Approved: February 6, 2001 Carl Dean Holmes
Date

MINUTES OF THE HOUSE COMMITTEE ON UTILITIES.

The meeting was called to order by Chairman Carl D. Holmes at 9:03 a.m. on January 16, 2001 in Room 526-S of the Capitol.

All members were present except: Rep. Richard Alldritt

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

Conferees appearing before the committee: Jeff Wagaman, Kansas Corporation Commission
Larry Holloway, Kansas Corporation Commission

Others attending: See Attached List

Rep. Sloan moved to have a committee bill introduced on 'slamming', which is the switching of a long distance carrier without the customer's permission and a committee bill introduced on 'cramming', which is the addition of services not ordered by the telephone customer. Rep. Dreher seconded the motion. Motion carried.

Chairman Holmes announced that on Monday and Tuesday of next week the committee would be meeting jointly with the Senate Utilities Committee in Room 313-S. Monday's meeting will begin at 8:30 a.m. There will also be a public hearing on Wednesday evening at 7:00 in Room 313-S. This also will be a joint meeting with the Senate Utilities Committee. These meetings will take an in depth look at natural gas issues from wellhead to burner tip.

Lynne Holt, Principal Analyst, provided a review of the Kansas statutes that relate to energy conservation and efficiency (Attachment 1). Topics addressed included thermal efficiency standards, higher rate of return in certain rate cases, powers and duties of the Commission relating to energy resources, energy conservation improvements funded by the Kansas Development Finance Authority, facility conservation improvement program, energy conservation standards and weatherization. Ms. Holt responded to questions from the committee.

Chairman Holmes welcomed Jeff Wagaman, Executive Director for the Kansas Corporation Commission. Mr. Wagaman introduced members of the Kansas Corporation Commission staff: Joe White, Utilities Director; John Cita, Chief of Economic Policy; and Larry Holloway, Chief of Energy Operations. Mr. Wagaman presented a report on the Corporation Commission's Natural Gas Task Force (Attachment 2), which convened during the summer of 2000. The Task Force's goals included: 1) encourage the conservation of electricity and natural gas; 2) prepare/inform consumers for high winter gas prices; 3) promote state agencies programs that will benefit consumers; and 4) seek new assistance programs. The Task Force identified several action items and is currently working on the completion of those items. Mr. Wagaman responded to questions from the committee.

Larry Holloway provided, at the request of the committee, graphs showing the capital costs and revenue requirements for gas-fired combined cycle and gas-fired combustion turbines (Attachment 3). Mr. Holloway also documented additions and corrections to the utilities dockets of the Commission (Attachment 4). He then responded to questions from the committee.

Chairman Holmes requested that the Kansas Corporation Commission provide to the committee a map showing the power pools nationwide.

The meeting adjourned at 10:46 a.m.

Next meeting will be Wednesday, January 17, 2001.

HOUSE UTILITIES COMMITTEE GUEST LIST

DATE: January 16, 2001

NAME	REPRESENTING
Rob Hodges	KTIA
JOE DICK	KCKBPU
Don K Miles	KEC
Doug Lawrence	Connect KS
Dick Rohlfs	Western Resources
Jeff Wagaman	KIC
Joe White	KCC
John Cita	KCC
Larry Holloway	KCC
Walker Hendrix	CURB
Cynthia Smith	KCPL
Mike Olwr	Pinegar-Smith
[illegible]	Shari Weber
Dave Worley	Div of Arch Services
Larrie Ann Lower	KS Governmental Consulting
J.P. SMALL	EXXON MOBIL
Susan Duffy	KCC
Sandy Braden	Gaches, Braden, Barbee
Rebecca Reed	KDA
Ann Durkes	DOB

HOUSE UTILITIES COMMITTEE GUEST LIST

DATE: January 16

NAME	REPRESENTING
Jim Ploger	KCC
Shirley Allen	Bottenberg & Assoc.
Terry Diebolt	Southwestern Bell
Michael White	Kearney Law Office
Matt Wolter	
Rep. Sharon Schwartz	
Julie J. Hein	Hein & Weir
Carol Crupper	KTWS
TOM DAY	KCC
SUSAN CUNNINGHAM	KCC

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January 16, 2001

To: House Committee on Utilities

From: Lynne Holt, Principal Analyst

Re: Kansas Statutes Related to Energy Conservation and Efficiency

Below is a list and brief description of Kansas statutes related to energy conservation and efficiency.

Thermal Efficiency Standards

KSA 66-1227 and 66-1228. Applicable thermal efficiency standards are specified for new commercial and industrial buildings. The Kansas Corporation Commission (Commission) is not authorized to adopt or enforce energy efficiency standards residential, commercial, or industrial buildings. (Prior to enactment of 1997 SB 333 (KSA 66-1227), the Commission had such authority for new residential and commercial buildings served by municipal and investor-owned utilities.)

Any person who builds or sells a previously unoccupied new residential building must provide written disclosure to the buyer, on a form prepared and disseminated by the Commission, concerning insulation values, thermal properties for windows and doors, HVAC equipment efficiency levels, and water heating efficiency levels. The disclosure form is included in KSA 66-1228. The disclosure requirement governing new residential housing does not apply to manufactured housing (trailer homes and mobile homes) if they meet federal regulations. If they do meet such requirements, they may elect to disclose information specifically applicable to manufactured housing.

Higher Rate of Return in Certain Rate Cases

KSA 66-117 (e). The Commission may allow an additional return on investment equal to an increment of ½ percent to 2.0 percent for public utility investments in projects or systems that can reasonably be expected to: (1) produce energy from a renewable resource other than nuclear for the use of its customers; (2) cause the conservation of energy used by its customers; or (3) bring about the more efficient use of energy by its customers. A higher rate of return also may be allowed for a utility's investment in experimental projects, such as energy conservation programs or measures. At least since 1993, the Commission has not granted the additional return on investment. According to

HOUSE UTILITIES
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ATTACHMENT 1

order to benefit eligible state agencies. The interest paid by the lessee is exempt from federal and Kansas income tax. The tax savings experienced by the lessor is passed on to the lessee in the form of interest rates that can be as much as 3-5 percentage points lower than taxable commercial leases. The leases are structured as fixed-rate capital leases. Typically, the length of a lease is from three to ten years, based primarily on the simple payback of the improvements being implemented (the amount in energy savings resulting from the improvement). Project sizes start at $20,000.

Energy Conservation Standards

KSA 75-1259 and KSA 75-3783. Energy conservation standards, determined to be practical for the project by the Secretary of Administration, must be included in program and base bid requirements for state agency construction projects.

Weatherization

KSA 74-5002. The Kansas Weatherization Assistance Program was transferred from the Department of Social and Rehabilitation Services in 1992, as part of Executive Reorganization Order No. 23. The Commission's Cold Weather Rule, which is part of the Commission's Electric, Natural Gas, and Water Billing Standards (May 19, 1989), recommends that the utilities inform their customers of the long-range advantages of weatherization programs. The Weatherization Assistance Program is federally funded. A total of $3,239,212 was approved for FY 2001, and $3,667,967 was recommended for FY 2002.

TESTIMONY OF JEFF WAGAMAN

EXECUTIVE DIRECTOR, KANSAS CORPORATION COMMISSION
JANUARY 16, 2001

TO

HOUSE UTILITIES COMMITTEE
HONORABLE CARL HOLMES, CHAIRMAN

Thank you Representative Holmes and members of the committee. It is a pleasure to speak before you today and brief you on the Kansas Corporation Commission's Natural Gas Task Force.

Early last summer we realized the price of natural gas was escalating at alarming rates and we knew consumers needed to be made aware of these increases. On July 7 the Corporation Commission convened the first meeting of the Natural Gas Task Force. Initiated by KCC Chairman, John Wine, the task force was comprised of representatives from the KCC, the natural gas industry, community groups, and other states agencies. The goals of the task force were to:

*Encourage the conservation of electricity and natural gas

*Prepare/Inform consumers for high winter gas prices

*Promote state agencies programs that will benefit consumers

*Seek new assistance programs .

A list of the task force members is attached. The meetings were very productive and the group put together a list of action items I will summarize in a few moments.

Mr. Chairman, and members of the committee, like you, we're very concerned and frustrated with the high cost of natural gas. The deregulation of natural gas by the federal government began in 1978 and, of course, the KCC cannot do anything about variations in the actual price of natural gas. However, we do want to educate consumers and help wherever possible.

Natural gas is an unregulated commodity and therefore the prices may vary because of a variety of reasons. Currently, there is an increasing demand for natural gas to fuel power plants combined with an increase in electricity consumption. Most all <u>new</u> generation plants are fueled by natural gas. Unlike past years, we are experiencing a normal winter with average temperatures. Until recently, gas prices had been quite low and there had been a decrease in exploration and production. Additionally, the volumes of gas reserves in storage is lower than normal. However, there is not a significant risk of widespread shortages.

The price of natural gas is increasing and current market prices have nearly quadrupled

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ATTACHMENT 2

since this time last year. Furthermore, on the short term gas may go even higher. Presently, gas is selling for $9-11 per MCF. During winter months, residential consumers use an average of 10-20 MCF per month. Some estimate the **average** residential natural gas bill, for this winter season, could be $500.00 higher than last year. Long term, natural gas prices will decline.

The price a utility pays is passed through to consumers and reflected on the bill as either Cost of Gas (COG) or Purchased Gas Adjustments (PGA). The utility does not make a profit on the cost of gas.

As I said the Task Force met on July 7, 2000 and after some background briefings they identified several tasks:

*Increase public awareness of higher prices through:
- *Bill inserts
- *Media
- *Publications/internet
- *Speaking to various community groups

*Encourage conservation measures

*Promote existing programs such as Weatherization Assistance, Low Income Energy Assistance Program, Project Deserve, Project Warmth, and publicize the KCC "Cold Weather Rule"

*Brainstorm new program and search for ways to offer financial assistance

*Work to educate community groups such as Red Cross, and area aging offices

*Encourage industry to work with clients to establish flexible payment plans

You may be aware of the "Cold Weather Rule". The KCC established the CWR in 1983 to insure that Kansans have residential electric and gas service during the winter. The rule prevents electric and gas utilities from shutting off service for non payment during the freezing weather. The CWR is in effect November 1 through March 31. Basically, a customer should call their utility and explain their financial hardship and work out a payment schedule. They will pay one-twelfth of the total amount over the next 11 months. They also need to apply for any available federal, state, and local funds.

Another important partner in informing the public has been the media. I am pleased with the good coverage the press has given this issue. Attached are several newspaper articles that have been written about high natural gas prices. Unfortunately, there have been too many articles with headlines such as, "Gas Prices Hit Record High". The KCC plans to continue to warn consumers about prices and our efforts to partner with the media has been positive.

Thankfully, the Low Income Home Energy Assistance Program (LIHEAP) has received additional funding from the federal government. Governor Graves has been proactive to seek more federal dollars for this program. LIHEAP will help economically qualifying customers. This program is administered by SRS and in 2000, SRS paid out about 9 million dollars to 26,000 Kansas households.

On January 2, 2001 the KCC approved a new plan targeting low-income customers who do not qualify for other energy assistance programs. Under the plan, the American Red Cross will identify 7,500 qualifying Kansas Gas Service Company (KGS) customers, prior to March 31, 2001. For those qualifying customers, the Cost of Gas will be reduced by 50 percent on bills issued between January 2, 2001 and June 30, 2001. Once on the program, customers must maintain their account in good standing by meeting their monthly payment obligations. The cost of this program is estimated at $3 million and will be funded by a portion of the Kansas ad valorem tax refund. Chairman Wine has commended Kansas Gas Service for their new and creative program.

In addition, the KCC has approved immediate release of approximately $5.6 million of Kansas ad valorem tax refund money to be credited to all residential and general service (small commercial) customers of KGS. This credit will be issued through the Cost of Gas component on February natural gas bills and will amount to a savings of approximately $12 - $14 for most residential customers.

The Kansas ad valorem tax refund is the result of many years of litigation and action by the Federal Energy Regulatory Commission (FERC). During the 1970s and '80s natural gas producers were allowed to pass on the cost of ad valorem taxes. These costs were passed through the supply pipeline to consumers. As a result of the FERC action, natural gas producers are required to refund the amount of the taxes passed through to the end user. While the litigation is not yet complete, the KCC thought it prudent to immediately release the majority of the dollars currently being held in escrow to moderate escalating gas bills.

To date, we are pleased with the direction the task force has taken. I realize that for some consumers, especially those who are mid to lower middle incomes that higher gas prices will be a hardship and our efforts may not be enough. We can only continue the good work of the private sector, industry, and government on this task force and help consumers as much as is possible.

Thank you and I'm open for questions about the Natural Gas Task Force.

TASK FORCE ON NATURAL GAS PRICES

MEMBERS

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Shawnee Mission, KS 66225

Tina Labellarte
Red Cross
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Senior Director Regulatory
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Mary Torrence
Legislative Research Department
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Topeka, KS 66612

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Kansas Petroleum Council
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Topeka, KS 66612

<u>KCC Staff Members</u>

Jeff Wagaman
Executive Director

Larry Holloway
Chief of Energy Operation

John Cita, Phd
Chief of Economic Policy &
Planning

Walker Hendrix
Citizens' Utility Ratepayer Board

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AVAILABLE ASSISTANCE PROGRAMS

For Housing and Energy Related Needs of Kansas Citizens

SERVICE/PROGRAM	AGENCY/ORGANIZATION	PHONE NO.	AREA SERVED
Kansas Housing Hotline *(general information on housing assistance programs)*	KS Department of Commerce & Housing	**800-752-4422**	statewide
Energy Extension Service *(no cost & low cost energy efficiency information)*	Kansas State University	**800-578-8898**	statewide
Low Income Energy Assistance Program *(LIEAP - assistance with utility bills)*	KS Dept. of Social & Rehabilitation Services	**800-432-0043**	statewide
Weatherization Program *(assistance to weatherize homes)*	KS Department of Commerce & Housing	**785-296-2262**	statewide
Project Deserve (Red Cross) *(assistance with utility bills)*	Kansas Capital Area Chapter	**785-234-0568**	Shawnee Co.
	Douglas County Red Cross Chapter	**785-843-3550**	Douglas Co.
	Riley County Chapter	**785-537-2180**	Riley Co.
	Geary County Chapter	**785-238-3163**	Geary Co.
	Midway-Kansas Chapter *(Note: serves Sedgwick, Sumner, Harper, Harvey & Kingman Counties)*	**316-268-0800**	*see note*
	Northern Cowley County Chapter	**316-221-1220**	Winfield
	Pioneer Chapter	**316-251-1050**	Coffeyville
	Pioneer Chapter	**316-331-0600**	Independence
Project Deserve *(assistance with utility bills)*	Catholic Community Services	**913-621-3445**	Wyandotte Co.
	Army Emergency Relief	**785-239-9435**	Ft. Riley
Choice Program	Kansas Department of Aging	**785-296-5222**	statewide
Custom Care	Kansas Department of Aging	**785-296-5222**	statewide
Older Americans Act	Kansas Department of Aging	**785-296-5222**	statewide
Environmental Modification *(miscellaneous assistance)*	Kansas Department of Aging	**785-296-5222**	statewide
Mid America Assistance Coalition *(miscellaneous assistance)*	Kansas City	**816-561-3339**	Kansas City area
Warm Hearts *(miscellaneous assistance)*	Various Social Agencies	**785-842-0440**	Douglas Co.
ECKAN (Dollar Aid) *(miscellaneous assistance)*	East Central KS Economic Opportunity Corp.	**785-841-3357**	Douglas Co.
		785-242-7515	Franklin Co.
		316-364-8223	Coffey Co.
		913-294-5130	Miami Co.
		785-828-3535	Osage Co.
		785-448-3670	Anderson Co.
		316-342-4607	Lyon Co.
Housing & Neighborhood Dev. Office *(miscellaneous assistance)*	City of Lawrence	**785-832-3114**	Lawrence

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Public Benefit Programs for Ratepayers in Need in Kansas

LIEAP	- SRS receives an annual amount of money from the federal government that they distribute once a year to needy customers - this is the only program in Kansas that covers every county in the state - SRS pays the utility directly or writes two party checks to pay for the needy customer's utility bills - SRS paid out $ 9,281,106 to cover utility bills for 26,143 households in Kansas in the 2000 fiscal year
Project Deserve	- customers can donate through the "Dollar Checkoff Program" - the utilities also donate to this fund - Red Cross, Catholic Community Services, and Army Emergency Relief administers the program in various communities in Kansas - only for the handicapped or elderly - recipients can only get two payments per year to pay utility bills - Project Deserve has paid out $ 435,470 to cover utility bills for 2,733 customers in Kansas through October for the calendar year 2000
Weatherization	- Kansas Department of Commerce and Housing administers the program for DOE - funding is from the federal government - Kansas funding for the 2000-2001 fiscal year is $1,703,713 - 631 customers in Kansas received benefits from this program in 1999
Heat Share	- administered by the Salvation Army in partnership with utilities - funded through voluntary contributions made by ratepayers - funds are distributed in the county in which they are received - $13,197 was paid out to 149 recipients in the fiscal year ended September 2000

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KCC News Release

For more information contact:
Rosemary Foreman, Director of Public Affairs
Phone 785.271.3140 Fax 785.271.3111
www.kcc.state.ks.us

Kansas Corporation Commission 1500 SW Arrowhead Road Topeka, Kansas 66604-4027

Release No. 01-01
Docket No. 99-KGSG-477-GIG
01-KGSG-494-TAR

KCC approves programs to help reduce energy costs

TOPEKA, Kansas, January 2, 2001 – The Kansas Corporation Commission (KCC) today announced the approval of two programs which will help minimize the impact of escalating natural gas bills for customers of the Kansas Gas Service Company (KGS).

The KCC approved a plan targeting low-income customers who do not qualify for other energy assistance programs. Under the plan, the American Red Cross will identify 7,500 qualifying KGS customers, prior to March 31, 2001. For those qualifying customers, the Cost of Gas will be reduced by 50 percent on bills issued between January 2, 2001 and June 30, 2001. Once on the program, customers must maintain their account in good standing by meeting their monthly payment obligations. KGS is currently working with the Red Cross to develop specific program guidelines to identify qualifying customers. The cost of this program is estimated at $3 million and will be funded by a portion of the Kansas ad valorem tax refund.

"I commend KGS for proposing a creative program such as this to address the extreme hardship natural gas prices are imposing on consumers," said John Wine, KCC Chair, "particularly those households operating on a limited income, but not qualifying for other energy assistance programs."

In addition, the KCC has approved immediate release of approximately $5.6 million of Kansas ad valorem tax refund money to be credited to all residential and general service (small commercial) customers of KGS. This credit will be issued through the Cost of Gas component on February natural gas bills and will amount to a savings of approximately $12 - $14 for most residential customers.

The Kansas ad valorem tax refund is the result of many years of litigation and action by the Federal Energy Regulatory Commission (FERC). During the 1970s and '80s natural gas producers were allowed to pass on the cost of ad valorem taxes. These costs were passed through the supply pipeline to consumers. As a result of the FERC action, natural gas producers are required to refund the amount of the taxes passed through to the end user. While the litigation is not yet complete, the KCC thought it prudent to immediately release the majority of the dollars currently being held in escrow to moderate escalating gas bills.

- kcc -

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THE TOPEKA CAPITAL-JOURNAL Thursday, January 4, 2001

Heating bills

A really hot issue

Record cold has put the heat on public and private agencies to help Americans with their heating bills this winter.

The Clinton administration says it has released $850 million in low-income energy assistance money, including $300 million the president announced just last Saturday.

The Kansas Corporation Commission has stepped up to the plate, too, with two programs approved on Tuesday to get us through the winter. The first program will give $5.6 million in credits to residential and small commercial customers of Kansas Gas Service. Most customers will receive credits of up to $14 on their February bills.

The second program, to be administered by the Kansas Capital Area Chapter of the American Red Cross, will provide 50 percent reductions on the gas bills of up to 7,500 low-income customers.

Help is available at the state and local levels in both the public and private sectors. The state Department of Social and Rehabilitation

Help! If the low temperatures don't get you, the high bills might!

Services offers federally funded low-income utility assistance each year; the application period runs through March. And local agencies connected through the Emergency Aid Council offer various types and levels of utility assistance: Let's Help, the Salvation Army, Breakthrough House, Doorstep, Project Deserve and the Red Cross.

Folks will need all that help and more. Gas prices this month are based on $8.68 per 1,000 cubic feet — about double last year's price. And this winter is also much colder: December was one of the area's coldest months on record, and Tuesday's low of 10 degrees below zero was the mercury's four-year low point.

If all the above help isn't enough, we have to stand ready to do more. If the low temperatures don't get you, the high cost of heating just might.

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FOR IMMEDIATE RELEASE
January 3, 2001

CONTACT: Tina Labellarte
Executive Director
(785) 234-0568

**AMERICAN RED CROSS RECEIVES GRANT
TO HELP KANSANS WITH THEIR UTILITIES**

TOPEKA, KS - The American Red Cross in Kansas announces the receipt of a $750,000 grant from the ONEOK Foundation, Inc., headquartered in Tulsa, Oklahoma. The grant will help low-income Kansans manage extraordinary winter expenses.

"We are most grateful to the ONEOK Foundation for responding to the needs of the working poor and people on fixed incomes who have been hard-hit by the coldest winter in recent years," said Tina Labellarte, executive director of the Kansas Capital Area Chapter in Topeka, which will administer the grant on behalf of Kansas' more than 30 Red Cross chapters.

In addition to thanking ONEOK Foundation for its generous gift, Labellarte credited the leadership of the Kansas Corporation Commission (KCC), for creating the Natural Gas Price Task Force in July 2000, which brought together the natural gas utility industry, community groups and state agencies. "They started the ball rolling in finding creative solutions," she said.

In addition to providing assistance to Kansans through the grant from the ONEOK Foundation, the American Red Cross will be working with Kansas Gas Service Company (KGS) on a program approved by KCC yesterday. The American Red Cross will "qualify" up to 7,500 customers for a 50 percent reduction on gas bills. Applications will be accepted between February 1 and March 31, 2001. KGS bills for service from January 2 through June 30, 2001 will be credited for qualified customers.

MORE

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ADD ONE
RED CROSS HELPS KANSANS

The cost of this program is estimated at $3 million and will be funded by a portion of the Kansas ad valorem tax refund. "We're impressed with the commitment and creativity of KGS staff in creating this innovative program," Labellarte said.

The new program is designed to reach those living at between 130% and 200% of poverty and not receiving other utility assistance. Final, detailed guidelines and applications will be available by February 1. More information will be available from local Red Cross chapters or by contacting the Kansas Capital Area Chapter at 1221 SW 17th Street, Topeka, 66604 or (785) 234-0568.

The American Red Cross also administers Project Deserve, a 19-year-old, statewide utility assistance program. Project Deserve is primarily funded by donations from customers of KPL, KGE, KGS and Greeley Gas Company. Gifts from the Western Resources Foundation and the ONEOK Foundation support the project, as well. Project Deserve serves individuals who are disabled and those who are 60 years of age and older. Applications are accepted year around.

"From tornadoes to floods to fires, the American Red Cross has provided emergency assistance in Kansas for more than 100 years," said Jeri Sorenson, chairman of the board of the Kansas Capital Area Chapter. "We are proud to be a leader in emergency services, able to work with the utility industry and KCC to find new ways to help Kansans with this winter's crisis."

STOP

Natural gas prices hit another record

Volatile market causes trading to halt for an hour

By STEVE EVERLY
The Kansas City Star

Natural gas prices posted another record Monday, hitting levels that are more than triple the prices of a year ago.

Gas prices were so volatile that on the New York Mercantile Exchange, where the fuel is traded for future delivery, they triggered a one-hour trading halt. Under a previously agreed-to plan, trading is halted when prices rise 75 cents per 1,000 cubic feet of gas.

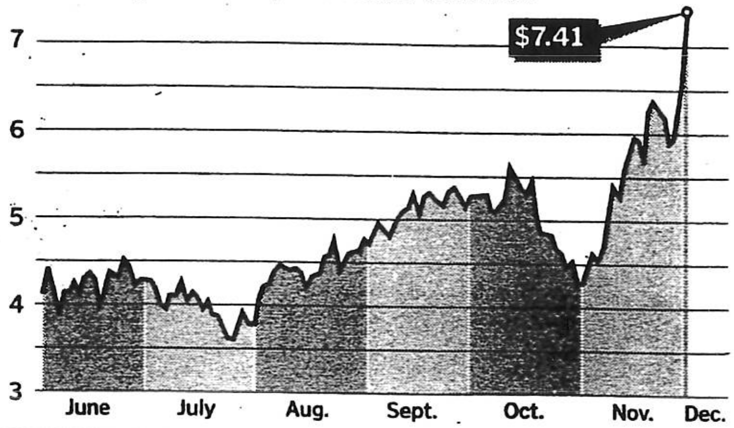
"I've never seen trading halted like this," said one trader. "It's hard to think that this move is over just yet."

The exchange saw prices for natural gas to be delivered next month rise more than $1 in the morning. They eased slightly later in the day and closed up 76 cents at $7.43 per 1,000 cubic feet.

Wholesale markets offering gas for immediate delivery saw prices rise as well. The average price in the Midwest rose 84 cents, closing at $7.41 per 1,000 cubic feet. A year ago, the wholesale price was $2.17.

Midwest natural gas prices

Index average in dollars per thousand cubic feet



GENTRY MULLEN/The Kansas City Sta

The surge in prices was sparked by a report that temperatures in the Midwest and Northeast will be lower than normal in the next few days. The markets were already skittish after a report that the amount of gas in storage was down last week.

The American Gas Association, which compiles the storage report, continues to assert that there is a sufficient supply of gas, even as traders continue to use the figures to help explain the volatility.

"We believe that the gas utilities are in good shape," said a spokeswoman for the American Gas Association in Washington.

Both Kansas Gas Service and Missouri Gas Energy said Monday's spike would not affect customers much immediately. A majority of their gas is purchased in contracts that are priced at the end of the month.

But if the spike in prices continues until then, consumers can expect to pay more to heat their homes. Natural gas is used more to heat homes in the Midwest than any other fuel.

Before Monday's rise in prices, the average natural gas customer could have expected to pay $300 to $350 more this winter. That figure will exceed $400 if prices stay at current levels and there is a normal winter. The average customer is expected to use 90,000 cubic feet of gas this winter, according to the federal Energy Information Administration.

David Sommerer, manager of the gas procurement division at the Missouri Public Service Commission, said regulators were stepping up their review of how utilities bought gas this winter to see whether they had been prudent in getting the best prices possible.

Among the issues that will be reviewed, Sommerer said, is the decision by Missouri Gas Energy not to hedge prices this winter. A hedge is a financial device that can cushion against price spikes.

Missouri Gas decided not to hedge prices after state regulators said it wasn't necessary to approve the hedging. Company officials said the lack of approval made it uncertain that they could recover their hedging costs.

To reach Steve Everly, call (816) 234-4455 or send e-mail to severly@kcstar.com.

KCS
12-5-00

2-11

Natural-Gas Prices Jump as Mercury Falls

COMMODITIES

By PETER A. MCKAY
Staff Reporter of THE WALL STREET JOURNAL

Natural-gas prices, which already had been rising all year, shot up 11.4% to an all-time high at the New York Mercantile Exchange yesterday in reaction to cold weather in the Northeast and forecasts of more to come.

For consumers, the price surge—putting natural gas at more than triple the year-ago level—could show up in home-heating bills soon.

Even those who use heating oil could see an increase, analysts say; some customers may begin substituting heating oil for gas if the latter remains expensive and trigger a run-up in heating oil. That could occur despite a drop in the price of crude oil, from which heating oil is refined. Yesterday, the natural-gas rally buoyed heating-oil prices by 3.8%, or 3.76 cents per gallon, to $1.0084.

In some ways, improbably, natural gas is rallying as a New Economy play. Demand for natural gas has increased in recent years in part because of the increased use of computers, which require electricity, often from gas-fired power plants. That has been depleting reserves and driving up prices by a total of 218.9%, or more than $5, since a year ago.

After yesterday's trading, in which January-delivery gas prices on the Nymex leapt 76 cents to $7.433 per million British thermal units, some analysts openly speculated that the country's depleted gas stores may soon hit zero. Without that cushion, consumers' monthly bills would be exposed to the slightest fluctuations in the wholesale market—where prices don't seem to be declining soon.

"The panic hit today" in the markets, said analyst Phil Flynn, of Alaron Trading Corp. in Chicago. "This market kind of snuck up on us. If you go back three years, it looked like we had enough gas to last forever."

The market was so harried yesterday that Nymex announced an across-the-board one-third increase in its margin requirements to trade natural gas, effective with tonight's after-hours trading. In the market, margin is the portion of a contract's value that must be on deposit to guarantee a trade; exchanges raise margins when markets gyrate.

The so-called cash market for natural gas, or the off-exchange price for immediate use, has been even more volatile in some areas, especially in energy-strapped

Please Turn to Page C21, Column 1

Natural-Gas Prices Jump As Temperatures Drop

COMMODITIES

Continued From Page C1

California, where it hit $20 per million BTUs yesterday.

"At this point, the gas price is so high that we're technically in no man's land," said analyst John Kilduff, of Fimat USA Inc.

The run-up may have started in late June when prices hit a then-all-time high of $4.686 per million BTUs, mostly from demand for gas to generate electricity for air conditioning, Mr. Kilduff said.

It was the first time that natural gas had hit such a high in the summer, and analysts said it signaled a fundamental shift away from gas's traditional importance as a commodity primarily for winter heating.

Now that winter is approaching fast, prices are soaring, in large part because of unusually low storage rates. As of Nov. 24, the American Gas Association estimated that there was 2.502 trillion cubic feet of gas in storage, about 11% lower than the five-year average for that date.

The focus on natural is a switch from last winter, when a heating oil was in the spotlight. Then, a crude-driven heating-oil price spike triggered a congressional outcry and consumer accusations of refiner price-gouging (no wrongdoing was ever found). Crude prices, which also have been soaring, though not as much as natural gas, fell 82 cents yesterday at Nymex, to $31.23 a barrel.

After yesterday's buying, many analysts expected natural-gas prices to fluctuate in the coming day largely on weather news, including a possible drop in the coming days if temperatures don't remain low.

"I don't know if the market's that strong to maintain what happened today without the weather cooperating," said Derek S. van Eck, president of Van Eck Global.

Nymex natural-gas margins increased to $10,000 per contract for clearing members; $11,000 per contract for nonclearing members; and $13,500 for nonmembers. One Nymex contract covers 10 billion cubic feet of natural gas, which is worth $74,330 according to yesterday's prices.

In other markets yesterday:

PLATINUM: Prices on the New York Mercantile Exchange surged to new and long-term highs on fears that Russian deliveries would be delayed for a fifth consecutive year in 2001. December palladium rose $40.40 to $878.50 a troy ounce on light trading, while January platinum made a 13-year high of $622.10 an ounce, up $10.10 from Friday. Although car makers and electronics manufacturers were said by traders to be buying ahead of anticipated shortages early next year, market domination by speculative funds raised the concern that funds were merely fanning anxiety over Russian shipment delays to encourage industrial users to add to inventories and buy from funds.

ORANGE JUICE: Frozen concentrate orange juice concentrate prices surged on the New York Cotton Exchange division of the New York Board of Trade on worries that an early freeze could hit Florida's orange groves. The January contract leapt 7.1 cents to 86.3 cents a pound. "What people are focusing on is not so much what's happening, but what may happen," said Joel Burgio, a senior agricultural meteorologist with Weather Services Corp. in Lexington, Mass.

—David Bogoslaw and Enza Tedesco contributed to this article.

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12-5-00

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Friday, December 29, 2000
THE KANSAS CITY STAR.

High natural-gas prices may soon be rising again

By STEVE EVERLY
The Kansas City Star

The bad news about natural-gas prices is about to get worse.

Wholesale gas prices have soared the past three weeks, but there was still a chance that most consumers wouldn't be affected by that spike if prices declined substantially by the end of the month. That's when utilities calculate most of their gas costs for January.

But instead of diving back down, wholesale prices have declined only slightly and remain near record highs. One of the coldest Decembers on record and the higher gas costs, which utilities usually can pass through to consumers, mean monthly heating bills could top $400 for an average household.

In Kansas, where utilities can adjust their customers' cost-of-gas charges monthly, utilities including Kansas Gas Service and Greeley Gas Co. plan to start passing along the higher costs as early as next week. And utilities in Missouri, where the cost of gas normally would not be adjusted until April, could apply for emergency increases in January.

The December spike in prices has put more urgency into finding money to help people who struggle in paying their heating bills. The newest initiative is a Kansas Gas Service proposal that would pay roughly 40 percent of heating costs for about 7,500 customers who don't qualify for other aid.

"It's a serious situation, and we have concerns about how customers will pay these bills," said Steve Johnson, a spokesman for

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GAS: Utilities get ready to pass along record costs

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Kansas Gas Service.

Both Greeley Gas Co. and Kansas Gas Service have already filed with state regulators to increase the cost-of-gas part of the bill, which includes the wholesale gas price plus transportation and storage costs. The cost of gas is more than double what it was a year ago.

The increases, if regulators approve, will begin showing up in bills next month. Kansas Gas, if state regulators approve, will boost the cost-of-gas part of the bill from $7.14 in December to $8.68 per thousand cubic feet.

The average consumption for an average household this winter is expected to be about 120,000 cubic feet. It could be more if colder-than-normal weather persists.

Greeley Gas customers will see the cost of gas increase from $5.68 to $8.84 per thousand cubic feet. The figures for both utilities would have been even higher if, like other utilities, they hadn't bought some gas at a lower price and stored it for use this winter.

Missouri utilities aren't allowed to change prices each month, but they still will eventually recapture all of their higher costs. The next adjustment was scheduled for April, but the recent run-up in prices means Missouri utilities have the option to ask for an emergency increase in their cost-of-gas charge.

A spokesman for Missouri Gas Energy said the utility would decide within two weeks whether to exercise the option, and for how much.

"There is a good possibility we'll have to increase" the cost of gas, said Paul Snider, the spokesman. "Prices are higher than anyone expected."

None of this talk is likely to please utility customers, who are already reeling from gas bills that often are twice what they were a year ago.

"It's all so irritating to me," said Dan Collins of Lee's Summit. "I just feel there's a ripoff somewhere."

State regulators are reporting a rising number of calls about gas prices. The Kansas Corporation Commission is getting about 50 a day.

"Some are just plain scared about how they are going to pay them," said Rosemary Foreman, a spokeswoman for the Kansas Corporation Commission.

Analysts were convinced as early as last summer that heating bills would be higher than normal this winter. But the recent gas prices of $10 per thousand cubic feet — about four times the wholesale prices of a year ago — weren't expected.

The colder-than-normal weather has drawn down gas supplies sufficiently that traders react quickly to any changes that affect demand. Prices for February deliveries of gas were changing rapidly Thursday before closing at $9.26 per thousand cubic feet.

Heating bills have also soared because of colder conditions, which for many customers has doubled the amount of gas they're using.

WeatherData Inc. of Wichita said this month was on track to be the second-coldest December in the Kansas City area since record keeping began in the late 19th century. And the forecast is for January temperatures to be lower than normal.

Regulators and consumer watchdogs also have questioned how well the utilities prepared for this winter and how aggressively they shopped for good deals on gas, since they can pass gas costs along to customers.

Walker Hendrix, counsel for the Citizens' Utility Ratepayer Board in Topeka, said he expected to see more pressure on regulators to examine the purchasing practices of utilities and the workings of the energy markets. But for now, the focus is on simply finding ways to help those who won't be able to pay their heating bills.

"We have an extenuating situation," Hendrix said.

A Kansas Gas Service proposal, which state regulators could rule on within a week, would help about 7,500 customers who will have trouble paying their gas bills.

The utility has told regulators it would donate $750,000 to a fund. In addition, about $3 million would be obtained by tacking onto customer bills a charge of about 5 cents per thousand cubic feet of gas used.

The fund would be administered by the American Red Cross chapter in Topeka.It would benefit consumers who aren't eligible for federal heating aid and don't receive aid from Project Deserve, a program that helps the elderly and disabled, said Tina Labellarte, executive director of the American Red Cross in Topeka.

Under the proposal before the Kansas Corporation Commission, a family of four with an income of $34,000 could qualify for aid. The benefit would be a credit of 50 percent of the cost-of-gas portion of their gas bill.

"It's a great partnership between a nonprofit group and a private business," Labellarte said.

To reach Steve Everly, call (816) 234-4455 or send e-mail to severly@kcstar.com

Information

■ For more information or to enroll in an average or level payment plan, call your gas utility. The plans spread your gas payments over the year.

Greeley Gas Co.
1-(888) 442-1313

Kansas Gas Service
1-(800) 794-4780

Missouri Gas Energy
(816) 756-5252

Missouri Public Service/EnergyOne
1-(800) 303-0752

■ Energy experts estimate that consumers can cut their gas bills as much as 40 percent by insulating, caulking and using other energy-conservation techniques. One of the most effective ways to save on heating costs is to turn down the thermostat.

■ For information about energy conservation, call the Metropolitan Energy Center in Kansas City at (816) 531-7283.

The Kansas City Star

Still rising

The wholesale price of gas plus its transportation and storage, which is called the "cost of gas" or "purchased gas adjustment" on your gas bill, has climbed steadily this year for all gas utilities. Here are the cost-of-gas charges for Kansas Gas Service per thousand cubic feet.

1999	Dec.	$4.27
2000	Jan.	$4.20
	Feb.	$4.14
	March	$4.43
	April	$4.43
	May	$4.61
	June	$5.17
	July	$5.27
	Aug.	$5.52
	Sept.	$5.99
	Oct.	$6.71
	Nov.	$6.74
	Dec.	$7.14
2001	Jan.	$8.68*

*Still needs regulatory approval.

Source: Kansas Gas Service

The Kansas City Star

Incentives to Burn

How Federal Policies, Industry Shifts Created A Natural-Gas Crunch

Low Prices, Clean-Air Efforts Stoked Fuel's Popularity But Not Its Production

A 'Hamster Wheel' in the Gulf

For 15 years, American policy makers have embraced natural gas as the fuel of the future, touting its many virtues: clean-burning, cheap and seemingly plentiful right here at home.

But when consumers across the country open their December heating bills this month, many are likely to face a shock: natural-gas rates as much as 50% higher than a year ago. What happened?

The answer is deceptively simple. Over much of the past decade and a half, the market and the federal government have given

By Wall Street Journal staff reporters Alexei Barrionuevo in Houston, John J. Fialka in Washington and Rebecca Smith in Los Angeles.

energy customers plenty of incentives to use natural gas. At the same time, they have offered the oil and gas industry little encouragement to produce more.

Federal efforts to promote clean air and U.S. energy independence have fed a surge in demand, in part by creating an expanding market for natural gas among the nation's electrical utilities. Meanwhile, changes in the shape of the domestic oil and gas industry and other factors—including a tremendous oil-price crash just two years ago—have sharply curtailed U.S. oil and gas exploration, bringing little new gas into the pipeline. As a result, the U.S. now consumes more natural gas than it supplies, relying on Canada to make up most of the difference.

The nation's record-long economic expansion, the accompanying surge in energy consumption, and cold winter weather over much of the U.S. have thrown the imbalance into stark relief. On the futures market, natural gas for delivery next month is trading at more than $8 per million British thermal units, nearly quadruple its year-earlier price of $2.17 per million BTUs, a rally so steep it startles even those accustomed to the energy market's wild gyrations.

The situation now facing consumers is a classic supply squeeze that won't abate this winter and may persist for many winters to come. Get ready for "a decade-long problem," says Matthew Simmons, president of Houston investment bank Simmons & Co. Mr. Simmons, an industry analyst who has long warned of an impending natural-gas crisis, says it's even potentially worse than the oil shocks of 1973 and 1979. That's because in addition to heating about 53% of American homes, natural gas is also being used to generate about 16% of the country's electricity—a percentage that is still growing.

Some Insulation

Many of the U.S.'s biggest natural-gas consumers—including utilities, steelmakers and chemical producers—buy most of their gas under long-term contracts that insulate them from some of the cash market's day-to-day volatility. But in California, where natural gas powers many electricity plants and state rules until recently banned electricity producers from buying on the futures market, the cash price of gas has risen, though fleetingly, to as high as $60 per million BTUs. The soaring prices are contributing to the meltdown of California's electricity market.

The effects of the higher prices are already beginning to filter through the economy. Home and office heating bills are on the rise, as are electricity costs in states such as California that have at least partially deregulated their electricity markets. Kaiser Aluminum Corp., based in Houston, recently laid off 550 people in Washington state after it determined that it could make more money there by reselling its energy supplies than it could producing aluminum.

Since natural gas is a critical raw material in making products ranging from fertilizer to plastics to synthetic fibers, high gas prices could eventually translate into higher prices for food and manufactured goods. That could add to inflation at home and put U.S. exporters at a disadvantage.

Seasonal Relief

No one expects natural-gas prices to stay quite so high after the winter months are over. One gauge of market expectations, early bidding on New York Mercantile Exchange gas-futures contracts for delivery months from now, indicates that gas prices probably will drop to $5.50 by May but will remain above $5 through the end of 2001.

That's still well above the $2- to $3-per-million-BTU price range that natural gas mostly has hovered within since 1985, the year Washington began its aggressive drive to decontrol the interstate transportion of gas and open up a huge new national market for the domestically produced fuel.

Back then, natural-gas producers usually sold their gas to pipeline companies, who transported it across the country and resold it to local gas utilities and other big customers. That gave the pipeline operators a lot of power in the marketplace.

To tip the power balance away from the pipeline middlemen and toward consumers and producers, the federal government ordered the pipeline companies to become

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How Federal Policies and Industry Shifts Fueled a Natural-Gas Crunch

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"open access" carriers, essentially forcing them to transport any gas a customer wanted to ship, including gas purchased from a competing supplier. In 1992, the government forced most pipelines to abandon the business of buying and selling gas and to serve solely as transportation providers. That let customers, including producers, gas marketers and retail distributors, shop around for gas. And it effectively allowed them to buy pipeline space or resell it as needed, thereby reducing their costs.

The idea was to give gas producers direct access to the market and to create competition that would hold down prices for the consumer. Sure enough, natural-gas prices dropped. The American Gas Association, a Washington, D.C., trade group, calculates that in inflation-adjusted terms, natural-gas prices fell 25% between 1985 and 1999.

Low prices turned out to be a boon for consumers but a nightmare for producers. Marketers emerged as a new breed of middlemen that took more profits without boosting gas production. "While the costs were going down to the consumer, they weren't going down all that much to the producer, even though he was making the long-term investment," says Raymond Plank, chairman and chief executive of Apache Corp., a Houston-based energy exploration and production company. "It was a strong deterrent for our industry" to drill or produce more.

The narrower margins forced some producers out of business and encouraged others to consolidate in a bid to reduce their costs and make themselves more attractive to Wall Street. Most struggling gas producers found they couldn't simply halt production from existing wells and wait for better prices. They needed to keep drilling just to maintain their cash flows, to meet payrolls and bank commitments.

Crackdown on Coal

In 1993, as part of a plan to expand the use of natural gas, the Clinton Administration cracked down on sources of urban smog. The Environmental Protection Agency launched a broad regulatory assault on coal-fired power plants, which still produce more than half of the nation's electricity. The Department of Energy also denied financial incentives to utilities that wanted to build more nuclear power plants and large-scale hydroelectric projects. Together, those policies helped make natural gas the new fuel of choice for electricity producers, who started moving away from dirtier-burning fuels, such as coal and oil. The electricity industry started planning to bring scores of new gas-fired power plants into service, some of which weren't designed to allow for switching to other fuels.

At around the same time, big changes were under way in the structure of the domestic oil and gas industry. Many of the nation's deep-pocketed major energy companies, hoping to compete with vast state-owned producers elsewhere, began to shift their focus abroad, looking for big scores in foreign fields where production costs were lower than in the U.S. While the majors remain active in Alaska and the deepwater Gulf of Mexico, they sold or abandoned much of their production in the continental U.S. That left a greater share of domestic exploration and production in the hands of smaller independent oil companies.

Nowadays, around 7,000 relatively small independent operators, drilling on land or in the Gulf's shallow waters, account for roughly 65% of the natural gas produced in the lower 48 states.

The independents face a host of problems. For starters, many of the nation's older fields are running low. In the Gulf of Mexico, the source of about a quarter of the nation's natural-gas supply, shallow-water drillers have adopted new technologies, such as 3-D seismic imaging and directional drilling, to wrest more gas from mature fields. But the additional gas has come at a cost: Fields that were experiencing 25% annual declines in production now are logging 50% drops. "We were on this kind of hamster wheel where we were running harder just to not fall off," says Claire Farley, former president of Texaco Inc.'s North America production unit, who left the company in late 1999.

Bankers Balk

Developing new fields is a speculative and expensive undertaking, and few of the independents have access to the necessary capital. Instead, they mostly have been forced to finance new investments out of their own cash flows, which took a major hit in 1998 when oil prices tanked. Ralph Eads, an executive vice president at El Paso Energy Corp. and a former investment banker, says that lenders have become increasingly reluctant in recent years to back small, and often poorly capitalized, independents in such a risky business.

The 1998 oil-price crash spurred many of the nation's top gas producers to scale back their drilling programs. That's because when oil prices fall, natural-gas prices have traditionally been dragged down with them, discouraging exploration for both commodities, which are often found together in the same fields. But without investing in new wells, Burlington Resources Inc., a top independent based in Houston, saw its North American production decline by 8% between the third quarter of 1998 and the third quarter of 1999. Houston-based Noble Affiliates Inc. slashed its capital spending by 80% in 1999 to $92 million; the company's production slid 20%.

"Clearly, when you have a capital budget that is that depleted, a fair amount of it is dedicated to simply maintaining your existing production and much less" to drilling new wells, says Bill McKown, Noble's assistant treasurer. Tired of dealing with the Gulf of Mexico's decline, Noble now is pursuing projects in Africa, Ecuador and Israel.

Three years of warm winters masked a looming supply squeeze. But now, with a cold winter in full swing, the supplies of natural gas that utilities store in underground reservoirs, as a sort of supply "cushion" for times of heavy demand, are down 24% from 1999 and 20% below the average of the past five years, according to the DOE, with the peak heating months of January and February still ahead. In all, the nation's natural-gas reserves have fallen to 164 trillion cubic feet, down 2% from 1997 and 20% from 1980.

Meanwhile, many of the most promising gas fields, such as those under the Rockies, off the Atlantic and Pacific Coasts and in the eastern Gulf, near Florida, are closed to drilling for environmental reasons. The National Petroleum Council, an industry advisory panel to the U.S. secretary of energy, estimates that drilling restrictions in those areas alone have put an estimated 213 trillion cubic feet of gas off limits, enough to meet the nation's natural gas needs for about nine years at current consumption levels.

Two federal agencies, the U.S. Forest Service and the Interior Department's Bureau of Land Management, control most of the pubic lands in the Rockies, and industry executives say those agencies have often sided with environmental groups who want to prohibit drilling there.

Double Eagle Petroleum & Mining Co., for example, started working on a leased 23,000-acre BLM tract in northern Utah back in 1987. Early seismic tests suggested the presence of sizable natural-gas reserves in the high-mountain area. But Double Eagle, which is based in Casper, Wyo., needs to lease a 400-acre tract in the middle of its BLM leasehold from the Forest Service in order to get financing to drill, says Steve Degenfelder, a company vice president. Under pressure from a local environmental group, the Forest Service has deliberated on the lease for most of the past decade.

Donna Wilson, a spokesperson for the Forest Service office in the Wasatch Cache National Forest, says her office is preparing an environmental impact study that could settle the issue by May.

The main opposition to Double Eagle's plans has come from the High Uintas Preservation Council, run by Dick Carter, a former Forest Service employee who lives in Hyrum, Utah. The council, which Mr. Carter says has 300 to 400 members, says it believes that conservation is a far better strategy for energy security than "haphazard development" of oil and gas in the undeveloped mountains.

While many people see lots of good reasons to keep current drilling restrictions in place, the industry sees only missed opportunities. "The balance between energy needs and environmental concerns hasn't been properly struck, and now we are paying the price for it," says J. Larry Nichols, president and chief executive officer of Devon Energy Corp. in Oklahoma City.

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Today, about 90% of the new power-generation facilities under construction are gas-fired. The power industry is expected to increase its annual gas demand by an average of 5.4% through 2020, more than double the 2.2% growth rate of gas consumption for the economy as a whole, the DOE says. Some observers think those estimates are too conservative; gas consumption by power plants grew at a 7.5% clip last year, and the big surge in the construction of new generating facilities is just now getting under way.

In San Diego, power-plant operators saw their gas supplies curtailed this fall because there wasn't enough gas in the pipeline system to meet their needs. The plants escaped the trouble by reducing gas use and temporarily shifting to burning oil. But California electricity officials warn that if production and storage capacity aren't beefed up, consumers will face shortages and blackouts this year.

Already, their costs have gone up. The rates Alan Wilhite's pays for gas to heat his three-bedroom house in mild-weathered Bellingham, Wash., rose 14% in August and are increasing another 26% this month due to rising gas costs. His gas bill was $67 in November, and with colder weather and higher prices, could exceed $100 this month, even though he says he doesn't keep his thermostat any higher than 65 degrees.

Mr. Wilhite, a retiree, worries his rates will go even higher if his gas utility has to compete with a huge new power plant that might be built a few miles from his home. That proposed new plant's natural-gas consumption would be equivalent to more than half of all the gas consumed by the state's residential gas customers.

Industrial users, too, have reason to fear. Imperial Sugar Corp., the nation's largest sugar refiner, is strapped for cash, saddled with debt and struggling with a glut of sugar. It thought it had protected itself against any run-up in natural-gas prices this year by contracting ahead for enough gas to get it through the sugar-processing season, which typically lasts six to seven months. But this year's bumper crop of sugar beets in California extended Imperial's production run in that state by an extra month, says A. Duffy Smith, managing director of the Sugar Land, Texas, company. That forced Imperial Sugar to buy gas on the cash market.

Suddenly, instead of paying $3 per million BTUs, Imperial faced prices of more than $20. When the spot price in California shot up to $60 per million BTUs in early December, the company appealed to the local air-pollution control board and won a waiver allowing it to burn oil in place of natural gas.

"Otherwise, we'd have been forced to destroy the beets," says Mr. Smith. "We weren't going to make sugar at a loss."

With gas prices so high, producers are picking up the pace, though any significant increase will take time. In the past, oil prices have dictated the pace of both oil and gas exploration, but that changed drastically last year as natural-gas prices started to climb; by year's end more than three-quarters of all drilling rigs operating in the U.S. were looking specifically for natural gas.

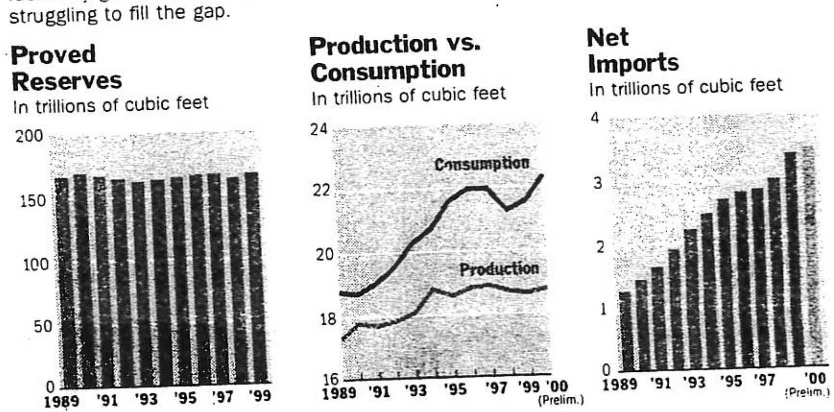
Major Alaska producers are pushing for a pipeline that would allow them to get that state's natural gas to the continental U.S.—but such a project probably couldn't be completed until near the end of the decade. Lacking a means of shipping out gas, Alaska producers now mostly reinject it into their wells to increase internal pressure, and thus boost oil production. A new pipeline from Canada already is bringing more gas to the Midwest. And independents are hopeful that having two former oilmen in the White House—George W. Bush and Dick Cheney—will lead to more industry-friendly drilling policies.

Meanwhle, the run-up in gas prices has reinvigorated the earnings and stock prices of many of the independent gas producers that were beaten down by the 1998 oil-price crash. It also has produced huge trading profits for pipeline and marketing companies. Gas producer Burlington Resources saw its third-quarter profit triple and its stock price soar 53% to $50.50 last year. And Dynegy Inc., a Houston power marketer and pipeline operator, said its energy trading and marketing profits jumped 80% in the third quarter. Dynegy's stock, which started last year at $16, finished 2000 at $56.06, making it one of year's biggest gainers on the New York Stock Exchange.

But even gas producers aren't necessarily rejoicing. They know today's steep prices will force customers to consider alternative fuel sources. "High prices are not the answered prayer of the gas industry," says Tom Price Jr., senior vice president of corporate development for Chesapeake Energy Corp. in Oklahoma City. "It just engenders hostility we'd rather avoid."

Natural Gas: Struggling to Keep Pace

U.S. natural-gas reserves are going nowhere fast. As production lags, gas consumption, fueled by gas-fired power plants and a hot economy, is climbing fast. Imports are struggling to fill the gap.



Source: Energy Information Administration

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U.S. & World News — The Topeka Capital-Journal

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Clinton announces energy aid

The Associated Press

WASHINGTON -- President Clinton acted Saturday to help insulate Americans coping with snow, ice and frigid temperatures from what he said may become the coldest winter in years -- releasing an additional $300 million in emergency aid.

"None of us can control the weather. But all of us are responsible for how we respond to and prepare for it," Clinton said in his weekly radio address. "With the actions I am taking, the federal government is fulfilling its responsibility."

With major storms blanketing the Midwest, penetrating the South and threatening the East Coast, Clinton announced the government will release the additional money to help poor families deal with soaring energy prices.

"Along with similar funds I released earlier this fall, we've now devoted more than $850 million to assist families who can least afford to bear the burden of high energy prices this winter," he said.

The White House said cold-weather states in the Northeast and Midwest will receive most of the money, but that all states will receive some help "since low-income households throughout the country are experiencing sharp energy price increases." The money comes from the Low Income Home Energy Assistance Program administered by the Department of Health and Human Services.

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KCC Fact Sheet

John Wine, Chair
Cynthia L. Claus, Commissioner
Brian J. Moline, Commissioner

Consumer Hotline 800.662.0027

Kansas Corporation Commission 1500 SW Arrowhead Road Topeka, Kansas 66604-4027 785.271.3140

July 2000

Overview of natural gas costs and bill components

Thank you for the opportunity to provide information about the high gas costs Kansans are now experiencing. The reason for this is that the wholesale cost of the gas purchased by utilities has increased significantly. The actual cost of the gas purchased by a utility from its supplier is reflected on the billing statement as a Purchased Gas Adjustment (PGA) or as a Cost of Gas (COG). As part of its regulatory duties the Commission reviews and monitors the purchasing practices of natural gas public utilities to ensure only the actual cost the utility pays for the gas is passed on to the customer through the PGA or COG which goes up or down with the market forces.

Unfortunately, the state of Kansas can do little, if anything, to protect consumers from these increases. This is because the federal government has deregulated natural gas as a commodity. Consequently, the market forces of supply and demand dictate what a utility has to pay for its gas supplies. As is reflected on monthly billings, the PGA or COG fluctuates on a monthly basis, reflecting the actual cost of gas.

Natural gas prices are approaching all-time record high levels. Primary reasons for the increase in costs are: the demand for natural gas to fuel electric power plants, couples with an increase in electric consumption, in addition to lower gas prices in the past few years resulting in decreased gas exploration and production resulting in lower than normal volumes of gas reserves in storage.

Explained below are the three components of a rate

Cost of Gas: There are two elements that constitute the cost of gas. The first is the PGA, which is the actual monthly cost of gas (this will fluctuate on a monthly basis). The second is the cost of transporting the gas to the local distribution company's facilities. Generally, this is over the facilities of an interstate pipeline whose rates are established by the Federal Energy Regulatory Commission (FERC). They remain constant until the FERC grants them a rate increase. The Commission has no jurisdiction over these costs.

Customer Charge: Reflects the operating and maintenance costs of meters, service lines, pressure regulation devices, meter reading, and billing. These are costs incurred by the utility to serve a customer regardless of a customers usage. This charge is approved by the Commission.

Energy Charge: or Base Rate Includes all other costs of doing business. These costs consist of salaries, supplies and materials, depreciation on facilities, interest on debt and return on investment. This rate is approved by the Commission.

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January 16, 2001 Presentation to the House Utilities Committee

O&M and Capital Costs for a Gas-Fired Combined Cycle unit placed in service in 2005

Given: 3412 btu/kwh at 100% conversion

Assumptions
Heat Rate = 6824 btu/kwh (or 50% efficient)
Operation at 100% always with no startup or spinning costs
On line in 2005
Thirty year life
Additional assumptions on attached sheet - (fixed levelized costs $98.69 per kw/yr)
[Testimony by UtiliCorp in KCC Docket 00-UCUE-677-MER]
fixed costs included non-fuel O&M, all capital costs, property taxes and gas transportation

Fixed costs per kwh for various capacity factors									
Capacity Factor	10%	20%	30%	40%	50%	60%	70%	80%	90%
Number of kwh per year	876	1752	2628	3504	4380	5256	6132	7008	7884
Fixed cost per kwh	$0.1127	$0.0563	$0.0376	$0.0282	$0.0225	$0.0188	$0.0161	$0.0141	$0.0125

Fuel costs = 6824 btu/kwh/$1/mmbtu = $.006824/kwh per $1/mmbtu gas costs
[note: 1 mmbtu is roughly equivalent to 1 mcf, one thousand cubic feet of gas]

Fuel cost per kwh for a Combined Cycle plant at various natural gas prices									
Gas price per mmbtu	$2.00	$3.00	$4.00	$5.00	$6.00	$7.00	$8.00	$9.00	$10.00
Fuel cost per kwh	$0.0136	$0.0205	$0.0273	$0.0341	$0.0409	$0.0478	$0.0546	$0.0614	$0.0682

Total cost per kwh for a Combined Cycle plant at various capacity factors and gas prices									
Capacity Factor	10%	20%	30%	40%	50%	60%	70%	80%	90%
Fixed cost	$0.1127	$0.0563	$0.0376	$0.0282	$0.0225	$0.0188	$0.0161	$0.0141	$0.0125
$2/mmbtu	$0.1263	$0.0700	$0.0512	$0.0418	$0.0362	$0.0324	$0.0297	$0.0277	$0.0262
$3/mmbtu	$0.1331	$0.0768	$0.0580	$0.0486	$0.0430	$0.0392	$0.0366	$0.0346	$0.0330
$4/mmbtu	$0.1400	$0.0836	$0.0648	$0.0555	$0.0498	$0.0461	$0.0434	$0.0414	$0.0398
$5/mmbtu	$0.1468	$0.0904	$0.0717	$0.0623	$0.0567	$0.0529	$0.0502	$0.0482	$0.0466
$6/mmbtu	$0.1536	$0.0973	$0.0785	$0.0691	$0.0635	$0.0597	$0.0570	$0.0550	$0.0535
$7/mmbtu	$0.1604	$0.1041	$0.0853	$0.0759	$0.0703	$0.0665	$0.0639	$0.0619	$0.0603
$8/mmbtu	$0.1673	$0.1109	$0.0921	$0.0828	$0.0771	$0.0734	$0.0707	$0.0687	$0.0671
$9/mmbtu	$0.1741	$0.1177	$0.0990	$0.0896	$0.0839	$0.0802	$0.0775	$0.0755	$0.0739
$10/mmbtu	$0.1809	$0.1246	$0.1058	$0.0964	$0.0908	$0.0870	$0.0843	$0.0823	$0.0808

HOUSE UTILITIES

DATE: 01-16-01

ATTACHMENT 3

O&M and Capital Costs for a Gas-Fired Combustion Turbine placed in service in 2005

Given: 3412 btu/kwh at 100% conversion

Assumptions
Heat Rate = 13373 btu/kwh (or 30% efficient)
Operation at 100% always with no startup or spinning costs
On line in 2005
Thirty year life
Additional assumptions on attached sheet - (fixed levelized costs $70.11per kw/yr)
[Testimony by UtiliCorp in KCC Docket 00-UCUE-677-MER]
fixed costs included non-fuel O&M, all capital costs, property taxes and gas transportation

Fixed costs per kwh for various capacity factors									
Capacity Factor	10%	20%	30%	40%	50%	60%	70%	80%	90%
Number of kwh per year	876	1752	2628	3504	4380	5256	6132	7008	7884
Fixed cost per kwh	$0.0800	$0.0400	$0.0267	$0.0200	$0.0160	$0.0133	$0.0114	$0.0100	$0.0089

Fuel costs = 13373 btu/kwh/$1/mmbtu = $.013373/kwh per $1/mmbtu gas costs
[note: 1 mmbtu is roughly equivalent to 1 mcf, one thousand cubic feet of gas]

Fuel cost per kwh for a Combustion Turbine at various natural gas prices									
Gas price per mmbtu	$2.00	$3.00	$4.00	$5.00	$6.00	$7.00	$8.00	$9.00	$10.00
Fuel cost per kwh	$0.0267	$0.0401	$0.0535	$0.0669	$0.0802	$0.0936	$0.1070	$0.1204	$0.1337

Total cost per kwh for a Combustion Turbine at various capacity factors and gas prices									
Capacity Factor	10%	20%	30%	40%	50%	60%	70%	80%	90%
Fixed cost	$0.0800	$0.0400	$0.0267	$0.0200	$0.0160	$0.0133	$0.0114	$0.0100	$0.0089
$2/mmbtu	$0.1068	$0.0668	$0.0534	$0.0468	$0.0428	$0.0401	$0.0382	$0.0368	$0.0356
$3/mmbtu	$0.1202	$0.0801	$0.0668	$0.0601	$0.0561	$0.0535	$0.0516	$0.0501	$0.0490
$4/mmbtu	$0.1335	$0.0935	$0.0802	$0.0735	$0.0695	$0.0668	$0.0649	$0.0635	$0.0624
$5/mmbtu	$0.1469	$0.1069	$0.0935	$0.0869	$0.0829	$0.0802	$0.0783	$0.0769	$0.0758
$6/mmbtu	$0.1603	$0.1203	$0.1069	$0.1002	$0.0962	$0.0936	$0.0917	$0.0902	$0.0891
$7/mmbtu	$0.1736	$0.1336	$0.1203	$0.1136	$0.1096	$0.1070	$0.1050	$0.1036	$0.1025
$8/mmbtu	$0.1870	$0.1470	$0.1337	$0.1270	$0.1230	$0.1203	$0.1184	$0.1170	$0.1159
$9/mmbtu	$0.2004	$0.1604	$0.1470	$0.1404	$0.1364	$0.1337	$0.1318	$0.1304	$0.1292
$10/mmbtu	$0.2138	$0.1737	$0.1604	$0.1537	$0.1497	$0.1471	$0.1452	$0.1437	$0.1426

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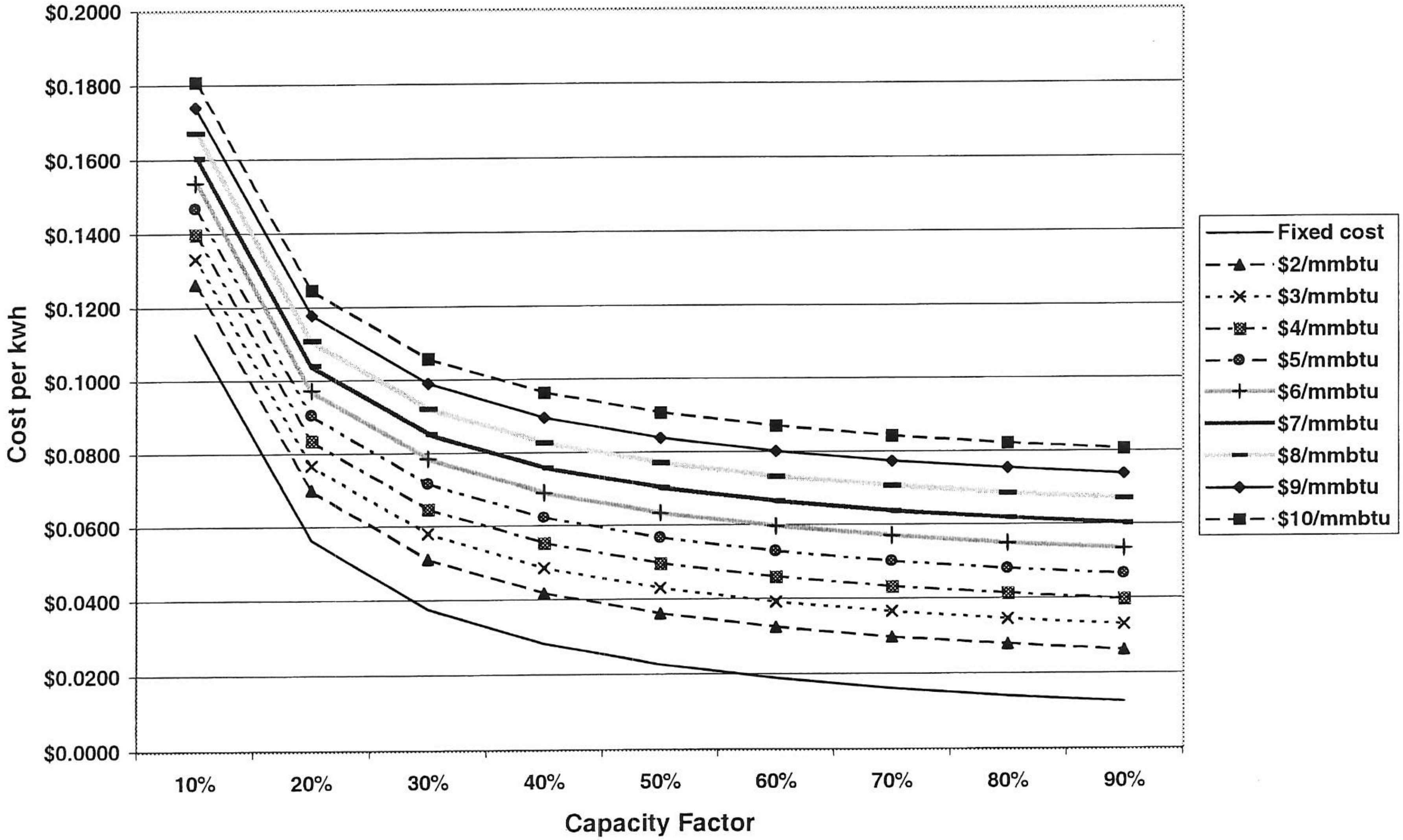
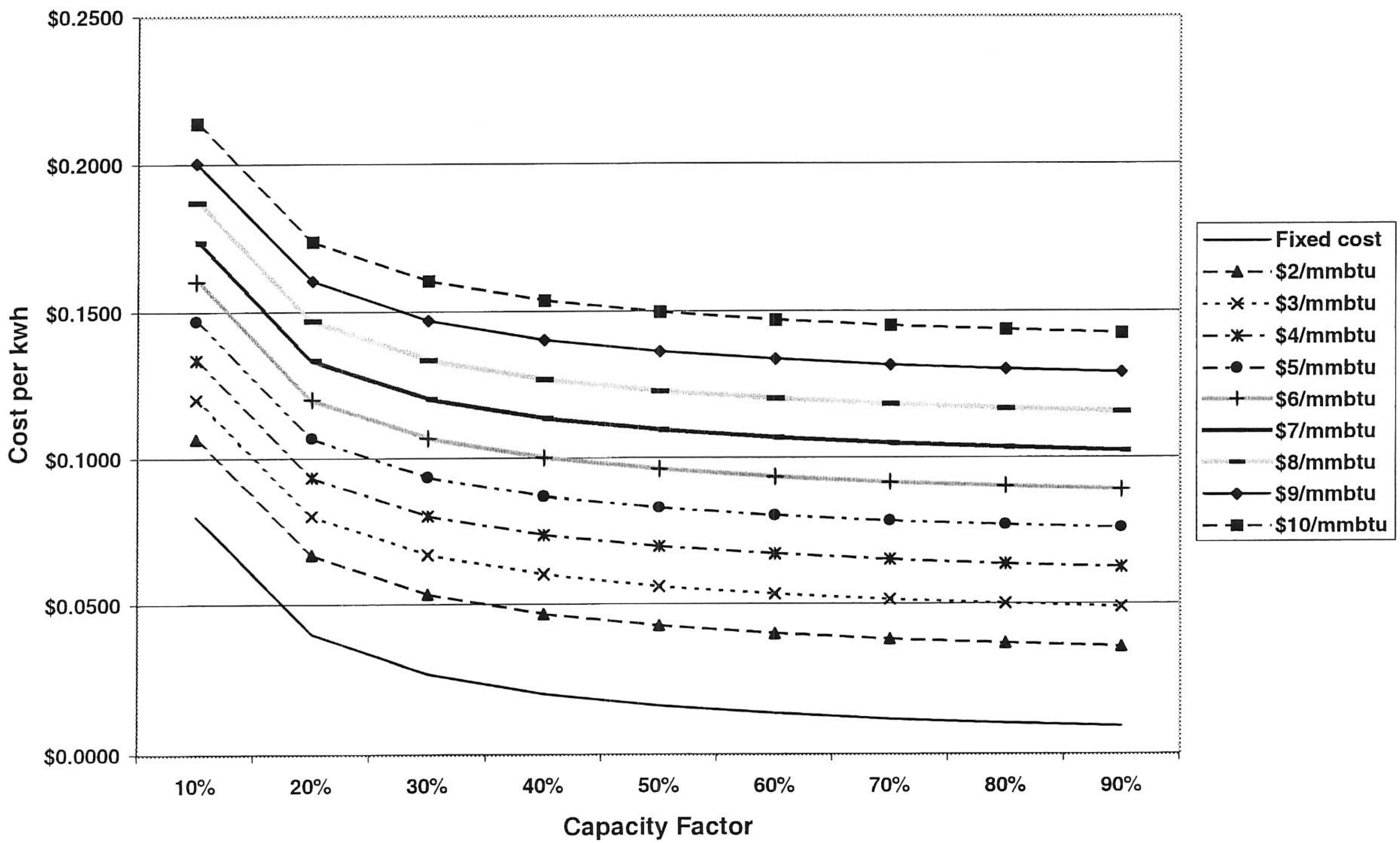
Cost per kwh of a 2005 Gas-Fired Combined Cycle Unit



17-3

Cost per kwh of a 2005 Gas-Fired Combustion Turbine



CC2005
Revenue Requirement

Capital Cost - $/kw (1998$)	$ 450	Income Tax Rate:	39.0%
In Service Date	2005	Fixed O&M in $/kw-yr (1998$)	$ 6.00
Service Life in Years	35	Property Tax Rate - %/yr.	1.0%
Equity Percentage	50.0%	General Inflation Rate	2.5%
Debt Percentage	50.0%		
Return on Equity	12.0%	Gas Transportation - Btu/day	170,000
Debt Cost	8.0%	Gas Trns. Rate - $/MMBtu/mo.	$ 9.30 (1998$)
Blended Capital/Discount Rate	10.0%	Gas Trns. Inflation Rate	1.0%

	5 yr.	10 yr.	15 yr.	20 yr.	25 yr.	30 Yr.	
Levelized Annual Revenue Required:	$111.12	$108.00	$105.50	$103.55	$102.07	$98.69	/kw-yr.
Levelized Annual Revenue Required:	$ 9.26	$ 9.00	$ 8.79	$ 8.63	$ 8.51	$ 8.22	/kw-mo.

	Net Plt	ROE	Debt	Depr	Inc Tx	Prop Tax	F-O&M	Gas Transprt	Annual Revenue Required	Monthly Revenue Required
2005	534.91	32.09	21.40	15.28	12.52	5.35	7.13	20.34	114.11	9.51
2006	519.63	31.18	20.79	15.28	12.16	5.20	7.31	20.54	112.46	9.37
2007	504.34	30.26	20.17	15.28	11.80	5.04	7.49	20.75	110.80	9.23
2008	489.06	29.34	19.56	15.28	11.44	4.89	7.68	20.96	109.16	9.10
2009	473.78	28.43	18.95	15.28	11.09	4.74	7.87	21.17	107.52	8.96
2010	458.49	27.51	18.34	15.28	10.73	4.58	8.07	21.38	105.89	8.82
2011	443.21	26.59	17.73	15.28	10.37	4.43	8.27	21.59	104.27	8.69
2012	427.93	25.68	17.12	15.28	10.01	4.28	8.48	21.81	102.65	8.55
2013	412.64	24.76	16.51	15.28	9.66	4.13	8.69	22.03	101.05	8.42
2014	397.36	23.84	15.89	15.28	9.30	3.97	8.91	22.25	99.44	8.29
2015	382.08	22.92	15.28	15.28	8.94	3.82	9.13	22.47	97.85	8.15
2016	366.79	22.01	14.67	15.28	8.58	3.67	9.36	22.69	96.26	8.02
2017	351.51	21.09	14.06	15.28	8.23	3.52	9.59	22.92	94.69	7.89
2018	336.23	20.17	13.45	15.28	7.87	3.36	9.83	23.15	93.12	7.76
2019	320.95	19.26	12.84	15.28	7.51	3.21	10.08	23.38	91.56	7.63
2020	305.66	18.34	12.23	15.28	7.15	3.06	10.33	23.61	90.00	7.50
2021	290.38	17.42	11.62	15.28	6.79	2.90	10.59	23.85	88.46	7.37
2022	275.10	16.51	11.00	15.28	6.44	2.75	10.85	24.09	86.92	7.24
2023	259.81	15.59	10.39	15.28	6.08	2.60	11.12	24.33	85.40	7.12
2024	244.53	14.67	9.78	15.28	5.72	2.45	11.40	24.57	83.88	6.99
2025	229.25	13.75	9.17	15.28	5.36	2.29	11.69	24.82	82.37	6.86
2026	213.96	12.84	8.56	15.28	5.01	2.14	11.98	25.07	80.87	6.74
2027	198.68	11.92	7.95	15.28	4.65	1.99	12.28	25.32	79.38	6.62
2028	183.40	11.00	7.34	15.28	4.29	1.83	12.59	25.57	77.91	6.49
2029	168.11	10.09	6.72	15.28	3.93	1.68	12.90	25.83	76.44	6.37
2030	152.83	9.17	6.11	15.28	3.58	1.53	13.22	26.09	74.98	6.25
2031	137.55	8.25	5.50	15.28	3.22	1.38	13.55	26.35	73.53	6.13
2032	122.26	7.34	4.89	15.28	2.86	1.22	13.89	26.61	72.09	6.01
2033	106.98	6.42	4.28	15.28	2.50	1.07	14.24	26.88	70.67	5.89
2034	91.70	5.50	3.67	15.28	2.15	0.92	14.60	27.14	69.26	5.77

CT2005
Revenue Requirement

Capital Cost - $/kw (1998$)	$ 300	Income Tax Rate:		39.0%
In Service Date	2005	Fixed O&M in $/kw-yr (1998$)	$	2.00
Service Life in Years	35	Property Tax Rate - %/yr.		1.0%
Equity Percentage	50.0%	General Inflation Rate		2.5%
Debt Percentage	50.0%			
Return on Equity	12.0%	Gas Transportation - Btu/day		170,000
Debt Cost	8.0%	Gas Trns. Rate - $/MMBtu/mo.	$	9.30 (1998$)
Blended Capital/Discount Rate	10.0%	Gas Trns. Inflation Rate		1.0%

	5 yr.	10 yr.	15 yr.	20 yr.	25 yr.	30 Yr.	
Levelized Annual Revenue Required:	$78.50	$76.43	$74.76	$73.46	$72.47	$70.11	/kw-yr.
Levelized Annual Revenue Required:	$ 6.54	$ 6.37	$ 6.23	$ 6.12	$ 6.04	$ 5.84	/kw-mo.

	Net Plt	ROE	Debt	Depr	Inc Tx	Prop Tax	F-O&M	Gas Transprt	Annual Revenue Required	Monthly Revenue Required
2005	356.61	21.40	14.26	10.19	8.34	3.57	2.38	20.34	80.48	6.71
2006	346.42	20.79	13.86	10.19	8.11	3.46	2.44	20.54	79.38	6.62
2007	336.23	20.17	13.45	10.19	7.87	3.36	2.50	20.75	78.29	6.52
2008	326.04	19.56	13.04	10.19	7.63	3.26	2.56	20.96	77.20	6.43
2009	315.85	18.95	12.63	10.19	7.39	3.16	2.62	21.17	76.11	6.34
2010	305.66	18.34	12.23	10.19	7.15	3.06	2.69	21.38	75.03	6.25
2011	295.47	17.73	11.82	10.19	6.91	2.95	2.76	21.59	73.95	6.16
2012	285.28	17.12	11.41	10.19	6.68	2.85	2.83	21.81	72.88	6.07
2013	275.10	16.51	11.00	10.19	6.44	2.75	2.90	22.03	71.81	5.98
2014	264.91	15.89	10.60	10.19	6.20	2.65	2.97	22.25	70.74	5.90
2015	254.72	15.28	10.19	10.19	5.96	2.55	3.04	22.47	69.68	5.81
2016	244.53	14.67	9.78	10.19	5.72	2.45	3.12	22.69	68.62	5.72
2017	234.34	14.06	9.37	10.19	5.48	2.34	3.20	22.92	67.57	5.63
2018	224.15	13.45	8.97	10.19	5.25	2.24	3.28	23.15	66.52	5.54
2019	213.96	12.84	8.56	10.19	5.01	2.14	3.36	23.38	65.47	5.46
2020	203.77	12.23	8.15	10.19	4.77	2.04	3.44	23.61	64.43	5.37
2021	193.59	11.62	7.74	10.19	4.53	1.94	3.53	23.85	63.39	5.28
2022	183.40	11.00	7.34	10.19	4.29	1.83	3.62	24.09	62.36	5.20
2023	173.21	10.39	6.93	10.19	4.05	1.73	3.71	24.33	61.33	5.11
2024	163.02	9.78	6.52	10.19	3.81	1.63	3.80	24.57	60.31	5.03
2025	152.83	9.17	6.11	10.19	3.58	1.53	3.90	24.82	59.29	4.94
2026	142.64	8.56	5.71	10.19	3.34	1.43	3.99	25.07	58.28	4.86
2027	132.45	7.95	5.30	10.19	3.10	1.32	4.09	25.32	57.27	4.77
2028	122.26	7.34	4.89	10.19	2.86	1.22	4.20	25.57	56.27	4.69
2029	112.08	6.72	4.48	10.19	2.62	1.12	4.30	25.83	55.27	4.61
2030	101.89	6.11	4.08	10.19	2.38	1.02	4.41	26.09	54.27	4.52
2031	91.70	5.50	3.67	10.19	2.15	0.92	4.52	26.35	53.29	4.44
2032	81.51	4.89	3.26	10.19	1.91	0.82	4.63	26.61	52.30	4.36
2033	71.32	4.28	2.85	10.19	1.67	0.71	4.75	26.88	51.33	4.28
2034	61.13	3.67	2.45	10.19	1.43	0.61	4.87	27.14	50.35	4.20

On November 27, 2000, per the Staff agreement and Commission order in Docket No. 00-WSRE-855-COM, Western Resources filed revenue requirement information separately for its KPL and KGE divisions. Overall the company is requesting a revenue increase of approximately $151 million dollar revenue increase, with $58 million directed to KGE customers and $93 million directed to KPL. The Commission is expected to conduct technical hearings to consider the request in May of 2001 and decide the application in July, 2001.

Docket No. 01-WPEE-473-RTS *In the matter of WestPlains Energy Kansas Seeking to Make Certain Changes in Its Charges for Electric Service*

On December 8, 2000 WestPlains Energy Kansas (WPE) filed a request to increase rates for its electric service by approximately $14 million. This filing was made after the Commission had ordered an approximately $8.4 million decrease in Docket No. 99-WPEE-818-RTS and before the Kansas Court of Appeals had ruled affirming the Commission's Order in that docket. A technical hearing by the Commission is expected in June, 2001 with a Commission order on the application by early August, 2001.

Electric Issues Before the FERC

In addition to following and reviewing FERC policy making the Commission has intervened in the following docket:

FERC Docket ER98-2348

During the last fiscal year, the KCC intervened in the above FERC proceeding and in a proceeding before the Security and Exchange Commission (SEC) involving Western Resources, Inc. (Western). Western made these filings in an anticipation of a restructuring plan to divide the company between regulated and non-regulated divisions. The KCC's participation successfully protect Kansas ratepayers and shareholders.

FERC Docket EL99-90

During the last fiscal year, FERC opened a docket to investigate the rate disparity between Western Resources, Inc.'s (Western's) two operating divisions. FERC jurisdiction is limited to wholesale matters. The concerns expressed in the FERC docket clearly related to retail pricing issues. The KCC participated in the proceeding only to the extent any jurisdictional issues were raised.

FERC Docket ER00-975

During the last fiscal year, the Southwest Power Pool (SPP) filed an application seeking recognition as an independent system operator. The KCC joined the Missouri Public Service Commission and the Arkansas Public Service Commission to express concern on whether SPP's proposal complied with FERC rules concerning independent system operators. FERC denied the application.

HOUSE UTILITIES

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ATTACHMENT 4

later agreed upon natural gas market index. On October 18, 2000 the Commission held a hearing to consider the agreement.

On November 1, 2000 the Commission issued an order accepting the general framework of the agreement but rejecting the actual implementation details. The Commission encouraged the utility's to file pilot programs but requested detailed information justifying the particular relationship with a proposed pipeline index with historical pricing information. On November 1, 2000 the Commission also issued an order in Docket No. 106,850-U modifying certain gas purchase contract filing and review requirements.

On December 18, 2000 the Commission held an administrative meeting to consider various petitions for reconsideration in this docket.

Natural Gas Issues Before the FERC

In addition to following and reviewing FERC policy making the Commission has intervened in the following dockets:

FERC Docket RP98-117

In February, 1998, KN Interstate Gas Company (KNI) filed with the Federal Energy Regulatory Commission (FERC) in Washington, D.C. to increase the rates it charges for wholesale transportation of natural gas. KNI is an interstate natural gas company that transports wholesale natural gas to local distribution companies in Kansas, Colorado, Nebraska, and Wyoming. KNI is a major transporter of natural gas for Midwest Energy of Hays, Kansas. Midwest serves approximately 50,000 retail gas customers in central and western Kansas.

The KCC actively participated in settlement negotiations and led the way to a favorable settlement whereby the proposed cost of service was reduced by $20 million. Also, through discounting agreements, Midwest's ratepayers will face only a 7 percent rate increase rather than the 70 percent rate increase originally proposed by KNI.

FERC Docket RP99-485

In September, 1999, Kansas Pipeline Company (KPC) filed with the Federal Energy Regulatory Commission (FERC) in Washington, D.C. to increase, by $1.7 million, the rates it charges for wholesale transportation of natural gas. KPC is an interstate natural gas company that transports wholesale natural gas to local distribution companies in Kansas and Missouri. KPC is a transporter of natural gas for Kansas Gas Service Company (KGS) of Overland Park, Kansas. KGS serves approximately 600,000 retail gas customers in Eastern and Central Kansas.

The KCC has intervened in this case and submitted testimony that takes issue with several areas of KPC's cost of service. A hearing was held in Washington, D.C. in October, 2000 that lasted

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approximately 3 weeks. Post hearing briefs were filed with the FERC in December, 2000. A decision is expected is Mid-2001.

FERC Dockets RP97-369 et al.

In September, 1997, FERC order interstate pipelines to recover the ad valorem tax paid to Kansas producers and royalty owners during the period form October, 1983 through 1988. The Commission intervened with the State of Kansas The total liability for producers and royalty owners has been estimated at one time to be approximately $400 billion because of the accrual of interest. Seventy-five (75) percent of the total liability represents accrued interest. The total liability is an estimate which will be impacted by settlement and resolution of discrete issues such as whether any MLP violation actually occurred and whether a decedent's estate is liable for any refund obligation.

Last year, the KCC and the State of Kansas took the initiative and brought the producers, royalty owners and consumers together in an attempt to negotiate a settlement. FERC has gotten involved through its Office of Dispute Resolution. Progress has been made in that there appears to be a general understanding that relief must be applied at the working interest level and that the elimination of claims against royalty owners is necessary for any settlement to be effective.

At present, FERC has accepted one comprehensive settlement involving the refund claims of Northern Natural Gas Company ("Northern"). The Northern settlement resolves all issues for large and small producers and royalty owners. FERC has also accepted a partial settlement sponsored by Colorado Interstate Gas Company ("CIG"). The KCC opposed this settlement because the settlement offered relief to large producers and their royalty owners but left out many small producers and their royalty owners. Finally, FERC has accepted a partial settlement sponsored by Williams Gas Pipeline Central, Inc.("Williams"). The Williams settlement offered relief to the small producer and their royalty owners.

In addition, there have been a few settlement meetings with Panhandle Eastern Pipeline Co. ("Panhandle"). It is expected that settlement discussions will resume with Panhandle now that FERC has ruled upon the other settlement offers. Recently, ANR Pipeline Co. has expressed an interest in opening up settlement discussions. It also appears that K N Interstate Transmission Co. may be interested in settlement discussions. It should be noted that there will be no settlement discussions with El Paso Natural Gas Co. ("El Paso") because FERC has ruled that El Paso is entitled to keep all of the ad valorem tax refund amounts by virtue of its prior rate case settlement.

Pipeline Safety

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