

MINUTES OF THE SENATE UTILITIES COMMITTEE.

The joint meeting of the House and Senate Utilities Committees was called to order by Chairman Senator Stan Clark at 9:30 a.m. on January 29, 2002 in Room 526-S of the Capitol.

All members were present except: Senator Susan Wagle (excused)
Senator Bob Lyon (excused)

Committee staff present: Emalene Correll, Legislative Research
Ann McMorris, Secretary

Conferees appearing before the committee:
Mike Loeffler, Northern Natural Gas
Jim Bartling, Greeley Gas
Chuck DeHart, the Williams Companies
Steve Johnson, Kansas Gas Service

Others attending: See attached list on House Utilities Committee
minutes of same date

Updates on Natural Gas and Oil Industry

Senator Clark briefly reviewed the written testimony of Robert Krehbiel, EVP, Kansas Independent Oil and Gas Association. Mr. Krehbiel was attending a funeral and was unable to be present. (Attachment 1)

Mike Loeffler, manager of Governmental and Community affairs for Northern Natural Gas, a subsidiary of Enron Transportation Services (ETS), described the presence of Northern Natural Gas in Kansas, provided a brief overview and update on the transition of Northern Natural Gas into a subsidiary of Dynegy, Inc.; and mentioned the development of storage regulations. (Attachment 2)

James W. Bartling, Manager Public Affairs, Greeley Gas Company, provided a brief summary of the activities of Greeley Gas and their involvement in Kansas. (Attachment 3)

Chuck DeHart, The Williams Companies, Inc., summarized his company's involvement in Kansas and noted among the issues that needed to be addressed are underground storage and pipeline protection.

Steve Johnson, executive director, Kansas Gas Service, addressed the state of the Natural Gas Industry in Kansas from the Kansas Gas Service and ONEOK point of view. (Attachment 4)

On conclusion of the presentations, the Chair opened for discussion. The committee questioned the presenters on number of retirees from Northern Natural Gas in Kansas and specific areas; non-paying consumer profiles; safety of pipelines and their maintenance; how automation may affect service; KCC and KDHE rules and regulations, company flexibility on service requests from customers..

The next joint meeting of the House and Senate Utilities Committees will be held on January 30, 2002.

Adjournment.

Respectfully submitted,

Ann McMorris, Secretary

Attachments - 4

**LEGISLATURE OF THE STATE OF KANSAS
JOINT MEETING OF THE
KANSAS HOUSE AND SENATE
UTILITIES COMMITTEES**

**Hearing
January 28 and 29, 2002
Update on the Status of the Oil and Gas Industry**

**Testimony of
Robert E. Krehbiel, Exec V.P.
Kansas Independent Oil & Gas Association**

Chairman Clark, Chairman Holmes and members of the House and Senate Utilities Committee:

My name is Robert E. Krehbiel, Executive Vice-President of the Kansas Independent Oil & Gas Association.

My testimony today is simply to provide an update on the price of crude oil and natural gas. Attachments 1, 2 and 3 reflect the change in price from one year ago and are self explanatory.

Attachment 4 is a comparison of the number of active rotary rigs operating in Kansas and reflects the impact of declining prices on the producing segment of the oil and gas industry.

The exploration and production of oil and gas is price and cost sensitive. From 1980 to 1985 the price of crude oil in Kansas averaged more than \$30 per barrel and the active rig count ranged from 150 to 200. Today the price of crude oil is \$15 per barrel and the active rig count is 19.

From 1980 to 1985 there were people on the streets in downtown Wichita. Today large office buildings sit vacant and people are few and far between.

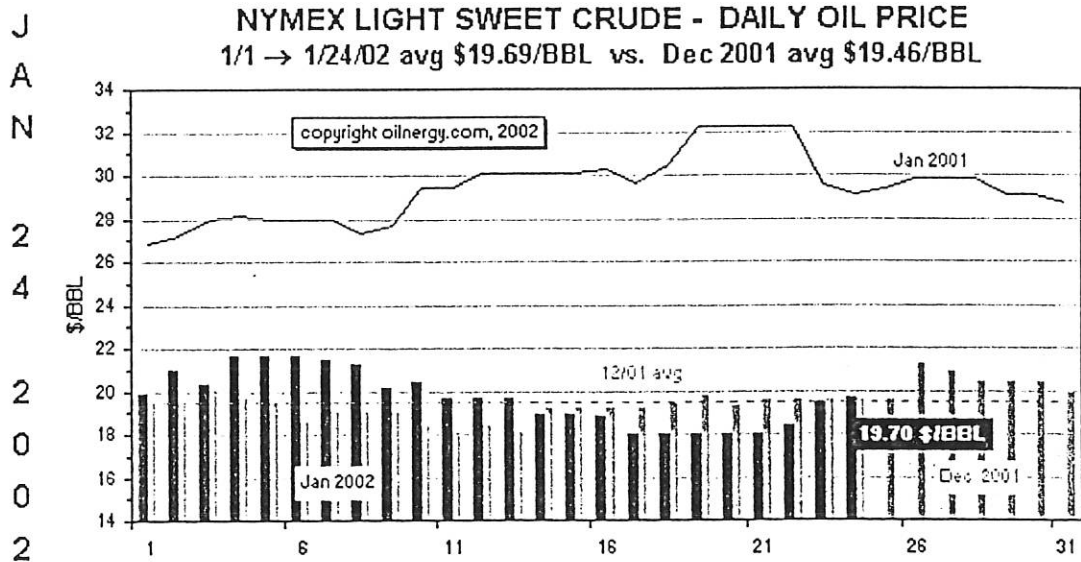
Thank you for this opportunity to testify.

ATTACHMENTS

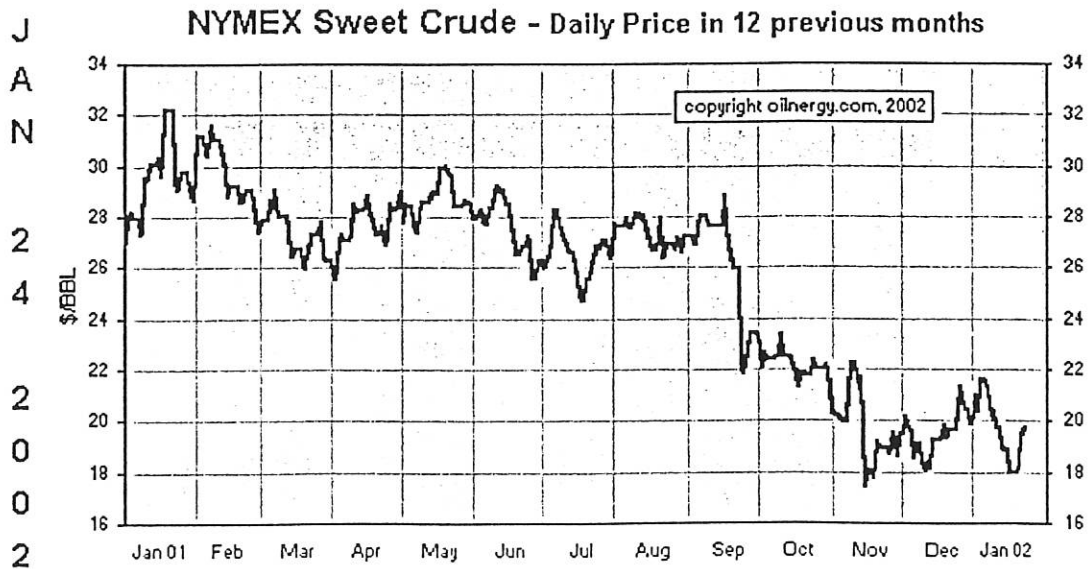
1. Crude Oil Prices. A comparison of NYMEX prices for January, 2001 v. January, 2002, and a graph depicting the daily price for the previous 12 month period .
2. Crude Oil Price Bulletin. Current Kansas price posted by the National Cooperative Refinery Association, McPherson, Kansas.
3. Natural Gas Prices. A comparison of NYMEX prices for January, 2001 v. January, 2002, and a graph depicting the daily price for the previous 12 month period.
4. Redtop Rotary Rig Report. A comparison of the Active Rotary Rig Count in Kansas comparing the rig count in January 2001 v. January, 2002.

CRUDE OIL PRICES

January 2001 vs. January 2002



The Previous 12 Months





CRUDE OIL PRICE BULLETIN

P.O. BOX 1404, MCPHERSON, KANSAS 67460

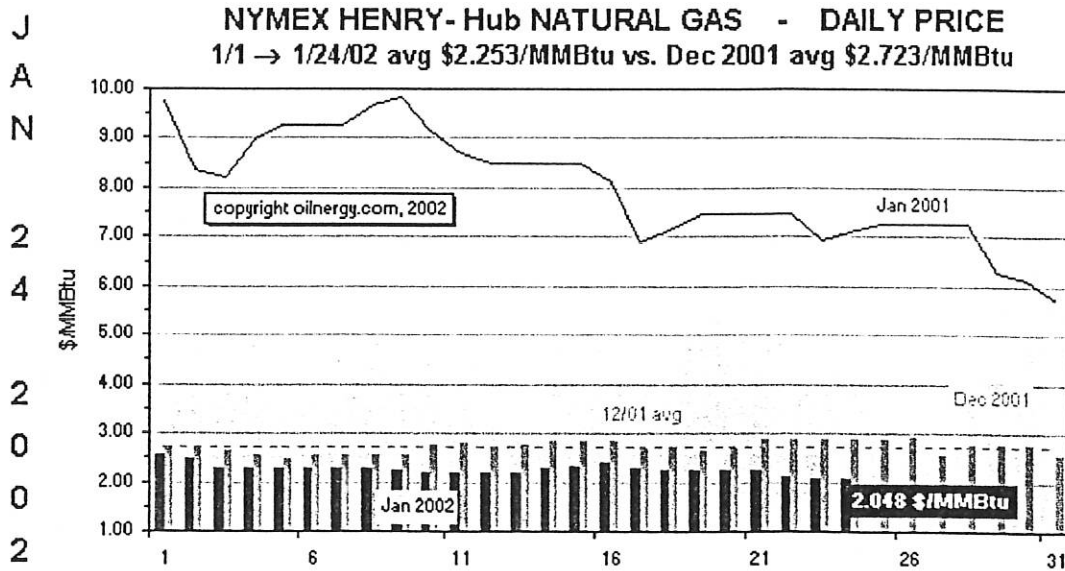
Effective at 7:00 A.M. on the date shown below, subject to change without notice and subject to applicable law and regulations and to its Division Orders and other contracts, National Cooperative Refinery Association (NCRA) will pay the price per barrel set out below after application of all adjustments to base price, including adjustments for gravity and transportation where applicable.

Bulletin #	212	1	2	3	4	5	6	
Effective Date	12/31/01	1/2/02	1/3/02	1/4/02	1/7/02	1/8/02	1/9/02	
	Price	Price	Price	Price	Price	Price	Price	Gravity
State/Area	\$/BBL	\$/BBL	\$/BBL	\$/BBL	\$/BBL	\$/BBL	\$/BBL	Adj Col
Kansas								
Kansas Common	15.25	16.50	16.00	17.25	17.00	16.75	15.75	B
Kansas GS	15.75	17.00	16.50	17.75	17.50	17.25	16.25	B
Nebraska								
Intermediate	14.50	15.75	15.25	16.50	16.25	16.00	15.00	B
Oklahoma								
Sweet	16.00	17.25	16.75	18.00	17.75	17.50	16.50	A
Western Okla Sweet	15.50	16.75	16.25	17.50	17.25	17.00	16.00	A
Texas								
West Texas Int.	16.00	17.25	16.75	18.00	17.75	17.50	16.50	C
West Texas Sour	11.50	12.75	12.25	13.50	13.25	13.00	12.00	D
Bulletin #	7	8	9	10	11	12	13	
Effective Date	1/10/02	1/11/02	1/14/02	1/16/02	1/17/02	1/22/02	1/23/02	
	Price	Price	Price	Price	Price	Price	Price	Gravity
State/Area	\$/BBL	\$/BBL	\$/BBL	\$/BBL	\$/BBL	\$/BBL	\$/BBL	Adj Col
Kansas								
Kansas Common	16.00	15.25	14.50	14.25	13.50	13.75	15.00	B
Kansas GS	16.50	15.75	15.00	14.75	14.00	14.25	15.50	B
Nebraska								
Intermediate	15.25	14.50	13.75	13.50	12.75	13.00	14.25	B
Oklahoma								
Sweet	16.75	16.00	15.25	15.00	14.25	14.50	15.75	A
Western Okla Sweet	16.25	15.50	14.75	14.50	13.75	14.00	15.25	A
Texas								
West Texas Int.	16.75	16.00	15.25	15.00	14.25	14.50	15.75	C
West Texas Sour	12.25	11.50	10.75	10.50	9.75	10.00	11.25	D
Bulletin #	14							
Effective Date	1/24/02							
	Price	Price	Price	Price	Price	Price	Monthly	Gravity
State/Area	\$/BBL	\$/BBL	\$/BBL	\$/BBL	\$/BBL	\$/BBL	Average	Adj Col
Kansas								
Kansas Common	15.25						15.229	B
Kansas GS	15.75						15.729	B
Nebraska								
Intermediate	14.50						14.479	B
Oklahoma								
Sweet	16.00						15.979	A
Western Okla Sweet	15.50						15.479	A
Texas								
West Texas Int.	16.00						15.979	C
West Texas Sour	11.50						11.479	D

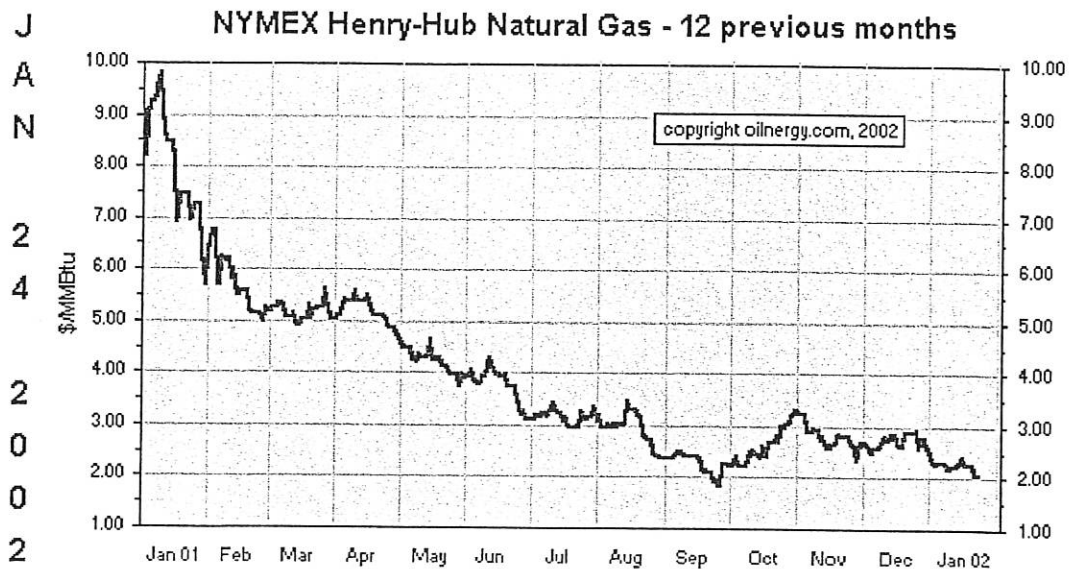
1-5

NATURAL GAS PRICES

January 2001 vs. January 2002



The Previous 12 Months



REDTOP ROTARY RIG REPORT

January 25, 2002 Page 1

WESTERN KANSAS

Contractor	Rig	Type	Rated	Loc	Status	County	Sec-Twp-Rq	Operator	Lease
A & A Production	1	M	4,500	Kans	Moving	Sheridan	4-9S-28W	A & A Production	#2 Caldwell
Abercrombie RTD	2	M	10,000	Okla	Drig	Texas	23-5N-14ECM	EOG Resources	#23-1 Stephens
	4	M	6,500	Kans	Drig	Stevens	20-34S-35W	OXY USA	#1 Illincis A
	5	M	10,000	Okla	Drig	Texas	14-1N-11ECM	EOG Resources	#14-1 Christien
	8	M	6,500	Kans	WO Loc	-	-	-	-
Allen Drilling	1	M	8,500	Kans	Drig	Barber	22-34S-15W	M & M Exploration	#3-22 Davis Ranch OWWO
	3	M	8,000	Okla	Drig	Woodward	8-25N-18W	Chesapeake Operating	#1-8 Rennebohm
	4	M	8,000	Kans	Drig	Rush	34-19S-16W	Spacial Energy Corp.	#1 Blanche
	5	M	8,000	Okla	Drig	Beaver	24-6N-21ECM	Chesapeake Operating	#1-24 Bonnie
	6	M	8,500	Okla	Moving	Beaver	19-5N-24ECM	Apache Corp.	#6-19 Moreau
BH & K Drilling	1	M	6,000	Kans	WO Loc	-	-	-	-
Big A Drilling	1	M	8,000	Kans	Drig	Clark	21-33S-22W	Horseshoe Operating	#1 Dagnan
	2	M	10,000	Kans	WO Loc	-	-	-	-
	4	M	8,000	Kans	WO Loc	-	-	-	-
Cheyenne Drilling	1	M	7,500	Texas	WO Loc	-	-	-	-
	2	M	7,500	Okla	WO Loc	-	-	-	-
	3	M	7,500	Kans	WO Loc	-	-	-	-
	4	M	7,500	Okla	Drig	Roger Mills	6-16N-21W	Mustang Fuels	#2-6 Swisher
	5	M	6,500	Kans	WO Loc	-	-	-	-
	6	M	9,000	Texas	Drig	Wise	-	Threshold	#1 Joe Larue-Todd
	7	M	7,500	Texas	WO Loc	-	-	-	-
	8	M	4,000	Okla	WO Loc	-	-	-	-
	9	M	12,500	Okla	Drig	Ellis	9-19N-21W	Samson Resources	#2-9 Hixson
	10	M	9,500	Okla	Idle	-	-	-	-
	11	M	10,000	Kans	Drig	Meade	23-34S-29W	Great Plains Petroleum	#3 Adams F
	12	M	10,000	Kans	Moving	-	-	-	-
	13	M	10,000	Texas	Drig	Stephens	-	Zinke & Trumbo	#1-1058 Dollar
Discovery Drilling	1	M	6,000	Kans	Drig	Dewey	2-17N-15W	Brighton Energy	#2-1 Chain Ranch
	2	M	6,500	Kans	Drig	Ness	10-16S-25W	Palomino Petroleum	#1 McNinch
Duke Drilling	1	M	7,000	Okla	Drig	Barton	11-20S-11W	Popp Operating	#3 Panning
	2	M	7,000	Kans	Drig	Woods	28-29N-16W	Jack Exploration	#2-28 Williams
	4	M	6,000	Kans	Drig	Barber	2-33S-10W	Molz Oil Co.	#1 Ruby OWWO
	5	M	7,000	Kans	Drig	Comanche	12-33S-18W	Corsair Energy, LC	#1-12 Roberta Todd
	6	M	10,000	Okla	Drig	Beaver	21-4N-21E	Anadarko Petroleum Corp.	#L-3 Brownell
	7	M	7,500	Kans	Drig	Comanche	3-35S-16W	American Warrior	#3 Murdock
	8	M	6,000	Kans	WO Loc	-	-	-	-
H-40 Drilling	3	M	9,000	Okla	Drig	Blaine	-	-	-
L.D. Drilling	1	M	5,000	Kans	WO Loc	-	-	-	-
Mallard JY	1	M	5,600	Kans	WO Loc	-	-	-	-
Mendenhall Drilling	3	M	6,500	Kans	Drig	Sumner	29-32S-3W	Glacier Petroleum Co. Okla.	#1 Andrae
Murfin Drilling	3	M	6,000	Kans	WO Loc	-	-	-	-
	8	M	6,000	Kans	WO Loc	-	-	-	-
	14	M	8,500	Kans	WO Loc	-	-	-	-
	16	M	5,000	Kans	WO Loc	-	-	-	-
	20	M	7,500	Kans	WO Loc	-	-	-	-
	22	M	7,500	Kans	WO Loc	-	-	-	-
	24	M	6,500	Kans	WO Loc	-	-	-	-
Norseman Drilling	1	M	8,000	Kans	Drig	Morton	19-34S-39W	Anadarko Petroleum Corp.	#3 Littel B
	2	M	7,500	Okla	Idle	-	-	-	-
	3	M	6,500	Okla	Idle	-	-	-	-
	4	M	7,500	Kans	Idle	-	-	-	-
	4	M	7,500	Okla	Idle	-	-	-	-
Pickrell Drilling	1	M	6,500	Kans	Drig	Comanche	32-31S-19W	Pickrell Drilling Co.	#1 Bird N
Shields Drilling	1	M	5,500	Kans	Drig	Gove	20-14S-30W	Shields Oil Producers	#3 Sharp A
Sterling Drilling	1	M	4,200	Kans	Moving	Stafford	16-25S-12W	Rama Operating Co.	#1 Deselms OWWO
	4	M	5,500	Kans	Drig	Kingman	25-28S-8W	Messenger Petroleum	#A-1 Gillen

(continued)

1-7

REDTOP ROTARY RIG REPORT

January 25, 2002 Page 2

WESTERN KANSAS (continued)

Contractor	Rig	Type	Rated	Loc	Status	County	Sec-Twp-Rq	Operator	Lease
Val Energy	1	M	6,000	Kans	WO Loc	-	-	-	-
	2	M	8,000	Okla	Drlg	Woods	9-25N-15W	Comanche Resources	#9-1 Edna
Vonfeldt Drilling	1	M	5,500	Kans	WO Loc	-	-	-	-
Zenith Drilling	1	M	10,000	Okla	Drlg	Beaver	7-9N-23ECM	Natural Gas Anadarko	#1 Kile 2-7
	6	M	10,000	Texas	Moving	Sherman	129-B1K1C CHHS	Phillips Petroleum Co.	#4 Pugh

EASTERN KANSAS

Berantz Drilling	5	M	4,800	Kans	WO Loc	-	-	-	-
Black Diamond Drlg	1	M	1,000	Kans	Idle	-	-	-	-
C & G Drilling Co.	1	M	3,000	Kans	WO Loc	-	-	-	-
C & S Oil Co.	1	M	1,200	Kans	WO Loc	-	-	-	-
Cleaver, Loraine	1	M	1,500	Kans	WO Loc	-	-	-	-
Dixon Drlg, Jim	1	M	3,800	Kans	Idle	-	-	-	-
DL, Inc.	1	A	2,000	Kans	WO Loc	-	-	-	-
Double 7 Oil & Gas	1	M	1,000	Kans	WO Loc	-	-	-	-
Ensminger Drilling	1	A,M	1,200	Kans	WO Loc	-	-	-	-
Erbe, Dwayne E.	1	M	1200	Kans	WO Loc	-	-	-	-
Farthing, Don	1	M	1,500	Kans	Idle	-	-	-	-
Finney Drilling	1	M	2,000	Kans	Idle	-	-	-	-
Glaze Drilling	G-1	A	2,000	Kans	WO Loc	-	-	-	-
	R-1	A,M	1,500	Kans	Idle	-	-	-	-
Hughes Drilling	1	M	1,200	Kans	Idle	-	-	-	-
J & J Oil	1	M	1,200	Kans	Idle	-	-	-	-
Kan - Drill	1	M	2,000	Kans	Idle	-	-	-	-
Kelly Down Drlg	1	M	2,200	Kans	Idle	-	-	-	-
L & S Well Svc.	1	A	1,200	Kans	WO Loc	-	-	-	-
Lincoln 77	1	M	1,200	Kans	Idle	-	-	-	-
McGown Drilling	1	M	2,500	Kans	Moving	Osage	-	-	-
	2	A,M	1000	Kans	WO Loc	-	-	-	-
McPherson, Billy	1	A,M	2,000	Kans	WO Loc	Allen	-	-	-
	2	M	1200	Kans	WO Loc	-	-	-	-
McPherson, Ron	1	A	2,000	Kans	WO Loc	-	-	-	-
	2	A	1,750	Kans	WO Loc	-	-	-	-
	3	A	1,750	Kans	S.D. Svc	-	-	-	-
MOKAT Drilling	1	A	2,000	Kans	WO Loc	-	-	-	-
Ranger Oil & Gas	1	A,M	1,600	Kans	Idle	-	-	-	-
Rig 6 Drilling	7	M	4,000	Kans	WO Loc	-	-	-	-
RJ Enterprises	1	M	1,500	Kans	WO Loc	-	-	-	-
Summit Drilling	1	M	4,000	Kans	Idle	-	-	-	-
The Xenia Corp.	1	M	1,500	Kans	WO Loc	-	-	-	-
Thornton Drilling	1	A	1,500	Kans	WO Loc	-	-	-	-
Town Oil Co.	1	A	1,200	Kans	WO Loc	-	-	-	-
W & W Production	1	M	1,200	Kans	WO Loc	-	-	-	-
Wax, William T.	1	A	1,200	Kans	WO Loc	-	-	-	-
Way Drilling	1	M	1,200	Kans	Idle	-	-	-	-
Well Refined Drlg	1	A	1,200	Kans	WO Loc	-	-	-	-

*Bob
 down 57.8%
 from last year*

Active Rotary Rig Count In Kansas

Total Available Rigs: East KS - 39 / West KS - 62

Active Kansas Rigs:	East	West	Total	
Rigs Moving	1	3	4	
Rigs Making Hole	0	15	15	
Totals	1	18	19	
Week Ago (1/18/02)	11	23	34	- 44.1 %
Month Ago (12/28/01)	9	18	27	- 29.6 %
Year Ago (1/26/01)	11	34	45	- 57.8 %

	1/25/02	Yr Ago
Active Rigs in Kansas	19	45
Rigs W.O. Loc Assignment	43	9
Rigs Idle (not stacked)	15	17
Kansas Rigs in: Oklahoma	19	26
Colorado	0	1
Texas	5	2
Nebr	0	0
Total Kansas-based Rigs	101	100

1-8

Presentation Before the Kansas Senate and House Utilities Committees
January 29, 2002
Testimony of Michael Loeffler
Northern Natural Gas

Introduction

Good morning. It is a pleasure to appear for the first time before the Kansas Senate Utilities Committee. My name is Mike Loeffler and I am the manager of Governmental and Community Affairs for Northern Natural Gas, as of today a subsidiary of Enron Transportation Services (ETS). I have been employed by Northern since May 2001. My responsibilities include regulatory and legislative affairs for the states of Kansas, Nebraska, Illinois, and Oklahoma. I also work in community affairs for the state of Nebraska. Enron Transportation Services has a regional office in Omaha, Nebraska where approximately 275 employees from Enron and Northern Border, a division of Enron, are employed.

Purpose of Presentation

The purpose of my brief presentation before this Committee does not include any new information or insights into the financial or political difficulties faced by Enron Corporation. We have people in Houston who are the spokespersons for Enron.

Instead, my focus is will be three-fold. First, I will describe the presence of Northern Natural Gas here in the state of Kansas. Second, I will provide a brief overview and update on the transition of Northern Natural Gas into a subsidiary of Dynegy, Inc. Third, I will touch on a few areas of interest that we continue to have before this body. Finally, to the extent that I am able, I will answer any of your questions.

Presence in the State

Enron Corp. has two major operations in the state – Northern Natural Gas and a subsidiary of Enron known as EOTT. Northern Natural Gas operates 16,000 miles of pipeline originating in West Texas and extending to the upper Midwest delivering natural gas to purchasers throughout the United States. Approximately 2100 miles of this pipeline lies within the state of Kansas. EOTT transports liquid petroleum products through its pipelines. I will concentrate my testimony on the Northern Natural Gas system.

The Northern Natural Gas pipeline extends from the southwest corner of Kansas to the north-central part of the state. Along the pipeline are compressor stations that boost the pressure of the natural gas to ensure its transport along the pipeline. There are about a dozen and a half compressor stations. In addition to these facilities,

Northern operates two porosity storage fields – one in Lyons and the other at Cunningham. Pipelines connect these storage fields to the main transport pipes.

Although the pipelines are increasingly automated, the company still employs over 230 field operations persons in the state of Kansas. EOTT employs an additional 22 persons.

Transition to Dynegy

Late last year, Enron entered into a merger agreement with Dynegy, Inc. Dynegy is a provider of energy and communications services to customers around the globe. Their industries include power generation, wholesale and retail marketing and trading of power, natural gas, coal, emission allowances, weather derivatives, broadband, gas gathering and natural gas processing. Dynegy has its corporate headquarters in Houston with other offices located throughout North America and Europe. As part of the agreement for the merger, Dynegy infused \$1.5 billion in capital into Enron secured by the right to purchase Northern Natural Gas by assuming an additional \$1 billion in debt conditional upon the termination of the merger agreement.

The merger has since terminated. There is an ongoing legal dispute as to the terms and liabilities of the termination. Pending the outcome of that dispute, Dynegy and Enron announced an agreement whereby Dynegy will take full ownership and operation of Northern Natural Gas. Under this agreement, Enron has the right to repurchase Northern Natural Gas on or before June 30, 2002.

Effective February 1, about one hundred current Northern Natural Gas employees will transfer and become employees of Dynegy. Other employees, including the field personnel in Kansas, will remain employees of Enron and operate the pipelines during the transition period until June 30, 2002, pursuant to a services agreement between Dynegy and Enron. That agreement is close to being finalized.

Although Dynegy has not owned a major interstate natural gas pipeline, it has been a substantial and respected participant in numerous aspects of the global energy markets for many years. Northern Natural Gas' management will remain in place and we do not expect that any of the customers of Northern Natural Gas will experience any negative impact as a result of the change in ownership.

Areas of Interest

Northern Natural Gas has been an active participant in the ongoing discussions with the Kansas Department of Health and Environment and the Kansas Corporation Commission in the development of storage regulations being promulgated under the directive of House Bill 2200 passed by this Legislature last year.

As you know, the KDHE has been working on rules and regulations for the storage of natural gas in imbedded salt and the KCC has been working on regulations

for porosity storage of natural gas. We expect that preliminary drafts of these regulations will reach the formal rule promulgation stage in a short time.

While concerns remain and issues must still be resolved, we are committed to rules that adequately protect the health of this state's residents and environment.

Conclusion

Northern Natural Gas and Dynegy are committed to the same tradition of service excellence that Northern Natural Gas has provided to its customers in the past. I want to assure the members of this Committee that the natural gas pipelines operated by Northern will continue to operate safely, efficiently and without interruption of service.

I will answer, as I can, any questions of the Committee.

COMMENTS OF
JAMES W. BARTLING, MANAGER PUBLIC AFFAIRS
GREELEY GAS COMPANY
BEFORE THE JOINT MEETING OF THE
SENATE UTILITIES COMMITTEE
AND
HOUSE UTILITIES COMMITTEE
JANUARY 29, 2002

Chairman Clark, Chairman Holmes, Vice-Chairman Emler, Vice-Chairman Sloan, and Members of both the Senate and House Utilities Committees:

I appreciate the opportunity to speak before the Joint Senate / House Utilities Committees to provide you with an "Update on the Natural Gas Industry", specifically what is happening with Greeley Gas Company.

My name is Jim Bartling and I am Manager of Public Affairs for Greeley Gas Company, a business unit of Atmos Energy Corporation. Greeley serves approximately 117,000 customers in 114 communities within 31 counties in the State of Kansas, whereas the five business units of Atmos Energy Corporation serve approximately 1.4 million customers in 10 states. We are a local distribution company with operations regulated by the Kansas Corporation Commission (KCC).

A recent article in the Kansas City Star (Wednesday, January 23, 2002 by Steve Everly) reflected proposed rates effective February 1, 2002 for Greeley Gas Company customers in the United Cities Region (approximately 70,000 customers in Johnson County and Wyandotte County) to be \$1.00 to \$2.00 per Mcf (thousand cubic feet) below the rates charged by the other gas utilities serving the greater Kansas City area. This was accomplished in part by our ability to purchase gas at favorable rates and to store gas in our storage facilities when gas prices were at favorable rates. Our November and December 2001 gas rates were \$1.50 to \$2.00 per Mcf less than the rates for the same months in 2000, and the January and February 2002 rates are \$5.00 to almost \$7.00 per Mcf less than the rates for the same months in 2001.

We at Greeley Gas Company recognize that last winter's prices were some of the highest that we had ever seen. To help insure that this situation did not occur again we

filed with the KCC a gas hedge program that would allow us to establish a price cap on approximately 60% of the non-storage flowing gas volumes for December 2001 and January 2002. The cost of the program was not to exceed \$1.4 million with the cost to each firm customer to be approximately \$12.00. Because gas prices stayed low we were actually able to purchase straight call options for 22% of the November, 50% of the December, 51% of the January, and 24% of the February net purchases at a total cost of just barely over \$1 million. If the market prices for natural gas had approached the prices of last winter our call options would have allowed us to keep our gas prices to our customers at a more acceptable level.

Greeley supported the Kansas Senate's and House's recommendations to use the ad valorem tax refund for low-income energy assistance during the hearings before the KCC. Following the KCC's ruling we established the Greeley Energy Assistance Program (GEAP), and with the assistance of the Topeka based Kansas Capital Area Chapter of the American Red Cross, proceeded to refund \$2.1 million that we had received from the first Williams settlement. We were able to provide bill credits up to \$350.00 for 6,082 customers or a total of \$2,127,146 in bill credits. Additionally, the Red Cross has approved another 2,457 of our customers that will receive bill credits up to \$350.00 once the final appeals have been exhausted by the industrial groups that appealed the KCC order or the FERC order.

Greeley, as well as other utilities in the state of Kansas, experienced an exceptionally high level of uncollectible customer accounts following the winter of 2000-2001 and filed with the KCC to recover these extraordinary bad debt costs through the PGA (purchased gas adjustment) mechanism. As you know, the KCC denied this relief but did preserve these costs through an accounting order. I testified last Thursday before the House Utilities Committee in support of HB 2644 and will continue to work with the Committees and the KCC in support of a bill that will work for all concerned.

Similarly, Greeley Gas Company has been an active participant in the meetings that the KCC has conducted to address revisions to the Cold Weather Rule (CWR), and we will continue to do so. Should a bill come out of these Committees addressing the CWR, Greeley Gas Company can be expected to be an active participant. We strongly

support the basic premise of the CWR but feel that there are portions of it needing modification.

Of direct interest to several Committee members is Greeley's ongoing involvement with the farmers in southwest Kansas to help these farmers resolve the declining wellhead pressure problems being experienced in and around the Hugoton field. Last year, through our Vastar project, we were able to connect over 50 irrigation customers in Grant County and provide them with pipeline quality gas for their irrigation wells. Currently we are working on the Pioneer project, which in Phase I will provide pipeline quality gas to over 100 farmers in this region for their irrigation needs.

Internally we have made numerous enhancements to our billing system and customer support center so that our customers can more easily access us and obtain the information or services that they seek. One problem that most utilities experienced during the winter of 2000–2001 was complaints of exceptionally long hold-times as they waited for a customer service representative to take their calls. We have added additional staff and phone lines as well as adding a feature called, "Virtual Hold," that allows the customer to simply leave their name, telephone number and the time that they would like their call returned. Once that time arrives the computer automatically calls the customer and connects them to the next available customer service representative, thereby completely eliminating the need to wait on the line.

This is only one of the new customer service enhancements that our customers will see as we begin a new initiative directed at customer service. Atmos Energy Corporation is committed to providing its customers with exceptional customer service. We strongly believe that our customers are the reason that we're in business and we are accountable for, and take ownership of, their issues and concerns.

One thing that you can expect to see happening at Greeley Gas Company during this calendar year is a name change. All of the Atmos Energy Corporation business units, Energas Company, Western Kentucky Gas Company, Trans Louisiana Gas Company, United Cities Gas Company, and Greeley Gas Company will be dropping their regional names and becoming "Atmos Energy Corporation."

This concludes my comments before this joint Committee. I will be happy to take questions at the appropriate time.

3-3



KANSAS GAS SERVICE

A DIVISION OF ONEOK

Before the Senate and House Joint Utilities Committee
Testimony of Steve Johnson
Executive Director, Corporate Relations
Kansas Gas Service
January 29, 2002

Chairman Clark, Chairman Holmes and Members of the Committee,

Thank you for the opportunity to address your joint committees this morning about the State of the Natural Gas Industry in Kansas from the Kansas Gas Service and ONEOK point of view.

As you are aware, Kansas Gas Service (KGS) is the largest natural gas distribution company in the state, with our division headquarters in Overland Park. We are a division of ONEOK, Inc. a diversified energy company based in Tulsa, Oklahoma. ONEOK has business segments in production (5% of revenue), gathering and processing (33%), transportation and storage (19%), marketing and trading (15%), and distribution of natural gas (29%) throughout the Midwest. A sister company to KGS is Oklahoma Natural Gas serving almost 800,000 customers in Oklahoma. ONEOK also generates electricity at a 300 MW plant near Edmond, Oklahoma, using gas as a fuel, located over a large porosity storage field north of Oklahoma City. ONEOK had revenues over \$6.6 Billion in 2000 and is traded on the New York Stock Exchange under the symbol, OKE.

Kansas Gas Service serves over 630,000 customers at retail and has 6,000 transportation customers situated in the eastern two-thirds of Kansas. Wichita, Kansas City, Overland Park, Topeka, Pittsburg, Salina, Hutchinson, Manhattan and Emporia are some of the largest cities served of the 341 communities served in the state. We have 1,359 employees working for KGS or ONEOK in Kansas with a payroll of almost \$51,000,000. KGS purchases most of its gas supply from several companies in Kansas, such as Amoco, Anadarko, Oxy, Pioneer and many smaller producers in south-central and southwest Kansas. We also purchase system supply through such marketers such as Tenaska, Williams Marketing and Trading and ONEOK Marketing and Trading. The majority of the gas (67%) is purchased on long term contract, another block is purchased on short term (16%) and the balance is purchased "seasonally" (about 17%). As of the 12 months ended November 30, 2001, we purchased 77.8 Bcf of gas for our customers and Williams transports most of the gas. Additionally, we pay taxes in the state of \$10.3 million, the majority of which is Ad Valorem taxes. During the past year we have invested \$64,600,000 in new or upgraded facilities for Kansas Gas operations and another \$9,950,000 in capital expenditures on pipeline and facilities related to our ONEOK

operations which consist of the Mid Continent Market Center and other transportation, gathering and processing assets owned by other subsidiaries of ONEOK in Kansas.

The Kansas Corporation Commission (KCC) regulates Kansas Gas Service and the Mid Continent Market Center and much of our business comes under the scrutiny of this agency. At this time we have several cases pending before the KCC, some of which have been heard before this committee such as the Cold Weather Rule changes we have discussed, the recovery of extraordinary bad debts through a surcharge on the cost of gas or through an accounting order in the next rate case, the continuation of our hedge program to reduce the volatility of gas price swings, the renewal of the Weatherproof Bill option for our customers and the distribution of Ad Valorem refunds to the most needy of our customer base. Additionally, we have filed to move the majority of the Mid Continent Market Center assets onto the books of KGS and the remaining assets folded into ONEOK. Essentially, the pipeline, measurement and regulation equipment and several compressor stations will become a part of KGS and the Yaggy and Brehm storage facilities will remain with one of the ONEOK subsidiaries.

Throughout 2001 Kansas Gas Service faced many challenges such as the highest prices for natural gas ever experienced, the coldest winter in recent memory, the highest bad debts ever incurred and the Hutchinson incident. However, our operations continued to serve our customers with distinction. We work very closely with Westar Energy in answering customer calls, billing, meter reading and service calls through shared service agreements. Our phone centers in Topeka and Wichita experienced the highest levels of calls last winter and continue to serve our customer with higher levels of technology. We have installed laptop PC's in all service trucks to work more efficiently and be able to respond more quickly. We have installed over 150,000 automated meter reading devices in our Wyandotte and Johnson County service territories for more accurate and on time meter reads and we continually train our employees with their safety in mind and within prescribed operator standards as established by the KCC and DOT. We have also been heavily involved with the many cities and counties we serve to standardize our maps using the GPS system to make our mapping very accurate and accessible. In response to the events of September 11 we have reviewed our security measures and have begun to address changes that should be made to make sure our employees, customers and the public is as safe as humanly possible from intervention by those with different agendas.

On a very positive and upbeat note we are now experiencing a very mild winter with gas costs at their lowest levels. November 2001 was 31% warmer than normal and December was 17% warmer than normal. This and lower gas costs have allowed the customer the opportunity to "catch up" on their gas bills if needed and or spend their income in other ways. An average customer paid \$14.03 less in November and \$95.32 less in December and it looks like their January bills will be equally affordable.

Thank you again for this opportunity and I will be available for questions at your convenience.