

MINUTES OF THE SENATE UTILITIES COMMITTEE.

The meeting was called to order by Chairperson Senator Stan Clark at 9:30 a.m. on January 29, 2003 in Room 231-N of the Capitol.

All members were present except:

Committee staff present: Raney Gilliland, Legislative Research
Emalene Correll, Legislative Research
Bruce Kinzie, Revisor of Statutes
Ann McMorris, Secretary

Conferees appearing before the committee:
Mike Loeffler, Northern Natural Gas
Steve Johnson, ONEOK

Others attending: See attached list

Chairman Clark briefed the committee on the agenda schedule for the next two weeks.

Presentation of Gas and Oil Pipelines and Bedded-Salt and Porosity Storage

Mike Loeffler, Northern Natural Gas (Attachment 1)

Steve Johnson, ONEOK (Attachment 2)

The committee questioned the conferees on availability of porosity storage in other parts of the country, need for storage, difference in storage of natural gas versus propane in salt, and the new rules and regulations of KCC and KDHE for storage of natural gas and LPG in salt caverns and porosity fields in Kansas.

The next meeting of the Senate Utilities will be on January 30, 2003.

Adjournment.

Respectfully submitted,
Ann McMorris, Secretary

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Presentation before the Kansas Senate Utilities Committee
January 29, 2003
Submitted by Mike Loeffler, Manager of State Government Affairs
Northern Natural Gas Company

I. Introduction

Good afternoon. My name is Mike Loeffler and I am the Manager of State Government Affairs for Northern Natural Gas. I am also a registered lobbyist for Northern.

As a representative of Northern, I am pleased to have the opportunity to come before you today and to relate the recent developments regarding Northern and its employees.

One year ago, when I last appeared before this committee, Northern Natural Gas Company was then owned by Dynegy. Dynegy had just acquired the company as a result of a commercial transaction with Enron. Since that time, Dynegy has sold Northern to MidAmerican Energy Holdings Company. And that is where we intend to stay.

II. Northern Natural Gas

I will tell you more about MidAmerican Energy Holdings Company in a minute. First, let me tell you about Northern Natural Gas. You should know that Northern has a significant employee and economic presence in the state of Kansas.

Northern Natural Gas owns and operates over 16,000 miles of natural gas pipelines extending from west Texas to the upper Midwest. Approximately 2100 miles of this pipeline lies within the state of Kansas. Within Kansas, the 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.

In addition to the pipelines and the compressor stations, Northern also owns and operates two porosity storage fields – the Lyons Field in Rice County and the other at Cunningham in Pratt and Kingman Counties.

Although the pipelines are increasingly automated, Northern still employs 201 persons in the state of Kansas with a total annual payroll exceeding \$12.5 million.

Northern pays over \$4 million in Kansas property taxes annually; \$1.6 million in income taxes and over \$500,000 in other state and local taxes.

III. MidAmerican Energy Holdings Company

MidAmerican Energy Holdings Company, also known as MEHC, acquired Northern Natural Gas last August 16. MEHC is a privately held company that owns subsidiaries with almost \$17 billion in assets. Among the energy companies, besides Northern, owned by MEHC are MidAmerican Energy Company, a local distribution company and the largest utility in the state of Iowa; CalEnergy, a power producer with facilities around the world; Northern Electric, comprised of two local distribution companies in the North East of England; and Kern River Gas Transmission Company, another interstate gas pipeline.

IV. Legislative and Regulatory Issues

As far as issues related to the business of this Committee, Northern Natural's current main concern is the development of rules and regulations regarding the underground storage of natural gas. This Legislature has entrusted two separate agencies with the development of natural gas storage regulations.

➤ The Kansas Corporation Commission issued rules regarding porosity storage last July. Today we will be timely filing our application for a provisional permit to operate our two existing storage facilities. We commend the KCC for their balancing of the issues of public and environmental health and safety along with the practical concerns that we raised during their rulemaking process.

➤ We are also involved with the Kansas Department of Health and Environment as they seek to promulgate rules on underground storage in bedded salt structures. Northern does not currently own or operate any underground storage of gas in bedded salt. We are, however, an interested party in this rulemaking. Natural gas storage is becoming an increasingly critical part of the story in the delivery of natural gas. We want to maintain our options in the development of storage facilities. Underground storage in salt, particularly in Kansas, is one such option.

While we are appreciative of the efforts and the difficult task of the KDHE staff in the drafting of rules for such storage, our concern centers on the fact that the KDHE, in drafting their rules, are setting separate standards for the storage of natural gas than they have set for the storage of hydrocarbons. From the standpoint of geology and science, there is no reasonable rationale for these differences.

We understand and acknowledge that there are political forces at play. But as policy makers, we hope that this body, and this committee in particular, understand the need to base such standards on sound scientific rationale.

As members of the business community and potential investors in the state, the display and constant use of scientific consistency and rational standards are important considerations as we decide on future energy investments.

We pledge to continue to work within the continuing framework of the KDHE's rulemaking procedures to make our concerns known. We hope, and expect, that final drafts of the KDHE's rules will demonstrate good faith efforts to make rules that are fair, efficient, and practical while maintaining their goal of protecting public health and safety and the environment.

With that, I will answer any questions.



KANSAS GAS SERVICE

A DIVISION OF ONEOK

Before the Senate Utilities Committee
Testimony of Steve Johnson
Manager, Governmental Affairs
Kansas Gas Service
January 29, 2003

Chairman Clark and Members of the Committee,

Thank you for the opportunity to address your committee again, this morning about our involvement in the Cheyenne Plains Pipeline and the KDHE proposed Rules and Regulations for Salt Storage of Natural Gas and LPG in Kansas.

To serve Kansas Gas Service's 635,000 customers at retail we source a majority of our supply from the Hugoton field in SW Kansas making us the single largest purchaser of gas from the field. We are therefore the largest customer of BP Amoco who is the largest producer in the field. The remainder of our supply comes from the Rocky Mountain region or Mid-Continent gas fields such as the Spivey fields in south-central Kansas. The Hugoton field and these other smaller producers are experiencing major declines in production. For instance, in 1994 Williams Pipeline transported an average of 418,000 mcf/day from Hugoton and eight years later, in 2002, the average flow was 210,000 mcf/day. The only source that is not experiencing declines is the Rocky Mountain region and we currently have limited access to this supply due to pipeline constraints.

As a result of the growth of gas production in the Rocky Mountain region several pipelines have been built or expanded to provide market access to this new production but this new capacity has not been able to keep up with projected production. Therefore, El Paso has proposed the Cheyenne Plains Pipeline that your committee heard about yesterday. As we heard, the pipeline will be built to transport 540,000 mcf/day and would provide access to several Rocky Mountain basins, notably the Green River (Wamsutter) Basin, Wind River Basin and the Powder River Basin. These are aggregated at the Cheyenne Hub making this gas available to our customers through the new pipeline. To make it possible for CIG to build this pipeline KGS and ONEOK Energy Marketing and Trading have become 2 out of 12 shippers that have subscribed to 100% of the project's capacity.

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This is very advantageous to Kansas Gas Service and its customers. The primary advantage is that it would enhance our supply availability. It would allow us the opportunity to replace natural gas supplies from the depleting Hugoton and other fields through access to several diverse and immature supply basins located in the Rocky Mountain region. A secondary advantage would be that it would give us access to currently less expensive natural gas due to the liquidity, capacity constraints and lower finding costs in these supply basins.

I would also like to reiterate the gas storage industries' appreciation of the KCC and KDHE staff's in their endeavor to write new Rules and Regulations for Storage of Natural Gas and LPG in Salt caverns and storage in porosity fields in Kansas. This has been a daunting task. The KCC rules for porosity storage is beginning to take affect after approval by the Commission. The KDHE rules are at the Department of Administration for review. This is at least the third draft of these rules and much still needs to be done before final approval. They are a very detailed and important work product. We have been pleased with their progress to date and look forward to their approval so we can then make a definitive decision for ONEOK's continued operation of natural gas and liquids storage in Kansas.

Thank you for your continued attention to our Industry and I will be available for questions.

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