges, base rate balancing fees, storage balancing fees, and fuel retention fees.



# The Basics:How the Natural Gas Industry Works

Natural gas is the commodity that many Ohioans use to heat their homes, cook, dry laundry and more. For many years, all users -- industrial, small commercial and residential -- simply paid a local gas company to make sure the gas was always there when it was needed. The local company had the responsibility to purchase the natural gas and deliver it to your home or business.

The three parts of the gas business are supply purchasing, transportation and distribution. **Supply purchasing** is the act of buying the gas commodity from the producers. **Transportation** refers to the part of the industry involving the large pipelines that deliver gas from where it is produced to the general area where it will be used. **Distribution** occurs when the local gas company takes the gas from the big pipelines and delivers it right to your home or business through its own pipeline system.

## Supply Purchasing

Natural gas comes from many sources. About 90 percent of the gas used in Ohio comes from the Gulf of Mexico region and about 10 percent comes from private wells in the state. The point at which the natural gas is brought out of the Earth is called the "well head" and is owned by producers. Producers can sell their gas in a competitive market, charging whatever the market will bear. Since the 1930s, your local gas company has acted as the purchasing agent, buying your natural gas on your behalf (and on behalf of its other customers) from the producers.

## Transportation

Pipelines snaking across the country bring the natural gas from the wells to our part of the country. These pipelines make up the transportation part of the industry and are owned by pipeline companies

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Local gas companies contracts with the pipeline companies to reserve space on the pipeline for bringing your gas to Ohio.

## Distribution

Under the streets of your city or town are pipes which take the gas from the pipeline and deliver it to your home. This network of pipes is the distribution portion of the industry. The pipes, meters and safety services are all the responsibility of your local gas company.

## The Cost of Natural Gas Service

Your natural gas service is made up of the supply costs and the transportation and distribution costs. The typical Ohio consumer's bill is made up of approximately 65 percent for the cost of your natural gas supply and about 35 percent for the transportation and distribution service.

## Ohio's Natural Gas Customer Choice Programs

In the 1970s, industrial customers were given the right to buy their own gas from producers, bypassing the supply-purchasing portion of the local gas company's business. In 1997, this choice was extended to certain residential and small commercial customers throughout the state in programs like Columbia Gas of Ohio's Customer CHOICE® program, Cincinnati Gas & Electric's customer choice program and East Ohio Gas's Energy Choice program.

PUCO Consumer Education Home Page

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February 2,1999

NATURAL GAS TRANSPORTATION IN KANSAS
BY
LOCAL DISTRIBUTION COMPANIES (LDC)

Presented by

GLENN SMITH
CHIEF, NATURAL GAS OPERATIONS
KANSAS CORPORATION COMMISSION

I would like to begin by presenting a brief simplified functional sketch of a natural gas system so I can define the terms that I use when discussing natural gas transportation. A natural gas system can be said to consist of four functional parts. They are

1. Production
2. Gathering
3. Transmission
4. Distribution

In 1999 it is common that the four functional parts are owned and operated by different companies. The vast majority of the time the distribution company is the only one over which the KCC has rate regulation. Typically, the transmission company is rate jurisdictional to the Federal Energy Regulatory Commission (FERC), and the gathering company and the producing company are not subject to rate regulation.

What do I mean by transportation, and why would a company (or individual) want to be a transporter ? A LDC transportation customer (transporter) purchases its gas supply and arranges with a transmission company to deliver the gas to the town border station of the LDC. The transporter also contracts with the LDC to transport gas from the town border station to its facility where the gas is consumed. Often the transporter's contract with the transmission company is for interruptible transportation. Interruptible transportation is significantly less costly than firm transportation, but a purchaser is denied service if there are sufficient firm volumes flowing such that there is not capacity enough to transport both the firm and interruptible volumes that are desired. In the past the local distribution company contracted with the transmission company to provide at the town border station the quantity of gas needed by the LDC irrespective of requests by others. This is known as firm service. The transmission company made all the contractual arrangements necessary to purchase the gas, and arrange to have it available at its transmission line. Often the arrangements were to contract to purchase the gas, and the transmission company would construct and operate the gathering system. All customers of the LDC paid to have service during the peak demand time. In the event that there were system failures and all customers could not be served, LDCs developed curtailment priorities, and those customers having the greatest potential for human suffering if curtailed were accorded the highest priority. That left many industrial customers subject to loss of gas service

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in extreme conditions. To protect itself against loss of production and damage to equipment many industrial customers installed alternative fuel systems that it could use if curtailed. Therefore when the FERC and KCC permitted transportation service the industrial customers opted for it. They were able to buy gas at the best price available and use the less costly interruptible transportation. There were significant savings to those who qualified under the LDC tariff.

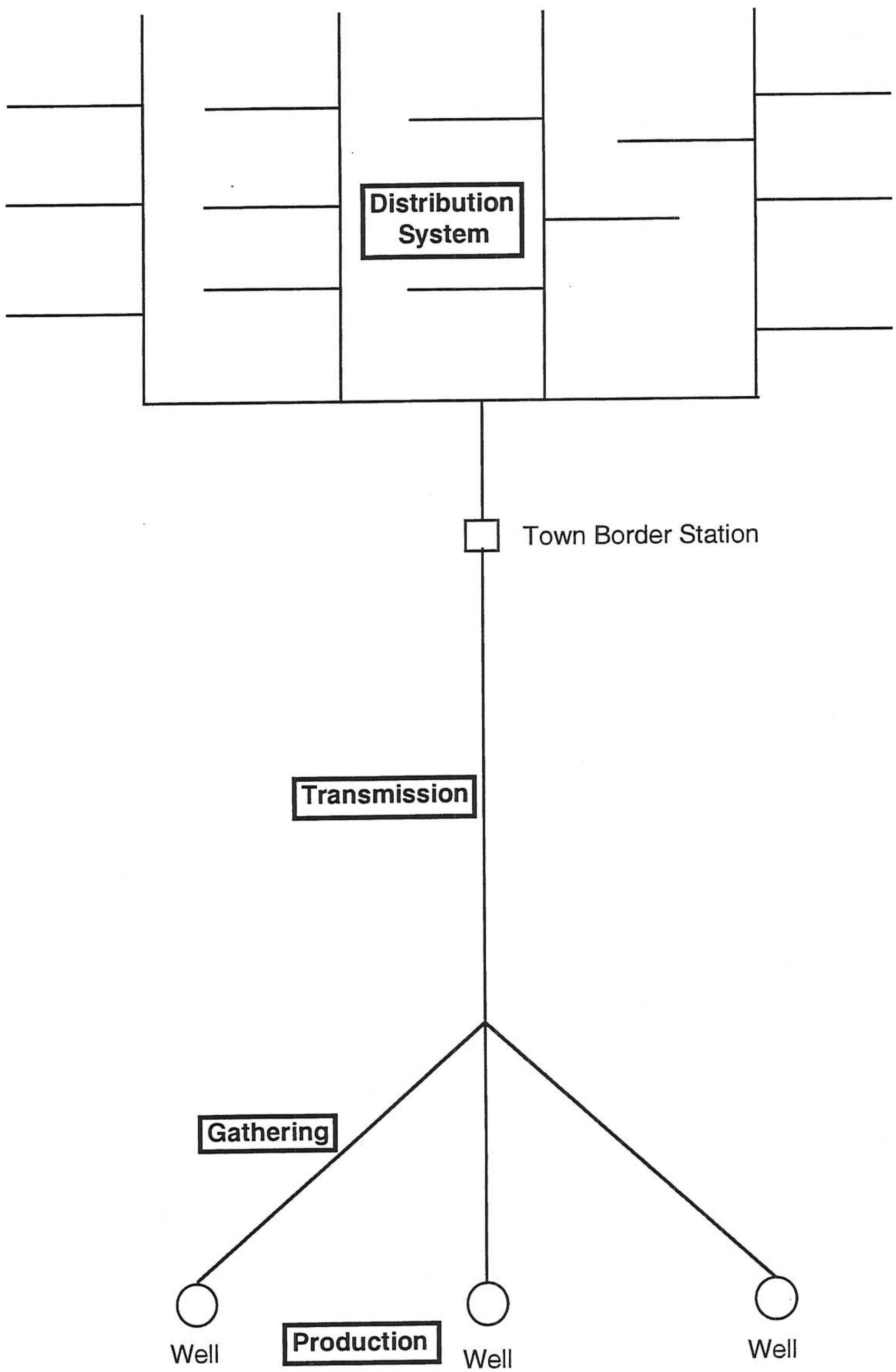
The FERC had permitted ( and strongly encouraged) interstate transmission companies to provide transportation service by the mid-1980s. In 1986 Williams Natural Gas opened their system for transportation, and the KCC began to approve transportation tariffs for local distribution companies. Since that time transportation service has become a significant portion of the gas delivered through local distribution companies.

There is an attachment that shows the sales volumes, transport volumes, and the percentage that transport is of the total volumes for each of the five largest Kansas LDCs for the period 1994-1998. Additionally, the threshold to qualify for transportation is shown. The threshold ranges from all but residential to 6,000 mcf/year. The percentage that transportation is of total volumes ranges from about 14% to about 73%. It can be seen that the percentage is not necessarily proportional to the threshold, but that other factors affect it. It is likely that the make-up of businesses ( size, percent of customers, etc.) impact the percentage of gas that is transported.

From these figures it is evident that customer choice (unbundling) is well advanced for large commercial and industrial customers of Kansas LDCs. It is a reasonable assumption that further reductions of the threshold will begin to provide the transportation option to customers without alternative fuel sources. This will necessitate consideration of public policy issues such as what constraints, if any, should be placed on marketers, should customers be permitted to utilize interruptible transportation on transmission lines, should there be a " provider of last resort", if so who should it be, how are the costs incurred by the "provider of last resort" reimbursed, how are " no pays" handled, does the "cold weather rule apply, and others.

Staff is aware that the Commission is preparing to issue a Notice of Inquiry to be responded to by Kansas gas utilities and other interested parties on the general topic of natural gas unbundling and alternatives. It is expected that the Docket will be opened and the inquiry issued within the next four weeks. It is assumed that comments will be requested on many of the public policy issues previously mentioned.

# SIMPLIFIED NATURAL GAS SYSTEM



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**Kansas Gas Service**

| | | 1994 | 1995 | 1996 | 1997 | 1998 |
|---|---|---|---|---|---|---|
| 6.000 mcf/year-has applied to move to 3,000 mcf/year | Sales mcf | 74,772,458 | 73,638,252 | 79,902,366 | 74,145,815 | 64,870,406 |
| | Transportation mcf | 46,432,166 | 47,129,081 | 44,335,014 | 45,458,373 | 49,452,950 |
| | % of Total | 38.31% | 39.02% | 35.69% | 38.01% | 43.26% |

**United Cities**

| | | 1994 | 1995 | 1996 | 1997 | 1998 |
|---|---|---|---|---|---|---|
| 3.000 mcf/year | Sales mcf | 10,244,660 | 10,279,948 | 11,405,443 | 11,121,965 | 10,166,040 |
| | Transportation mcf | 5,573,720 | 6,918,559 | 6,733,146 | 6,398,948 | 5,937,834 |
| | % of Total | 35.24% | 40.23% | 37.12% | 36.52% | 36.87% |

**Peoples**

| | | 1993 | 1994 | 1995 | 1996 | 1997 |
|---|---|---|---|---|---|---|
| 500 mcf/year | Sales mcf | 10,700,000 | 10,000,000 | 10,800,000 | 10,400,000 | 10,200,000 |
| | Transportation mcf | 17,300,000 | 20,200,000 | 23,300,000 | 23,000,000 | 27,100,000 |
| | % of Total | 61.79% | 66.89% | 68.33% | 68.86% | 72.65% |

**Greeley**

| | | 1994 | 1995 | 1996 | 1997 | 1998 |
|---|---|---|---|---|---|---|
| 4.000 mcf/year | Sales mcf | 5,236,190 | 4,935,414 | 5,332,696 | 5,086,714 | 4,793,474 |
| | Transportation mcf | 59,551 | 119,056 | 187,082 | 733,385 | 776,908 |
| | % of Total | 1.12% | 2.36% | 3.39% | 12.60% | 13.95% |

**Midwest Energy**

**M System (pre-merger Midwest Energy)**

| | | 1994 | 1995 | 1996 | 1997 | 1998 |
|---|---|---|---|---|---|---|
| 500 mcf in peak month | Sales mcf | 2,509,567 | 2,311,496 | 2,303,616 | 2,221,470 | 1,815,286 |
| | Transportation mcf | 502,873 | 466,028 | 525,984 | 563,244 | 453,165 |
| | % of Total | 16.69% | 16.78% | 18.59% | 20.23% | 19.98% |

**K System (former KN Energy)**

| | | 1994 | 1995 | 1996 | 1997 | 1998 |
|---|---|---|---|---|---|---|
| All but residential | Sales mcf | 7,303,769 | 4,734,716 | 4,395,492 | NA | NA |
| | Transportation mcf | 2,278,033 | 4,546,417 | 5,320,187 | NA | NA |
| | % of Total | 23.77% | 48.99% | 54.76% | NA | NA |