

Approved: April 2, 2003 *Carl Dean Holmes*  
Date

MINUTES OF THE HOUSE COMMITTEE ON UTILITIES.

The meeting was called to order by Chairman Carl D. Holmes at 9:10 a.m. on February 25, 2003 in Room 526-S of the Capitol.

All members were present except: Representative Annie Kuether

Committee staff present: Mary Galligan, Legislative Research  
Dennis Hodgins, Legislative Research  
Mary Torrence, Revisor of Statutes  
Jo Cook, Administrative Assistant

Conferees appearing before the committee:

Brad Dixon, Kansas Gas Service  
John McNish, Kansas Corporation Commission  
Maurice Korphage, Kansas Corporation Commission

Others attending: See Attached List

Brad Dixon, Vice President for Kansas Gas Service, provided a power point presentation to the committee on the current status of supply of natural gas in Kansas (Attachment 1). Mr. Dixon told the committee that there were solutions to the current concerns about a possible shortage. He said that short-term options included increasing capacity out of the Rockies, expanding existing LNG facilities, increasing Canadian imports, promoting coal bed methane production and increasing the production from the deeper waters in the Gulf. Mr. Dixon stated that the era of surplus deliverability is over and the weather and economy will dictate prices and availability. Mr. Dixon responded to questions from the committee.

John McNish, Director Advisory Counsel for the Kansas Corporation Commission, updated the committee on the Kansas *Ad Valorem* tax refund issue (Attachment 2). Mr. McNish provided a brief background on the issue and on the amount of funds distributed. He stated that there was still one appeal in Stevens County District Court to be completed.

Maurice Korphage, Director of Conservation for the Kansas Corporation Commission, delivered a power point presentation on 'Regulation of Underground Porosity Natural Gas Storage in Kansas' (Attachment 3). Mr. Korphage told the committee about the Commission's authority and showed the location of porosity gas storage fields in the state. He also distributed a memo from Interstate Oil and Gas Compact Commission telling other state regulatory officials about the Kansas regulations, noting the process used was the "best practice" that should be considered by other states. Mr. Korphage responded to questions from the committee.

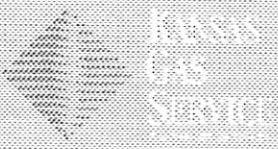
The meeting adjourned at 10:57 a.m.

The next meeting will be the scheduled tour of the Jeffrey Energy Center on Wednesday, March 5 at 8:00 a.m.

# HOUSE UTILITIES COMMITTEE GUEST LIST

DATE: February 25, 2003

NAME	REPRESENTING
Tom DAY	KCC
DANIEL FREDLUND	KCC
Whitney Dameron	KS Gas Service
Judy Shaw	SWKIA
Steve Johnson	Kansas Gas Service
BRAD Dixon	Kansas Gas Service
Diana Edmiston	KCC
M. L. Korphey	KCC - CONSERV.
Ken Peterson	KPC



**Kansas Legislature  
House Utilities Committee  
February 25, 2003**

**Gas Supply Overview**

*Brad Dixon  
Vice President  
Kansas Gas Service*

**Kansas Gas Service**

- Division of ONEOK, Inc., Tulsa, OK
- ONEOK is a diversified energy company – services from the wellhead to the burner-tip
- KGS serves over 642,000 customers in more than 341 communities

## Presentation Overview

- Demand Outlook
- Supply Availability
- Pricing Forecasts

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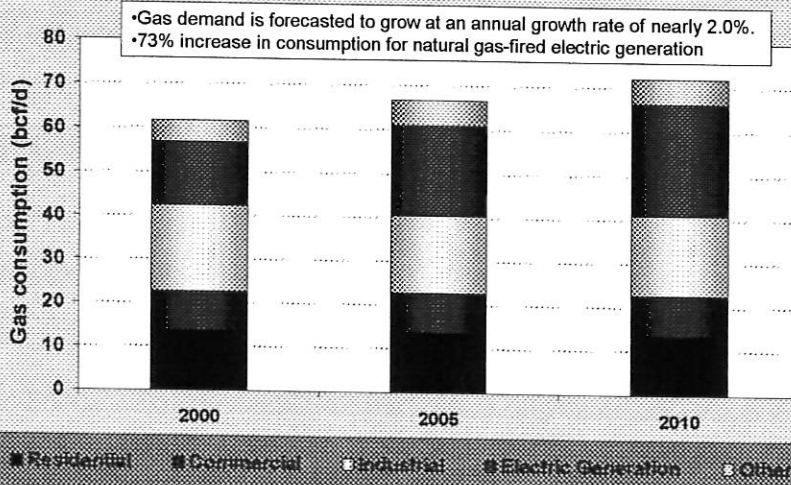
## Demand Outlook

## Recent Headlines

- Milder temps forecast for early Feb with below normal temps returning in late Feb and early March (Energy Weather, Salomon Smith Barney 1/23/03)
- Study: Demand to grow 2.5% as supply shrinks (Gas Daily 1/22/03)

BP Energy Services

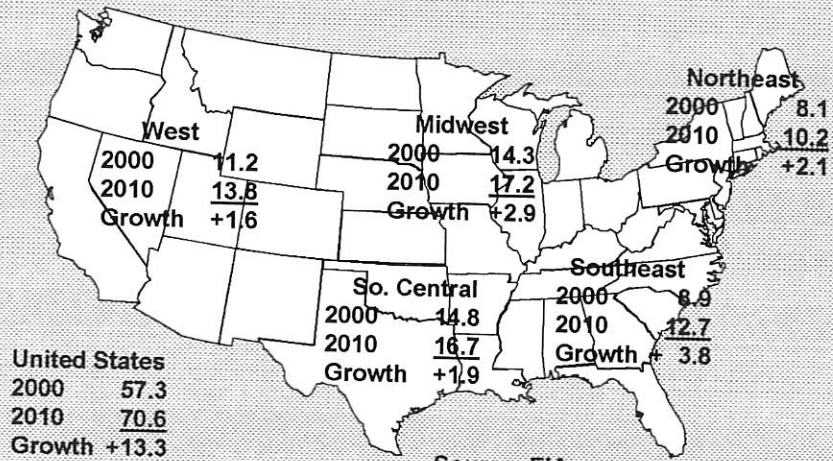
## U.S. Demand Outlook



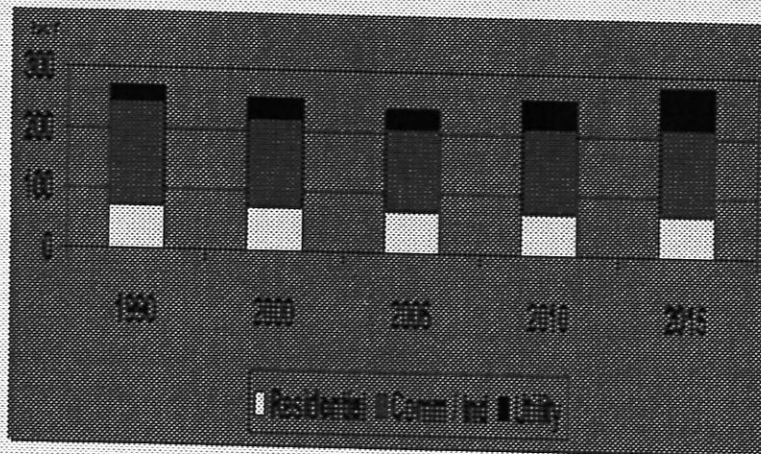
Source: BP Amoco

BP Energy Services

## Regional Demand Outlook (BCF/D)



## Kansas Demand Outlook

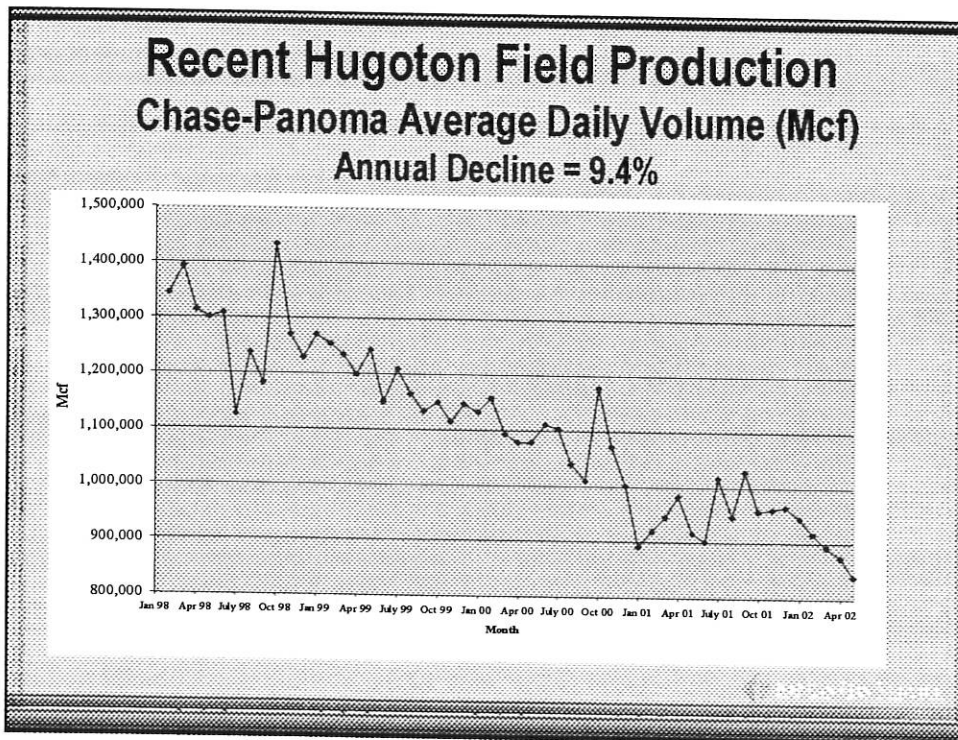
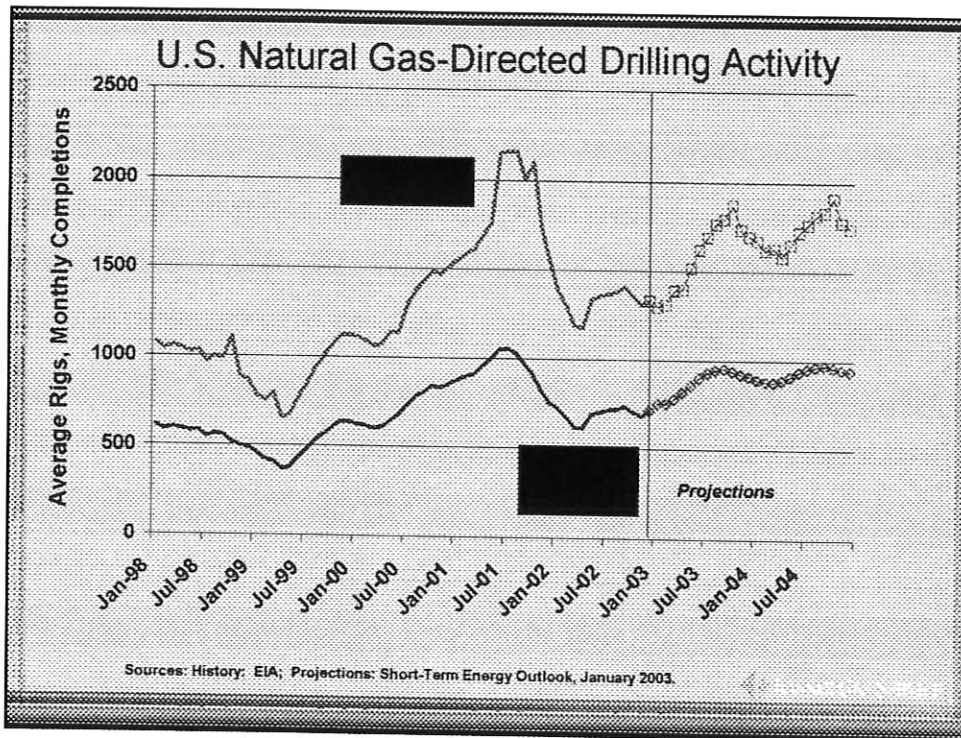




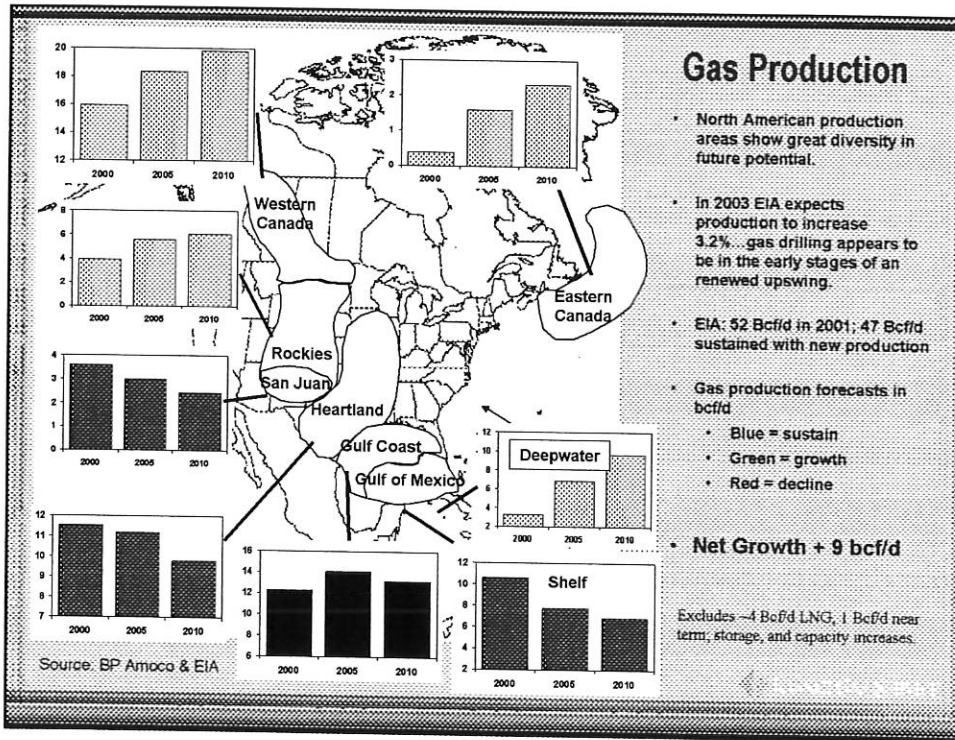
## Supply Availability

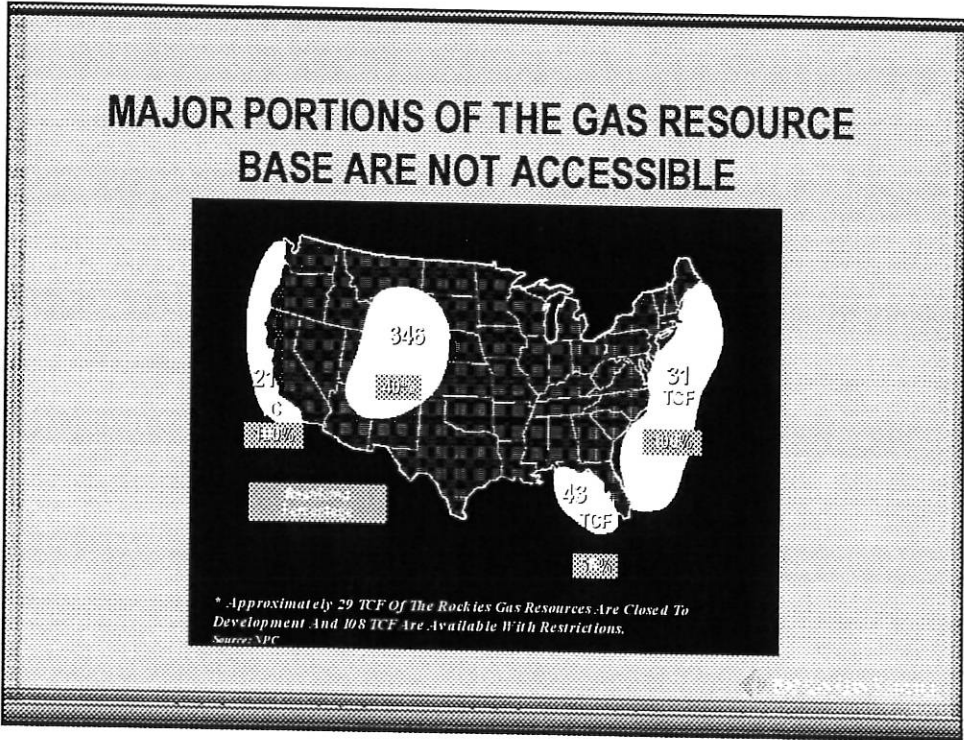
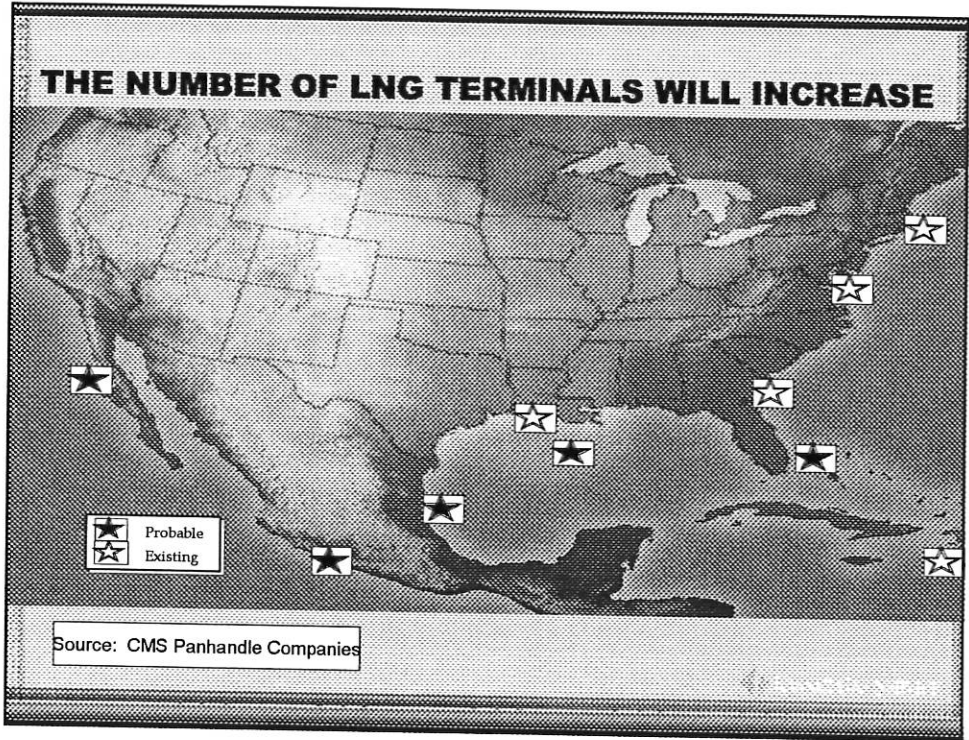
### Recent Headlines

- Gas Production down again in Q4 (Gas Daily 1/22/03)
- Small and Midsized U.S. Producers Not Drilling, Despite Strong Prices (Platts Gas Market Report 1/3/03)
- Analysts expect tight supply in 2003 – 2004 (Gas Daily 8/30/02)
- Storage deficit at 868 bcf (Gas Daily 2/21/03)
- Analyst Predicts “prolonged” gas shortfall (Gas Daily 2/24/03)









# Rockies Supply Forecast

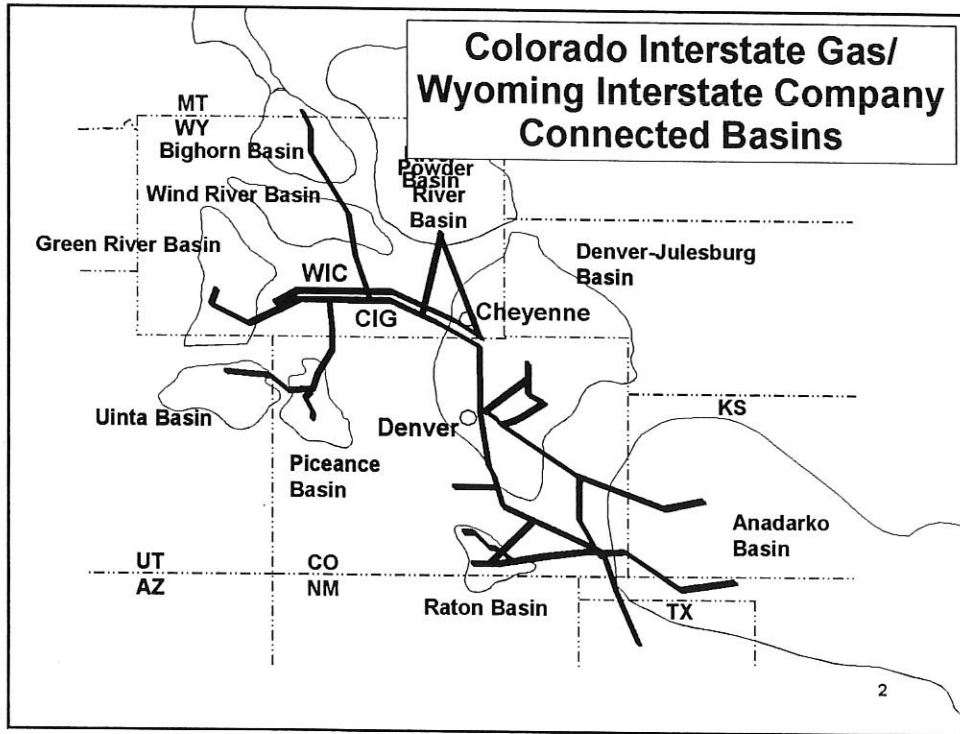
2000-2005

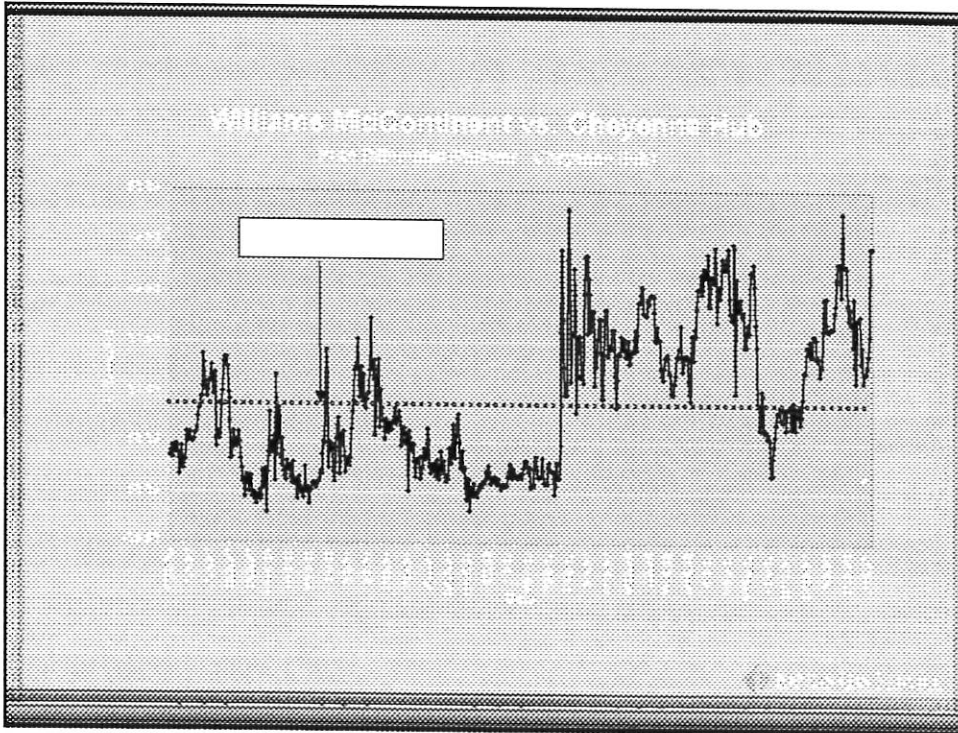
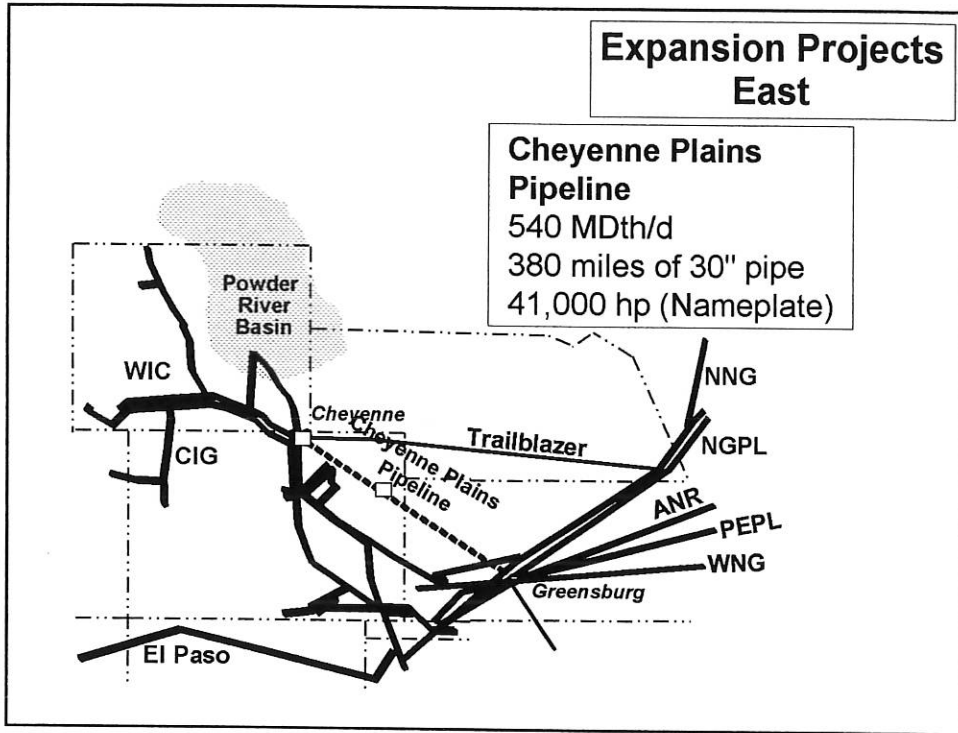
(Mmcf/d)

	2000	2005	Delta	Annual % Change
Opal	2,960	3,680	720	4.3%
Wind River	610	970	360	8.9%
Powder River	450	2,300	1,850	27.8%
San Juan	3,920	3,570	(350)	-1.9%
DJ/Raton	580	860	280	7.6%
<b>Total Rockies</b>	<b>8,520</b>	<b>11,380</b>	<b>2,860</b>	<b>5.6%</b>

Source: El Paso Gas Model

## Colorado Interstate Gas/ Wyoming Interstate Company Connected Basins





## SOLUTIONS OVER THE NEXT 3-5 YEARS ARE LIMITED

- **Short- to Mid-Term Options**
  - Increase Capacity out of the Rockies
  - Expand Existing LNG facilities
  - Increase Canadian Imports
  - Kansas Coal Bed Methane Production
  - Increase production from deeper waters in Gulf
- **Significant Solutions Will Take Time**
  - E&P in areas now off limits
  - Alaskan gas and new LNG are 5-10 yr options
- **Three to Five Year Tightrope**
  - Era of surplus deliverability is over
  - Weather and the economy will dictate

← KANSAS GAS SERVICE

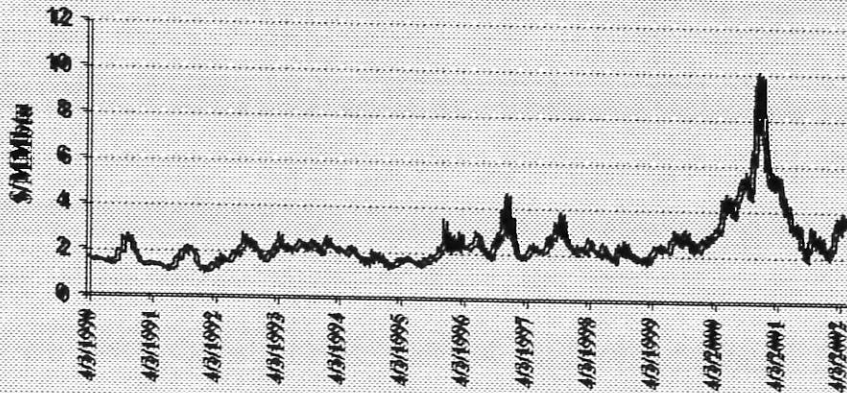


## Pricing Forecast

## Recent Headlines

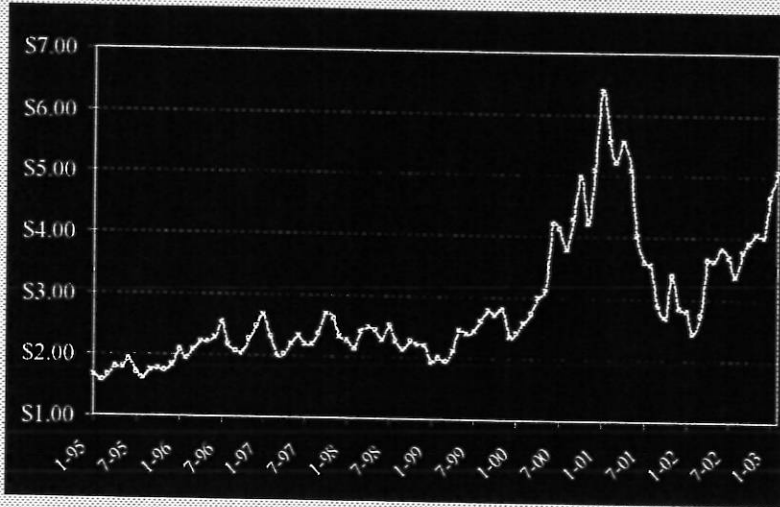
- Natural Gas Prices higher than a year ago (KC Star 1/25/03)
- Mid-West daily cash prices exceed \$6.50 (Gas Daily 1/24/03)
- Mid-West daily cash prices exceed \$7.00 (Gas Daily 2/24/03)
- Northeastern daily cash price hits \$17 (Gas Daily 1/22/03)

## A DECADE OF NATURAL GAS PRICE STABILITY (NYMEX HENRY HUB FUTURES)

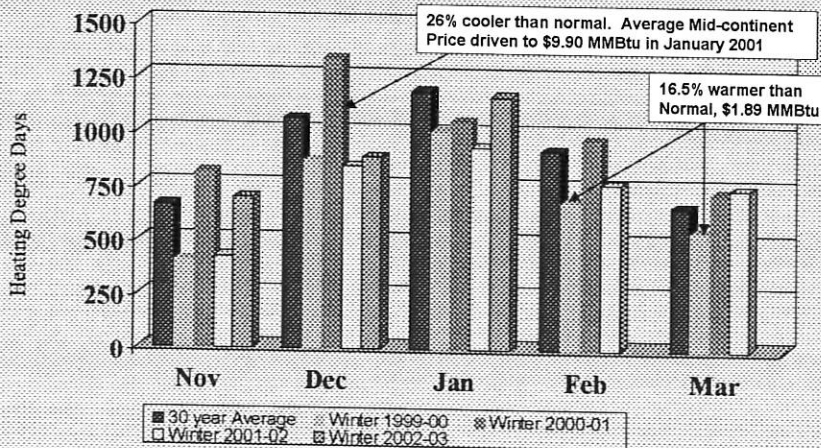


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### NYMEX Average Annual Strip Price

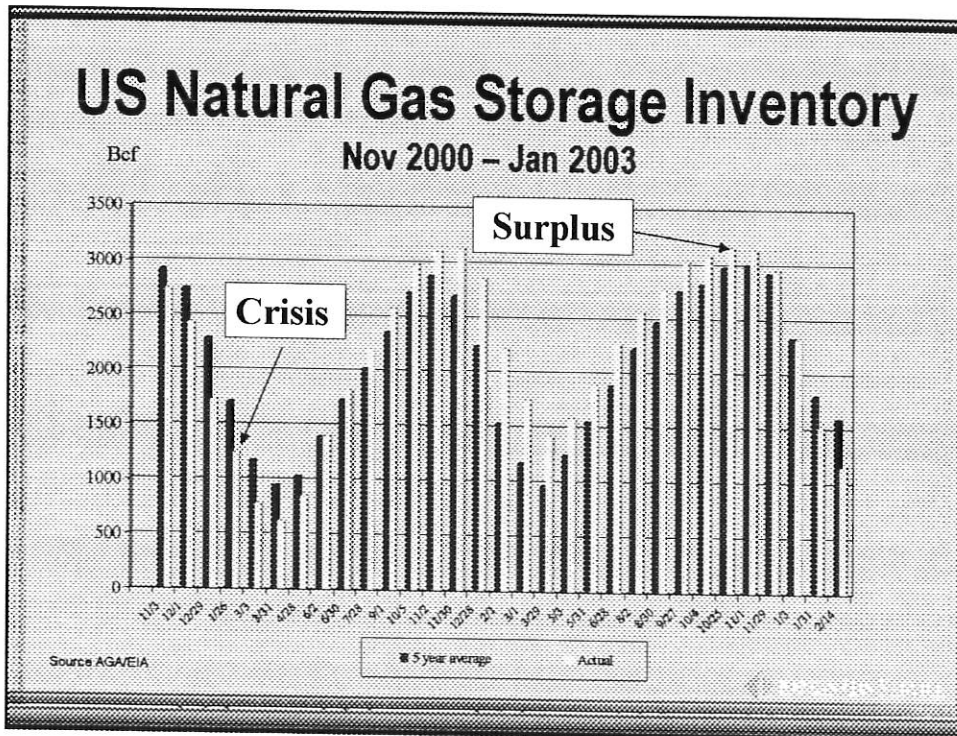
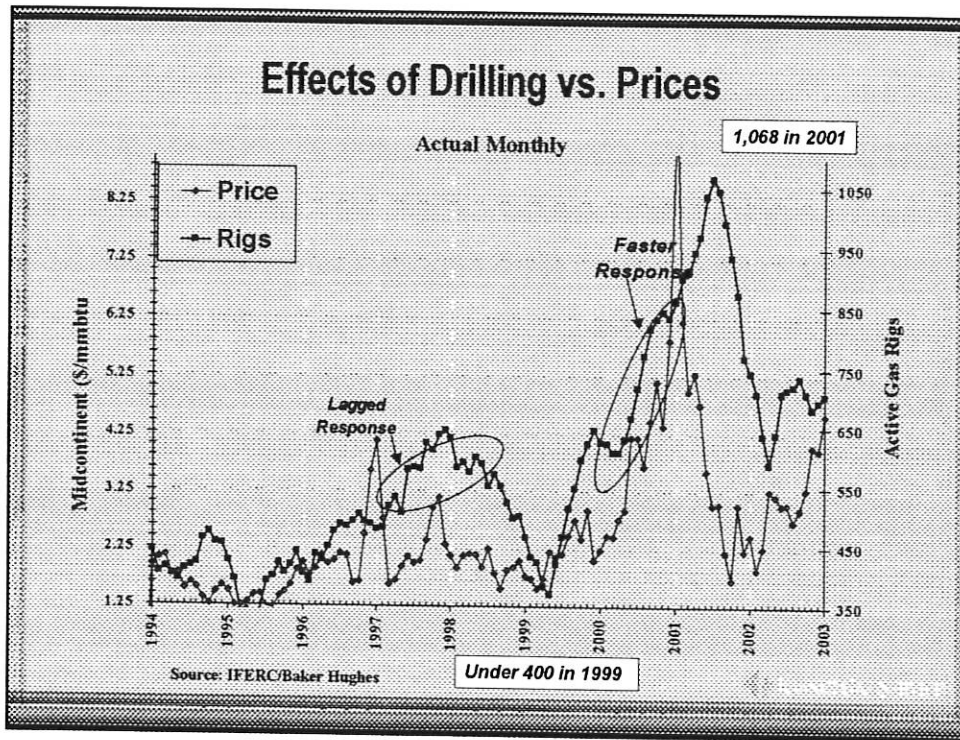


### Effects of Weather vs. Pricing



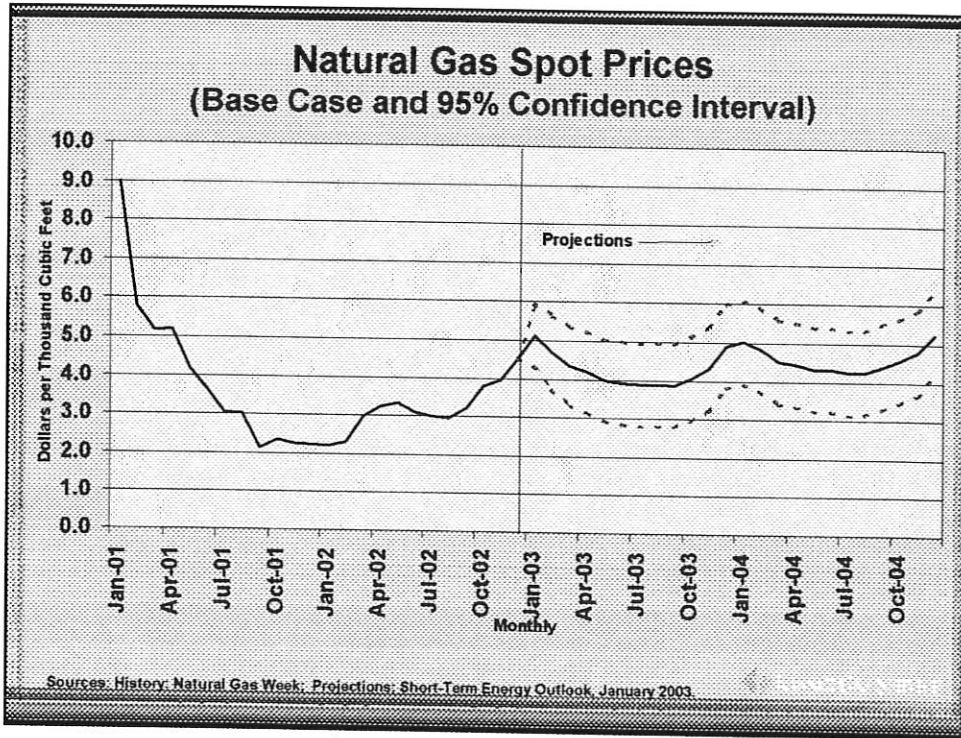
Heating degree days are summations of negative differences between the mean daily temperature and a 65°F base

1-13



1-14





### Price Forecasts

	2003 Estimate
Energy & Environmental Analysis	\$5.37
Raymond James & Assoc.	\$5.00
Lehman Brothers	\$4.25
A.G. Edwards	\$4.25
UBS Warburg	\$4.00
Jeffries & Co.	\$4.00
First Albany	\$4.00
EIA	\$3.69
NYMEX (Average of next 12 months contracts)	\$4.90

## Short-Term Outlook

Pressure



Stagnant Drilling



Diminished Storage Reliability



Stronger Oil Prices



More Gas-to-Oil Switching



Economic Malaise

Source: PIRA Energy Group, 1/24/03

PIRA Energy Group

## Long-Term Outlook

- Continued Demand Growth
- Non-traditional Supplies will Develop
- Deepwater Developments
- Volatility will Continue
- Infrastructure Expansions
- Demand will be Met

PIRA Energy Group

## REPORT ON KANSAS *AD VALOREM* TAX REFUND MATTERS

This summary outlines the federal and state proceedings involving the Kansas *ad valorem* tax refunds ordered by the Federal Energy Regulatory Commission (FERC). Included in this summary are brief descriptions of the court cases resulting from appeals taken from decisions issued by FERC and the Kansas Corporation Commission (KCC or Commission).

### Executive Summary

The low income energy assistance programs that were approved by the Commission for Kansas Gas Service Company, a division of ONEOK, Inc., Peoples Natural Gas Company and Kansas Public Service Company, divisions of Aquila, Inc., and Greeley Gas Company and United Cities Gas Company, divisions of Atmos Energy, Inc., (collectively Kansas Local Distribution Companies or Kansas LDCs) have been fully funded and implemented. These programs were funded through the *ad valorem* tax refunds received by the Kansas LDCs named above from their interstate pipeline supplier. Those refunds were sufficient to assure that all qualifying customers received appropriate billing credits or cash payments.

Numerous appeals were filed to stop the low income energy assistance programs. These programs have been defended before the Supreme Court of the United States, United States Court of Appeals for the District of Columbia, United States Court of Appeals for the Tenth Circuit, United States District Court for the District of Kansas, the Supreme Court of the State of Kansas, the Court of Appeals of the State of Kansas and the District Court of Johnson County, Kansas. These appeals have challenged the Commission's authority to direct distribution of gas supplier refunds.

### Background

In 1993, FERC reversed a long standing policy that had been in effect for approximately 19 years and ordered the refund of *ad valorem* taxes paid in excess of the maximum lawful price (MLP) that could have been charged by producers during the period from 1988 to 1993. On appeal, the United States Court of Appeals for the District of Columbia upheld FERC's order finding that reimbursement of Kansas *ad valorem* taxes, as part of the price paid in a regulated "first sale" of natural gas, did not qualify as a permissible allowance under Section 110 of the Natural Gas Policy Act of 1978 (NGPA), 15 U.S.C. § 3320 (1998). The court, however, ordered FERC to extend the refund period to include sales made during the period from October 3, 1983 through June 28, 1988. *Public Service Company of Colorado v. FERC*, 91 F.3d 1478 (D.C. Cir. 1996), *cert. denied*, 117 S. Ct. 1723 (May 12, 1997)(hereinafter referred to as "*Public Service*").

The consequence of the holding in *Public Service* was that any amounts received after October 3, 1983, in a regulated first sale of natural gas as reimbursement of Kansas *ad valorem* taxes, regardless of tax year, were subject to the ceiling prices prescribed by the NGPA and could not be retained by the regulated first seller (generally natural gas producers) to the extent the total compensation received exceeded an applicable MLP. The court's decision did not rule that receipt of reimbursement of Kansas *ad valorem* taxes by regulated first sellers was *per se* unlawful. As an additional consequence, the extension of the refund period had the effect of

HOUSE UTILITIES

tripling the liability due to the interest rate and compounding rules applied by FERC to the refunds.

### Federal Proceedings

To implement the *Public Service* decision, FERC ordered interstate pipelines to collect from first sellers, namely Kansas natural gas producers and royalty owners, the *ad valorem* tax charged to the interstate pipelines for natural gas during the period from October 3, 1983 through June 23, 1988. At one time, approximately \$400 million had been claimed by the interstate pipelines, of which approximately 75 percent represented interest.

In February 2000, the KCC, with the assistance of several Kansas legislators and the Kansas Attorney General's office, took the lead to promote FERC settlement negotiations between natural gas producers and interstate pipelines. These efforts were successful resulting in settlements with Northern Natural Gas Company, Panhandle Eastern Pipeline Company, Colorado Interstate Gas Company, Williams Gas Pipelines Central, Inc., Kinder Morgan Interstate Gas Transmission Company (f/k/a K N Interstate Gas Transmission Company), and Anadarko Gathering Company/Anadarko Natural Gas Company.

Each of these settlements has meant substantial relief to Kansas ratepayers, royalty owners and small producers. However, Northern Natural Gas Company has recently made claims against purchasers of gas wells who did not have notice of any *ad valorem* tax claims and who did not participate in settlement proceedings. Such late claims, if allowed, could have a negative effect on property transfers in the state of Kansas. Furthermore, FERC has adopted hearing procedures to litigate outstanding claims, namely, those claims asserted by the State of Missouri against large natural gas producers, related to gas sales from those producers to Williams Gas Pipelines Central, Inc. and Panhandle Eastern Pipeline Company. This litigation should have little, if any, affect on royalty owners and small Kansas producers.

Currently, an appeal filed by the KCC and State of Kansas of a FERC order is pending before the United States Court of Appeals for the District of Columbia. The KCC and State of Kansas supported generic relief for small producers through the abatement of the interest. FERC, however, ruled that it will not consider generic relief but will consider relief on an individual case-by-case basis. FERC also ruled that it would not look at the legal effect that the Kansas statute of limitations may have on any claims on a generic basis. FERC specifically attacked the applicability of Kansas House Bill 2419, now codified at K.S.A. 2002 Supp. 55-1624. The KCC and State of Kansas jointly appealed FERC's ruling on Kansas House Bill 2419. The United States Court of Appeals for the District of Columbia is holding the appeal in abeyance until FERC rules on an application for relief filed by the Strohl family and until the Kansas Supreme Court rules on the constitutionality of K.S.A. 55-1624 in the litigation described the section below.

In addition, an appeal filed by Justin Hill, Gary A. Martin, Mary Ann Martin, Jim A. Mowder, Allan Flentie, Robert A. Crown, David Stutenroth, William D. Hamilton, Mary Alice Sandidge, Midwest Grain, Inc., Lawrence Paper Company, Inc., and W.S. Dickey Clay Products Manufacturing Corporation against Kansas Gas Service Company, United Cities and Greeley Gas and UtiliCorp is pending before the United States Court of Appeals for the Tenth Circuit. The Plaintiffs seek reinstatement of their class action law suit initially filed in the United States

District Court for the District of Kansas, Case No. 01-2315-CM. The Plaintiffs, Justin Hill et al., allege that the KCC and the Kansas Legislature unlawfully conspired to use the *ad valorem* tax refunds recovered by these Kansas LDCs for low income energy assistance programs. Several months after the appeal was filed, the Plaintiffs obtained an injunction to the low income energy programs that lasted approximately 2 days. The injunction was lifted on November 27, 2002. The oral argument on the merits of the appeal was heard by the Tenth Circuit on January 14, 2003. A decision is expected soon.

### State Proceeding

In early 2000, the KCC became concerned that increases in the price of natural gas could create problems for consumers as the winter heating season approached. The KCC gathered a group of knowledgeable individuals to discuss the problems higher gas prices would create, and to develop potential solutions. The KCC Task Force on Natural Gas first convened in June 2000 and was comprised of members from local distribution companies, natural gas producers, social service agencies, KCC staff and others concerned with the impact that unusually high gas bills would have on Kansas consumers.

In March 2001, the Commission conducted a series of extensive hearings and established a low income energy assistance program to be funded with *ad valorem* tax refunds recovered by the Kansas LDCs from the FERC proceedings described above. See KCC Docket Nos. 99-GRLG-405-GIG, 99-UNCG-406-GIG, 99-UTCG-408-GIG and 99-KGSG-477-GIG. During the 2000-2001 winter heating season, ratepayers of the Kansas LDCs noted above paid record high natural gas prices due to severe cold weather, which itself dramatically increased gas consumption. As a result, both the Kansas House and the Kansas Senate requested that the Commission investigate whether a low income gas assistance program could be funded by *ad valorem* tax refunds anticipated from settlements before the Federal Energy Regulatory Commission (FERC). Several large industrial customers who were former sales customers appealed the Commission's decision to implement low income energy assistance programs to the Kansas Court of Appeals. The Kansas Court of Appeals affirmed the Commission's decision in all respects. *Farmland Industries, Inc. v. KCC*, 37 P.3d 640 (Kan.Ct. App. 2001); *MGUA v. KCC*, 40 P.3d 313 (Kan.Ct. App. 2002), and *Kansas Energy Group v. KCC*, 40 P.3d 310 (Kan. Ct. App. 2002). Requests for rehearing were denied by the Kansas Supreme Court.

After *ad valorem* tax refunds from the FERC settlement with Williams Gas Pipelines Central, Inc. were received, the Kansas LDCs had sufficient funds to complete the funding requirements of the low income energy assistance programs that were ordered by the Commission. The programs have proven to be very successful:

- i.) Kansas Gas Service Company: Approximately 62,500 of Kansas Gas Service customers were qualified to participate in the low energy assistance program. Kansas Gas Service's program provided credit up to a maximum amount of \$495. The total amount of money distributed under the Kansas Gas Service program was approximately \$26.6 million.
- ii.) Atmos Energy (United Cities and Greeley Gas): Approximately 8,600 of Atmos Energy customers were qualified to participate in the low income energy assistance program. Atmos Energy's program provided a credit up to a maximum

amount of \$350. The total amount of money distributed under Atmos Energy's program was approximately \$3.0 million.

- iii.) Aquila, Inc. (Peoples Natural Gas Company and Kansas Public Service Company): Approximately 5,900 of Aquila customers were qualified to participate in the low income energy assistance program. Aquila's program provided a credit up to a maximum amount of \$325. The total amount of money distributed under Aquila's program was approximately \$2.0 million.

Presently, the Commission has an open docket investigating whether Kansans who purchased natural gas directly from an interstate pipeline during the 1983 to 1988 time period are entitled to any of the *ad valorem* tax refunds retained by such interstate pipeline. See KCC Docket No. 99-GIMG-068-GIG. Williams Gas Pipeline Central, Inc., an interstate pipeline, attacked the Commission's authority to initiate this investigation. However, on May 19, 2000, the Kansas Court of Appeals rejected the appeal taken by Williams Gas Pipeline Central, Inc. and affirmed the Commission's authority to investigate retail sales made by interstate pipelines in the state of Kansas. See *Williams Gas Pipelines Central, Inc. v. KCC*, 27 Kan.App.2d 573 (2000).

In this investigative docket, Commission staff is reviewing the sales by interstate pipelines to end users or retail customers located in the state of Kansas. The cost of the gas charged by the interstate pipeline to the retail customer may have included the *ad valorem* tax that FERC declared to be unlawful and ordered refunded by natural gas producers to the interstate pipeline. For these sales, FERC did not order the interstate pipeline to refund the *ad valorem* tax refund they received from the natural gas producers to the retail customers because FERC's authority does not extend over retail sales. Commission staff has determined that four interstate pipelines made retail sales in the state of Kansas during the period from October 1983 through 1988 that were not subject to FERC jurisdiction. Commission staff is reviewing these retail sales to determine whether the Kansas retail customers making such purchases from an interstate pipeline are entitled to the *ad valorem* tax refund ordered by FERC but withheld by the interstate pipeline.

Since the Kansas Court of Appeals affirmed the Commission's jurisdiction to investigate direct sales, the Commission has approved a settlement with Williams Gas Pipelines Central, Inc. The distribution of monies under of this settlement was tied to the approval of FERC settlement that also provided refund monies to the Kansas LDCs. Distributions of any monies were delayed due to litigation before FERC, United States Court of Appeals for the District of Columbia and the United States Supreme Court. Now that this litigation has ended, approximately \$9.5 million was made available for refund to Kansas businesses that were direct retail sales customers of Williams Gas Pipeline Central, Inc. To date, ten customers received refunds representing over 90 percent of the available distributions. Commission staff is in the process of verifying and locating other customers of Williams Gas Pipeline Central, Inc., that may be entitled to a portion of the refund.

In addition, the Commission also approved a settlement with Colorado Interstate Gas Company (CIG) to make FERC non-jurisdictional *ad valorem* refunds available to their Kansas customers who made retail purchases from CIG during the 1983-1988 time period. Commission staff is in the process of locating these CIG customers.

Currently, Commission staff, in investigating retail sales made by Panhandle Eastern Pipeline Company and Northern Natural Gas Company, has determined that FERC non-jurisdictional *ad valorem* refund liabilities to Kansas customers exist for both Northern Natural Gas Company and Panhandle Eastern Pipeline Company. Both of these pipelines have opposed the investigation, contending that the KCC does not have jurisdiction over their retail sales. Recently, FERC has confirmed in FERC Docket RP02-365, that public service commissions do have jurisdiction over retail sales made within their state. In its order, the FERC specifically declared that while it did not order interstate pipelines to make non-jurisdictional *ad valorem* refunds, it did not follow from that finding that a state utility commission could not order such refunds. Commission staff continues to pursue settlements regarding FERC non-jurisdictional *ad valorem* refund liabilities related to both Northern Natural Gas Company and Panhandle Eastern Pipeline Company.

In 1999, several producers filed lawsuits against several royalty owners in the District Court of Stevens County, Kansas, seeking to recover tax reimbursements paid to them but ordered by FERC to be returned. The royalty owners argued that the action was barred by the statute of limitations, including the recently passed House Bill 2419, now codified at K.S.A. 2000 Supp. 55-1624. The Attorney General intervened in the proceeding on behalf of the State of Kansas to defend the constitutionality of K.S.A. 2000 Supp. 55-1624. The District Court ruled that K.S.A. 55-1624 was unconstitutional but the action was barred under the existing statutes of limitations provided in K.S.A. 60-512. The District Court's decision was appealed to the Kansas Supreme Court. The Commission filed an amicus brief supporting the constitutionality of K.S.A. 55-1624. The Kansas Supreme Court determined that the appeal was not ripe for appeal and remanded the case to the District Court to decide whether the producers had the right of set-off and whether unjust enrichment was a valid defense against the application of any statutes of limitations. *Plains Petroleum Company v. Bank of Lamar*, slip op. 86614 (July 12, 2002). On remand, oral argument before the Stevens County District Court is set this week.

2-2

COMPANY	NUMBER OF CUSTOMERS ELIGIBLE	REFUND PER ELIGIBLE CUSTOMER	TOTAL (millions)
KANSAS GAS SERVICE	62,500	\$495	\$26.6
AQUILA, INC.	5,900	\$325	\$2.0
ATMOS ENERGY	8,600	\$350	\$3.0

Note: The refund per eligible customer amount shown is the maximum. Actual refund amounts vary because they are adjusted to reflect other assistance received and prorated depending on the number of months the customer has been with the company.



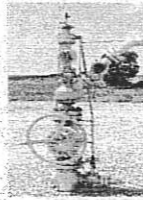
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## KANSAS AD VALOREM REFUND SUMMARY

	REFUNDS RECEIVED 1998	REFUNDS RECEIVED 2002	TOTAL BY LDC
<b>LOCAL DISTRIBUTION COMPANY:</b>	----- (millions)	----- (millions)	----- (millions)
KANSAS GAS SERVICE (ONEOK, Inc.)	\$12.0	\$20.2	\$32.2
PEOPLES/KANSAS PUBLIC SERVICE (Aquila, Inc.)	\$1.8	\$1.8	\$3.6
GREELEY GAS / UNITED CITIES GAS (Atmos Energy)	\$2.3	\$3.3	\$5.6
MIDWEST ENERGY, INC. (Cooperative)	<u>\$2.1</u>	<u>\$1.5</u>	<u>\$3.6</u>
<b>TOTAL</b>	<b>\$18.2</b>	<b>\$26.8</b>	<b>\$45.0</b>

**Regulation of Underground Porosity  
Natural Gas Storage  
in  
Kansas**

**Kansas Corporation Commission**



**Underground Porosity  
Natural Gas Storage**

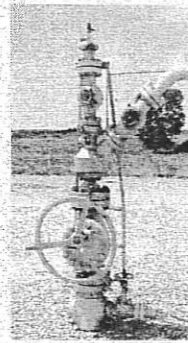
**Porosity Storage Systems**

**KCC Authority**

**Kansas Operations**

**New Regulations**

NNG, Cunningham Field



**KCC Authority Over Underground  
Porosity Natural Gas Storage  
(HB 2200- {2001 Session})**

- Section 17(a) .. “Such rules and regulations shall include the permitting, monitoring and inspecting of underground porosity storage of natural gas and the closure and abandonment of such underground porosity storage of natural gas.”... “may establish fees”
- Section 17(b) .. “No hydrocarbon storage ..if water within formation contains less than 5,000 mg/l chlorides.”

**Underground Porosity Storage**

- **Underground porosity storage “means the storage of hydrocarbons in underground porous and permeable geologic strata which has been converted to hydrocarbon storage.”**
- **Types of underground porosity storage**
  - Depleted oil and gas reservoir storage
  - Aquifer storage

*HOUSE UTILITIES*

DATE: 2-25-03

ATTACHMENT 3

Figure 1. Types of Underground Natural Gas Storage Facilities

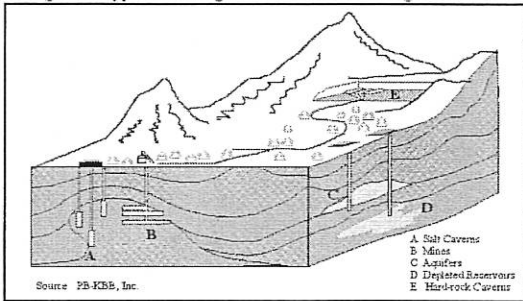
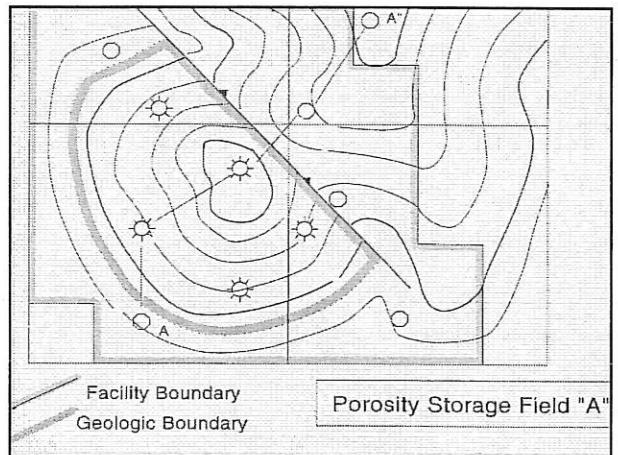
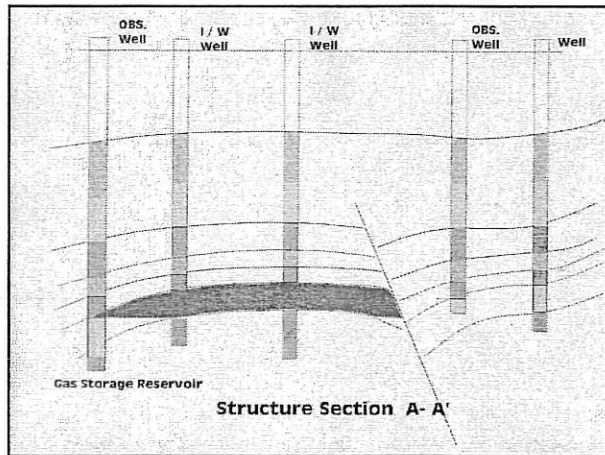
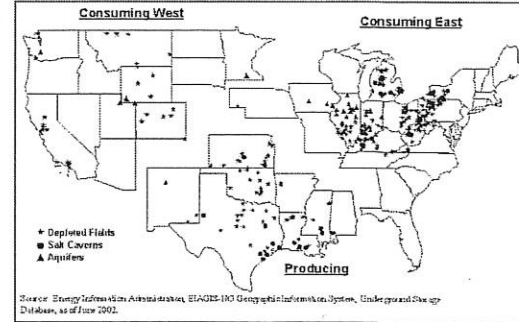
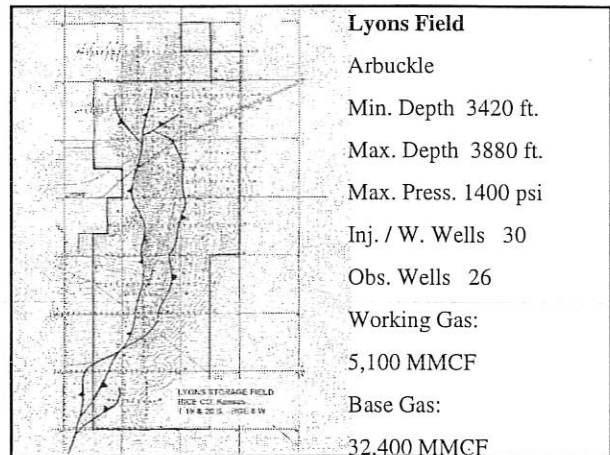
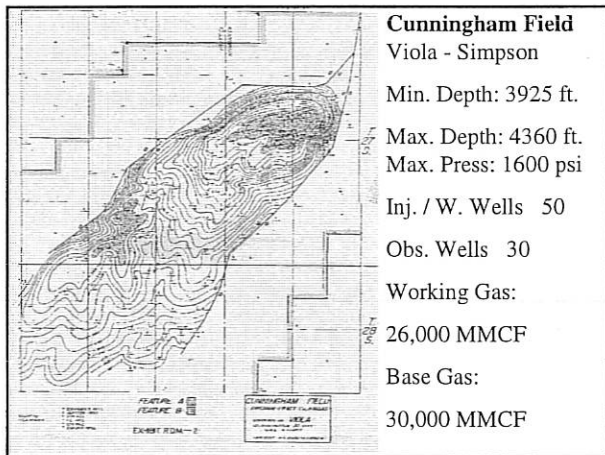
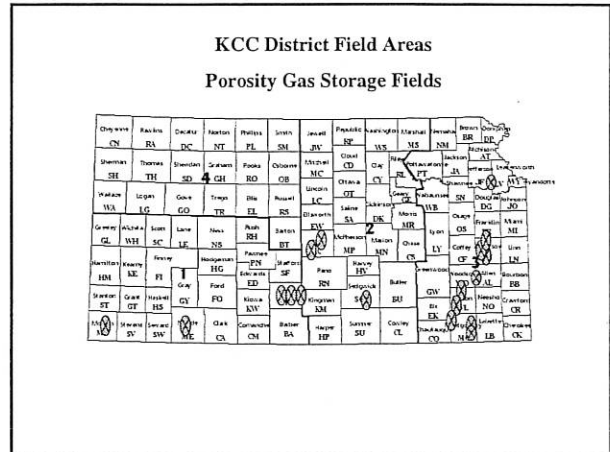
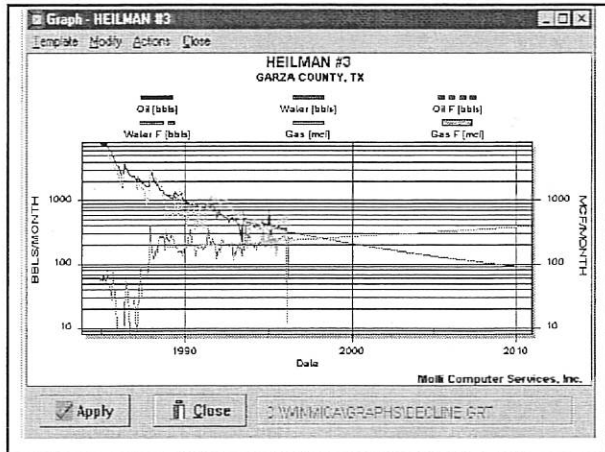
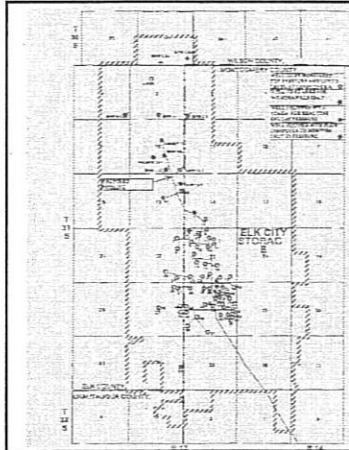


Figure 2. Underground Natural Gas Storage Facilities in the Lower 48 States





3-3



**Elk City Storage Field**  
 Burgess Sand (Penn.)  
 Min. Depth: 1354  
 Max. Depth 1384  
 Max. Press: 595 PSI  
 Inj. / W. Wells 59  
 Obs. Wells 8  
 Working Gas 7.8 BCF  
 Base Gas 22.9 BCF

**K.A.R. 82-3-1000 Definitions: Underground porosity gas storage facilities**

- Provides definitions specific to the gas storage regulations.

**K.A.R. 82-3-1001 Notice of federal energy regulatory commission proceedings**

- A requirement that the commission be notified of any filings with the FERC

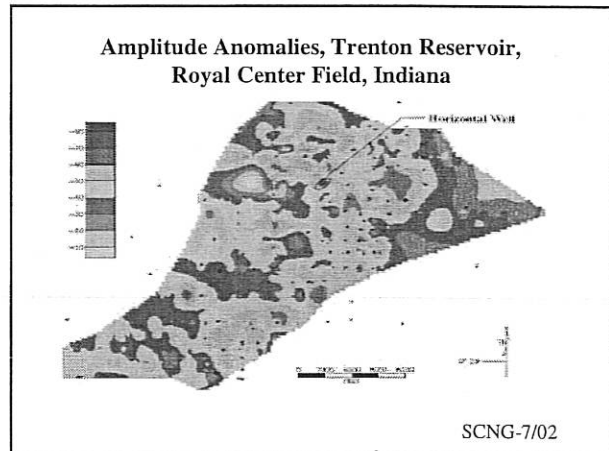
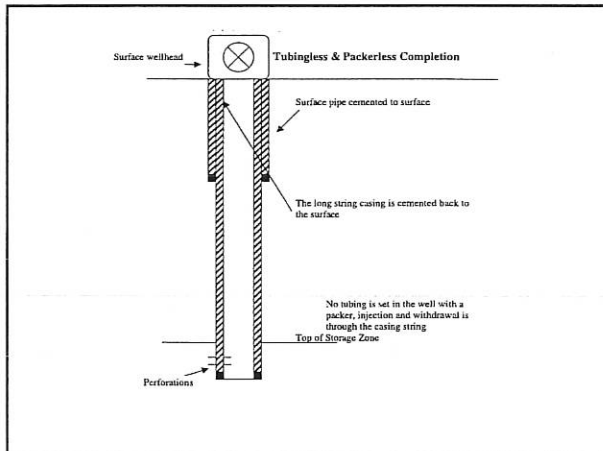
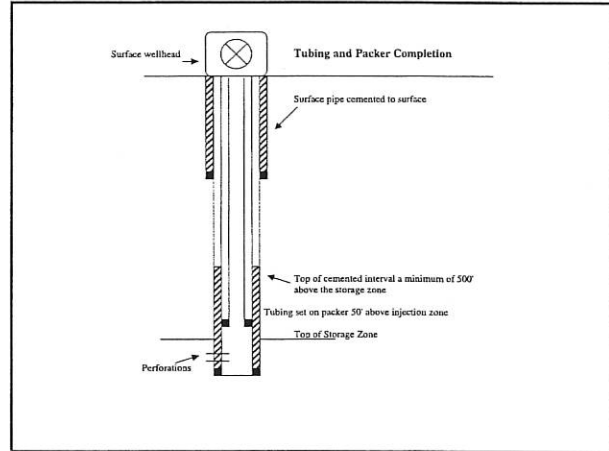
**K.A.R. 82-3-1002 Provisional operating permits and operating requirements for existing porosity storage facilities**

- A provisional permitting process which allows existing gas storage facilities to continue to operate while they gather facility data and begin the process of scheduling and testing wells to insure mechanical integrity and safe operation.
- The provisional permit holders must meet certain operating and reporting requirements as well as implement and follow a safety plan and report any leaks or loss of containment.

3-4

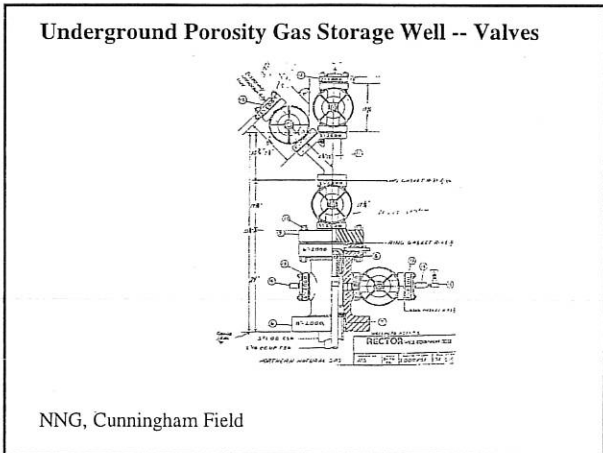
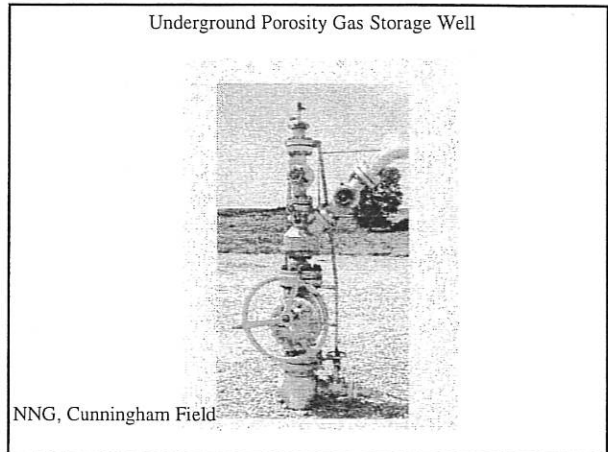
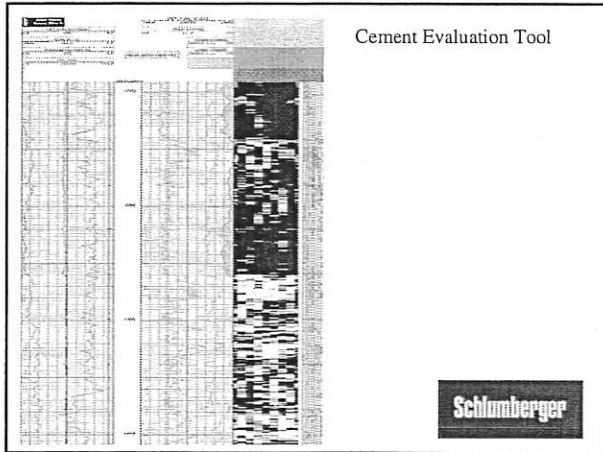
**K.A.R. 82-3-1003 Fully authorized permits and operating requirements for existing and new underground porosity gas storage facilities and underground porosity gas storage wells**

- A full authorization permitting process, which allows for the permitting of new facilities and the full authorization of facilities that have been operating under a provisional permit.
- Included in this process is a more detailed permit application and operating / reporting requirements as well as construction requirements for any new wells.



SCNG-7/02

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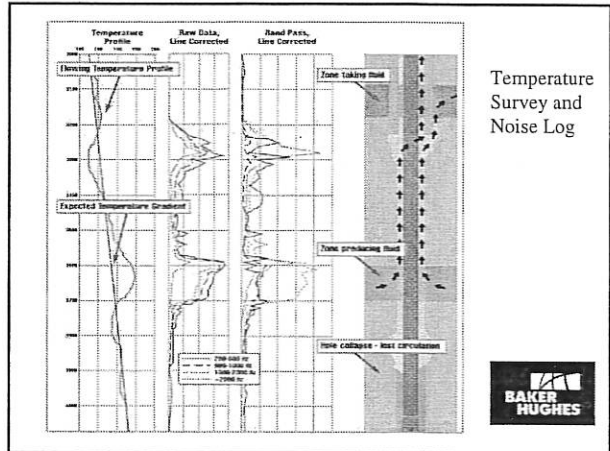
**K.A.R. 82-3-1004 Notice of application for a permit to operate an underground porosity gas storage facility constructed after July 1, 2002**

- This regulation provides a notice provision for new porosity gas storage facilities constructed after July 1, 2002.

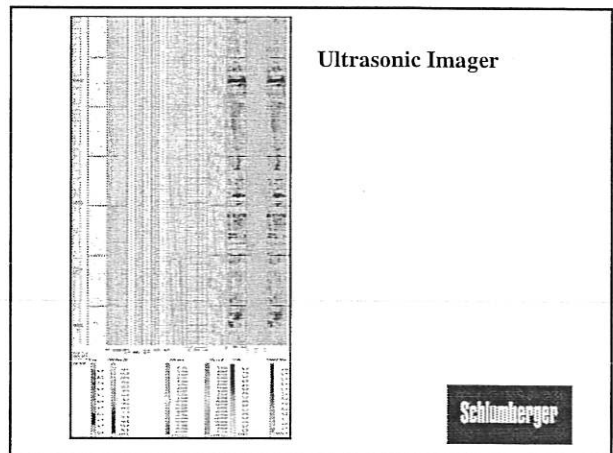
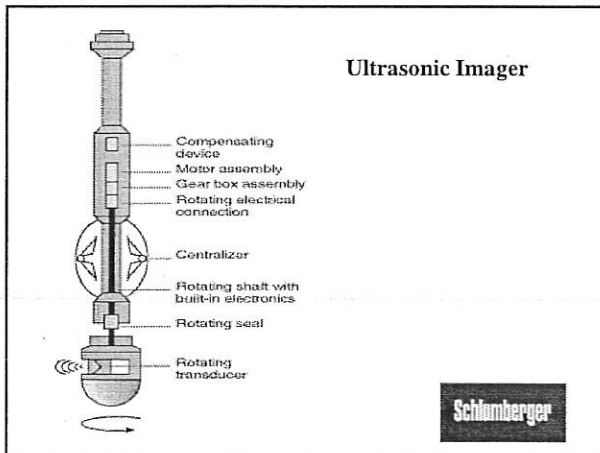
306

**K.A.R. 82-3-1005 Testing and Inspection requirements for underground porosity gas storage facilities and underground porosity gas storage wells**

- Provides requirements for mechanical integrity testing of gas storage wells and testing of leak detectors installed at specific wells.

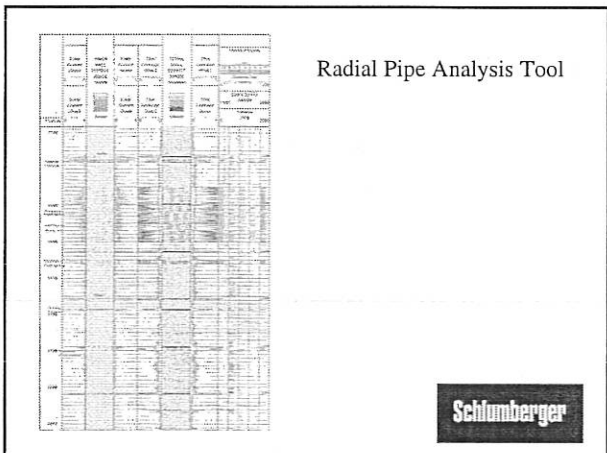
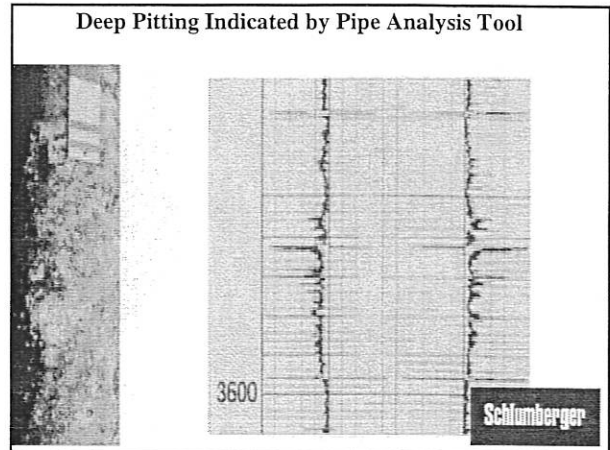
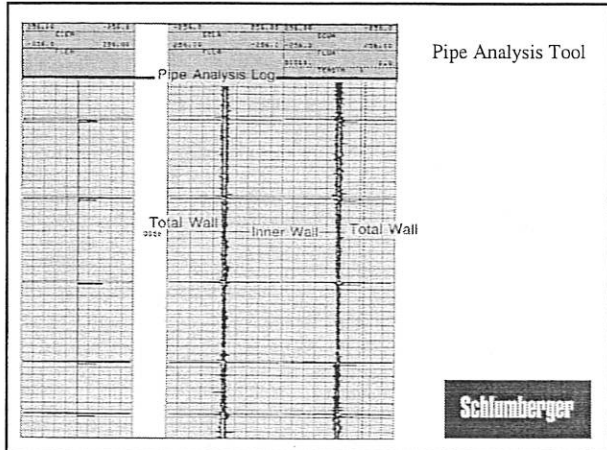


Temperature Survey and Noise Log



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**K.A.R. 82-3-1006 Storage facility monitoring and reporting**

- Requirements for monitoring and reporting of wellhead pressure and casing annulus as well as gas injection and withdrawal volumes.
- Requirements for reporting leaks in the well or lack of containment to the storage reservoir.

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*K.A.R. 82-3-1007 Identification signs*

- A requirement for posting signage with operator and emergency information at gas storage wells and compressor sites.

*K.A.R. 82-3-1008 Safety inspections*

- A requirement for conducting and reporting the results of annual safety / operational inspections

*K.A.R. 82-3-1009 Transfer of gas storage permit*

- A requirement that controls the transfer of gas storage permits between licensed gas storage operators.

*K.A.R. 82-3-1010 Notice of plugging, plugging methods, procedures, plugging report, and plugging fees for gas storage wells*

- A requirement that gas storage wells are to be plugged in accordance with existing KCC plugging regulations, subject to existing plugging fees, and sets out specific plugging requirements when certain conditions exist.

K.A.R. 82-3-1011 Temporary abandonment of storage wells; well plugging; temporary and permanent abandonment of a storage facilities

- Requirements for the temporary abandonment of gas storage wells and specific requirements for abandonment of a porosity gas storage facility.

K.A.R. 82-3-1012 Assessment of costs for underground porosity gas storage facilities and gas storage wells

- A fee structure, which assesses each porosity gas storage facility, an annual fee based on the number of gas storage wells at each facility and which sets out permitting fees for permit applications and amendments to permits.



# INTERSTATE OIL AND GAS COMPACT COMMISSION

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**Executive Director:**  
Christine Hansen

## MEMORANDUM

TO: IOGCC Council of State Regulatory Officials

FROM: Christine Hansen, Executive Director *CH*

RE: January Best Practice

DATE: January 9, 2003

RECEIVED  
JAN 13 2003  
KCC WICHITA

The Kansas Corporation Commission has recently adopted new gas storage regulations. The regulations are comprehensive and reflect many months of work. For details, you can view the regulations at this weblink - [http://www.kcc.state.ks.us/conservation/cons\\_rr\\_1002.pdf](http://www.kcc.state.ks.us/conservation/cons_rr_1002.pdf)

The real story about these regulations is how they evolved through the statutory requirement of the legislature and the regulatory hearing before the Commission. The cooperative process is a "best practice" that should be considered by other states.

In Kansas, an Oil and Gas Advisory Committee must review all new Conservation Division regulations. The committee's membership is set by statute and includes members from the public, oil and gas producer associations within the state, the Division of Water Resources of the State Board of Agriculture, representatives of the Groundwater Management districts, the Kansas Department of Health and Environment, the Kansas Water Office, and the Kansas Geological Survey.

In the case of the gas storage regulations, because the industry was not represented on the Oil and Gas Advisory Committee, the Conservation Division formed a special regulatory subcommittee with gas storage industry participation to help the staff to develop regulations before their consideration by the Commission in public hearing. The special regulatory development committee consisted of both engineers and legal staff from the gas storage industry as well as key members of the Oil and Gas Advisory Committee (the public member, a representative from the Kansas Department of Health and Environment, and a representative of the Kansas Geological Survey). In addition, this special committee relied on input from Conservation Division legal staff and from technical staff located in the field offices. While Division staff and industry did not always agree upon what needed to be in the regulations, the work of the committee ultimately provided more workable regulations and eliminated some regulatory pitfalls that might not have been recognized if the regulated community had not had an opportunity to work with staff in the development process. The Commission has been strongly supportive of this effort.

The Conservation Division has utilized this approach in a similar vein in other regulatory areas (gas gathering and cathodic protection). Kansas was able to contact other IOGCC member states that already had gas storage statutory authority or specific regulations in place and draw on their expertise and experience. M.L. Korphage thanks his fellow directors for their input on gas storage regulations.

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