

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 9:07 a.m. on February 3, 1999 in Room 522-S of the Capitol.

All members were present except: Rep. Cliff Franklin

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 pointed out the minutes from previous meetings to be looked at and voted on at the end of the meeting. He also announced this was the last day for committee bill introductions.

Rep. Don Myers requested introduction of a bill that has to do with any merger of two utilities and subsequent approval by the Kansas Corporation Commission. Essentially what the bill would do is to disallow the pass-through to rate-payers of the cost of any acquisition premiums paid in a merger. Acquisition premium means the amount paid to acquire a public utility that exceeds the book value of the utility. The proposed bill will require the amount paid for one utility by another in an acquisition which is above the book value to be absorbed by the stockholders, not the rate payers.

The Chair asked for other bill introductions. There being none, the Chair announced this would be the last bill introduction for this year and asked for a motion.

Rep. Myers moved to introduce the above referenced bill as a committee bill. Rep. Vining seconded the motion. Motion carried.

Chairman Holmes introduced Steve Johnson of Kansas Gas Service. Mr. Johnson presented a program on "Unbundling" (Attachment 1) Mr. Johnson's presentation also included information about the Kansas Gas Service Company's history, price protection/hedging, a pilot program in Wichita school district for transportation, cost of gas restructuring, residential rate restructuring, and WeatherProof Bill. Mr. Johnson concluded his presentation by responding to questions from the committee.

Chairman Holmes opened the debate on **HCR 5011 - request to the corporation commission to address Western Resources' rate disparities.**

Committee members voiced opinions and comments about the Resolution. Rep. Klein moved to report HCR 5011 favorable for passage. Rep. Vining seconded the motion. There were additional comments and discussion prior to the vote. Motion failed on a vote of 5 to 9.

Rep. Alldritt moved that the minutes of the January 28, January 29 and February 1 meetings be approved. Rep. Long seconded the motion. Motion carried.

Meeting adjourned at 10:28 a.m.

Next meeting is Thursday, February 4.

**Testimony Before
The House Utilities Committee
by
Steve Johnson
Kansas Gas Service
February 3, 1999
*Unbundling***

Chairman Holmes and members of the Committee:

Thank you for inviting Kansas Gas Service to appear before you today. I'll talk about the history of our Company, its service to Kansas, our progress in providing customers choice and protection regarding our gas prices, a discussion of gas transportation, and a look at unbundling as we see it for the next few years.

Let me begin with some historical perspective.

- 1975 The Gas Service Company - served only gas to 980,000 customers in Kansas, Missouri, Oklahoma, and Nebraska. Additionally, Kansas Power & Light (KPL) was serving electric and gas to approximately 160,000 gas customers in Manhattan, Salina, Emporia, McPherson, Wamego, and smaller towns.
- 1983 KPL purchased all of the Gas Service Company stock and continued service to all gas and electric customers in all four states.
- 1992 KPL & KGE merged to become Western Resources
- 1994 Western Resources sold Missouri properties to Southern Union which became Missouri Gas Energy (MGE).

1997 Western Resources and ONEOK formed an Alliance and Kansas Gas Service was born serving 620,000 gas-only customers in Kansas and 32,000 gas customers in northeast Oklahoma

The Alliance meant we could still retain synergies such as meter reading, billing, service calls, office and service center sharing, phone centers, and other smaller systems without increased cost to our ratepayers. We also agreed to a three-year moratorium on rate increases.

Innovative Progress since December 1, 1997

Hedging - Price Protection

Within a few months of operation, Kansas Gas Service filed and received approval from the Kansas Corporation Commission (KCC) to initiate a pilot program designed to moderate the cost its customers pay for natural gas in cold-weather months.

The program, which is being tested in a number of Kansas communities this winter, such as Kansas City, Overland Park, Topeka, Wichita, Pittsburg, Emporia, Leavenworth, and Atchison, uses "hedging" to limit the price the company pays for its supply of gas in the coldest months. This hedging program involves the buying and selling of natural gas futures and calls to reduce the price volatility of the gas. The company estimates that customers would have saved nearly \$30 million during the winter of 1996-1997, when the natural gas market spiked to unexpected high prices.

In addition, the program allowed Kansas Gas Service and one of its sister companies, ONEOK Gas Marketing Company, to work with storage resources in Kansas to implement the hedging program. The gas prices this winter did not reach the cap established, but because we were

able to pull less expensive gas from storage, our customers were not adversely affected by the purchase of this "insurance". Due to its success, we have filed to extend this program another year.

Retail Unbundling

In June, Kansas Gas Service proposed an unbundling initiative by asking the KCC to allow more commercial unbundling and changes to residential billing. Following public hearings in December, 1998 and a technical hearing in January, 1999, the KCC's decision is expected by February 19, 1999. The Company currently offers "transportation" service to about 800 large customers - larger commercial and industrial businesses - which purchase their own gas on the open market and pay Kansas Gas Service to pipe it to their facilities. Currently, this large-volume service is only available to institutional customers that use a minimum of 6,000 Mcf of gas annually or who exceed 1,500 Mcf in any given month.

Kansas Gas Service is proposing the threshold for transportation service be lowered to include any customer who uses 3,000 Mcf annually. This change would open the door for an additional 650 businesses, churches, and schools to attempt to reduce energy costs by purchasing their own gas supply.

Let me digress here to explain this concept of transportation. This idea first began with FERC and its order 636 in the early 80's where transportation pipelines, such as Williams, were required to divest themselves of the gas producing and gathering function and exclusively move gas from the fields to the edge of town - a town border station. (See attached graphic) With this concept in place, large industrial and commercial customers were allowed to buy their own gas in the field from producers or marketers such as Amoco, Oxy, Kansas Gas Marketing, and others, then transport this

gas across the transmission pipelines, through the town border stations, into the LDC's distribution system to the customer's meter. These customers now pay their natural gas bill in three pieces and the producer, the transmission company, and the LDC, all have separate and distinct charges for this transportation service. Savings in the cost of gas are realized by these larger customers because they do not pay for "firm" (non-interruptible) service and have agreed to be interrupted at any time in favor of the residential customer.

School District Transportation

Most recently, Kansas Gas Service has also helped the Wichita school district transport gas to their facilities under a pilot program, allowing them to add together (aggregate) several meters to reach the threshold and qualify to transport gas. It has been successful and we recently filed a new tariff with the KCC so we can offer this same type of transportation service to all not-for-profit school districts in our service territory, therefore saving them several thousand dollars through the year. We have agreed in our most recent filing with the KCC to try to get this in place by April 1, 1999.

Cost of Gas Restructuring

In another aspect of our unbundling filing, the company proposed to break out "capacity charges" separately as a monthly flat charge on all bills. Capacity charges are the fees Kansas Gas Service pays on its customers' behalf to reserve space on the interstate transmission pipeline network to bring natural gas into the service area which is not subjected to curtailment. Customers now pay these fees as a part of the cost of gas.

Kansas Gas Service asked to set those capacity costs out as a monthly line item on the bill to help educate them regarding the various pieces of the cost of gas. The purpose of the change is to come in line with federally adopted billing practices used by interstate pipelines. The flat charge would be the same for all residential customers.

Residential Rate Restructuring

Currently, residential customers pay a fixed monthly customer charge of \$6.20 plus another charge based on each unit of natural gas they consume. Under this filing, the volumetric rate would be reduced substantially and the fixed basic service charge would increase to \$11.53. This still only represents a portion of the full cost to provide service to each customer if the volumetric charge were reduced to zero. In this case, the monthly cost per customer becomes \$18.75 and is ongoing each month whether our customers use 100 units or zero units. For our average customers, the bottom-line on their bills would be about the same. Another benefit of the filing is to make bills less sensitive to fluctuations in the weather. Under the proposed structure, many bills would be lower during high-use periods in cold weather. The company does anticipate that the new billing structure could result in slightly higher off-peak bills for some customers who use less than average.

Unfortunately, the negative reaction this generates from some of our customers is usually related to their misunderstanding of this annual impact versus the monthly impact. In fact, 85% of our customers will only be affected by a \$2.80 per month increase or decrease.

WeatherProof Bill

In September, Kansas Gas Service received KCC approval and was recognized for their effort in bringing predictability to natural gas bills. The company, working with WeatherWise USA, introduced the WeatherProof Bill pilot program. Customers in selected areas, such as Manhattan, Salina, Abilene, Junction City, McPherson, and Hutchinson, could choose to pay a set amount each month, rather than receiving bills which vary with their monthly usage. The WeatherProof Bill is based on each customer's historical actual usage. We have introduced a sense of risk with this program. WeatherWise USA has assumed the volume risk and ONEOK has assumed the price risk, allowing our customers the flexibility to budget for their gas purchases by providing a guaranteed set price. The company has about 6,600 residential customers participating in this optional program.

Future Unbundling Initiatives

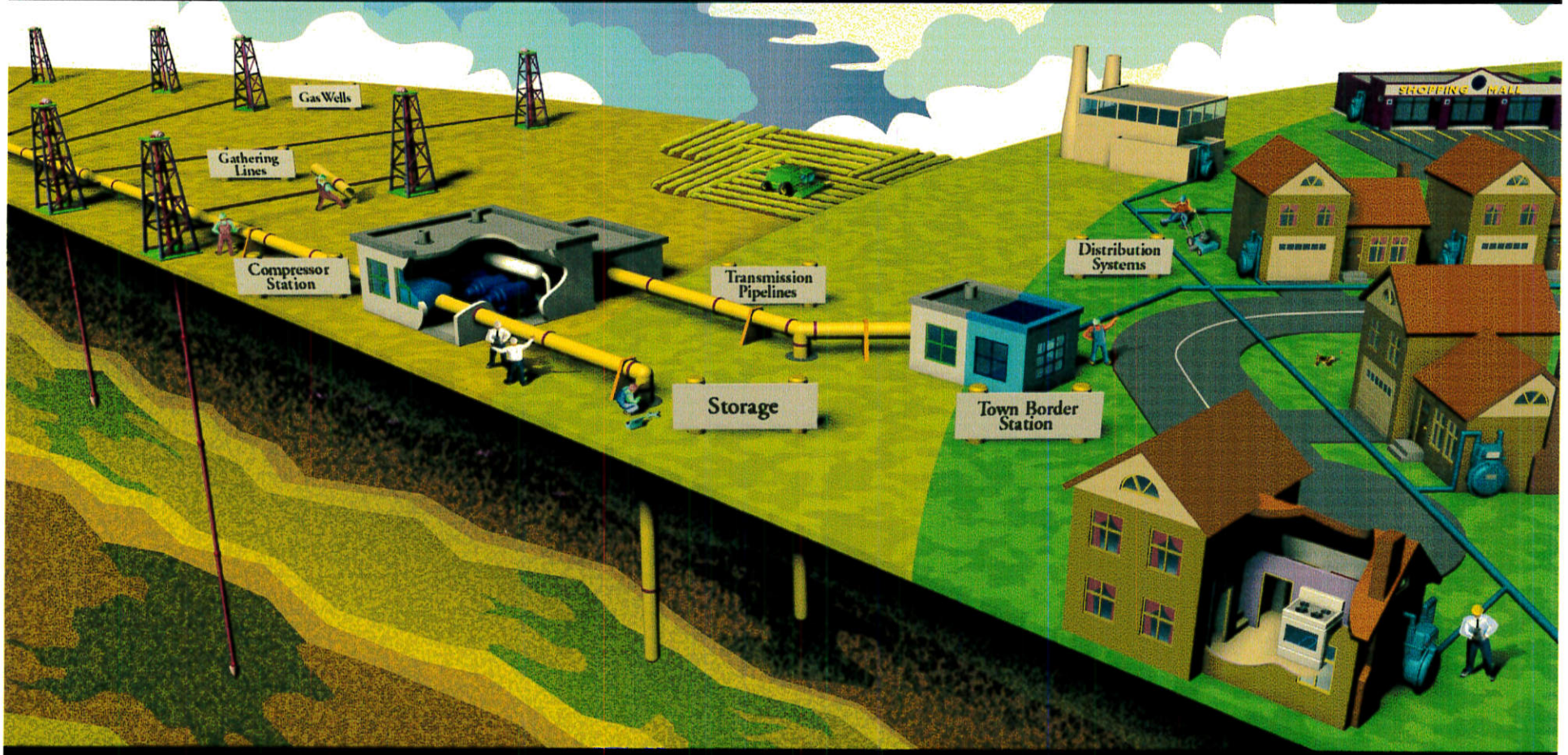
As you heard yesterday, several states have initiated unbundling proposals to allow retail, residential, and small commercial customers an opportunity to make a choice regarding their gas supplier. In other words, the customer could make arrangements with a different firm, most likely a marketer, to bring his gas to the town border station, deliver it to the LDC, and then pay their transportation charges. Our desire is for the customer to pay us a flat monthly fee (i.e. \$18.75/month) and pay us to provide him his gas requirements or they can arrange for a marketer to possibly provide a less expensive alternative which must also include the same pipeline transmission fee and reservation charges set by the FERC for each transmission pipeline. Unfortunately, the cost of providing firm service from the pipelines, won't be much (if any) less than our cost today. Kansas Gas also purchases gas on long-term contract at competitive prices which will be hard to beat in the

marketplace. As you know, these costs are passed along to our customers, dollar-for-dollar, with no profit for our Company. The marketplace however, will be able to charge whatever price the market will bear. Our customers enjoy rates 23% below the national average today. We're not sure unbundling (providing choice) for the residential customer will lead to much greater savings.

We are committed to provide clean, economical, efficient gas services to all that request such service and will stand ready to compete in the marketplace once such competition is allowed. However, we will need to revamp our current billing systems and try to change some of our existing gas purchase contracts and embark on a comprehensive educational program before a full-choice program can be successful.

Thank you for the opportunity to testify today. We would be pleased to answer any questions you may have.

WELLHEAD TO BURNER TIP



KANSAS GAS SERVICE
A DIVISION OF ONEOK