Approved: Feb. 22, 2000
Date

MINUTES OF THE SENATE UTILITIES COMMITTEE.

The meeting was called to order by Chairperson Sen. Pat Ranson at 1:30 p.m. on February 8, 2000 in Room 531-N of the Capitol.

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

Committee staff present:
Lynne Holt, Legislative Research Department
Mary Torrence, Revisors of Statute Office
Jeanne Eudaley, Committee Secretary

Conferees appearing before the committee:
Larry Holloway, Acting Director of Utilities, Kansas Corporation Commission
David Banks, Energy Manager, Wichita Public Schools

Others attending:
See attached list

Sen. Ranson announced Sen. Hensley's pages have assisted the committee today and asked each one to introduce themselves to the committee.

Sen. Ranson recalled that last year the committee discussed a bill, which the committee chose not to pass, extending the option of transport only for natural gas to schools and other customers. The utilities' did offer this proposal and hoped to accomplish the option of transport only to the schools through a tariff. She recalled the committee discussed the policy as it would be extended to schools and other customers, which we thought would bring the transport levels down. However, the result has been that stranded costs came into play, which was not contemplated when the issue was discussed in committee. The committee's objective now is to find out what happened after it left here, in regard to stranded costs and the policy relating to transport only. She stated that several dockets have been opened, and introduced Larry Holloway, who presented a summary of stranded cost recovery in gas transport tariffs (Attachment 1). Mr. Holloway explained that stranded costs are incurred by the natural gas local distribution company, or LDCs, when customers elect to transport their own gas over the LDC's distribution system. When customers elect to transport gas, the LDC's remaining sales customers often end up paying transportation obligations, or stranded costs, when contracts are terminated. Mr. Holloway explained the dockets and pointed out that utilities have some provision for recovering costs. He referred to a Summary of Stranded Cost Provisions in the Transportation Tariffs, on Page 2 of his presentation, which also sets out the threshold minimums and charges to make up for the stranded costs. He also introduced Joe Williams, who will assist in answering questions.

Mr. Holloway stated he would focus on the Kansas Gas Service issue and noted in the first docket, No. 988-KGSG-822-TAR, that KGS customers may be paying stranded costs that should have been recovered from their transport customers under an existing tariff. The Commission ordered KGS to file a docket to determine stranded costs and present a method of recovery from their transport customers, which they did. Subsequently, KGS filed a proposal with the Commission to implement a School District Transportation Rider, which would allow school districts to transport gas, and it was approved by the Commission. The Commission granted permission for KGS to assess an interim charge, of approximately 12 cents per MCF, to all customers who switched to transport service after April 1, 1999. Mr. Holloway pointed out that all revenues collected under this proposal are subject to refund, based upon the conclusion of the stranded cost docket.. That docket remains open, while the Commission develops a procedural schedule, but no testimony has been filed in this case. The stranded costs study only focused on the customers leaving after April 1, 1999. Two areas remain open regarding the KGS docket, and they are if the Commission finds the results of the stranded costs study is valid and whether, if there are stranded costs, they should be assessed only to the customers leaving the system after April 1, 1999, and if those are subject to refund.

The committee then questioned Mr. Holloway, with Sen. Ranson asking if the No. 822 docket applied to KGS only and the fact that the utility never applied exit fees to its customers. Mr. Holloway discussed pipeline capacity and what happens if a customers contracts for transport only and terminates the contract, who pays the cost and how the owners can recover costs from its customers. Mr. Holloway reminded the committee that relating stranded costs to the electrical utility is different than what we are discussing today, in that the shareholders cannot recover stranded costs. However, if a utility signs a contract for transport only and the customer terminates the contract, the LDCs have a problem with pipeline capacity, although they may resale natural gas on the open market. Sen. Ranson also asked if the purchase is done by contract, does the contract spell out what happens in case of termination? Mr. Holloway stated they can stipulate an allowance for stranded costs and the transportation tariff may also come into play; that the LDCs may assign costs to the customer who is leaving. Sen. Ranson also questioned Midwest Energy's Rider to negotiate a settlement. Sen. Ranson asked if a transport only decided to buy gas from someone else, who pays the cost remaining on the contract. Mr. Holloway answered either the customer on contract, or the costs can be passed on to other customers. They also discussed the school tariff, and if, after April 1, 1999, the costs went only to the school districts. Mr. Holloway answered the tariff imposed was not discrimatory; that after April 1, the costs involved all customers. Sen. Ranson also asked if KGS used exit fees, and Mr. Holloway answered they have not assessed exit fees. Sen. Ranson stated we have two standards here - if you are early and big, you probably would not pay and if you new and not so big, you probably would pay costs. Mr. Holloway answered that is one of the concerns the Commission is addressing in the stranded cost dockets.

Sen. Barone referred to the No. 822 docket and its filing in 1998 and asked if we are any closer to a resolution of the problem now. Mr. Holloway explained that Docket No. 822 was opened for two reasons: 1. Request from KGS to raise residential charge and 2. to lower their mcf charge and 3. to lower the thresholds to 3,000 mcfs per year. He further explained that in going through the docket the issue of stranded cost came up late in the process, when the staff assumed KGS was recovering costs and found they were not. The issues could not be resolved, and resulted in the filing of Docket No. 705, which KGS filed to comply with the Commission's Order and involved the stranded cost issue. In answer to a questions from Sen. Ranson, Mr. Holloway stated resolutions to Docket No. 822 was approved on several issues: lower thresholds, the transport cost issue to change rates, and the customer charge stayed at its present level. Sen. Brownlee also questioned if there were initial legislation regarding this issue, and Mr. Holloway answered that it really goes back to the federal restructuring of gas pipelines.

Sen. Ranson then introduced David Banks, who presented additional information to update the committee on efforts schools are making to adapt to natural gas deregulation (Attachment 2). Sen. Steffes noted the significant savings reported in Mr. Banks' testimony and raised questions regarding the accuracy of some of the numbers; he also asked who will pay the $10,000 stranded cost assessment to the Wichita School District. Mr. Banks stated he believes the figures are accurate and were determined by comparisons to costs in the past. Sen. Steffes discussed if the utility companies would bear the loss, or if it would be the school districts, or the taxpayers. Sen. Barone noted the Wichita Schools' savings of $60,000 is substantial, and asked even with the stranded costs issue, would Mr. Banks continue to support the transport only concept? Mr. Banks replied that he would, as they would still save money. Sen. Barone stated it appears the utilities are losing $220,000 if the projected savings are accurate, or is it the paying public? Sen. Barone stated he did not recall discussions regarding forming groups, then questioned Mr. Banks regarding the Greenbush Energy Group and why it was created. Mr. Banks stated they became aware of the fact that a pool could be created which would benefit all the schools and allow the smaller schools to participate. Sen. Barone recalled conversations last year which involved the Wichita Schools, and asked if creating a coop was a change in philosophy, and if the Kansas Association of School Boards are aware of the coop. Mr. Banks answered the Greenbush Energy Group was created as a buying group consisting of small and larger school districts; that Wichita was approached by other school districts - as many as 45 districts expressed interest. Some districts could not participate, but all of the districts who were eligible are participating and are happy with the results. Sen. Brownlee stated she has no objection with creating the pools to save schools money; that we need to allow more freedom to schools to enable them to cut costs. Sen. Brownlee asked Mr. Banks what Wichita Schools' natural gas bill is annually, and he answered approximately $800,000 per year. Sen. Brownlee also confirmed that KGS is a rate of return company. Mr. Holloway clarified that the margin for transport and sales is an identical cost; that KGS gets the same amount of money from both customers; that the lesser price is through buying cheaper, avoiding pipeline costs and purchasing gas at the wellhead.

Sen. Brownlee asked questions regarding a 2 cent transition fee. Mr. Banks responded that the transporter pays the 2 cent transition fee as a cost adjustment on contracts. Discussion centered around what the fee is for and if the payment of the 2 cents is mandatory or is it optional for the transporter? Sen. Brownlee stated she would like to see a list of the fees before and after the option; Mr. Holloway thought he could get the list for her. Sen. Ranson then asked Mr. Holloway if the $0.1263 per MCF charge, which KGS is allowed as an interim charge to customers switching to transportation service after April 1, 1999, relates to their stranded costs and is subject to refund.

Sen. Ranson made the following announcements:

> Today she will concur with **SB 243-electric generation facility siting act** - it has one amendment to change the date
>
> **SubHB 2290-certain loans and pledges of credit by certain public utilities** has been referred to the committee - we will hold hearings soon
>
> We will have a hearing, discussion and action on **SB 514-natural gas pipeline safety; relating to compromise of civil penalties** next week along with information from Research on One Call

She announced continuation of this discussion to Thursday's meeting.

Meeting adjourned at 2:30.

Next meeting will be February 10.

SENATE UTILITIES COMMITTEE GUEST LIST

DATE: Feb. 8, 2000

NAME	REPRESENTING
[illegible signature] Campbell	Midwest Energy
Bill Curtis	Ks Assoc of School Bds
JC Long	UtiliCorp United
Diane Gjerstad	Wichita Public Schools
[illegible signature]	Wichita Public Schools
Charles Reese	Midwest Energy
Steve Johnson	Kansas Gas Service
Larry Holloway	KCC
Louie Stroup	Kansas Municipal Utilities
William Eliason	Ks. Gas Service
ROBERT COURTNEY	OLATHE SCHOOL DISTRICT
BRUCE GRAHAM	KEPCo
Whitney Damron	KS Gas Service
Myrna Morrison	Spring Hill USD 230
Tim Meek	Spring Hill USD 230

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BEFORE THE SENATE UTILITIES COMMITTEE
PRESENTATION OF THE
KANSAS CORPORATION COMMISSION
FEBRUARY 8, 2000
SUMMARY OF STRANDED COST RECOVERY IN GAS TRANSPORT TARIFFS

Thank you Madam Chair and members of the Committee. I'm Larry Holloway, Acting Utility Division Director with the Kansas Corporation Commission. I appreciate the opportunity to be here today. This afternoon I will provide short summary of stranded cost recovery for natural gas utility transport customers. I will also provide a more detailed summary of stranded cost recovery from Kansas Gas Service Company transportation customers.

Stranded Costs for Kansas LDC's

Stranded costs may be incurred by natural gas distribution utilities, or LDCs, when customers abandon sales service and elect to purchase and transport their own gas over the LDCs distribution system. The LDC is responsible for securing pipeline transportation capacity and purchasing natural gas for its sales customers. When customers elect to transport gas, the LDC's remaining sales customers often end up paying for the unused purchase or transportation obligations, unless the LDC has provisions to assess these stranded costs back to the transportation customer. I have provided a summary of stranded costs recovered from transportation customers by various Kansas natural gas LDC's. As you can see, each of these utilities has some provision for recovering these costs.

Summary of KGS Stranded Cost Recovery

- In Docket 98-KGSG-822-TAR the issue arose that KGS sales customers may be paying stranded costs that KGS should have been recovering from transportation customers under KGS's existing tariffs.

- Based on this issue raised in 98-KGSG-822-TAR, the Commission Ordered KGS to file a docket to determine stranded costs and present a method of recovery from transportation customers. KGS filed docket 99-KGSG-705-GIG to comply.

- On December 16, 1998, KGS filed a proposal, Docket 99-KGSG-419-TAR, to implement a School District Transportation Rider allowing any school district, even those who would not qualify under current transportation thresholds, to transport gas. The Commission approved the proposal on March 16, 1999.

- On December 17, 1999 the Commission granted a motion in Docket 99-KGSG-705-GIG by KGS to assess an interim charge of $0.1263 per MCF for all customers which switched to transportation service after April 1, 1999, including schools taking service under the School District Transportation Rider. All revenues collected under this proposal are subject to refund.

- Docket 99-KGSG-705-GIG is currently open and the Commission is developing a procedural schedule.

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Attach. 1

Summary of Stranded Cost Provisions in the Transportation Tariffs of Major Kansas Natural Gas Utilities

Specified in Tariff	Greeley (Atmos) Greeley Division	Greeley (Atmos) United Cities Division	KGS - k&t areas general conditions for all transportation section 10.11	KGS "k&t"areas general transportation (GT) and Large Volume (LV) tariffs	KGS "k&t" areas Gas transportation for Schools Rider	Midwest Energy Inc	Utilicorp (Peoples & KPS)
Threshold Minimums	4,000 Mcf/year	3,000 Mcf/year	N/A	3,000 Mcf/year or 1,500Mcf/month	none	500 Mcf/year or telemeter	500 Mcf/year
Margins	Same as Sales	Same as Sales	N/A	Same as Sales	Same as GT	Differing*	Same as Sales
Demand	X	X	X	under 10.11	under 10.11	X	
Reservation	X	X	X	under 10.11	under 10.11	X	
Penalties	X	X	X	under 10.11	under 10.11	X	
Standby	X	X	X	under 10.11	under 10.11	X	
Take or Pay		X		X	X		
Charges Recovered From Other Customers			X	under 10.11	under 10.11		
Kansas Transition Cost $0.020/McF				X	X		
Banked Gas Costs				X	X		
Gas Supply Restructuring Tariff (KN settlement)						X	
Pipeline capacity assignment and release	X	X					X

Stranded Cost Items Recoverable Under Tariff

* [margins are not the same as sales customers - however sales margin includes purchased gas and pipeline costs]

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WICHITA
Public Schools
www.usd259.com

School Natural Gas Transportation Policy

Senate Utilities Committee
Senator Pat Ranson, Chair

Submitted by: David Banks
Wichita Public Schools

February 8, 2000

Madame Chair, members of the Committee:

What a difference a year makes. Last session at this time the Wichita Public Schools appeared before you on S.B. 186 – a brief amendment to the school bid statute to exempt the purchase of natural gas from a lengthy and cumbersome bid process.

Today I am back to update the committee on the efforts schools are making to adapt to the world of natural gas deregulation.

The problem the district outlined last session was the length of time to bid natural gas, a commodity with a volatile market. Under the old law, districts would bid natural gas early in the season, regardless of market trends, the process taking as long as four to six weeks. Fluctuations in the gas market caused suppliers to demand the right to refresh their price at the time of award. This left school districts struggling as suppliers submitted rock bottom bids, which did not accurately reflect a final refreshed price. The bid process was not producing a market value price. To obtain fair market value it was necessary for districts to be able to immediately respond to market conditions.

S.B. 186 simply exempted natural gas purchases by school districts from the bid statute. Upon its enactment into law this exemption allowed schools to employ market trend analysis and implement purchasing strategies.

School districts of all sizes have benefited from the passage of S.B. 186. This bill in conjunction with Kansas Gas Service's school natural gas rider tariff has given districts the opportunity to transport to facilities of all sizes, obtain fair market value by responding quickly to changing market conditions and employ group-buying strategies to take advantage of volumetric discounts.

I am aware of two buying groups which have sprung up to support school districts, one sponsored by the Kansas Association of School Boards and a second, the Greenbush Energy Group, associated with the Southeast Kansas Service Center at Greenbush.

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2-8-00
Attach. 2

Twenty school districts including the Wichita Public Schools make up the Greenbush Energy Group.

Savings realized by school districts:

Wichita Public Schools	$ 60,000	8% savings
Olathe	$ 40,000	
Independence	$ 10,000	
Spring Hill	$ 3,500	
Fredonia	$ 3,000	
Basehor Linwood	$ 4,000	

Greenbush Energy Group schools will exceed $220,000 in savings this year.

The bottom line is the actions of this committee have given school districts greater control of the natural gas buying process resulting in significant savings.

Docket number 99-KGSG-705-GIG currently before the Kansas Corporation Commission deals with the issue of a natural gas stranded cost. That stranded cost is currently being paid at a rate of $0.1263/Mcf by schools districts which became eligible for transport under the school gas rider tariff of KGS. This stranded cost assessment represents a significant portion of the savings school districts have worked for. In Wichita the stranded cost assessment could be as much as $10,000 annually.

This newly imposed stranded cost is assessed solely on small commercial or industrial users and school districts that began transportation after April 1, 1999. By definition stranded cost is to protect the ratepayers left on the regulated utilities system. I would like to point out the ratepayers this cost assessment is to protect are the same taxpayers who fund school districts.

Madame Chair, that concludes my remarks. I would like to thank you and members of the committee for helping school districts realize the benefits formally only afforded large commercial or industrial utility customers. I would stand for questions.