Approved: February 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 10, 2000 in Room 531-N of the Capitol.

All members were present except:
Sens. Hensley, Jones, Lee 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
Walker Hendrix, General Counsel, Citizens' Utility Ratepayer Board
Steve Johnson, Executive Director, Corporate Relations, Kansas Gas Service
J.C. Long, Director of Government Services, UtiliCorp United
Michael Volker, Manager of Pricing and Market Research, Midwest Energy

Others attending:
See attached list

Sen. Ranson thanked Sen. Biggs' pages, who are assisting the committee today, and asked them to introduce themselves to the committee. Sen. Ranson stated that a previous meeting the committee heard a presentation by Mr. Sherman and Mr. Hamilton, from Aquila Energy and UtiliCorp, regarding merchant power plants and reasons why it was built in Missouri and not in Kansas. She reminded the committee that one of the impediments was Kansas' generation siting regulations, which now has been removed, with the passage of **SB 243-concerning electric generation facility siting.**

Sen. Ranson directed attention to the Minutes of the Meeting for February 3, 2000. Sen. Morris made a motion to approve the Minutes, and it was seconded by Sen. Barone; the Minutes were approved.

Sen. Ranson announced the committee will return to presentations regarding natural gas transportation policy and stranded costs, which it began on Tuesday. She reminded the committee of a question regarding the 2 cent per MCF transition fee and requested Larry Holloway provide additional information to the committee. Mr. Holloway explained that the 2 cent per MCF relates to KGS Docket 193-305 and assigning costs related to transport only customers. The 2 cent minimum per MCF charge is charged to transport only customers to allow the utility installation and improvement costs related to transport customers. All transport only customers pay the 2 cent minimum, which is currently in effect. It is a new charge with no upper cap, and the utility has never charged more than the 2 cents. He stated the amounts are tracked and will be evaluated during the next rate case. In answer to a question from Sen. Barone, the 2 cent per MCF was approved by the Corporation Commissioners.

Sen. Ranson introduced Walker Hendrix who presented additional information to the committee (Attachment 1). Mr. Hendrix stated Mr. Holloway was accurate in giving background information, and continued by discussing the price differential between transport only and sales and problems with identifying stranded costs. He explained CURB's position related to open dockets, and the long-term contracts, which were negotiated out of litigation, and are long term and are priced significantly above market. A preliminary report from one of the dockets suggests that the difference between the market price and contract price would be stranded. His testimony discusses the contracts and effect on burner tip customers, and CURB's belief the gas rights be put up for auction to determine the value of the contracts. KGS does not agree with the proposal for an auction, so the excessive charges will continue. He also stated that CURB tried to consolidate some of the dockets, but were not successful. Sen. Ranson requested that questions be held until the end of the presentations.

complimented Mr. Holloway on the accuracy of the history he presented to the committee on Tuesday and that their presence today is to answer questions and make clarifications which the committee might request. He noted Mr. Hendrix was also accurate in discussing the contracts and added the two contracts, which will run to the year 2013, are with Amoco and Oxidential.

Sen. Ranson introduced J.C. Long, who presented additional information to the committee (Attachment 2). He stated their contracts run from one to five years, and their capacity charges go to the marketer. All customers are treated equally, in that any customer with an annual consumption of 500 MCF is eligible for transportation service; that aggregation of transportation customers is allowed. He told of serving approximately 30 schools in the Wichita area through their Peoples Gas Service Company. He also stated UtiliCorp's new proposal is to serve multiple customer classes in multiple cities. He emphasized that they have eliminated stranded costs by assigning capacity on a prorata basis to transport only and sales customers, and they both pay their fair share of the upstream pipeline capacity costs.

Sen. Ranson introduced Michael Volker, who told of Midwest Energy's gas transportation policy and stranded costs (Attachment 3). He explained Midwest has two gas systems - the M-system and the K-system, which includes gas distribution properties previously owned by KN Energy. The M-system all non-residential customers are eligible for transport with a peak month usage over 500 MCF; the K-system all non-residential customers are eligible for transport only service. Schools were exempted from the threshold requirement in early 1999. The M-system chose a seven year buy out and supply agreement, after FERC ordered open access, while the K-system entered a contract assignment for the life of the field. The M-system can be adjusted annually, so there are no stranded costs, while the K-system can be adjusted downward, which minimizes stranded costs. He also discussed additional costs associated with reading additional meters. He told of their proposal for a Gas Open Access pilot and are currently working with the KCC as their proposal takes shape. Attached to Mr. Volker's testimony is a copy of a contract for general gas transportation service, and he pointed to the second page, under "Other terms and conditions", where the schools are exempted. Sen. Ranson called UtiliCorp's attention to that exemption.

Sen. Ranson called the committees' attention to written testimony submitted by Bill Curtis, Associate Executive Director for the Kansas Association of School Boards (Attachment 4), which outlines schools who have joined together for transport only and the savings to the schools. She called attention to the KJUMP program, which proposes to save money for all sizes of school districts by purchasing gas in quantity. Mr. Curtis explained on page 2 is a listing of schools and one community college who have signed agreements with KJUMP to unbundle charges for a significant savings. Sen. Ranson noted the schools are diverse geographically.

Sen. Ranson asked for questions from the committee. Sen. Morris addressed the question to KN Energy and the take or pay contract and if they are close to settling? Sen. Ranson acknowledged Charles Reese (Midwest Energy) and asked what the status is. Mr. Reese replied KN Energy (now Midwest) had a contract assignment for life of the field, but Midwest shortened it to a 20-year arrangement upon acquisition in April, 1998. Sen. Brownlee referred to the contracts with the school districts and the fact that they were entered into with the assumption things would remain the same; and the customers are now paying the penalty. Mr. Johnson told of the pipeline suppliers involvement with the Tight Sands contract and litigation, which was settled from 1989-91. With the refund mechanism in place, many benefits were derived from it. The original contracts, entered into during the gas shortage era with the thought it would generate savings, were long-term contracts. He also talked about market conditions and their fluctuations. Sen. Brownlee then referred to the CURB proposal to place gas rights up for auction to determine their value, and why that can't be done. Mr. Hendrix stated that the companies cannot be compelled to auction gas rights to determine value; that it has to do with restructuring and there is some precedence involving the restructure process. He stated they are trying to find a way to transfer or assign the contracts and to accelerate voiding the contracts; he agreed it is the small customer who is being hurt. He added that CURB was not involved in the contracts; the Attorney General represented the public in the District Court case. He also believes the marketing company could buy the bundled service and try to resolve the issue for all parties.

Sen. Brownlee stated the school boards are now required to install new meters at each building at a cost of $2,000 per meter and asked why? Mr. Johnson stated the problem is one of timing to enable reading the meters at a specific time. He added they are trying to get out of the meter reading business. Sen. Brownlee asked if the school districts could have one meter for all schools in their district. Joe Williams, Managing Utilities Rate Analyst for the Kansas Corporation Commission, explained that it is important to have exact measurements at the pipe for the interstate pipelines and for an accurate reading for the transporters, as there are huge penalties if there are discrepancies. Mr. Holloway stated the distribution company has to know what is taken out of the pipeline and cannot exceed capacity, and that it is imperative for the distribution company to know what the transport customers are taking off the pipeline and the sales customers are taking off the line; and that is the reason to have meters at each point. Mr. Johnson added the meter charge is a one-time charge. Sen. Morris referred to discussions regarding nominating gas and the penalties involved and stated this is a complicated issue with money changing hands and can lead to onerous situations. He requested that the committee discuss these issues at a later date. Mr. Holloway referred to the penalties and tariff issues and stated that FERC approved the tariffs and tariff structure which is in effect.

Sen. Ranson stated the committee will be working bills next week on Tuesday and Wednesday.

Committee adjourned at 2:30.

Next meeting will be February 15, 2000.

SENATE UTILITIES COMMITTEE GUEST LIST

DATE: Feb. 10, 2000

NAME	REPRESENTING
Larry Holloway	KCC
Charles Reese	MidWest Energy
Michael Volker	Midwest Energy
J.C. Long	UtiliCorp United
Gerry Marstall	Baker School of Nursing
Barbara Welch	Baker School of Nursing
Kimberly Johnson	Baker University School of Nursing
Jennifer Loy	Baker University School of Nursing
Amy Roy	Baker Univ. School of NSG
Whitney Damron	KS Gas Service
Steve Johnson	Kansas Gas Service
BILL ELIASON	" " "
Bill Curtis	Ks Assoc of School Bds
Jeff Williams	KCC
Melvin W. Hull	Stevens Co. Comm.
John Plank	Stevens Co. Comm.
BOB ALDERSON	ATMOS ENERGY CORP.
Cynthia Smith	KCPL
Fred Meier	USD 446

SENATE UTILITIES COMMITTEE GUEST LIST

DATE: 2/10/00

NAME	REPRESENTING
DAVID BANKS	Wichita Public Schools

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BEFORE THE SENATE UTILITIES COMMITTEE
TESTIMONY OF THE CITIZENS' UTILITY RATEPAYER BOARD

February 10, 2000

By Walker Hendrix

Kansas Gas Service Company (KGSC) has three principal contracts which supply a majority of its gas customers. Each of these contracts was negotiated out of some form of litigation. The contracts are long term and provide for a price that is significantly above market. The large industrial customers were able to avail themselves of transportation at the time the contracts were negotiated. In addition, the large industrial customers receive refunds from the sale of gas to core customers under the Amoco Tight Sands Contract, even though they consume no gas under these contracts. With the price disparity under the contracts, it is no wonder that other customers have clamored to become transportation customers.

As more customers have become transportation customers, the burden of these contracts has been absorbed by a smaller pool of customers, mostly residential and small commercial. With this committee's consideration of total unbundling last year, even more customers have availed themselves of transportation. The limit for transportation has been lowered to 3,000 mcf per year.

Because of the potential for stranded costs with all customers being able to obtain transportation, there is a concern that the margin between the contract price under the contracts and the market price will be a potential stranded cost. Consequently, CURB insisted in Docket No. 98-KGSG-822-TAR that the Commission take up the issue of stranded costs. A docket was opened in No. 99-KGSG-705-GIG to establish if any stranded costs could be determined. In the 705 docket, there was a preliminary report that suggested that the difference between the market price and the contract price would be stranded. Unfortunately, because of the small pool of customers which is left, the stranded obligation is only being assigned to a small number of customers. This is like fighting over the deck chairs on the Titanic, unless other transportation customers can be assigned these costs. Preliminarily, it was determined that some school

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Attach. 1

districts would have to pay a stranded charge of 12 cents, after April 1, 1999.

KGSC has proposed a somewhat controversial approach for trying to eliminate the stranded cost problem. It has suggested in Docket No. 00-KGSG-162-PGA that it be able to transfer to its marketing affiliate the gas rights under the contracts so that the market affiliate can resell the gas to KGSC for a period of 5 years (with the exception of the Amoco Tight Sands Contract) and thereafter KGSC would be free to seek independent supplies for its customers. Based on the life of the contracts and the differential between the price under the contracts and the market price, it is estimated by KGSC that customers will save $77 million. During this period of time KGSC would be able to market excess gas to other would-be purchasers. It is believed by CURB that the value of these contracts is substantial.

If the value of these contracts is substantial, the contracts themselves may not have a stranded component. From CURB's perspective, we would like to harness this value by applying it to the excessive prices that are charged to burner tip customers. We have proposed that KGSC be required to place these gas rights up for auction to determine their value. However, KGSC has declined, opting only for its marketing affiliate to have these gas rights. Many of the marketers in the region have requested that the gas rights under these contracts be put up for auction. KGSC has threatened to withdraw its proposal if an auction is required. The Corporation Commission has indicated that it will not compel an auction.

Consequently, there is the possibility that the excessive charges will continue into the future. The outcome of these various proceedings is much in doubt.

This concludes my testimony. I will stand for questions.

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Senate Utilities Committee

Natural Gas Transportation Issues
UtiliCorp United Inc.

Senator Ranson and members of the committee:

My name is J. C. Long and I am the Director of Government Affairs for UtiliCorp United. We are pleased to appear before you today concerning natural gas transportation issues of our natural gas divisions Peoples Natural Gas and Kansas Public Service.

UtiliCorp believes that our current transportation tariff is as "open" as any other local distribution company (LDC) doing business in Kansas. Any customer with an annual consumption of 500 Mcf (thousand cubic feet) is eligible for transportation service. Aggregation of transportation customers is not only permitted, it is required. Any marketer serving two or more customers in the same customer class behind the same town border station (TBS) is automatically "pooled" or aggregated. Our current rate case before the Commission is proposing to expand the aggregation service by allowing the marketer to "pool" or aggregate customers of different classes (e.g. both large volume and small volume), as well as customers behind different TBS's so they can serve customers in different towns with the same pool of gas.

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Attach. 2

Our transportation tariff, however, does not allow us to aggregate enough small customers to meet the minimum threshold of 500 Mcf. Each customer has to be eligible for transportation by themselves. In other words, we would not accept an aggregation of five customers with consumption of 100 Mcf each.

UtiliCorp's position on capacity is that every firm customer should pay their fair share. Capacity is assigned to marketers on a prorata basis based on the customer's firm load. If UtiliCorp did not assign this capacity to the marketer (transportation customer), transportation customers would get a free ride i.e. capacity costs would be paid for by the remaining sales customers. As more and more customers switch to transportation to avoid the capacity charges, eventually the utility will be left "stranded capacity costs" with no customers. Our company has eliminated the stranded cost problem by assigning capacity on a prorata basis – transportation and sales customers alike pay their fare share of the upstream pipeline capacity costs. Regardless of the type of service taken by the customer, either sales or transportation, the upstream pipeline capacity subscribed to for their benefit will be paid .

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BEFORE THE SENATE UTILITIES COMMITTEE
MIDWEST ENERGY, INC.
FEBRUARY 10, 2000
GAS TRANSPORTATION AND STRANDED COSTS SUMMARY

Thank you Madam Chair and members of the Committee. My name is Michael Volker, Manager of Pricing and Market Research with Midwest Energy. I appreciate the opportunity to be here today. I will discuss the state of gas transportation on Midwest's gas systems and stranded cost.

- Midwest essentially has two gas systems, the M-system in the Hays, Ellis and WaKeeney areas and the K-System which represents the Kansas gas distribution properties formerly owned by KN Energy. Midwest purchased the K-sytem from KN in April, 1998. I make the distinctions between the systems because both rates and the rules and regulations regarding gas transportation service vary for each of the systems.

- On the K-system, all non-residential customers are eligible for transportation-only service. On the M-system, all non-residential customers are eligible to transport, providing the customer has a peak month usage of over 500 Mcf unless they provide their own telemetry equipment. Schools were exempted from the threshold requirement in early 1999.

- On the K-system, aproximately 22% of eligible customers utilize transportation-only service. On the M-system, 47% of the eligible customers utilize transportation-only service.

- Stranded costs come from at least two areas: (1) restructuring gas commodity supply contracts and (2) unneeded interstate pipeline capacity.

- When the Federal Energy Regulatory Commission (FERC) ordered wholesale open access in the early 90's, LDCs on the KN Interstate pipeline system had two choices: Take assignment of above market gas supply contracts, or buy them out. Midwest Energy (M System) chose a seven year buy out and supply agreement. That seven-year buy out expires this September. KN Energy (now Midwest Energy's K System) chose a contract assignment for life of field. Midwest shortened that to a 20-year arrangement at the time of the acquisition in April 1998.

- Above-market (stranded) costs have been paid by sales and transport customers since late 1995.

- Regarding interstate capacity, the M-system can be adjusted annually, so there is no stranded costs on the M-system caused by excess pipeline capacity.

- K interstate capacity can be adjusted downward periodically, every 3-4 years, somewhat minimizing stranded capacity costs.

- Transport-only service does increase metering costs. First, the LDC is now required to match reading dates with standard pipeline protocol, which is the first to the last of the month. This alone either requires electronic meters costing over $1,000 each or diverting service people to read meters on those days. We currently do not have any electronic meters on our gas systems.

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Attach. 3

- Midwest Energy is planning on filing a proposal for a Gas Open Access pilot later this year. Currently, we are evaluating the make-up of other Open Access programs in operation across the country. Our goal is to develop a program that is fair to all – choice for those who desire it without penalizing those happy with bundled service. We have talked with the KCC and Staff about this and will continue to communicate with them as our proposal begins to take shape.

I will be happy to answer any questions I can for you.

Thank you for your time.

STATE CORPORATION COMMISSION OF KANSAS

Index No. 3

SCHEDULE GGT

MIDWEST ENERGY, INC.
(Name of Issuing Utility)

Replacing Schedule GGT Sheet 1

M System
(Territory to which schedule is applicable)

which was filed October 20, 1998

No supplement or separate understanding shall modify the tariff as shown hereon.

GENERAL GAS TRANSPORTATION SERVICE

AVAILABLE

At locations on the Company's existing natural gas distribution facilities. At the Company's option, service hereunder may be available at locations on the Company's existing natural gas transmission system.

APPLICABLE

This schedule is applicable to natural gas transportation service supplied at a single location to Customers who would otherwise be served under the General Gas Service tariff and whose maximum monthly requirement has exceeded 500 Mcf during the most recent 12 month period. The 500 Mcf restriction will be waived if the Customer provides Company-approved telemetering equipment.

For purposes of this schedule, a single location is defined as the Customer's contiguous premises, including streets, alleys and other rights of way, within an area completely surrounded by property owned by others.

When more than one meter or metering facility is set at a single location for Customer's convenience, a separate Customer Charge will be applicable for each meter or metering facility installed.

RATE

1. Customer Charge: $20.00 per month per meter at telemetered locations, otherwise $50.00 per month per meter, plus

2. Transportation Charge: $0.6402 per Mcf transported, plus

3. Losses: Compensation for line losses calculated by adjusting the volume transported according to the following formula:

$$\text{Adjusted Mcf} = \frac{V}{(1 - F)}$$

where:
V = Volume of transported gas used by Customer.
F = Line loss factor reported to the State Corporation Commission of Kansas for the most recent twelve month period ended November 30.

Commission File Number 99MDWG591T AR

Issued .... Month .... Day .... Year	NOTED & FILED MAR 23 1999
Effective Upon Commission Approval Month Day Year	THE STATE CORPORATION COMMISSION OF KANSAS
By Gene Argo (signature) Signature of Officer — President, Title	By David J. Heinemann (signature) Secretary

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FORM RF

HE STATE CORPORATION COMMISSION OF KANSAS

Index No. 3

SCHEDULE GGT

MIDWEST ENERGY, INC.
(Name of Issuing Utility)

Replacing Schedule GGT Sheet 2

M System
(Territory to which schedule is applicable)

which was filed December 13, 1995

No supplement or separate understanding shall modify the tariff as shown hereon.

Sheet 2 of 2 Sheets

GENERAL GAS TRANSPORTATION SERVICE

RATE (continued)

4. Other Charges: Any imbalance fees, standby charges, reservation charges, inventory charges, penalties or like charges from the Company's natural gas suppliers or transporters, which charges are in addition to charges for natural gas actually received by the Company, resulting from the Customer taking service under this Schedule.

GSR ADJUSTMENT

This schedule is subject to Gas Supply Restructuring Adjustment schedule.

TAX ADJUSTMENT

This schedule is subject to Tax Adjustment schedule.

RIGHT OF REFUSAL

The Company will not be required to transport natural gas or may discontinue transporting natural gas when the natural gas tendered for transportation is of a quality which will adversely impact the commingled natural gas stream of the Company.

OTHER TERMS AND CONDITIONS

1. Service hereunder, including billing and payment, is subject to the Rules and Regulations and Transportation Provisions of the Company on file with The State Corporation Commission of Kansas.

2. This Schedule will become effective upon execution of a transportation contract between the Customer and the Company.

3. Company will provide no capacity on interconnected pipelines to facilitate service under this schedule. Procurement of capacity on pipelines other than those owned by the Company shall be the responsibility of the Customer or its agent.

4. The 500 Mcf restriction is waived for approved, separately metered school facilities dedicated to the education of students between kindergarten and grade 12. The restriction is not waived for day care facilities, pre-schools, post secondary institutions, for-profit schools, residences, or churches.

Commission File Number 99MDWG591TAR

Issued ____ Month ____ Day ____ Year

Effective Upon Commission Approval
Month Day Year

By Gene Argo (signature) President
Gene Argo Signature of Officer Title

NOTED & FILED MAR 23 1999

THE STATE CORPORATION COMMISSION OF KANSAS

By David J. Heinemann Secretary

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KANSAS ASSOCIATION OF SCHOOL BOARDS

1420 SW Arrowhead Road • Topeka, Kansas 66604-4024
785-273-3600

WRITTEN COMMENTS ON STRANDED COSTS
Presented To
Senate Utilities Committee
By
Bill Curtis, Associate Executive Director
Kansas Association of School Boards
February 10, 2000

Madam Chair and members of the committee, we appreciate the opportunity to present written comments on the subject of stranded costs. We were simply unprepared last Tuesday to make these comments. The Kansas Association of School Boards, as of last October, has sponsored a program of group purchasing and transportation of natural gas. We did so after the change in volume requirements last March and the completion of a feasibility study conducted by the association last summer. That program is the Kansas Joint Utility Management Program (KJUMP). We currently have 26 school districts that have signed a participation agreement. A list of those members is attached.

The average savings for those districts ranges from 9 to 15% for the smaller districts and 10 to 20% for the larger districts. Many of the districts participating in the program transported in the past to those buildings that qualified. Those buildings were generally high school buildings whereas the smaller buildings, such as the elementary schools, did not qualify. Now that the volume requirements have been removed, those smaller buildings can also benefit from transporting natural gas. The KJUMP program proposes to save money for all sizes of school districts by purchasing gas in quantity. We are also exploring opportunities to cooperate with similar programs sponsored by the Iowa Association of School Boards and the Missouri School Boards Association. Of course the regulations vary from state to state but we believe there is further economy to be realized by pooling all three states when going to the market to solicit bids for natural gas.

We do not agree that the stranded costs ought to be passed through to the transporting customer. The KJUMP program achieves significant savings for school districts and passing through all of the stranded costs could virtually eliminate those savings. Again, thank you for allowing us to submit these comments.

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Attach. 4

KANSAS JOINT UTILITIES MANAGEMENT PROGRAM
KJUMP

	District Number	Name
1.	USD 206	Remington-Whitewater
2.	USD 220	Ashland
3.	USD 260	Derby
4.	USD 270	Plainville
5.	USD 300	Comanche County
6.	USD 312	Haven
7.	USD 321	Kaw Valley
8.	USD 325	Phillipsburg
9.	USD 333	Concordia
10.	USD 350	St. John-Hudson
11.	USD 358	Oxford
12.	USD 361	Anthony-Harper
13.	USD 363	Holcomb
14.	USD 373	Newton
15.	USD 388	Ellis
16.	USD 412	Hoxie
17.	USD 442	Nemaha Valley
18.	USD 450	Shawnee Heights
19.	USD 451	B & B
20.	USD 464	Tonganoxie
21.	USD 475	Geary County
22.	USD 482	Dighton
23.	USD 483	Kismet-Plains
24.	USD 489	Hays
25.	USD 495	Fort Larned
26.	# 710	Garden City CC